

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES
April 19, 2011**

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

Finance and Facilities Committee Members Absent: Michael Vekich

Other Board Members Present: Jacob Englund, Thomas Renier, Louise Sundin, Scott Thiss

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 April 19, 2011, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:00 am.

1. MINUTES OF March 15, 2011

Trustee McElroy moved to accept the minutes of March 15, 2011 as amended (misspelling in final sentence corrected). Trustee Van Houten seconded the motion which carried with no dissent.

2. MINUTES OF JOINT FINANCE AND FACILITIES AND HUMAN RESOURCES COMMITTEES OF MARCH 16, 2011

The joint minutes from March 16, 2011 were approved as published.

3. FINANCE AND FACILITIES UPDATE (*Information*)

Vice Chancellor King updated the committee on the three primary goals which they had selected for FY2011. Physical plant size/priorities for the system bonding proposal will be discussed at today's meeting and the capital budget request is on track for Board consideration this spring. Resources for Results will be discussed at a joint meeting with the Academic and Student Affairs Committee today. A part of the realignment and reorganization goal has been re-branded as the "Campus Service Cooperative" to reflect more accurately the initiative's spirit and system wide strategy. Chair McElroy expressed his wish to have this goal encompass broader work.

The Campus Service Cooperative has made progress on Financial Aid capabilities. Direct student loan processing is now being done for Pine Technical Colleges and more colleges are expected to follow. The cooperative led a workshop on Financial Aid fraud prevention with some metropolitan area colleges; identified opportunities

for the cooperative to define best practices and be a resource for multiple institutions. The cooperative has made a strong start and is now processing payroll for the Office of the Chancellor, Pine Technical College, and Anoka Technical College; and launching a project with Normandale Community College to provide centralized bank reconciliation services. The Human Resources analysis of what activities are best located on campus and what activities can best be performed in the cooperative is nearly complete.

Vice Chancellor King commented that both the House and Senate have budget proposals that include substantial budget impacts on the system. Conference committees have been formed. Preliminary discussions are underway in the event of a state shut down on July 1. College and university budget planning continues and the FY2012 operating budget and tuition recommendations will be presented to the Board in June. A special public hearing and first reading of the operating budget is being proposed for early June. It is important that tuition rates be in place by July 1 since financial aid processing will be on hold until final rates are determined.

Vice Chancellor King reported that at least 9 campuses expect to be impacted in some fashion with flooding as part of the spring thaw. No campus interruption or damage has been reported yet. The Board will be informed as events unfold.

4. **PROPOSED AMENDMENT TO BOARD POLICY 5.9 BIENNIAL AND OPERATING BUDGET PLANNING AND ADMINISTRATION INCLUDING REVENUE FUND** (*Second Reading*)

Vice Chancellor King noted that 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.

Trustee Van Houten suggested that language in the amendment be changed for clarity. Trustee Benson moved to amend Part 3, Subpart A of Policy 5.9 as follows: “The chancellor shall develop a system wide biennial operating budget **appropriation request for submission to the governor and the legislature** after consultation with constituency groups.” Trustee Frederick seconded the motion which prevailed.

Trustee Dickson then moved that the Finance and Facilities Committee recommend adoption of the revised amendment. Trustee Benson seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

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

5. **PROPOSED AMENDMENT TO BOARD POLICY 5.11 TUITION AND FEES**

(Second Reading)

Vice Chancellor King reported that 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 incorporate governance of the Revenue Fund . On-going conversations with the statewide student associations and the colleges and universities identified areas of concern that have been addressed in the changes proposed within this policy.

Trustee Frederick moved that Finance and Facilities Committee recommend adoption of the following motion. Trustee Benson seconded the motion which prevailed.

RECOMMENDED MOTION:

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

6. **MINNESOTA STATE UNIVERSITY, MANKATO LEASE AMENDMENT**

(Action)

Brian Yolitz, Associate Vice Chancellor for Facilities, requested approval to extend the lease at 7700 France for three years to 2016 and add space for additional demand on behalf of Minnesota State University, Mankato. The amended lease would add an additional 14,728 rental square feet for a total of 26,999 square feet, and is valued greater than \$3,000,000. The site serves both undergraduate and graduate students in a variety of disciplines. The 2011 numbers are 10% higher than the university's original predictions for credit generation at 7700 France when the original lease was established, and the university is projecting continued upward trajectory of at least 10% per year. President Davenport reported that more programs will be delivered at the site and he is confident of success.

Trustee Van Houten moved that Finance and Facilities Committee recommend adoption of the following motion. Trustee Frederick seconded the motion which carried with Trustee Krinkie dissenting.

RECOMMENDED MOTION:

The Board of Trustees approves amending the current lease at 7700 France Avenue, Edina, Minnesota, and adding approximately 14,128 rentable square feet, consistent with the business terms as contained in Attachment A and B, subject to final approval of the lease terms by the Chancellor or his designee.

Note: This motion was later revised at the Board of Trustees meeting to correct a typographical error. "The Board of Trustees approves amending the current lease at 7700 France Avenue, Edina, Minnesota, and adding approximately ~~14,128~~ **14,728** rentable square feet, consistent with the business terms as contained in Attachment A and B, subject to final approval of the lease terms by the Chancellor or his designee."

7. **PROPOSED AMENDMENT TO BOARD POLICY 5.12 TUITION AND FEES DUE DATES, REFUNDS, WITHDRAWALS AND WAIVERS** (*First Reading*)

Colin Dougherty, Associate Vice Chancellor for Finance, commented that the amendment of twelve words within Policy 5.12 belies the benefit for the system and students and adds additional efficiencies. “Single bill-single payment” is a project introduced by the Students First initiative. A management team and work group has been reviewing and discussing the pertinent business practices, technology, and System policies and procedures since 2009.

The group, made up of student association, college, and university staff, found that the absence of a common due date structure has created confusion for students that attend classes at multiple colleges and universities. In order to align key payment related dates, there is a need to propose amendments to current policy language to ensure the adoption of a common framework for key payment due dates. The alignment of key dates will be of particular benefit to those students attending multiple institutions.

Pending approval of the proposed policy amendments, system procedure modifications that will define the framework for key payment related dates will be sent to the colleges, universities and the statewide student associations for review and final commentary.

This is the first reading of the proposed policy amendment. The second reading is scheduled for May.

8. **BOARD GOAL: PHYSICAL PLANT AND BUDGET REQUEST SIZING** (*Information*)

Brian Yolitz, Associate Vice Chancellor for Facilities, presented a comprehensive review of the of the system’s plant size as compared to other states, enrollment trends, history, debt capacity and capital budgeting outlook for FY2012. He noted that the majority of the system’s facilities were built in the late 1960’s and 1970’s which makes the average age on square footage basis 40 years old. The current replacement value of the system’s facilities is \$6.9B. Due to limited budgets and staff the maintenance backlog is \$750M.

While enrollment has grown approximately 37% in the last decade, the system’s owned space has grown only 12%. Mr. Yolitz provided several charts that show the system is not overbuilt in terms of distance traveled and population served compared to the states of South Dakota, North Dakota, Iowa, Wisconsin and Tennessee. Space utilization in the metropolitan area is in the 90% range. Online courses are not displacing on-campus FYE. Online enrollees are often on campus for other courses or to use the technology available at the campus.

Mr. Yolitz reported that it would take an investment of \$200-\$300M per biennium to maintain and renew the current facilities and meet capacity demands. The campus investment goal for academic spaces (\$1 per square foot) results in roughly \$25M

annually since 2004. The capital program investment generally spends 60% on renovation versus 40% for new construction. National capital investment averages 75-80% on new construction. The debt capacity for the system shows slow growth over time and is conservative.

The likelihood of a capital bonding bill in FY2011 is in question. Economic conditions in the design and construction sectors and in the financial markets make now one of the best times to pursue construction work. If a FY2011 bonding bill is not enacted the Chancellor is considering the proposal of a FY2012-2016 capital budget request that totals about \$350M in capital requirements (\$110M for HEAPR and \$240 M for capital projects). The request would follow the Board approved FY2012 Guidelines which give priority to deferred maintenance and renewal of existing spaces; better utilization of existing facilities to meet academic and workforce needs through space realignment, reconfiguration, and demolition; and supports new projects that show a need for science space and student population growth, particularly in the metro area. Subsequent committee discussion indicated general support for the planning parameters outlined in the report. Trustees are interested in an emphasis on HEAPR work, focus on renovation over new construction, and targeted mission central investments.

Staff will return to the Board in June with a final FY2012-FY2016 program recommendation. The Board's recommendation to the Governor is due to Minnesota Management and Budget by the end of June, 2011.

9. COLLEGE AND UNIVERSITY FINANCIAL PERFORMANCE (*Information*)

Colin Dougherty, Associate Vice Chancellor for Finance, presented additional information for the 36 individual colleges and universities based on data from the 2010 financial statements. He commented that as a system the financial condition is remarkable and has overcome a \$10M deficit in FY2009 to have a \$57M surplus in FY2010.

Net assets increased \$179.6 million or 11.6 percent; this increase was due to FY 2010 capital asset investments, along with the strong net income for the year. Individual colleges and universities varied for this measurement. The top quadrant institutions had net asset increases between 20-35%, the second quadrant had increases between 13-18%, the third quadrant had increases between 9-13%, and the bottom quadrant had between an 8% increase and 4 % decrease in net assets. Hibbing Community College is the only college with a decrease in net assets.

The Composite Financial Index (CFI) based on primary reserve, viability, net operating revenue and return on net assets is used as a key metric for monitoring financial performance of each college and university. Colleges and universities incorporate CFI and other measures as deemed pertinent, including non-financial information, to prepare an annual "Financial Trends and Highlights" presentation. Audited colleges and universities present this annual assessment to the Vice Chancellor- CFO, as part of the external audit exit meeting. Colleges not subject to

external audit, present the same assessment at one of several meetings with the Vice Chancellor-CFO, where college leadership for 3 – 5 colleges plus system office finance personnel meet using a round-table discussion format. Mr. Dougherty noted that these presentations have proven to be good learning and sharing opportunities.

The FY2010 system consolidated CFI of 2.89 improved from the FY2009 CFI of 1.87. There is considerable variability in individual CFI financial ratio values across the 36 colleges and universities.

Three colleges had a CFI below 1 (Hibbing Community College, Fond du Lac Tribal and Community College, and Alexandria Technical College). All three of these colleges had a CFI above one in the prior fiscal year, which is something the Higher Learning Commission takes into consideration. Negative unrestricted net assets generally indicate a college or university has experienced ongoing operating deficits. The three colleges all had modest enrollment growth.

Four colleges had a CFI above 5 (Rainy River Community College, Hennepin Technical College, Dakota County Technical College and North Hennepin Community College). Karen Kedrowski, Vice President for Finance and Administration at the Northeast Higher Education District, noted that Rainy River Community College reduced their staff which resulted in a 20% drop in compensation costs which greatly improved their CFI. Hennepin Technical College, Dakota County Technical College and North Hennepin Community College all had double digit enrollment growth and manageable debt service levels.

The key drivers which affect a college or university's CFI are enrollment, employee compensation, year to year changes in federal, state and private grants as well as capital bonding projects, and unplanned or unforeseen events. A new financial health and compliance indicator procedure has been developed, approved and implemented for FY11. The procedure looks at short-term and long-term metrics and if a college or university is triggered Finance Division staff work with the institution on an action plan that is meaningful and not just an extra burden on campus staff.

Mr. Dougherty concluded by commenting that the Minnesota State Colleges and Universities System maintained a relatively strong financial position in FY2010. The majority of the 36 colleges and universities also maintained strong financial positions in fiscal year 2010.

The colleges and universities face anticipated state appropriation reductions coupled with pressure to limit tuition increases which will likely lead to significant budget challenges in future fiscal years. Collective bargaining agreements and anticipated increases in insurance premiums will also add to the challenges that colleges and universities will need to address to maintain strong financial management.

Past performance reflects the strong financial management exercised both by the system and the colleges and universities leadership teams as well as the continued

strong investment in capital assets. The system and the college and university leadership teams will continue to maintain their focus on short and mid-term strategic and financial planning and aggressive cost management to deliver efficient and effective services to our students.

Chair McElroy recessed the meet at 11:00 a.m.

Respectfully submitted,
Nancy Lamden, Recorder