



## FINANCE AND FACILITIES COMMITTEE

MARCH 15, 2011

8:30 a.m.

BOARD ROOM

WELLS FARGO PLACE

30 7TH STREET EAST

SAINT PAUL, MN

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Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

Committee Chair Dan McElroy calls the meeting to order.

- (1) **Minutes of January 18, 2011** (pp 1-10)
- (2) **Minutes of Joint Finance and Facilities and Academic and Student Affairs Committees of January 19, 2011** (pp 11-13)
- (3) **Notes of Finance and Facilities 2012-2017 Capital Budget Request Hearing on February 15, 2011** (pp 14-16)
- (4) Finance and Facilities Update
- (5) **Minnesota State College - Southeast Technical Property Disposition** (pp 17-21)
- (6) **Winona State University Revenue Fund Projects Approval** (pp 22-26)
- (7) Proposed Amendment to Board Policy 5.9 Biennial and Operating Budget Planning and Administration Including Revenue Fund (First Reading) (pp 27-30)
- (8) Proposed Amendment to Board Policy 5.11 Tuition and Fees (First Reading) (pp 31-35)
- (9) Campus Service Cooperative (pp 36-37)
- (10) Enterprise Risk Management Strategy (pp 38-43)
- (11) Minnesota State Colleges and Universities System and State Economic Outlook for FY2012-2013 (pp 44-51)

### Members

Dan McElroy, Chair  
Michael Vekich, Vice Chair  
Duane Benson  
Cheryl Dickson

Christopher Frederick  
Clarence Hightower  
Phil Krinkie  
James Van Houten

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
FINANCE AND FACILITIES COMMITTEE  
MEETING MINUTES  
January 18, 2011**

*Finance and Facilities Committee Members Present: Dan McElroy, Chair; Trustees Duane Benson, Cheryl Dickson, Christopher Frederick, Clarence Hightower, Phil Krinkie, James Van Houten, and Michael Vekich*

*Other Board Members Present: Louise Sundin, Christine Rice and Board Chair Scott Thiss. Trustee Englund join by phone.*

*Leadership Council Representatives Present: Vice Chancellor Laura King, President Richard Davenport*

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on January 18, 2011, 4<sup>th</sup> Floor, Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair McElroy called the meeting to order at 8:30 am.

**1. MINUTES OF NOVEMBER 16, 2010**

Trustee Vekich moved to accept the minutes of November 16, 2010. Trustee Benson seconded the motion which carried with no dissent.

**2. FINANCE AND FACILITIES UPDATE** (*Information*)

Laura King, Vice Chancellor – Chief Financial Officer, reported that steady progress has been made on the three goals adopted by the Finance and Facilities Committee as part of the 2011 work plan. The first goal to study physical plant size and incorporate policy guidance in the 2012 capital budget proposal was accomplished by using new criteria during the scoring of the 2012 capital program. The result of the effort will be known later in the spring. Progress has also been made in the realignment and reorganization effort. The project has been re-branded as the “Campus Service Cooperative” to reflect more accurately the spirit of the initiative and the work that is going on with the colleges and universities. An expanded pilot project was successfully completed in December at Fergus Falls.

The Office of the Chancellor Human Resource division has developed a refresher course on both Minnesota and Minnesota State Colleges and Universities’ privacy law and policy, which now is part of the kickoff package for every pilot project. Quality and compliance are core values of the initiative. A systemwide survey of Business Office, Human Resources and Financial Aid Directors is being conducted to seek more information on the labor force, work distribution, and time allotment of processes. The result will help to identify the next opportunity for the Cooperative. A pilot of financial aid direct lending is also being developed and will likely take place in Perham in February.

The Cooperative will utilize the space built at 1312 Harmon Place which is the garden level of the building north of the main Minneapolis Community and Technical College facility. The Cooperative will document best practices and identify innovative approaches to processes. An overview of this effort was presented to the Leadership Council in January. As a result, several charter members have indicated interest in being a part of the Cooperative. Presently, the Office of the Chancellor and five campuses are putting together a team which will initially focus on payroll and business expense processing. The result will be discussed in the spring.

Trustee Van Houten asked if the employment arrangement is similar to K-12; which the cooperative goes into contract with MnSCU to manage the cooperative's activities; the employees would remain employees of MnSCU rather than become employees of a new corporation cooperative. Vice Chancellor King replied that MnSCU's labor structure consists of 33 employers; the Office of the Chancellor is an employer and each of the campus is also an employer. She stated that from a business view the object is the same as the K-12. The employees of the cooperative will be employees of their base campus or employed by the Office of the Chancellor.

Vice Chancellor King reported that the committee has seen the FY2012-2013 budget framework at least twice including the state appropriation outlook, tuition planning, assumptions on expenditure and inflation, possible labor cost impact and enrollment outlook. The campuses are using this framework to create their budgets. Presidents have been holding budget meetings and announcing layoffs and program closures. The presidents are very focused on preparing for FY2012 and struggling to do it in a very uncertain environment. The update that is scheduled for the March committee meeting may have some governor and legislative insight.

Vice Chancellor King announced that she is traveling to campuses and holding meetings on financial Trends and Highlights. She meets with groups of presidents and their cabinets to review their financial results and any challenges they may be experiencing. The result will also give assurance that the presidents are on track with FY2012 planning efforts. As part of this effort, the exception reporting process has been changed (focusing on the CFI, net operating income and cash flow) to better indicate those campuses which may need extra help.

Trustee Hightower commented that early indications show it will be difficult to plan for FY2012. Vice Chancellor King replied that each campus models using four strong forces: state appropriation outlook, tuition planning, enrollment, and labor costs. The presidents, their chief financial officers and cabinets have built models using these variables. The result is very local - an institution that has strong enrollment and low state appropriation reliance is less at risk than an institution that has low enrollment growth with high state appropriation reliance. In general, the total gap ranges from about 7% per year to about 15% per year depending upon how the assumptions are moved around.

Vice Chancellor King stated that campus leadership faces a dilemma because they are trying to maintain services, access and growing enrollment at a time where resources

are really contracting. Trustee Hightower commented that providing access and increasing enrollment might be in conflict. Vice Chancellor King responded that access and growing enrollment are absolutely in conflict with constricting resources. That's the challenge that the presidents and the Chancellor are struggling with.

3. **REVENUE FUND BOND SALE** (*Second Reading*)

Brian Yolitz, Associate Vice Chancellor for Facilities, stated that the Revenue Fund is used to finance construction, maintenance, and operation of non-academic buildings. These projects typically include residence halls, dining facilities, student unions, recreational facilities, wellness centers, bookstores, and parking facilities. It does not include academic facilities. There are 67 buildings, and about 5 million square feet of revenue fund facilities, which is 19% of total square feet in the system.

Revenue fund operating expenses and debt service are paid by user fees, such as, student fees from room and board, student union fees, user fee from parking and fitness centers; plus other fees such as commissions and space rentals from the campuses. Student fees are user generated revenue which pays for operations and debt services. Although presidents are delegated responsibility to manage the Revenue Fund programs at their own institution, the Board is required by statute and the Fund's Master Indenture to annually approve fees and long term financial commitments. Annual financial plans for each institution's portion of the Revenue Fund, including fees to support these plans, are submitted to the Office of the Chancellor staff for review and approval by the Board. Student consultation is required for revenue fund fees and projects.

Mr. Yolitz gave an overview of the 2011 bond sale; which included approximately \$90 million in total projects. The bond sale will fund eight projects at four universities and three colleges plus planning and design funds to help prepare for the next revenue bond sale. These projects include renovating four residence halls containing about 1,000 beds, one new 300-bed residence hall at Minnesota State University, Mankato, which is part of their ongoing residence life master plan. The bond sale also includes renovation of a ballroom in the Minnesota State University, Mankato Student Union; wellness centers at two colleges, and a parking ramp at Saint Paul College.

The specific projects for the 2011 revenue bond sale include: a health/wellness center and field house at Anoka Ramsey Community College (estimated cost \$9.89M); renovation of Birch Hall at Bemidji State University (estimated cost \$7.53M); construction of a health/wellness addition at Minnesota State Community and Technical College in Moorhead (estimated cost \$1.46M); construction of a new residence hall at Minnesota State University in Mankato (estimated cost \$29.9M); renovation of the Centennial Student Union Ballroom at Minnesota State University in Mankato (estimated cost \$4.5M); renovation of Dahl Hall at Minnesota State University in Moorhead (estimated cost \$8.6M); renovation of two residence halls at St. Cloud State University (estimated cost \$16.7M); and construction of a new parking ramp at Saint Paul College (estimated cost \$10.4M). An additional \$3M is

requested to offset any projects that may have a taxable component or to use for design of future projects.

Trustee Frederick wants to know if 50% of the funding for the ballroom was taken from a different funding source other than revenue fund. A portion comes from revenue fund reserve and the other portion would come from revenue bond proceeds. President Davenport answered that student fees are generated for project like this, since the ballroom is over 30 years old, and a portion will be funded by Revenue Fund reserves. Trustee Van Houten asked if there is no separate fund set aside for a project like the Ballroom, is the \$200,000 part of the school's reserve? Vice Chancellor King stated that student union and residence hall programs are required to maintain a dedicated revenue fund that does not mixed with the general fund and maintains higher reserve standards because of the bond covenant. The \$200,000 comes from the university's revenue fund reserve.

Trustee Hightower asked how the \$3 million design and planning funds are to be covered. Mr. Yolitz replied that the funds are held centrally until an individual campus requests the money. Then the funds are distributed and the debt service is assigned to the campus. Vice Chancellor King added that there are no projects indentified for the \$3 million, but when one is identified, a portion will be awarded to the campus for their planning work, at which time the campus pays the debt service portion of the \$3 million they used. Until that time, the central revenue fund pays the debt service.

Mr. Yolitz reported that \$300 million in bonding authority is currently approved in law. Current outstanding bond authority is \$175 million, leaving MnSCU with \$125 million of remaining authority. Assuming a \$90 million bond sale, MnSCU will have about \$35 million of authority available for new projects. The current annual debt service paid by campuses is \$15 million a year. If approved, the new bond sale would add approximately \$7 million, creating \$22 million of annual debt service.

Trustee Hightower asked if the revenue fund can be used for demolition. Vice Chancellor King answered that demolition is an allowed use of revenue fund cash or bond proceeds. The trouble is that there is no revenue generated when something gets demolished so it becomes another cost burden for that school's revenue fund program. This board supported a recommendation in 2006 to seek GO funding for revenue fund demolition and received some legislative support. In the 2012 program, Minnesota State University, Mankato proposed a \$6 million GO project to demolish Gage. President Davenport stated that planning was included in their master plan more than five years ago to look at the cost of demolishing Gage, which was about \$2 million then. Now the cost has escalated and the university needs to bring it down as soon as it can be done.

Travis Johnson, President of the Minnesota State College Student Association observed that Revenue Fund activity is being paid for almost entirely from student fees; therefore, it is important that students are fully informed about the project on the

campuses both during the long and short term planning phases and for the duration of the project.

Mr. Johnson remarked that when planning revenue fund facilities, it is important to determine the long-term needs of the campus, and ask whether the proposed project will solve the problem at hand. Currently, college campuses don't have adequate funding to appropriately plan and design the revenue fund project before the bond sales is approved and this limits students' ability to determine whether the proposed project is well suited to the campus. It is important for the Board to assess the overall cost of each project and to assure that they are financially viable and the fees assessed to the students are reasonable.

Trustee Hightower commented that the \$3 million was estimated for planning. How do we deal with front-end costs that prepare a project for presentation? Vice Chancellor King stated that it's been customary to include funds in each sale which finance the planning for the next sale.

Trustee Vekich moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Frederick seconded the motion which carried with no dissent.

**RECOMMENDED MOTION:**

The Board of Trustees authorizes a Revenue bond sale for not more than \$90,000,000 subject to the sale parameters as presented on Attachment A. The Board of Trustees approves the Series Resolution as described in Attachment B.

**4. MINNESOTA STATE UNIVERSITY MOORHEAD HENDRIX HEALTH CENTER LEASE (Action)**

Brian Yolitz, Associate Vice Chancellor for Facilities, stated that the purpose of this report is to amend an action approved by the Board in 2002 which allowed Minnesota State University Moorhead (MSUM) to leased land to the MSUM Alumni Foundation for 10 years. In return the Foundation would demolish the building at the end of the lease term of July 2012. Now MSUM seeks approval to continue utilizing the building and remove the demolition requirement as originally approved by the board. In the future the University will use their own operating budget to fund any updates to the building as needed.

The current Hendrix Student Health Center building contains approximately 7,411 square feet, and cost approximately \$525,000 to construct. The University pays the Foundation a rental rate of approximately \$10.00 per square foot or \$74,000 per year, to cover the debt service, and sets aside funds for operations and routine maintenance. The building is typical for a commercial-grade medical office building, which included concrete block with a stone finish and standard interior framing. The goal of the request is to release the demolition requirement from the original board approved arrangement thereby allowing the title to transfer and the building to remain in service.

Trustee Frederick is concerned that the building does not meet the MnSCU standard building code or policy. Associated Vice Chancellor Yolitz responded that the building does not fully meet MnSCU's design standards; it was built by the Foundation with input from staff, but was not adherent to all the requirements. Trustee McElroy worried about keeping a building that was built to last only ten years or was the building designed to last longer than the 10 years. Associate Vice Chancellor Yolitz replied that it was designed using the traditional commercial standards at the time and he is satisfied that the building is in very good condition.

Vice Chancellor King asked the Board to approve the recommended motion contained in the Board report.

Trustee Benson moved that Finance and Facilities Committee recommend adoption of the following motion. Trustee Van Houten seconded the motion which carried with no dissent.

**RECOMMENDED MOTION:**

The Board of Trustees approves accepting the Hendrix Student Health Center building from the Minnesota State University Moorhead Alumni Foundation at the end of the lease term without requiring the building's demolition. All documents shall be reviewed and approved by the Office of the Chancellor and the Attorney General's Office prior to execution.

**5. FY2012 CAPITAL BUDGET UPDATE (*Information*)**

Brian Yolitz, Associate Vice Chancellor for Facilities, gave an update on the development of the FY2012-2017 Capital Budget request. While there has been positive feedback from legislative committee members that a capital bonding bill will take place in FY2011, there remains question on the size and scope of the bonding bill.

The strategy of Office of the Chancellor is to advance these unmet, Board approved requirements from the FY2010 Capital Budget Request. These requirements included \$58 million for HEAPR and \$225.8 million for 19 projects at 18 campuses. It is expected that the result of any FY2011 bonding bill will be not be known before late April or May. Any projects that are then still on the unmet list from FY 2010 would be rolled into the FY2012 planning process.

FY2012-2017 Capital Budget planning involves assessing current and emerging requirements against guidelines establish by the Board in May 2010. All current unmet, Board approved projects from the FY2010 session will be reviewed. The emerging requirements of 13 projects at 13 campuses totaling \$61.8 million will also be reviewed. There will be a Public Hearing on February 15, 2011 to allow for some institutions to present their projects to the Board of Trustees. The plan is to have a first reading of the FY2012 presented to the Board in May and the second reading for approval in June.

Trustee Sundin commented there's been concern expressed that MnSCU received a large bonding bill in FY2010 and the projects have not broken ground. She questioned why there should be another bonding bill. Mr. Yolitz affirmed that all projects are currently under construction.

Vice Chancellor King and Chancellor McCormick encouraged all Board Members to attend the February 15 Public Hearing.

**6. FY2010 AND FY2009 AUDITED FINANCIAL STATEMENTS (Information)**

Collin Dougherty, Associate Vice Chancellor of Finance, gave an update on the FY2010 and FY2009 Audited Financial Statements. The system wide audit, revenue fund audit, and the thirteen individual college and university audits, received unqualified opinion letters from the respective audit firms. In addition, there were no reported material weaknesses or significant deficiencies in internal control. Also, two prior year internal control deficiencies were addressed and resolved. These prior year issues were related to system-wide technology data security and the timely reconciliation of local bank accounts for several colleges. It is a commendable achievement that no significant deficiencies were identified throughout the fiscal year 2010 audit process.

Mr. Dougherty reported that in FY2010, student FYE enrollment grew by 11,700 students and headcount by 17,700 students. Revenue was up by 7.4% at \$2.0 billion and net assets grew 11.6% to \$1.7 billion. The operating fund reserve increased by \$9.9 million resulted in a systemwide total of \$82 million which is right on the Board requirement range of 5-7%. The composite Financial Index (CFI) grew dramatically in FY 2010 to 3.21. MnSCU's total net asset or residual ownership is \$1.7 billion, which grew by nearly 12%.

The FY2010 operating results yielded significant improvement in financial position, with a \$57.1 million net operating revenue surplus. This was a rebound from the 2009 net operating revenue loss of \$9.3 million. For every \$100 of operating revenue, \$2.88 is retained as surplus. This is an improvement over the deficit of 2009. In 2009 every \$100 of revenue that came in had a loss of \$0.50.

Trustee This question the \$9.3 million deficit referring to Chancellor McCormick's statement that campuses cannot operate at a deficit; what does the statement mean. Vice Chancellor King replied that the Chancellor's direction to the president is to plan for intentional managing their budget; so the statement referred to presidents who don't plan ahead and are surprised by their operating result. It's absolutely allowable for colleges and universities to spend fund balance from one year to the next so long as they have both a short and long term plan.

Chancellor McCormick commented that the system has never come close to a deficit; any particularly troubled institution either went into its reserves or received a loan from the central reserve.



Trustee Hightower asked if there is a global statement that can be use to describe the difference between 2009 and 2010 respective to what caused the \$9.3 million deficit in one year. Vice Chancellor King responded that the Board direction to the campuses to build up reserves for 2012 and 2013 and the preservation of resources at the campuses resulting from very low labor cost inflation in 2009 were the two most powerful forces.

Associate Vice Chancellor Dougherty explained that the Composite Financial Index (CFI) calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. Primary reserve is resource availability. It looks at how much cash is on hand and other expendable net assets comparing that as a ratio to total expenses. How long will it take to be able to operate in the extreme condition where inflow of cash is not available? Currently, the system CFI is at 3.21 which is considered a midline benchmark. The system's metric has improved by two weeks from the prior year. It does show the importance of having adequate reserve to meet unforeseen circumstances or decline in the inflow of cashes.

How does the system compare to the 220 peer institutions? The system CFI score of 3.21 for FY2010 is right in between the highest Moody's rating of AAA or AA1. Looking at ratio variability across the 32 colleges and universities comparing the higher (1.0) score and the low (-0.1) score, the high was at 6.66 and the low is at 1.0. The Higher Learning Commission conducts inquiry when a college/university falls between 0 and 1.

Chancellor McCormick commented that the CFI is an important number since the Higher Learning Commission has adopted it as a part of their assessment. This assessment is how the government decides who will receive student financial aid. Vice Chancellor King added that the Higher Learning Commission has memorialized this measure in the accreditation review process and when the campuses go through an accreditation review they will need to produce work paper and provide this number. The Higher Learning Commission has created a watch list process that generates a letter to the institution that shows their threshold so it becomes part of the institutional review process at the Higher Learning Commission level.

Trustee Van Houten commented on the standard deviation of the ratio variability across the Colleges and Universities on page 84 of the board report. He inquired whether it would be appropriate for this Board to look and see if there's some pattern or insight that will help determine if there is something that might be taken into consideration in the allocation formula or policy. For example, are the more troubled CFI institutions located in places where student growth is reducing or maybe the more rural areas where population in general is not changing much? It might imply that there's a need for a different allocation formula, taking into consideration slow rural growth campuses versus the metro area where student tuition revenue growth could be used to fund the campus.

Associate Vice Chancellor Dougherty reported there are additional financial metrics which are used to measure, monitor, and improve the financial condition of each college and university. A new system procedure, "Financial Health and Compliance Indicators" defines the purpose and process for performing important, on-going analysis of financial conditions. The procedure also includes required action if certain performance levels are not achieved.

In FY2010 there was significant growth in financial aid awards to Minnesota State Colleges and Universities students. Total dollars of financial aid reached \$1.2 billion, an increase of \$238 million or 25 percent, compared to fiscal year 2009. The number of financial aid recipients grew by 22,000, or 15 percent, to more than 166,000 students. Sixty percent of all credit taking students received financial aid, up from 56% in 2009. Grants were received by 40% of student in 2010. The average award for all types and sources of aid increased by 8 percent; from \$6,752 in 2009 to \$7,274 in 2010. Compared to 2003, total financial aid awards increased 127 percent, from \$533 million to \$1.2 billion, in 2010. This growth came from both loans and grants, with approximately 2/3 coming in the form of loans and 1/3 coming in the form of grants.

Vice Chancellor King added that in 2003 of the \$172 million that was received as financial aid, \$140 million of it was paid to the student's account to pay their tuition bill, room and board, books. The remaining \$32 million was given to the student for living expenses. By 2010 \$65 million went to the students directly and the balance of the \$350 million went to pay their accounts. About 20% of the total financial aid disbursements went directly to the students in 2003 and that relation stayed the same in 2010.

Trustee McElroy asked if the shift to direct federal lending, which shifted the program from loans from federal insured lender to a direct lending model, increased the risk to the system. These loans were made directly through the institutions, 100% guaranteed by the government. If there are defaults, will there be some recourse or risk to the system?

Chris Halling, System Director for Financial Aid, replied that there is really no difference from the campuses' risk in this situation. The US Department of Education still measures default rates for institutions just like the prior program. The Dept. of Education has always measured what they call the cohort default rate for institutions; a look back for a number of years and measure of how many students borrow and perform during those years. One change that is on the horizon in 2012 is expanding the cohort from 2 years to 3 years which will have a negative impact on the default rate of every institution across the country. The benchmark has been changed.

Trustee Hightower asked if financial aid is part of the tuition number. Vice Chancellor King stated for budgeting, financial aid is another source of revenue and is recorded as such. For example, in the budget document that will be presented in the spring, there will be a line for tuition for \$100 and under it will be line for \$25; this

means that tuition is \$100 and \$25 dollars is paid by financial aid. In the financial statements, the tuition revenue line shows total net tuition revenue and does not show financial aid as a separate portion.

Associate Vice Chancellor Dougherty stated that the FY2011 budget seems to be reasonable with an enrollment forecast increase of 1.6% FYE and a small growth of 0.7% for FY2012 for planning. Within the next few weeks there will be five sessions where peer groups will be brought together for those colleges that are not part of the vigorous externally audited process. The colleges will go through the very same discussion about financial performance and CFI trends.

Chair McElroy recessed the meet at 11:38 a.m.

Respectfully submitted,  
Mailor Moua, Recorder



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
FINANCE AND FACILITIES COMMITTEE NOTES  
FY2012-2017 CAPITAL BUDGET HEARING  
FEBRUARY 15, 2011**

**Finance, Facilities and Technology Committee Members Present:** *Dan McElroy, Chair, Michael Vekich, Vice Chair, Duane Benson, Christopher Frederick, Clarence Hightower, Phil Krinkie*

**Finance, Facilities and Technology Committee Members Absent:** *Cheryl Dickson and James VanHouten*

**Other Board Members Present:** *C.Scott Thiss, Chair, Louise Sundin, Afredo Oliveira, Thomas Reiner*

**Leadership Council Committee Members Present:** *Chancellor James McCormick, Vice Chancellor Laura King, President Richard Davenport.*

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held a public hearing on February 15, 2011, 4<sup>th</sup> Floor, Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair McElroy called the meeting to order at 8:35 am.

**1. FY 2012-2017 Capital Budget**

Overview of FY 2012-2017 Capital Budget by Brian Yolitz, Associate Vice Chancellor of Facilities and review of materials and presentation of initiatives.

**2. Public Testimony on selected projects for FY2012**

1. Northeast Higher Education District - Mesabi Range Community and Technical College - Virginia Engineering Industrial Lab, Itasca Academic and Rightsizing (new), and five initiatives

**Presenter:** Sue Collins, President  
Mike Johnson, Provost, Moorhead Campus  
Ron Ulseth, Iron Range Engineering Program Director

The TAC and Leadership Council committees proposed that it would be helpful to focus on the development of two measures. Measures will be identified and the Office of the Chancellor staff will analyze the effects of alternate ways in which the measures could be defined and applied in a performance funding model. It was suggested that the first two measures should be (1) student success persistence, transfer and completion and (2) number of degrees and other awards that are conferred.

The measures will help align the system with national and state priorities on improving degree completions and tie to the system's strategic plan direction to increase access, opportunity and success. Although the system has not explicitly rewarded institutions for student success and degree completion, these goals are not entirely new expectations for system colleges and universities. All types of system institutions accept student success and degree completion as part of their missions. Because of their fundamental nature, student persistence, transfer and degree completion are reported in existing system data, and it should be feasible to design performance measures that do not require new data collection from institutions.

The proposed measures include a direct measure of degree or other award completion and a measure of progress toward a degree or other award. While the number of degrees and other credentials granted may be seen as an ultimate goal that should be rewarded, a measure of progress recognizes that there is value when students complete courses even if they do not immediately earn a degree. Other state performance funding systems have found that institutions can make immediate changes to improve student persistence, but improving the numbers of students who graduate takes longer to achieve and reward.

Trustee Hightower commented that the two goals seem to be the same. Vice Chancellor Scott Olson responded that many students transfer rather than graduate and the first goal recognizes that level of success. The TAC advised that the initiative would be most successful if every institution can achieve its own success metric. Mr. Olson noted it is a way of communicating to taxpayers that the system is getting results for the resources allocated to it. The committees conveyed their general support for the recommended measures. They acknowledged the merits of the articulated design principles and thanks the staff for their efforts.

Vice Chancellor King asked committee members to comment on the strategy for diverting a portion of the system's allocation for this proposal. Trustee Van Houten questioned if every college or university could receive a share of the award would there be motivation. He suggested that the goals be more vigorous and measurable. Trustee Sundin expressed that the money available is insufficient to create much excitement. Trustee Sundin also urged that this program be coordinated with efforts led by the Diversity and Multicultural

Committee to launch a Relationship (R) Factor program that supports success of underrepresented students. Trustee Hightower commented that the recognition would be the motivator to the colleges and universities. President Hammersmith noted that the Leadership Council has discussed and supports the proposal.

Vice Chancellor King noted that implementing the initiative with new resources is the best case scenario but unlikely in the current economic situation. A 1% allocation is equal to about \$5M and could come from institutional allocations. Chair McElroy noted that the Board has many other pools of funding to take the allocation out of if it wishes.

Staff will continue work on the detail of how Resources for Results would be implemented and return for further discussion in April. The Board will be asked to determine if this initiative is to be fully implemented, phased in or if it might be delayed pending a better state economic outlook.

Trustee McElroy adjourned the meeting at 10:46 a.m.

Respectfully submitted,  
Nancy Lamden, Recorder



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
FINANCE AND FACILITIES COMMITTEE NOTES  
FY2012-2017 CAPITAL BUDGET HEARING  
FEBRUARY 15, 2011**

**Finance, Facilities and Technology Committee Members Present:** *Dan McElroy, Chair, Michael Vekich, Vice Chair, Duane Benson, Christopher Frederick, Clarence Hightower, Phil Krinkie*

**Finance, Facilities and Technology Committee Members Absent:** *Cherly Dickson and James VanHouten*

**Other Board Members Present:** *C.Scott Thiss, Chair, Louise Sundin, Afredo Oliveira, Thomas Reiner*

**Leadership Council Committee Members Present:** *Chancellor James McCormick, Vice Chancellor Laura King, President Richard Davenport.*

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held a public hearing on February 15, 2011, 4<sup>th</sup> Floor, Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair McElroy called the meeting to order at 8:35 am.

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**2. Public Testimony on selected projects for FY2012**

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**Presenter:** Sue Collins, President  
Mike Johnson, Provost, Moorhead Campus  
Ron Ulseth, Iron Range Engineering Program Director

2. St Cloud Technical and Community College - Medium Heavy Truck and Auto Body Lab Renovation and Expansion (new)  
**Presenter:** Joyce Helens, President  
Lori Kloos, Chief Financial Officer
3. Minnesota State Community & Technical College - Moorhead Transportation Center (new) and five initiatives  
**Presenter:** Ann Valentine, President  
Jerry Migler, Provost, Moorhead Campus  
Matt Sheppard, Director of College Facilities
4. Minnesota State College – Southeast Technical - Trade, Technology and Health Consolidation Repurposing (new)  
**Presenter:** Jim Johnson, President  
Michael Kroening, Vice President Finance and Administration  
Tom Dobbs, Architect, Hay Dobbs P.A.
5. Saint Paul College - Health & Science Alliance Center (new) and two initiatives  
**Presenter:** Donovan Schwichtenberg, President  
Shaan Hamilton, Vice President
6. Century College - Classroom addition and renovation (new), and three initiatives  
**Presenter:** Larry Litecky, President  
Mike Bruner, Vice President Student Services  
Ron Anderson, Vice President Academic Affairs
7. Central Lakes College - Staples Rightsizing, Agriculture, Alternative Energy Sustainability (new)  
**Presenter:** Kari Christiansen, Vice President Administrative Services  
Suresh Tiwari, Vice President of Academic & Student Affairs  
Rebecca Best, Dean of Workforce and Economic Development  
Jeff Wig, Dean of Career/Technical Programs  
Rick Otteson, Physical Plant Director
8. Riverland Community College - Albert Lea Rightsizing & Renovation (new)  
**Presenter:** Terry Leas, President  
Judy Enright, Physical Plant Manager
9. South Central College - North Mankato Student Services, Learn and Campus Commons (new), Faribault Classroom Renovation (2010)  
**Presenter:** Keith Stover, President, South Central College  
Nancy Genelin, Vice President of Academics  
Karen Snorek, Vice President of Finance and Operations



10. Rochester Community and Technical College - Classroom Renovation & Addition (2010) and Workforce Center Co-location (2010)  
**Presenter:** Don Supalla, President  
Marilyn Hansmann, Vice President Finance & Facilities  
Randy Johnson, Workforce Center
  
11. Minnesota West Community and Technical College - Worthington Classroom Renovation and Addition (2010) and two initiatives  
**Presenter:** Richard Shrubbs, President  
Lori Voss, Vice President of Administration
  
12. Lake Superior College - Health Science Center renovation (2010)  
**Presenter:** Pat Johns, President  
Mark Winson, Vice President of Finance and Administration
  
13. Metropolitan State University - Science and Education Center (2010)  
**Presenter:** Sue Hammersmith, President  
Becky Omdahl, Dean College of Arts and Sciences
  
14. Hennepin Technical College – Learning Resource Center and Student Service Addition (2010)  
**Presenter:** Cecilia Cervantes, President  
Bill Vann, Librarian  
Maggie Finney, Brooklyn Park Student Senate President
  
15. Anoka-Ramsey Community College – Bioscience & Allied Health Addition (2010)  
**Presenter:** Jessica Stumpf, Interim President  
Michael Seymour, Vice President  
Roger Freeman, Physical Plant Director
  
16. Winona State University – Business Outreach Graduate Studies  
**Presenter:** Kurt Lohide, Vice President of Finance and Administration

The hearing adjourned at 3:45 p.m.

Respectfully submitted,  
Mailor Moua, Recorder

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2011

**Agenda Item:** Minnesota State College – Southeast Technical Property Disposition

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** Board Policy 6.7, Subd. 1 requires that all sales of real property valued at or greater than \$250,000 shall be approved by the Board of Trustees. The Board declared as surplus the Southeast Technical College Aviation Center property during its meeting in January 2009, requiring the college to return to the Board for approval of the sale.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer  
Brian Yolitz, Associate Vice Chancellor Facilities

**Outline of Key Points/Policy Issues:** The purpose of this request is to seek Board of Trustees approval for the sale of the Minnesota State College – Southeast Technical Aviation Training Center building for \$2.25 million to a local manufacturing firm.

**Background Information:** The Aviation Training Center is situated on a 100 year ground lease from the City of Winona at the Winona airport, and was financed in 1992 with approximately \$4.6 million worth of state bonds. The college discontinued its aviation maintenance program in 2007, and no longer has any aviation-related programs to place in the building. The college seeks to sell the property and utilize the proceeds for capital projects or work at its main campus.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>BOARD ACTION</b>
<b>Minnesota State College – Southeast Technical Property Disposition</b>

**BACKGROUND**

The purpose of this report is to seek Board of Trustees approval for the sale of the Minnesota State College – Southeast Technical Aviation Training Center building for \$2.25 million. Two aerials showing the location of the Aviation Training center are contained on Attachment A for reference. The Board declared the Aviation Training Center as surplus property in January 2009. In that action, the Board authorized the college to explore selling the property, and made the sale subject to final board review and approval.

The Aviation Training Center facility was constructed on airport land leased from the City of Winona on a 100-year ground lease that began November 9, 1990. The ground lease contains language that would terminate the lease if the college no longer used the property for technical college purposes. Ground rent is \$1.00 per year. The construction of the aviation training building was financed using a blend of general obligation bonds and local matching funds. During the 1990 legislative session, the legislature appropriated \$4,666,000 for the remodeling and construction of the Aviation Training Center. The project cost was \$5,489,000, with state appropriation accounting for 85% of the funding. The remaining \$823,000, a 15% match, came from local funding sources. The 71,650 square foot facility opened in 1992. The remaining state debt is scheduled to retire in 2016. As of 2011, there is approximately \$300,000 of total outstanding state debt remaining on the building.

Ordinarily, proceeds from the sale or disposition of land or improvements are appropriated to the board for use on capital projects at the institution that was responsible for management of the land or improvement, after paying all expenses incurred in selling or disposing of the land and paying any amounts due under Minnesota Statute §16A.695. As noted above, outstanding state debt remains on the building, which must be retired at closing. As this is the Minnesota State Colleges and Universities first instance of selling property with outstanding general obligation debt, clarifying legislation was obtained for this transaction during the 2009 legislative session that allowed the college to retain the sale proceeds after paying all expenses and the remaining debt service. The legislature required the board to use the sale proceeds for capital project(s) at the Winona campus.

**DETAILS**

After the board declared the property surplus, the college immediately offered the property for sale to the city, port authority, county, and school district consistent with statutory requirements. No local jurisdiction expressed an interest in purchasing the

property. The college then advertised the sale in the Winona newspaper, and maintained an ongoing advertisement on the Minnesota State Colleges and Universities Facilities web site. There were no written responses to the advertisement until a local manufacturing firm, Plasticomp, expressed interest and negotiations commenced.

Negotiations with the prospective buyer focused on a number of issues, most notably, price and assurances that the city of Winona would agree to assign the ground lease. The city, in consultation with the FAA, determined that it could not agree to assign the ground lease to the buyer. In addition, the city indicated that it could not commit to a new ground lease longer than 30 years. Eventually, the prospective buyer agreed in principle to the 30 year lease term. Further negotiations solidified the ground lease terms between the buyer and city of Winona. Provided the Board approves the sale, the ground lease will be submitted to the Winona city council for final approval.

During the course of negotiations with Plasticomp, the real estate market deteriorated significantly. The originally appraised values for the site were between \$3.6-\$4.2 million from two prior appraisals in 2006 and 2008. As the ground lease and other issues were resolved, Plasticomp made a written offer to purchase the property for \$2.1 million in November 2010. Given the disparity between previous appraised values, the college sought an updated appraisal. While the updated appraisal was sought, the buyers improved their offer to \$2.25 million. The updated appraisal obtained in February 2011 supports the buyer's latest offer and the state of the market.

The college anticipates leasing some space back from the Buyer on a short term basis after the closing, as it starts to consolidate programs to its main campus.

**RECOMMENDED COMMITTEE ACTION:**

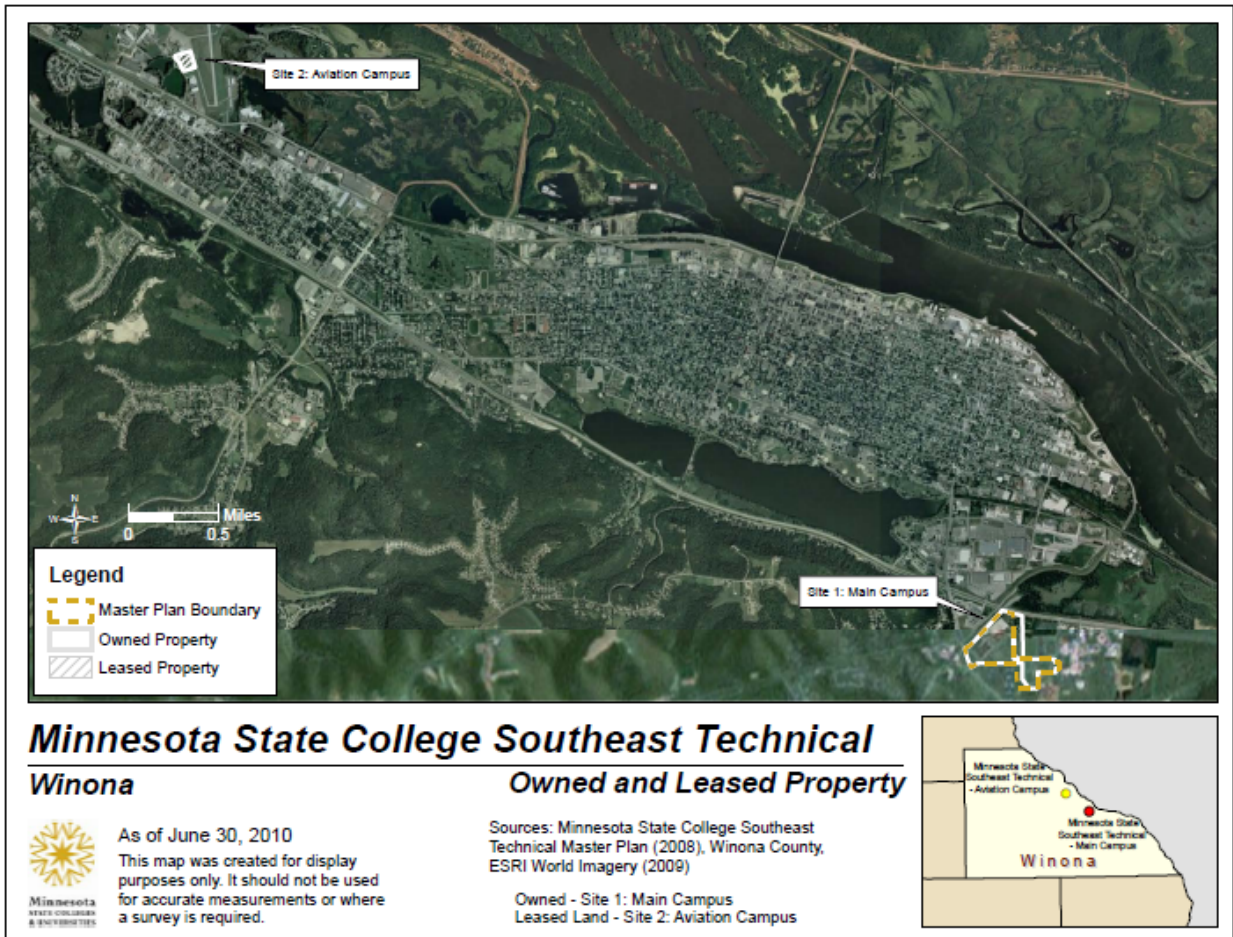
The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves and authorizes the sale of the Aviation Training Facility operated by Minnesota State College – Southeast Technical at the Winona Municipal Airport for \$2.25 million, and directs the Chancellor or his designee to execute all necessary documents and fulfill the processes necessary to complete the conveyance in compliance with the above terms and conditions.

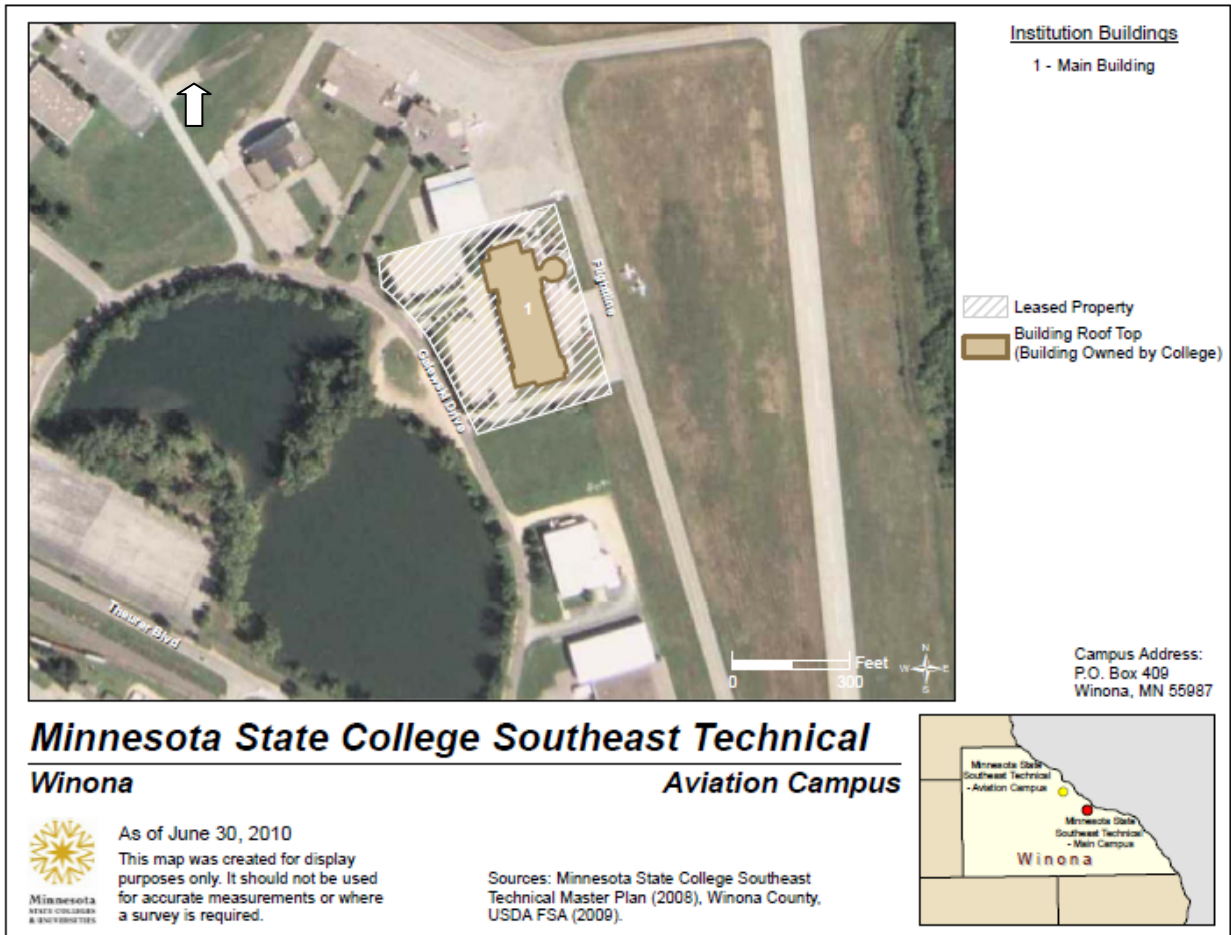
**RECOMMENDED MOTION:**

The Board of Trustees approves and authorizes the sale of the Aviation Training Facility operated by Minnesota State College – Southeast Technical at the Winona Municipal Airport for \$2.25 million, and directs the Chancellor or his designee to execute all necessary documents and fulfill the processes necessary to complete the conveyance in compliance with the above terms and conditions.

*Date Presented to the Board: March 16, 2011*



Attachment A (2 of 2)



**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2011

**Agenda Item:** Winona State University Revenue Fund Projects Approval

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** Contracts, including amendments, with values greater than \$3,000,000 must be approved in advance by the Board of Trustees, pursuant to Board Policy, 5.14. In addition, consistent with the master bond indenture of trust, the Board must approve the use of excess revenue bond proceeds for use in an eligible capital project.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer  
Brian Yolitz, Associate Vice Chancellor Facilities

**Outline of Key Points/Policy Issues:** The Board is being asked to approve the use of approximately \$4 million at Winona State University to perform deferred maintenance work at Conway, Richards, Morey, and Shepherd Halls, and to design and renovate an existing residential house into a theme house focusing on sustainability.

**Background Information:** The 2008 revenue bond sale included funding for the construction of a new 408 bed residence hall on Winona State’s main campus. Due to a highly favorable bid environment, the university realized approximately \$4,087,045 of left over bond proceeds that could be used for other revenue fund needs that have been identified within the university’s comprehensive facilities master plan.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>ACTION ITEM</b>
<b>Winona State University Revenue Fund Projects Approval</b>

**BACKGROUND**

The purpose of this report is to seek Board of Trustees approval for the use of Revenue Fund bond proceeds remaining from the 2008 bond sale to perform \$3.5 million worth of deferred maintenance work to existing Winona State University residence halls. Additionally, Winona State requests approval to use approximately \$500,000 worth of bond proceeds remaining from the 2008 sale to design and renovate a residential theme house built around a student shared interest group.

The 2008 revenue bond sale included funding for the construction of a new 408 bed residence hall on Winona State's main campus. During design, the project's original construction cost was estimated at \$23.7 million. Due to a highly favorable bid environment, the low bid for the project was \$18 million and final construction cost was \$19.7 million after the university added features back into the project. According to the Master Indenture governing the sale and use of revenue bonds, bond proceeds may be used for other purposes on campus with the Board of Trustees' approval. As of Jan 1, 2011 the funds remaining and available in the WSU residence hall project are approximately \$4,087,045.

Winona State's current deferred maintenance backlog for all revenue fund buildings is \$37.7 million. Although the university is spending approximately \$2.7 million/year (three year average) toward residence hall maintenance, this maintains the status quo, and does not address substantial reduction of FCI. This proposal is a two-phase approach to address deferred maintenance:

- Use \$1.454 million to address deferred maintenance in the currently vacant Conway (FCI .28) and Richards (FCI .29) residence halls during the summer of 2011. Conway and Richards Halls were occupied through spring of 2010, and were taken off line when the new residence halls opened in the Fall of 2010. Leaving Conway and Richards temporarily vacant was in accordance with the campus comprehensive plan to create swing space to accommodate rolling renovations of existing residence halls.
- Use \$2.130 million to address deferred maintenance to the Morey/Shepard halls. For the fall 2011 academic term students from Morey (FCI .20) and Shepard (FCI .21) residence halls would occupy the newly renovated Conway/Richards hall while additional renovation work would take place.



- The scope of the renovations includes work on the HVAC, plumbing, fire detection, room and lounge improvements, card access, signage and updates to furniture, fixtures and related equipment in each of the residence halls.

This work will improve the deferred maintenance status of approximately 547 beds (238 rooms) in the university's residence hall inventory. The average FCI of the four residence halls will be lowered from 0.24 to 0.11.

The 2010 campus comprehensive plan also details Winona State's interest in developing theme houses as an alternative to traditional student housing. The development of theme housing built around shared interest groups, such as environmental sustainability, languages or similar shared interests, is a growing trend on campuses around the nation and would serve to attract future students to WSU. Evidence is developing that these shared-interest community living arrangements increase student grade point and persistence and supports campus life.

The university already owns a suitable residential property located immediately adjacent to campus, which it would like to design and remodel into a theme house focusing on environmental sustainability. The university purchased the subject property located at 377 Main Street for land assemblage when it was offered for sale in 2009 for \$159,900. The property had served as a group home prior to the university's purchase, and contains six (6) bedrooms and three (3) bathrooms. Winona State is requesting to apply \$500,000 worth of 2008 excess revenue bond funds for the purpose of designing and renovating the property.

The university has consulted with the Student Senate and Residence Housing Association regarding the proposed use of revenue bond proceeds, and the organizations support both initiatives. Their two letters of support are attached as **Attachment A**. There is no anticipated change in residence hall rates as a result of this work.

**RECOMMENDED COMMITTEE ACTION:**

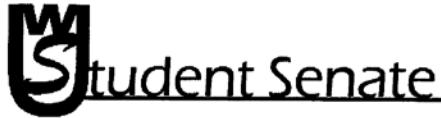
The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves the use of 2008 revenue bond proceeds attributable to Winona State University for use in renovating Conway, Richards, Shepherd and Morey Halls, and to design and redevelop an existing house into theme housing.

**RECOMMENDED MOTION:**

The Board of Trustees approves the use of 2008 revenue bond proceeds sale attributable to Winona State University for use in renovating Conway, Richards, Shepherd and Morey Halls, and to redevelop an existing house into theme housing.

*Date Presented to the Board of Trustees: March 16, 2011*



Kryzsko Commons  
P.O. Box 5838  
Winona MN, 55967-5838  
[winona.edu/student senate](http://winona.edu/student senate)  
507.457.5316

January 25<sup>th</sup>, 2011

Chancellor James H. McCormick  
Minnesota State Colleges and Universities  
500 Wells Fargo Place  
30 East Seventh Street  
Saint Paul, MN 55101

Chancellor McCormick & Board of Trustees Members,

I am writing this letter today as requested under MnSCU Board Policy 2.3, student involvement in decision-making. The Winona State University Student Association has been properly consulted throughout the year by various members of administration about the additional \$4 million left over from the New Halls construction project.

At our January 19<sup>th</sup>, 2011 WSUSA meeting, the WSUSA body approved a recommendation to support using the additional \$4 million on R&R, deferred maintenance, and a theme house. This recommendation coincided with a similar motion approved by the Winona State University Residence Hall Association (RHA). During the meeting, Director of Housing and Residence Life Paula Scheevel, Vice President of Finance and Administrative Services Kurt Lohide, and Campus Planner Jay McHenry were available to answer any questions. During the discussion, there was a general sense of excitement and eagerness to use the left over funds to continue to help on-campus students and make our university even more attractive to prospective students.

The WSUSA supports using the additional \$4 million left over from the New Halls construction project on R&R, deferred maintenance, and a theme house. All current information on this plan was disclosed to the WSUSA and proper procedures were followed. Please feel free to contact me with questions at [cbrignull07@winona.edu](mailto:cbrignull07@winona.edu) or by phone at (507) 254-2784.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chris Brignull'. The signature is written in a cursive, flowing style.

Chris Brignull  
President, Winona State University Student Association



# *Residence Housing Association*



January 19, 2011

Hello Paula,

RHA has reviewed the proposed plans and budget for the themed housing and deferred maintenance and has voted in approval. We are very excited about the future of Housing and Residence Life here at Winona State and are glad to be part of the journey.

Thank you very much for valuing our opinion,

A handwritten signature in cursive script that reads "Tyler James Treptow".

Tyler James Treptow

Executive President  
Residence Housing Association  
TTREPTOW08@winona.edu

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2011

**Agenda Item:** Proposed Amendment to Board Policy 5.9 Biennial and Operating Budget Planning and Administration Including Revenue Fund

Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring

Information

**Cite policy requirement, or explain why item is on the Board agenda:** Changes to Board policies require approval by the Board of Trustees.

**Scheduled Presenter(s):** Laura King, Vice Chancellor - Chief Finance Officer  
Judy Borgen, Associate Vice Chancellor Budget

**Outline of Key Points/Policy Issues:**

The proposed amendments to this policy serve to provide stronger, clearer descriptions of the statutory powers of the Board and the subsequent responsibilities designated to the Chancellor regarding both biennial budget requests and annual operating budget approvals; eliminate language that lists specific components of the annual operating budget and moves such language to the appropriate financial administration procedures; add specific language requiring student consultation.

**Background Information:** As part of the Chancellor's continuous improvement initiative, Board policies and procedures are regularly reviewed and amendments are proposed as appropriate. Finance division staff began reviewing this policy in the spring of 2010 and found that there was a need to proposed amendments to current policy language.

Through the course of this review, the statewide student groups met with staff several times to provide input, and campus constituency groups were given multiple opportunities to comment and suggest changes.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

*First Reading*

**BOARD ACTION**

**Proposed Amendment to Board Policy 5.9 Biennial and Operating  
Budget Planning and Administration Including Revenue Fund**

**BACKGROUND**

As part of the Chancellor's continuous improvement initiative, Board policies and procedures are regularly reviewed and amendments are proposed as appropriate. Finance division staff began reviewing this policy in the spring of 2010 and found that there existed a need to clarify the language contained in current policy to better delineate the roles and responsibilities described therein.

The proposed amendments to Board Policy 5.9 provide clear direction to the Chancellor and the colleges and universities regarding the roles and responsibilities of all those involved in proposing and approving biennial budgets and annual all funds operating budgets.

Through the course of this review, the statewide student groups met with staff several times to provide input, and campus constituency groups were given multiple opportunities to comment and suggest changes.

**CONCLUSION**

The amendments to Board Policy 5.9, Biennial and Operating Budget Planning and Administration Including Revenue Fund, suggest changes that:

- Reorganize existing language to more clearly state the responsibilities held by the Board of Trustees, the Chancellor and the college and university presidents regarding the biennial budget request and the annual operating budget planning and approval.
- Eliminate language that lists specific components of the annual operating budget and moves such language to the appropriate financial administration procedures.
- Add student consultation language.

**RECOMMENDED COMMITTEE ACTION:**

The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion: The Board of Trustees approves the changes in Board Policy 5.9 as noted in Attachment A.

**RECOMMENDED BOARD OF TRUSTEES MOTION:**

The Board of Trustees approves the changes in Board Policy 5.9 as noted in Attachment A.

*Date Presented to the Board of Trustees: March 16, 2011*

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>BOARD POLICY</b>		<b>5.9</b>
Chapter 5	Chapter Name	Administration
Section 5.9	Policy Name	Biennial and <a href="#">Annual</a> Operating Budget Planning and <a href="#">Approval</a> <del>Administration Including Revenue Fund</del>

**Part 1. Policy Statement.**

[The Board is committed to long term stewardship of state fiscal resources. It is the policy of the Board to approve systemwide biennial budget requests and system wide annual all funds operating budget plans for colleges and universities and the Office of the Chancellor.](#)

**Part 2. Authority.**

**Part 1. Authority.** (see related documents below).

Minnesota Statutes § 16A.10, Budget Preparation, states that ~~by October 15 of~~ [in](#) each even-numbered year, an agency must file its upcoming biennial budget request. [Under Minnesota Statute § 136F.06, Powers and Duties, state that the Board shall set tuition and fees and adopt suitable policies for the institutions it governs. Minnesota Statute § 136F.70, Tuition; Fees; Activities Funds, state that the Board shall set rates of tuition and fees.](#) [the Board has plenary authority to govern the colleges and universities and to adopt suitable policies for the institutions..](#)

**Part 2. Policy Statement.**

~~It is the policy of the Board of Trustees to periodically approve revenue and expenditure operating budget plans for all colleges and universities and the office of the chancellor. Operating budget planning includes all revenue sources.~~

**Part 3. Responsibilities.**

**Subpart A. Biennial Budget Request**

The chancellor shall [develop a system wide biennial operating budget request after consultation with constituency groups.](#)

[The Board shall approve the biennial budget request.](#)

**Subpart B. All Funds Operating Budgets**

31 The chancellor shall provide a financial outlook and issue guidelines for preparation  
32 of an operating budget ~~financial outlook~~ to be developed by each college or  
33 university.

34  
35 The colleges, universities, and the ~~office~~ Office of the Chancellor ~~shall~~ will prepare  
36 balanced budgets consistent with Board policies and system procedures.

37  
38 The Board shall approve the system wide annual all funds operating budget.

39 ~~The Board of Trustees shall approve the biennial budget requests and system wide~~  
40 ~~allocations. The Board shall approve tuition and fees, room and board rates, and~~  
41 ~~student union facility fees.~~

42  
43 **Part 4. Accountability/Reporting.**

44 The chancellor is responsible for monitoring the system, ~~office~~ Office of the ~~chancellor~~  
45 Chancellor and college and university budgets. The chancellor shall provide system-wide  
46 budget updates for all funding sources on an exception reporting basis.

47  
48 The president is responsible for monitoring the college or /university budget to ensure  
49 accuracy and a balanced budget. ~~The Board of Trustees will be periodically provided~~  
50 ~~system wide budget updates for all funding sources on an exception reporting basis.~~  
51 ~~These will include a breakout at the college, university and office of the chancellor level.~~

52  
53 **Part 5. Student Consultation.**

54 College and university budget development is subject to student consultation  
55 requirements as defined by Board Policy 2.3, Student Involvement in Decision Making.  
56

57  
58  
59 *Date of Implementation: 06/21/00,*

60  
61 *Date of Adoption: 06/21/00,*

62  
63 *Date and Subject of Revision:*

64 04/XX/11 – Clarifies roles and responsibilities and adds student consultation language.

65 *06/21/06 – Technical and syntax amendments made to policy.*

66 *06/18/03 - adds a new Part 1, authority, changes “system office” to “office of the*  
67 *chancellor”, and provides for reporting on an exception basis in renumbered Part 4.*

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2011

**Agenda Item:** Proposed Amendment to Board Policy 5.11 Tuition and Fees

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** Changes to Board policies require approval by the Board of Trustees.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Finance Officer  
Judy Borgen, Associate Vice Chancellor Budget

**Outline of Key Points/Policy Issues:**

The proposed amendments to this board policy serve to specifically identify within policy the Board approved tuition categories; move language that defines each tuition category and subsequent approval requirements to the related system procedure 5.11.1; and add policy language governing Revenue Fund fees.

Additionally, these amendments seek to reorganize and modify existing language for clarity and to reflect common formatting conventions used throughout Board policies.

**Background Information:** As part of the Chancellor's continuous improvement initiative, Board policies and procedures are regularly reviewed and amendments are proposed as appropriate. Finance division staff began reviewing this policy in the spring of 2010 and found that there was a need to propose amendments to current policy language.

Through the course of this review, the statewide student groups met with staff several times to provide input, and campus constituency groups were given multiple opportunities to comment and suggest changes.



**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

*First Reading*

**BOARD ACTION**

**Proposed Amendment to Board Policy 5.11 Tuition and Fees**

**BACKGROUND**

As part of the Chancellor's continuous improvement initiative, Board policies and procedures are regularly reviewed and amendments are proposed as appropriate. Finance division staff began reviewing this policy in the spring of 2010 and found that there was a need to propose amendments to current policy language and to draft proposed language to govern the Revenue Fund fees.

On-going conversations with the statewide student associations and the colleges and universities identified areas of concern that existed within this policy. The need to address a lack of language governing the assessment, collection and disbursement of Revenue Fund fees was evident to all parties, and the initial focus of the conversation.

In coordination with the proposed policy amendments, the conversations have included suggested changes to the related system procedures. Pending approval of the proposed policy amendments, system procedure modifications have been sent to the colleges, universities and the statewide student associations for review and final commentary.

**CONCLUSION**

As a result of these on-going conversations, the following changes are proposed:

- Reorganize and modify existing language for clarity and to reflect common formatting conventions used throughout Board policies;
- Specifically identify within policy the approved tuition categories;
- Remove Subparts A and B under Part 2, Tuition, which divide tuition into categories (Board approved and market driven);
- Craft language that defines each tuition category and subsequent approval requirements for inclusion in related system procedure 5.11.1; and
- Add policy language governing Revenue Fund fees.

**RECOMMENDED COMMITTEE ACTION:**

The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion: The Board of Trustees approves the changes in Board Policy 5.11 as noted in Attachment A.

**RECOMMENDED BOARD OF TRUSTEES MOTION:**

The Board of Trustees approves the changes in Board Policy 5.11 as noted in Attachment A.

*Date Presented to the Board of Trustees: March 16, 2011*

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>BOARD POLICY</b>	<b>5.11</b>
Chapter 5	Chapter Name Administration
Section 5.11	Policy Name Tuition and Fees

**5.11 Tuition and Fees**

**Part 1. Authority.**

Minnesota Statutes § 136F.06, Powers and Duties, [and Minnesota Statutes § 136F.70, Tuition; Fees; Activities Funds](#) provide states that the board shall set tuition and fees and adopt suitable policies for the institutions ~~colleges and universities~~ it governs. [All colleges and universities shall charge tuition and fees consistent with Minnesota Statutes, board policies, and system procedures. The Board shall approve the tuition and fee structure for all colleges and universities. The chancellor or designee is authorized to make any necessary technical adjustments to the tuition rates and fees. Technical adjustments are defined as changes in tuition and fee rates which are deemed a correction or the addition of a program rate for a new program established in the interim,](#)

**Part 2. Tuition.**

Tuition shall be charged by all colleges and universities. [The tuition categories are per credit, differential course and program, banded and market driven. Any tuition category may include resident and nonresident rates.](#)

All tuition must be identified separately on a tuition and fee statement.

**~~Subpart A. Board approved tuition~~**

~~The Board of Trustees shall approve the tuition structure for all colleges and universities. All colleges and universities shall charge tuition consistent with Minnesota statutes, board policies, and system procedures. The chancellor is authorized to make any necessary technical adjustments to the tuition rates.~~

**~~Subpart B. Market-driven tuition~~**

~~Colleges and universities may set and charge market-driven tuition for customized training, continuing education, distance learning, non-credit instruction, and contract post-secondary enrollment options programs.~~

**Part 3. [Approval and Notice, Fees.](#)**

**[Subpart A. Approval of Mandatory and Optional Fees.](#)**

~~Three~~ [Four](#) categories of fees shall be applied to students by Minnesota State Colleges and Universities. [No fee shall be charged unless authorized by the Board.](#)

- 34 ~~a. Mandatory~~ 1. Mandatory fees are in statute or policy and are required to be  
 35 charged by all colleges and universities.  
 36 ~~b. Optional~~ 2. Optional fees are established by the ~~board~~ Board and adopted at  
 37 campus discretion.  
 38 ~~e. Personal~~ 3. Personal property and service charges ~~are established~~ authorized by the  
 39 Board, adopted at campus discretion, and include items that are retained by  
 40 the student or services that are on the student's behalf.  
 41 4. Revenue Fund fees are established in accordance with ~~authorized by statute,~~  
 42 policy or bond indenture.

43 ~~No fee shall be charged unless authorized by the board. All fees must be identified~~  
 44 ~~separately on a tuition and fee statement.~~

45  
 46 Subpart B. Notice required. All fees must be identified separately on a tuition and  
 47 fee statement. On an annual basis, colleges and universities shall publish all fees that  
 48 are charged to their students.

#### 49 50 Part 4. Fees.

##### 51 **Subpart A. Mandatory fees**

52 There are five mandatory fees:

- 53 1. Senior citizen fee in lieu of tuition
- 54 2. P, parking fee
- 55 3. L, late fee
- 56 4. P, payment plan fee ~~and s~~
- 57 5. Statewide student association fee-

58  
 59 All colleges and universities shall charge these fees consistent with Minnesota Statutes,  
 60 board policies, and system procedures (see related documents below). ~~The chancellor is~~  
 61 ~~authorized to make any necessary technical adjustments to the fee rates.~~

##### 62 63 **Subpart B. Optional fees**

64 The ~~board~~ Board approves the optional fee maximums. Colleges and universities may  
 65 establish policies to charge fees not to exceed the maximum amount approved by the  
 66 ~~board~~ Board.

67 The authorized optional fees are:

- 68 1. Application fee
- 69 2. Credit for prior learning assessment fee
- 70 3. Student life/activity fee
- 71 4. Athletics fee
- 72 5. Health services fee
- 73 6. Special events fee
- 74 7. Residential learning community fee
- 75 8. Technology fee

##### 76 77 **Subpart C. Personal property fees charges and service charges.**

78 Colleges and universities may charge students the actual cost of property and  
 79 services. The fee charges shall be for items that become the personal property of a

80 student and have an educational or personal value beyond the classroom or for  
 81 services for or on the behalf of the students. The actual cost shall be the allowable  
 82 maximum charge.

#### 84 **Subpart D. Revenue Fund fees**

85 Adequate fees shall be charged for the use of revenue fund facilities to meet the  
 86 requirements of Minnesota Statutes §§135F.93 and 136F.95 and the Master  
 87 Indenture of Trust. The fees must be sufficient to cover debt, operating cost and all  
 88 repair and replacement costs, and reserves.

89  
 90 1. Revenue Fund Fees. For facilities that were constructed, renovated or acquired  
 91 using revenue bonds or facilities that the Board designated as part of the  
 92 revenue fund, revenue fund fees shall be charged, and include, but are not  
 93 limited to:

94 a. Room and board fees.

95 b. Student union facilities fees.

96 c. Wellness center and outdoor recreation fees.

97 d. Parking ramp and surface lot fees.

98  
 99 2. Optional Revenue Fund Fees. Colleges and universities may charge optional  
 100 revenue fund fees for revenue fund facilities, which shall be reported to the  
 101 Board as part of the annual operating budget. On an annual basis, colleges and  
 102 universities shall publish all optional fees that are charged to their students.  
 103 Optional revenue fund fees include but are not limited to room or facility  
 104 usage fees, service charges, and equipment charges. The president of the  
 105 college or university shall have final approval on all optional fees and  
 106 subsequent rates.

#### 108 **Part 4-5. Student Consultation**

109 All tuition and fees are subject to student consultation requirements as defined by Board  
 110 Policy 2.3, Student Involvement in Decision Making

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111  
 112 *Date of Implementation: 08/15/07*

113  
 114 *Date of Adoption: 06/21/00*

115  
 116 *Date & Subject of Revisions:*

117 04/XX/11 – Clarifying authority, addition of language to govern Revenue Fund fee  
 118 administration, general edits

119 08/15/07 - Amended Part 3, by adding two additional mandatory fees: late fees and  
 120 payment plans fees and deleted the same two fees from the optional fees list (see July 20,  
 121 2005 Board Meeting minutes)

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2010

**Agenda Item:** Campus Service Cooperative

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** Shared Services is a part of the Board of Trustees 2011 work plan.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer  
Colin Dougherty, Associate Vice Chancellor Finance

**Outline of Key Points/Policy Issues:** Substantial progress has been made on this innovative, transformational, and cost effective project, now known as the Campus Service Cooperative. The Campus Service Cooperative is an initiative that will bring efficiencies to select campus and system office activities, allowing colleges and universities to focus on their core mission – serving and educating students.

**Background Information:** The objective is to implement a shared services model across the Finance, Business Office, Human Resources, and Financial Aid business areas throughout the system. Cooperative members subscribe to its services through service level agreements, metrics reporting, and the sharing of savings through efficient execution.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>INFORMATION ITEM</b>
<b>Campus Service Cooperative</b>

**BACKGROUND**

Shared Services is a part of the Board of Trustees 2011 Work Plan. Substantial progress has been made on this innovative, transformational, and cost effective project, now known as the Campus Service Cooperative. The Campus Service Cooperative is an initiative that will bring efficiencies to select campus and system office activities, allowing colleges and universities to focus on their core mission – serving and educating students. The Campus Service Cooperative approach is defined as “a focus on efficient and transformational delivery of services, while preserving the distinct educational mission of each college and university.”

The objective is to implement a shared services model across the Finance, Business Office, Human Resources, and Financial Aid business areas throughout the system. Cooperative members subscribe to its services through service level agreements, metrics reporting, and the sharing of savings through efficient execution. The Campus Service Cooperative provides three primary benefits: people, innovation, and value.

A summary of the key benefits appears in the table below:

People	Innovation	Value
Succession planning	Process transformation	Economic savings
Talent acquisition	Metrics for productivity, quality, and compliance	More efficient delivery with existing resources
Career development and growth	Internal and external best practices	Reinvestment of savings in education mission
Continuity planning	Service levels benefiting students, faculty, and staff	

Operations of the Campus Service Cooperative may be completed at various sites across the System. In addition to the college and university campuses, the Campus Service Cooperative also has access to 1312 Harmon Place where process design, best practice development, and documentation meetings can be conducted. Selected pilots and operational activities are also expected to reside at Harmon Place. However, the Campus Service Cooperative is not bound to a single location.

The initiative has been underway since last year. Staff and several participating presidents will update the committee on the progress to date. An extensive power point presentation will be available as well.

*Date Presented to the Board of Trustees: March 16, 2011*

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2011

**Agenda Item:** Enterprise Risk Management Strategy

- Proposed Policy Action       Approval Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:**

The purpose of this report is to present the board an update on work done in enhancing the understanding and of the risk management strategies in place in the System. Current activities will be outlined and areas of new focus introduced.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer  
Brian Yolitz, Associate Vice Chancellor Facilities  
Keswic Joiner, Director, Risk Management

**Outline of Key Points/Policy Issues:** The Minnesota State Colleges and Universities is continuing efforts to establish a more formalized risk management strategy under the direction of the Compliance Oversight Committee. Risk management currently occurs at all levels of leadership and management within the system, from the front line campus employee through Board of Trustees deliberations and decision-making processes. Often times these processes are informal or ad hoc with a functional focus on risks associated with compliance. While individually sound in practice, they do not provide a systematic assessment of the risks associated with the system as an enterprise nor do they offer a framework for addressing risk within the system to improve the business of delivering higher education in Minnesota. The goal of the outlined program is to improve the structure and systematic nature of risk assessment and management at all levels of the organization.

**Background Information:** Groups, functions, and processes associated with risk management are already present within the system. Individual internal audit and compliance staff functions, information security and all-hazards campus staff assistance visits, and other risk management efforts must be integrated to eliminate overlaps and gaps in the existing collective processes and areas of focus. The goal is not to establish entirely new structures or staff, but to integrate and coordinate current processes towards better appreciation and a holistic approach towards risk management for the system.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

<b>INFORMATION ITEM</b>
<b>Enterprise Risk Management Strategy</b>

**Background**

The purpose of this report is to update the Board of Trustees regarding the continuous improvement efforts in managing risks throughout the system. The Board’s current expectations regarding risk management are contained in Board Policy 5.16, Risk Management and Insurance:

*Part 2. Responsibilities: The chancellor for the office of the chancellor and the presidents for the colleges and universities are responsible for effectively managing risks in order to conserve and manage the assets of the office of the chancellor, colleges and universities and minimize the adverse impacts of risks or losses.*

Like all organizations, the Minnesota State Colleges and University system manages risks in its day-to-day operations. It has been doing so since it’s inception. Risk management occurs at all levels of leadership and management within the system, from the front line worker in student services or the finance office through the various departments to the presidents at each of the colleges and universities. The Chancellor and staff manage risk as part of their leadership, as do various governance and oversight groups and committees within the system. The Board of Trustees incorporates risk management in their deliberations and decision-making processes. The goal of the outlined program is to improve the structure and systematic nature of risk assessment and management at all levels of the organization.

Often times these risk management processes are informal or ad hoc with a functional focus on risks associated with compliance. While individually sound in practice, they do not provide a systematic assessment of the risks associated with the system as an enterprise nor do they offer a framework for addressing risk within the system and improve the business of delivering higher education in Minnesota. They fall short of creating what the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines as enterprise risk management or ERM:

*Enterprise Risk Management: a process, effected by an entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify the potential events that may affect*



*the entity, and manage risk to be with the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. (COSO's Enterprise Risk Management – Integrated Framework – 2004)*

The need for a more holistic approach to risk management has been gaining momentum. The push started with Sarbanes-Oxley Act requirements that called on U.S. publicly-traded corporations to utilize a control framework in their internal control assessments. The Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) have pushed for more top-down risk assessments. Standard and Poor's (S&P), is finalizing their criteria for factoring ERM into its ratings for non-financial companies and organizations. In addition, an International Standard for Risk Management (ISO 31000) was established in 2009 with supporting risk assessment techniques (ISO31010) and Risk Management Vocabulary (ISO Guide 73). System leadership desires to take advantage of the work and lessons of others in creating an ERM construct for assessing and addressing risks associated with the delivery of quality higher education in Minnesota.

### **Overview of Risk Management in the System**

Every day, system leaders and employees make risk-based decisions in the management of the colleges and universities.

- Should we expand the number of employees that have purchasing cards?
- When it is snowing, how often should we remove the snow from walkways?
- How many employees should have access to key databases?

Furthermore, college and university presidents, and their cabinets, engage in risk assessment on a local level when developing institutional fiscal and strategic plans.

- Should we operate a campus bookstore or contract with an online vendor?
- What will be the effect of a program closure or service cutback?
- How much should we spend on redundant network connectivity?

At the system level, the Finance division, the Information Technology Services division, the Office of Internal Auditing, and the Office of General Counsel have engaged in risk assessment and mitigation activities that include:

- regular and repeated training programs available to the campuses concerning system policies, procedures and guidelines;
- cascading monitoring and reporting protocols that culminate in Board oversight in the Audit and Finance & Facilities Committees; and
- regular review of policy and procedures for refreshment and identification of new or emerging best practices and risks.

In addition, the Finance division also requires all colleges and universities to document and assess risk on their key financial internal control cycles. Internal controls are expected to provide reasonable, but not absolute assurances about their effectiveness.

### Enterprise Risk Management

The system is continuing efforts to establish a more formalized risk management strategy. The work of the staff will be directed by the Compliance Oversight Committee. The committee was established several years ago by Chancellor McCormick and charged with the establishment and oversight of the risk management program. Progress to date has been concentrated in the area of legal compliance and development of improved procedures for higher risk activities including the use of the information technology systems, credit cards, international travel, financial aid administration and vehicle use. The goal of the continuing effort is to develop a structure that will expand the understanding of risk from the current traditional view to a comprehensive and holistic view that includes strategic, operational, financial, reputational, and compliance risks. This process will also provide a common language to deal with the risks that are shared across the system or that arise in corners of the organization. The ultimate objective is the creation of a thorough process that will identify risks that threaten the accomplishment of the system's mission and assist system leadership in determining how to best manage those risks.

As the process matures, the Office of the Chancellor will develop additional strategies to identify emerging risks. The program will include development of tools for campus use. The tools may include interview questions, surveys and a scoring model to identify the likelihood of the risks occurring and their potential impact; additional training opportunities, procedure and guidelines, audit techniques, monitoring and review protocols and other methods. The effort will build on current strategies and decision making processes and encourage use of existing data from on-going assessment activities. Campuses or divisions may be asked to pilot the tools.

In its most basic form, enterprise risk management involves a four-step process:

- Step 1.** Identify risk (threats/obstacles). Ask: what can hinder the organization from achieving its objectives?

<b>Compliance Oversight Committee Membership</b>
Vice Chancellor of Finance
Vice Chancellor of Academic and Student Affairs
Vice Chancellor of Human Resources
Vice Chancellor of Information Technology
General Counsel
Executive Director of Internal Auditing
Compliance Coordinator

- Step 2.** Assess the risks (Identify the probability, quantify the likelihood and impact of those obstacles; prioritize the risks so finite resources can be directed to key areas for maximum impact.
- Step 3.** Address the risks through decisions to mitigate, transfer or accept.
- Step 4.** Monitor change.

Risk management takes place at every level of the organization. Colleges, universities and the Office of the Chancellor will be encouraged to apply this four-step process to risk across broad categories:

<b>Strategic</b>	Risks to the organization’s goals	Attraction and retention of key employees and /institutional alliances
<b>Operational</b>	Risks to processes	Communications, student activities, employment practices
<b>Financial</b>	Risks to assets and people	Loss of funding/tuition stability, curricula and program design, and claim reserve liability
<b>Reputational</b>	Public image and perception; branding	Campus security, illness/injury to students, faculty and staff, and visitors and contractors
<b>Compliance</b>	Laws and regulations	Loss associated with items of interest to regulators (cuts across all of the above categories)

Building on local efforts, a risk management working group, serving as a subset of the Compliance Oversight Committee will encourage enterprise-wide problem solving as well. While this process will take several years until it is fully integrated, as the use of coordinated risk assessment tools grows, divisions within the Office of the Chancellor, as well as the Office of Internal Auditing, will have increase capability to identify keys risks to address in annual work plans.

In the near term, the next phase of the process will consist of a series of discussions with key leaders. The Finance division, the Office of Internal Auditing, and the Office of General Counsel have been participating jointly in initial risk assessment meetings, and later the Office of Internal Auditing will conduct focused assessments of key topical areas. This cooperation should help reduce duplication of effort at the system level, and at the same time, promote a coordinated discussion of risk management. The initial risk assessment conversations will focus on developing a common vocabulary for discussing risk at individual institutions and throughout the system as well as an initial environmental scan of campus leadership concerns.

We must recognize the groups, functions, and processes already associated with risk management that are present within the system. Understanding the important role internal audit and compliance staff functions, information security and all-hazards campus staff assistance visits, and many others play in risk management within the system is a key part of the program's design. It's equally important to understand where there are overlaps and gaps in the existing collective processes and areas of focus. Some roles will change to help meet the needs. The goal should not be establish entirely new structures or staff, but to integrate and coordinate current processes and work in creating a better appreciation and approach towards risk management for the system.

As this work evolves and advances, policy and supporting procedure documents will need to be created to document the definitions, roles, responsibilities, and procedures of the framework and systematic practices of the MnSCU ERM methodology. The staff will periodically report to the Board on the effort and progress.

*Date Presented to the Board of Trustees: March 16, 2011*

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** March 15, 2010

**Agenda Item:** Minnesota State Colleges and Universities System and State Economic Outlook for FY2011-2013

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** The system is continuing budget planning for the 2012-2013 biennium. The budget planning is incorporating a set of assumptions about appropriation reductions, tuition rate increases, and inflationary cost increases.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer  
Judy Borgen, Associate Vice Chancellor Budget  
Karen Kedrowski, System Director Budget

**Outline of Key Points/Policy Issues:** The purpose of this report is to continue a discussion with the Finance and Facilities Committee regarding the budget outlook for 2012-2013 biennium. For the past few years, the system has been engaged in multi-year budget planning. The governor has released a biennial operating budget request as well as an updated economic forecast for the state of Minnesota.

**Background Information:** The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process, with consultation with campus communities, and with making budget reduction decisions. Colleges and universities have taken strong budget actions over the past few years and are continuing to make decisions on staff reductions and closure of academic programs and offerings. To date, 27 colleges and universities have announced position reductions (approximately 680 positions), 17 have implemented early separation programs, 14 have announced planned closure of 81 programs, and 21 have preliminary fiscal year 2012 budget plans that utilize fund balance.



**Table 2 Governor's 2012-2013 Budget Recommendations**  
(\$ in millions)

<b>General Fund</b>	<b>November Forecast FY2012-2013</b>	<b>Governor's Proposed Actions</b>	<b>Governor's Budget FY2012-2013</b>
<b>Beginning balance</b>	<b>\$674</b>	<b>(\$14)</b>	<b>\$660</b>
Revenues	\$32,443	\$4,129	\$36,572
Expenditures	\$39,030	(\$1,940)	\$37,090
Reserves	<u>\$275</u>	<u>(\$136)</u>	<u>\$139</u>
<b>Budget balance</b>	<b>(\$6,188)</b>	<b>\$6,191</b>	<b>\$3</b>

Source: Governor Mark Dayton FY2012-13 Biennial Budget, February 15, 2011

The Legislature will consider the Governor's budget recommendation when developing its budget for the state of Minnesota.

### State economic outlook

On February 28, 2011 Minnesota Management and Budget released the state's February 2011 economic forecast. The February forecast is showing more than a billion dollar improvement from a \$6.2 billion budget deficit to a \$5.028 billion deficit for the 2012-2013 biennium. The state will end the current fiscal year with a \$663 million surplus.

In the current biennium, general fund revenues are \$97 million higher due to modest increases in income, sales, and corporate tax. The expenses are \$167 million lower than the November forecast primarily due to changes in the implementation of the early Medicaid Assistance expansion. As shown in Table 3, the net change is an additional \$264 million added to the budget balance.

**Table 3 State of Minnesota**  
**Fiscal Years 2010-2011 Forecast**  
(\$ in millions)

	<u>November Forecast</u>	<u>February Forecast</u>	<u>Difference</u>
<b>Beginning balance</b>	<b>\$447</b>	<b>\$447</b>	<b>\$0</b>
Revenues	\$30,565	\$30,662	\$97
Expenditures	\$30,338	\$30,171	(\$167)
Cash flow account	\$275	\$275	\$0
<b>Balance</b>	<b>\$399</b>	<b>\$663</b>	<b>\$264</b>

Source: Minnesota Management and Budget, February 2011 Forecast

For the 2012-2013 biennium, general fund revenues are now forecast at \$33.33 billion, an increase of \$887 million (2.8 percent) over the November forecast. More than half of the projected increase in revenues is attributed to individual income tax (most of which is growth in capital gains), and an increase in sales tax revenue accounts for another 30 percent of the growth. Expenses are projected to be \$39.021 billion, just slightly below the November forecast. (Table 4)

**Table 4**

**State of Minnesota  
Fiscal Years 2012-2013 Forecast  
(\$ in millions)**

	<u>November Forecast</u>	<u>February Forecast</u>	<u>Difference</u>
<b>Beginning balance</b>	<b>\$674</b>	<b>\$938</b>	<b>\$264</b>
Revenues	\$32,443	\$33,330	\$887
Expenditures	\$39,030	\$39,021	(\$9)
Cash flow account	\$266	\$266	\$0
Budget reserve	\$9	\$9	\$0
<b>Balance</b>	<b>(\$6,188)</b>	<b>(\$5,028)</b>	<b>\$1,160</b>

Source: Minnesota Management and Budget, February 2011 Forecast



### System budget planning 2012-2013

The system has been planning for the 2012-2013 biennium for the past 18 months. The Finance and Facilities Committee has been periodically updated on the budget planning framework surrounding appropriation, tuition and inflation. Appropriation planning scenarios were developed during the spring of 2010 and provide the “bookends” to appropriation reduction. One assumption was that half of the state’s budget deficit would be solved with spending reductions and the other assumption was that the entire deficit would be solved with spending reductions. Table 5 below has been updated to reflect the change in the state’s budget deficit (related to the 50 percent/100 percent scenarios) and to show the impact of the Governor’s budget recommendation.

**Table 5**

#### Minnesota State Colleges and Universities 2012-2013 System Planning Assumptions Compared to Forecast Base and Current Funding Level

	Fiscal Year 2012	Fiscal Year 2013	Biennium Total	Change 2012	Change 2013	Biennium Change
Fiscal year 2011 funding level	\$605.5	\$605.5	\$1,211.0			
Supplemental Omnibus Higher Education Bill (2012-2013 forecast base)	\$630.4	\$630.4	\$1,260.7			
<i>change from fiscal year 2011</i>				\$24.9	\$24.9	\$49.7
Governor's budget recommendation	<b>\$592.5</b>	<b>\$592.5</b>	<b>\$1,185.0</b>			
<i>change from forecast base</i>				(\$37.9)	(\$37.9)	(\$75.7)
<i>change from fiscal year 2011</i>				-6.0%	-6.0%	-6.0%
<i>change from fiscal year 2011</i>				(\$13.0)	(\$13.0)	(\$26.0)
<i>change from fiscal year 2011</i>				-2.1%	-2.1%	-2.1%
If 50% of state deficit solved with reductions (\$98 million from forecast base)	\$581.3	\$581.3	\$1,162.7			
<i>change from forecast base</i>				(\$49.0)	(\$49.0)	(\$98.0)
If 100% of state deficit solved with reductions (\$196 million from forecast base)	\$532.3	\$532.3	\$1,064.6			
<i>change from forecast base</i>				(\$98.0)	(\$98.0)	(\$196.1)
<b>System planning assumption (bookend 1)</b>	<b>\$559.4</b>	<b>\$524.4</b>	<b>\$1,083.8</b>			
<i>change from fiscal year 2011</i>				(\$46.1)	(\$81.1)	(\$127.2)
<i>change from forecast base</i>				-7.6%	-13.4%	-10.5%
<i>change from forecast base</i>				(\$71.0)	(\$106.0)	(\$176.9)
<i>change from forecast base</i>				-11.3%	-16.8%	-14.0%
<b>System planning assumption (bookend 2)</b>	<b>\$524.4</b>	<b>\$454.4</b>	<b>\$978.8</b>			
<i>change from fiscal year 2011</i>				(\$81.1)	(\$151.1)	(\$232.2)
<i>change from forecast base</i>				-13.4%	-25.0%	-19.2%
<i>change from forecast base</i>				(\$106.0)	(\$176.0)	(\$281.9)
<i>change from forecast base</i>				-16.8%	-27.9%	-22.4%

The above bookends are being utilized by colleges and universities in their local planning process.

Colleges and universities have incorporated into their budget planning process varying tuition rate increase scenarios, keeping in the forefront the expectation of reasonableness. It has been the Chancellor’s position that if the system were to receive its 2012-2013 biennial operating budget request totaling \$1,260.7 million, tuition rate increases would be held to five percent per year or lower. Just as a reminder, the tuition impact to a student in fiscal year 2012 will include the two percent mitigated tuition from fiscal year 2010 and any new rate increase approved by the Board.

As shown in Table 6 below, the impact of an average annual tuition increase of five percent for a college student would be \$224 and for a university student \$310. When factoring in the mitigated amount the impact would be \$307 (\$224 new increase plus \$83 mitigated amount) for a college student and \$420 (\$310 new increase plus \$110 mitigated amount) for a university student.

**Table 6**  
**Minnesota State Colleges and Universities**  
**Illustration of Tuition Rate Increase and Mitigation Impact**

	Colleges				Universities			
	Fiscal Year 2011	Fiscal Year 2012	%	\$	Fiscal Year 2011	Fiscal Year 2012	%	\$
Average Annual Tuition (Board-Approved)	\$4,480	\$4,704	5%	\$224	\$6,196	\$6,506	5%	\$310
Average Annual Tuition (Charged to Students)	\$4,397	\$4,704	7%	\$307	\$6,086	\$6,506	7%	\$420
Difference	(\$83)	\$0		\$83	(\$110)			\$110

The state’s \$5.028 billion budget deficit will more than likely result in an appropriation reduction for the system. Recently the system provided a financial overview to the House Higher Education Policy and Finance Committee specifically addressing the impact of a 15 and 20 percent reduction in state support. The Chancellor is deeply committed to accessibility and affordability to higher education. However, state appropriation reductions at the magnitude of 15 to 20 percent will require that all possible methods to solve the budget gap, including tuition, will need to be considered.

Colleges and universities have built into their budget planning assumptions “fixed” compensation cost increases that will occur in the next biennium if nothing else is done in

the next round of collective bargaining. The fixed cost increases include projected employer health insurance rate increases of 7.7 percent in January 2012 and another 16.2 percent in January 2013, an increase in employer retirement rate increases for TRA, tail cost for the fiscal year 2011 step increases for classified staff, and promotions/career steps for faculty. The health insurance rate increases are projected and could be revised due to any changes made to the state's health insurance program. Colleges and universities have also built into their budget planning assumptions for new inflationary cost increases at the CPI (projected at 1.7 percent for fiscal year 2012 and 1.8 percent for fiscal year 2013), modified for local conditions.

Table 7 below combines a set of assumptions regarding appropriation, fixed compensation costs, other operating cost inflation (at the projected CPI), and tuition and shows the budget challenge facing the system under a 15 and 20 percent reduction from forecast in state support. Under a 15 percent appropriation reduction, the system would have a remaining biennium budget challenge of \$140.1 million after a tuition assumption of 5 percent increase in each year of biennium. The challenge increases to \$203.2 million under a 20 percent appropriation reduction scenario.

**Table 7**

**Minnesota State Colleges and Universities  
2012-2013 Biennium Budget Challenge  
Illustration of State Appropriation Reduction**

	<b>2012-2013 biennium 15 percent reduction scenario</b>	<b>2012-2013 biennium 20 percent reduction scenario</b>
Transformational initiatives	\$50.0	\$50.0
Appropriation reduction (from forecast base of \$1,260.7 million)	\$189.1	\$252.2
Contractual benefit "fixed" cost increase	\$49.9	\$49.9
Other operating cost inflation (1.7 percent/1.8 percent)	<u>\$21.6</u>	<u>\$21.6</u>
Budget challenge	\$310.6	\$373.7
No transformational initiatives	<u>(\$50.0)</u>	<u>(\$50.0)</u>
Remaining budget challenge	\$260.6	\$323.7
Tuition @ 5 percent rate increase each year of biennium	<u>(\$120.5)</u>	<u>(\$120.5)</u>
Balance of budget challenge	\$140.1	\$203.2

If the system is faced with new compensation increases, the budget challenge will grow. For example, a 1 percent compensation increase each year would increase the budget challenge by approximately \$33 million over the 2012-2013 biennium.

**Next steps**

The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process, with consultation with campus communities, and with making budget reduction decisions. Colleges and universities have taken strong budget actions over the past few years and are continuing to make decisions on staff reductions and closure of academic programs and offerings. To date, 27 colleges and universities have announced position reductions (approximately 680 positions), 17 have implemented early separation programs, 14 have announced planned closure of 81 programs, and 21 have preliminary fiscal year 2012 budget plans that utilize fund balance.

Action on the fiscal year 2012 operating budget is scheduled for the May and June 2011 meetings of the Board of Trustees, at the close of the legislative session.

*Date Presented to the Board: March 16, 2011*