MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance and Facilities **Date of Meeting:** November 16, 2011

Agenda Item: Revenue Fund Issuance Ceiling

☐ Proposed Policy Change ☐ Approvals Required by Policy ☐ Other Approvals ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda:
There are currently 12 campuses that participate in the Revenue Fund. This report will recap the participating campuses' projects, the total amount of revenue bonds that have been used by each campus, discuss future capacity constraints and the actions in advance of a FY2013 Revenue Bond sale.

Scheduled Presenter(s): Brian Yolitz – Associate Vice Chancellor of Facilities

Outline of Key Points/Policy Issues:
The campuses are delegated the responsibility to manage the Revenue Fund programs at their institutions. The Board is required to approve revenue fund fees and long term financial commitments. Annual finance plans for each institution's portion of the Revenue Fund are submitted to the system office for review. Each institution is required to present a financially sustainable plan for revenue fund facilities that meets all bond covenants. While operating revenues normally produce enough funds for operations and R&R, reinvestment funds have typically come from the sale of Revenue Fund bonds. The fees to support the operations and facilities are approved by the Board prior to the beginning of each fiscal year.

Background Information:

State colleges became eligible to participate in the Revenue Fund starting in 2008. Current statute provides for the Board to issue revenue bonds to finance all dormitory, residence hall, food service, student union, and other revenue-producing facilities at any system college or university. Debt obligations of the Revenue Fund are not debt obligations of the State of Minnesota. Revenue Fund debt is backed solely by the pledge of revenues generated from Revenue Fund facilities. The Revenue Fund is subject to a statutory debt ceiling, which is currently established at $300 million pursuant to Minnesota Statutes §136F.98. The Revenue Fund currently carries outstanding debt of approximately $265 million.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM
Revenue Fund Issuance Ceiling

BACKGROUND

Legislation created the Revenue Fund in 1955 primarily as a means to finance residence halls and student unions at state university campuses. State colleges became eligible to participate in the Revenue Fund starting in 2008. Current statute provides for the Board to issue revenue bonds to finance all dormitory, residence hall, food service, student union, and other revenue-producing facilities at any system college or university. Debt obligations of the Revenue Fund, unlike capital appropriations for academic facilities, are not debt obligations of the State of Minnesota. Revenue Fund debt is backed solely by the pledge of revenues generated from Revenue Fund facilities. The Revenue Fund is subject to a statutory debt ceiling, which is currently established at $300 million pursuant to Minnesota Statutes §136F.98. The Revenue Fund currently carries outstanding debt of approximately $265 million.

There are currently 12 campuses that participate in the Revenue Fund. **Attachment A** lists the participating campuses and the total amount of revenue bond funding issued for each campus. Each participating campus operates their revenue fund programs as self-supporting enterprises. Collectively, the Revenue Fund is viewed as a single entity from the perspective of the outside world, primarily bond investors. The system office on behalf of the Board manages the revenue bond program (including bond ratings), legislative strategies, capital planning, and tax and securities requirements for the Revenue Fund. Individual campuses manage their own finances and operations of Revenue Fund facilities. This includes management of revenues, programs, operations, and the maintenance and repair of Revenue Fund facilities at each institution

Revenue bond sales are bundled into taxable and tax-exempt series. During preparations for each bond sale, system staff coordinate with a financial advisory firm to appropriately size the revenue bond sale and determine the appropriate allocation of taxable and tax exempt debt. The analysis includes an evaluation of the amount of private use that is expected to occur in the facility and the anticipated need for advanced design that may be funded by taxable revenue bonds in the future. Independent bond counsel is used to properly structure the sale, develop the appropriate documents, and provide any necessary bond counsel opinions.

The system’s tax exempt revenue fund bonds are typically issued for 20 year terms. The system’s taxable debt is usually structured for 10 year terms. Taxable bonds are issued primarily when private use is a concern in a facility, such as in dining services and student unions, where there may be a sandwich or coffee shop franchise that operates in the facility.

All system revenue bonds are sold in a competitive process and are generally purchased by financial institutions and brokers. The Board is required to obtain advisory recommendations of the chair of the House Ways and Means Committee and the Senate Finance Committee prior to sale of revenue bonds.

All Revenue Fund construction projects follow similar planning, design and construction processes as academic capital projects.

DELEGATION AND FINANCIAL RESPONSIBILITIES

Dedicated fees to support the operations of revenue fund facilities are approved by the Board prior to the beginning of each fiscal year. The Board also is required to approve long term financial commitments. Annual finance plans for each institution's portion of the Revenue Fund, including fees to support these plans, are submitted to the system office for review. Each institution is required to present a financially sustainable plan for revenue fund facilities that meets all bond covenants and management objectives. Finance plans must include funds for operations, repair and replacement (R&R), debt service (as required), and operating reserves, as prescribed by Minnesota State Colleges and Universities. Plans are also required to reflect adequate reinvestment funding. While operating revenues normally produce enough funds for operations and R&R, major reinvestment funds often come from the sale of Revenue Fund bonds.

REVENUE FUND REINVESTMENT PROGRAM

A facility condition assessment was undertaken in 1998-99 to quantify the physical condition of all facilities within the system. An estimated $165 million maintenance and repair backlog was identified within the Revenue Fund facilities. The backlog, when coupled with out-dated facilities prompted the development of the Reinvestment Program. The Board approved the Reinvestment Program in January 2000. The overarching goal of the Reinvestment Program was to maximize available financial resources to achieve the greatest improvements and reduce deficiency backlogs in the Revenue Fund facilities.

Each institution is responsible for developing a plan that works within their programmatic and financial parameters. Reinvestment plans may use a variety of approaches including renovation, decommissioning/demolition, and building of new facilities.

In 2005, the Office of the Chancellor contracted with a national facilities consulting firm, Pacific Partners Consulting Group, to work with the system's colleges and universities in developing a new facilities data base and reinvestment model. A base line report as of the end of fiscal year 2006 shows the Revenue Fund backlog has dropped to about $100 million system-wide but is concentrated at three universities. However, modernization is not included in this backlog number, and so a direct comparison to the 1999 data is not entirely equivalent. In addition to monitoring backlog reduction, the model also predicts building systems replacement or renewal scheduling, and associated costs on a building, campus, and system-wide basis.

The campuses use operating funds for some remodeling projects, but primarily bond proceeds for large renovation projects or new construction. While backlog reduction is an important part of the Reinvestment Program, equally important is the cyclical planning for building component replacement so that the backlog does not increase. The institutions usually use Repair and Replacement funds for this purpose.

2013 BOND SALE PROCESS

A revenue bond sale is tentatively scheduled to take place in early calendar year 2013. A proposed project list is included as **Attachment B.** Preliminary predesign work suggests a bond size of approximately $125 million is needed to accommodate the projects under consideration. The list, while tentative, is based on campus facilities master plans, residential life master plans, and consultation with campuses during the past several months. Campuses supplied the system office with preliminary predesigns and proformas that have been used to develop basic project scope and definitions, costs, and feasibility for the 2013 projects.

With student fees serving as the primary source of repayment of Revenue Fund debt, students are expected to be consulted on project planning. The student consultation process is ongoing for the 2013 projects. Under ordinary circumstances, an institution's student senate, residence hall association or related organization is formally consulted on the project and its financial impact. Student consultation letters for all projects are supplied prior to final Board approval of a revenue bond sale. The campuses follow the Board's student consultation policy when introducing revenue fund fees.

The proposed 2013 revenue bond sale will require an increase in the revenue bond debt ceiling. The Revenue Fund currently has outstanding principal debt of $265 million and a $300 million debt ceiling. After an additional principal payment in 2012, the outstanding debt will be approximately $255 million. That leaves approximately $45 million available for projects in 2013 without an increase in the debt ceiling. The debt ceiling was last increased from $200 million to $300 million during the 2010 legislative session in anticipation of the 2011 revenue bond sale. A simplified spreadsheet comparing the revenue bond debt ceiling and project amounts is contained below the project list on **Attachment B.**

REVUNUE FUND FORECASTING

This year, the facilities staff undertook a survey of all projected capital needs, including the needs in revenue fund facilities. The survey elicited feedback from all campuses and took into account facilities master plans and/or residential life master plans. Based on the survey results, staff are forecasting an approximately $125 million revenue fund bond request in 2012, $53 million in 2015 and a possible $105 million revenue bond request in 2017.

Regarding the 2013 bond sale projects, staff are working with the colleges and universities now in the fund and the proposed 2013 project candidates to model debt capacity at the program and campus level. When staff evaluated the current revenue bond program, including all debt issued in 2011, the revenue fund is projected to have the financial capacity to support approximately $430 million of total debt outstanding. Before the addition of any new income producing properties, the fund could currently support up to an additional $165 million. This estimate is based on conservative assumptions of bond interest rates and debt service coverage ratios. Note that the financial capacity of the fund to support $430 million is distinguishable from the current debt ceiling of $300 million.

Given the analysis, system staff would like to seek legislative authority to increase the revenue fund debt ceiling during the 2012 legislative session from $300 million to $430 million. The desired increase is predicated on several factors: 1) the ability to accommodate all projects proposed in the 2013 sale, 2) to provide the Board flexibility in addressing off-cycle revenue bonding requests, and manage their debt capacity accordingly, and 3) to provide adequate authority to potentially accommodate the projected 2015 project forecast without further revisions to the revenue bond debt ceiling.

Staff continues to work with the proposed 2013 program additions to underwrite and analyze new projects to seek the most effective use of revenue bonding, balancing the needs for reinvestment and renewal at campuses with the realities of funding strains on our student populations. Similar ongoing analysis is occurring to further refine the projections of revenue fund capital needs. The final project sizes and bond sale requirements are expected to decline slightly before final board approval is sought next winter.

The Board has final review and approval authority prior to the sale of any new revenue fund bonds. The updated timeline for the 2013 revenue bond sale is included for reference in **Attachment C.**

Attachments

A. **Revenue Fund Participants and Bond Amounts**
B. **Proposed Projects for the 2013 Revenue Bond Sale**
C. **Timeline for 2013 Bond Sale**

Presented to the Board of Trustees: November 16, 2011

Attachment A

Total Revenue Fund Bond Appropriation by Campus
(Total Bonds Sold 2002-2011)

	Campus	***Par Amount of Bonds***		***%Total***
1	Minnesota State University, Mankato	$	82,417,703	27.59%
2	Winona State University	$	47,054,283	15.75%
3	St. Cloud State University	$	33,752,270	11.30%
4	Minnesota State University Moorhead	$	29,619,275	9.92%
5	Normandale Community College	$	27,965,392	9.36%
6	Southwest Minnesota State University	$	19,046,788	6.38%
7	Bemidji State University	$	17,820,000	5.97%
8	Minneapolis Community & Technical College	$	17,014,290	5.70%
9	Saint Paul College	$	11,730,000	3.93%
10	Anoka Ramsey Community College	$	6,420,000	2.15%
11	Century College	$	4,330,000	1.45%
12	M-State Moorhead	$	1,560,000	0.52%
	Total Par Amount of Bonds	$	298,730,000	100.00%
	Total Outstanding Principal	$	264,985,000	

Attachment B
2013 Revenue Bond Sale Projects
as of November 2011

Campus	Location	Project Description	Total Project Cost	Revenue Fund Portion	With Bond Costs (add 11%)
*Alexandria Technical and Community College	Alexandria	Renovation of existing parking lots (*may be financed out of existing taxable bonds)	500,000	500,000	
Inver Hills Community College	Inver Grove Heights	Construction of Student Center	9,800,000	9,800,000	10,878,000
Metropolitan State University	St. Paul	Construction of Student Center	10,500,000	10,500,000	11,655,000
Metropolitan State University	St. Paul	Construction of Parking Ramp	15,500,000	15,500,000	17,205,000
Minnesota State University Mankato	Mankato	Construction of Health Clinic and Dining Hall and funding the demolition of Gage Hall	32,000,000	32,000,000	35,520,000
Minnesota State University Moorhead	Moorhead	Renovation of West Snarr Hall	7,000,000	7,000,000	7,770,000
St. Cloud State University	St. Cloud	Renovation of East and West Shoemaker	13,350,000	13,350,000	14,818,500
St. Cloud State University	St. Cloud	Renovation of Atwood Student Center	15,000,000	15,000,000	16,650,000
Winona State University	Winona	Renovation of Krysko Commons	4,000,000	2,000,000	2,220,000
Planning/Taxable Bonds	Various Campuses	Planning: Design funding for future projects	0	3,000,000	3,330,000
		Grand Total	107,650,000	108,650,000	120,046,500

***Candidate for Taxable Bonds from a prior sale**

Project Cost = Total overall cost of project, including design, construction and soft costs.
Revenue Fund Portion = Amount to be financed using Revenue Fund Bonds
With Bond Costs = the cost of bond issuance, which adds about 11% to the cost of the bonds and includes one-year debt service reserve, bond counsel costs (variable), financial advisor costs (in preparation for the sale), underwriting costs (in preparation for marketing the bonds), trustee fees, printing of the official statements (securities requirement), rating agencies fees to rate the bonds, and miscellaneous fees that may be applicable to a particular sale

This list reflects the projects after 50% predesign and proforma.

The project amounts are subject to change.

Summary of Current Revenue Bonding Authority

Current Bond Ceiling	$	300,000,000	
Current Outstanding Bonds	$	264,985,000	
Current authority	$	35,015,000	November 2011
Additional principal payoff	$	11,575,000	by January 1, 2013
Available authority	$	46,590,000	as of 2013

Calculating the Increase in Revenue Bonding Authority

Proposed 2013 Projects	$	120,046,500
Available authority	$	46,590,000
Above current authority	$	73,456,500

Desired increase in current bond ceiling	$	130,000,000
Proposed New Revenue Bond Debt Ceiling	$	430,000,000

Gregory Ewig/OOC-Facilities/651.201.1775
S:\FINANCE\FACIL\Board\Agenda Items\2011\November\2013 Bond Sale Detail List.xlsx

ATTACHMENT C

TIMELINE FOR 2013 REVENUE BOND SALE

February 2011 – December 2011 Project Identification

- November 15/16 – Board of Trustees meeting - revenue fund information item (increase in revenue fund debt ceiling)
- November 30 – 100% predesign and pro formas due; obtain letters of preliminary support for the projects from student leadership
- December - Develop legislative approach for bond authority increase, including student support

January 2012 – Mid-August, 2012 Legislative Authority and Project Feasibility

- January – student consultation – garner support for projects
- February – May - Obtain bond authority increase for revenue fund; continue student consultation on anticipated fees and project
- May/June – Revenue fund facility fees considered by Board for next fiscal year (including fees for 2013 projects, if applicable)
- June – August - If bond authority increased = prepare for Board approvals in fall
- June – August - If Authority increase not granted = evaluate projects for alternative financing availability and projects for phased delivery or deferral.
- August - Finalize pro forma and presentations to students in the fall – review student impact; student consultation plan

Mid-Aug 2012 – December 31, 2012 Prep for Rating Agencies/Board Approval

- August/September – Final student consultations on projects; collect updated student consultation letters
- September – preparation for Board submissions and rating agency visits
- October or November – First reading at the Board of Trustees
- November/December – Rating agency visits
- November/December – Preliminary statements prepared
- November or January – Second/final Board of Trustees reading requesting sale approval

January – February 2013 Final Board approval and bond sale

- January – Notice to legislature of Board approval
- January - Official statements published
- February - Sale date
- Late February – Funds available to campuses
- Spring – Design or construction begins