MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

March 21, 2012

Finance and Facilities Committee Members Present: Trustee Dan McElroy, Chair, Trustees Jacob Englund, Clarence Hightower, Tom Renier, James Van Houten and Michael Vekich

Other Board Members Present: Trustees Brett Anderson, Duane Benson, Cheryl Dickson, David Paskach, Louise Sundin, and Scott Thiss

Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, and President Joe Opatz

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on March 21, 2012, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:52 a.m.

1. MINUTES OF JANUARY 2012

The minutes of the January 17, 2012 meeting were approved as published.

2. FINANCE AND FACILITIES UPDATE

Vice Chancellor King reported that the Ford Motor Company notified the State of Minnesota in December 2011 of their intent to start decommissioning their St. Paul manufacturing plant starting in June 2012. This includes the joint Ford – United Auto Workers – Minnesota State Colleges and Universities (MnSCU) training center. The system office has been approached to participate in an effort to save the facility and has declined the offer.

Ford Center - The State of Minnesota owns the building on a 138 acre site and Ford owns the land and the training equipment. A joint use agreement governs the use and operations of the facility. MnSCU's use of the facility has been very limited over the last several years, largely due to a sharp decrease in demand for training to Ford employees. Early termination of the lease requires Ford to pay an early termination fee to the state of $1.9 million. MnSCU campuses have access to ample, accessible teaching space and did not indicate an interest in preserving access to this facility. Vice Chancellor King added that the facility is located in the center of a ten year plus redevelopment project needing extensive ground water, utility, and roadway work and preservation of the facility. Further, the training facility would require a capital investment of at least $1 million in order to continue functional operations. Trustee Sundin expressed disappointment in the decision because she felt the site was in a good location for metro expansion possibilities. Vice Chancellor King responded that MnSCU presidents felt that it would require too large of an investment to turn the site into something useful and that there are many other properties on the market that would be better prospects. She noted that Metro State is midway through an RFP for metro expansion.

Legislative update - At the legislature, there has been strong support for the Continued Operations bill, which would allow MnSCU to access its cash in the event of a state shutdown. So far, it has passed both higher education committees and is off the Senate floor.

As the revenue fund legislative proposal was developed, meetings and email exchanges have been taking place with the two student associations. Vice Chancellor King acknowledged the strong testimony and positive impact of Amanda Bardonner, President of MSUSA (four year association). The MSCSA (two year association) has recently expressed opposition to capacity additions for college projects which has brought some risk to the proposal. MSCSA has indicated they would like additional discussions with staff. A revenue fund authority of at least $405 million will keep university planning on track for 2013 and 2015.

The FY2012 Capital Program was presented to the House and Senate by Chancellor Rosenstone and Associate Vice Chancellor Brian Yolitz. More information on the status of the program should be known by the April Board meeting. Trustee Hightower inquired about the request that was made by the system and the current standings. Mr. Yolitz responded that the Board requested $278.7 million; the Governor's recommendation came in at $111.8 million, and the House at $56.4 million. Yolitz is hopeful that tide will change when the Senate takes up the bill.

2013 Operating budget planning - Guidelines were released in late February based upon the Board's FY2012-2013 operating budget planning guidelines and materials will be provided to the Board for the May meeting. The planning recommendation for university tuition increases is at or below five percent. The colleges are capped in statute at four percent. No appropriation reduction is expected for FY2013.

Campus Service Cooperative - The Campus Service Cooperative is in the early stages of partnering with the Department of Administration to leverage their master contract through the Data Analytics program. This program promises a streamlined process in which MnSCU can bring on additional temporary resources to accelerate the initiative in areas of project management, business analysis and change management. This will help the Campus Service Cooperative better meet the growing needs of the schools and the system office.

The Board will get an overview of Project 2022 at the April Board meeting.

MMB agreement - Minnesota Management and Budget (MMB) continues to seek MnSCU's assistance in meeting its cash flow needs. In March, MMB drew down an additional $120 million in cash from MnSCU to help meet the state's cash flow obligations stemming from income tax refunds and school payments. The current outstanding balance is $570 million. Under the agreement with MMB, MnSCU's cash balance cannot fall below $100 million and balances should be fully restored by June. Vice Chancellor King added that MMB has been a good partner in the past and she is confident the funds will be repaid on schedule.

3. FY2014-2019 Capital Budget Guidelines – 1st reading

Associate Vice Chancellor Brian Yolitz presented the first reading of the Capital Budget Guidelines for projects to be considered for approval as part the Board's FY2014-2019 Capital Budget Request. He reviewed the overarching principles which include taking care of current assets, making campus space more efficient and flexible, mothball or demolish space which is no longer viable and obtain new square footage only when the requirement is alignment with the strategic framework. Trustee Hightower asked how principles had changed since the last review of the guidelines. Mr. Yolitz responded that the main change is no net gain in square footage systemwide. New construction will occur only when all other options are deemed non-viable and they must align with the Strategic Framework. Chancellor Rosenstone added that all projects presented will be rational for the campus, the system and the region.

Mr. Yolitz emphasized that there must be the right supply of space for the programs that are offered and noted the importance of being efficient and effective in the administration of programs. Trustee Hightower asked about programs that were approved but not funded. Mr. Yolitz said those projects would be reviewed to ensure they align with the strategic framework and workforce demand. As the 2014 request is being developed, there will be an expanded look at FY2016 and FY2018 so the Board can have full visibility beyond the current bonding cycle.

Trustee Van Houten said that the emphasis on no net gain is a different policy than what has been presented in the past and creates a complicated balancing act between new projects and Higher Education Asset Preservation and Replacement (HEAPR). Vice Chancellor King responded that she uses the number of net square footage over time as a reference point. Since the merger took place, even with large construction projects, there has been an increase of only1.2 million square feet on a base of 25 million square feet over the last ten years. With an emphasis on reinvesting, reconfiguring and right sizing, the focus has pushed the investment to current buildings. The question is what is the reinvestment requirement and how will it be funded.

Trustee Hightower asked if unfunded projects could lose their priority. Mr. Yolitz said that there is potential for that to happen. Even though investments have been made, some projects date back to 2006 and were designed in a different environment with different requirements. Vice Chancellor King said that the system faces a conflict with the process and the reality of funding. She also noted there was a backlog from FY2010 that was reevaluated before the FY2012 list was presented. All of those projects went back though the scoring process. Based on changes in funding, the priority list of projects could shift.

Trustee Englund said that while he was aware that MnSCU is not in the business of renting space, he would like to see a push for community and business to rent unused space. Mr. Yolitz responded that it is desirable to partner for efficiency and demolish as a last resort.

Trustee Dickson commended the system for absorbing huge enrollment growth in the past without huge expansion and for working toward what is best for the system and right now that means no net increase in square footage.

Trustee Van Houten asked about the priorities of eliminating duplication and expanding workforce needs. Mr. Yolitz responded that those items are addressed in being the partner of choice and that collaboration of programs is embedded in the guidelines.

4. Minnesota State College – Southeast Technical Transportation Building Addition Approval

Associate Vice Chancellor Brian Yolitz presented the request for Minnesota State College, Southeast Technical to proceed with construction contracts for their transportation building addition project of their Winona campus.

Southeast Technical plans to use the sale proceeds of the Aviation Training Center building at the college's Winona campus to construct a 25,000 square foot Transportation Center addition to their existing truck driver training building at a cost of $3.8 million. The campus also plans to complete campus road enhancements to improve traffic flow and pedestrian safety totaling $390,000. The campus intends to use its own operating funds to finance the differential between the sale proceeds and the project cost. Trustee McElroy asked what is currently on the property and Mr. Yolitz replied that it is vacant square footage requiring drainage and does not disrupt parking or other campus activity.

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

RECOMMENDED MOTION:

The Board of Trustees authorizes construction contracts that collectively exceed $3 million for the Minnesota State College – Southeast Technical Winona campus Transportation Building Addition project, subject to the Chancellor or his designee's approval of final design documents and project costs.

5. Refunding of Revenue Bonds Series A and B and Reauthorization of Guarantee for St. Cloud State University Projects

Associate Vice Chancellor Brian Yolitz brought forth a request for the Board to approve the issuance of refunding bonds to refinance tax exempt and taxable revenue bonds originally issued in 2002 by the system.

The original sale occurred February 1, 2002 and totaled approximately $36 million, of which $23,545,000 were tax exempt revenue bonds (Series A) and $12,730,000 were taxable revenue bonds (Series B). The 2002 sale was the first revenue bond sale undertaken by the MnSCU after the merger and it was designed to address long-standing deferred maintenance facilities issues. The bonds have a 20 year maturity date but are callable after ten years. Mr. Yolitz would like to exercise this option because more favorable interest rates will produce a projected savings of up to $3.3 million over ten years. The average annual savings would be $370,000 including the cost of issuance ($135,000). The savings will be dispersed to campuses and will reduce the amount owed to the revenue fund. Vice Chancellor King added that 25% of the sale was for St. Cloud State University, so St. Cloud students will experience an approximate 25% savings. Mankato students will also experience savings.

Mr. Yolitz called on Mark LaMay from Springsted Financial Advisory Services to give a recap of the transaction. Mr. LaMay reported that the city's Housing and Redevelopment Authority (HRA) issued the bonds in 2002 to the St. Cloud Foundation for athletic facilities, to be paid back by the proceeds from the use of those facilities. The system provided a Revenue Fund guarantee of timely payment of regularly scheduled bond principal and interest, giving them a high rating. The refinancing request mirrors the same transaction but with a more desirable interest rate.

Trustee Englund asked if there were other opportunities to exercise this kind of savings. Mr. Yolitz responded that the next opportunity would not be until 2015 and that would depend on economic conditions and interest rates.

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

RECOMMENDED MOTION:

The Board of Trustees approves the following:

1. The Series Resolution attached hereto as **Attachment C**, providing for the issuance of refunding bonds to refund the tax exempt Series 2002A and taxable Series 2002B revenue bonds.

2. The execution of a guarantee in a form substantially similar to the guarantee attached hereto as **Attachment E**, providing for the guarantee of payment of the refunding bonds to be issued by the St. Cloud Economic Development Authority to refund the 2002 revenue bonds previously issued by the St. Cloud Housing and Redevelopment Authority and guaranteed by the Board.

3. Authorizes the Chancellor or his designee to take such action as may be necessary to complete the transactions noted above, including, without limitation, providing to the Trustee for the Series 2002A Bonds, the Series

2002B Bonds and the St. Cloud Bonds such consent or direction that they may require to provide for the optional redemption of such bonds, as described here.

6. **Revenue Fund Reallocation – Alexandria Technical and Community College** Associate Vice Chancellor Brian Yolitz presented Alexandria Technical and Community College's request to repair its parking lots in part with excess revenue fund 2009 sale proceeds. There is a remaining balance of $500,000 which has not been planned for and bond counsel recommends that bond proceeds be used within three years of a bond sale.

   The college currently estimates a total project cost of approximately $800,000, of which $500,000 will be from the 2009 taxable revenue fund bonds and $300,000 will be contributed from the campus's parking reserves.

   The initial student fee impact is projected to be $2.40 per credit in FY13 ($72/year full time). The term of the debt is ten years and will be supported by parking fees.

   The benefit to the college is that it can leverage the revenue fund along with its parking lot reserves to complete the update this year instead of next year, and the college's entry into the revenue fund will place the remaining system level revenue fund taxable debt with a worthwhile project.

   Trustee McElroy inquired if the bonds were taxable and Mr. Yolitz respond that they were, as all tax exempt funds have been allocated to other projects.

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

   RECOMMENDED MOTION:

   The Board of Trustees approves the following:

   The Board authorizes the Chancellor or his designee to reallocate the approximately $500,000 plus any earned interest of 2009 Series B taxable revenue bond proceeds to Alexandria Technical and Community College for renovating its campus surface parking lots.

7. **Microsoft Campus Agreement Contract Approval**

   Marty Gang, Associate Vice Chancellor ITS – Infrastructure and Chris McCoy, Associate Vice President IT – Metropolitan State University presented and sought Board approval for the Microsoft Campus Agreement Contract.

   Mr. Gang stated that this three year contract allows the colleges, universities and system office to purchase software and licenses in collaboration for an additional savings of 6.5% over and above the educational discounts offered to campuses acting individually.

Mr. McCoy reported this effort is part of the service delivery strategy lead by Vice Chancellor Darrel Huish. He reported the Microsoft contract entered into in 2009 is coming to an end and the system is ready to embark on the second contract. This contract allows campuses to provide the latest version of similar software that students would experience in the workforce. Trustee McElroy asked who the competitors would be in the competitive bidding process described in the Board materials. Mr. Gang replied that Microsoft has five licensed partners in the region and would be invited to compete in the RFP.

Trustee McElroy asked if the software pertains to the laptop program at Winona State and to students interested in purchasing it for themselves for use on their own personal computers. Mr. McCoy said each institution can choose their products and pay for their usage which includes an at home use feature. Trustee Dickson asked if the software would be erased on the laptops of students graduating from Winona that wanted to purchase them. Mr. Gang understood that the students would keep the software loaded, but he would like to confirm that and report back.

Trustee Van Houten asked about the role that the Campus Service Cooperative played in this agreement. Vice Chancellor King said that the Campus Service Cooperative managed the project and was able to bring scale and leveraging opportunities. She confirmed the total consideration is expected to exceed $3 million, but not to exceed $4.5 million. Mr. Gang added there will be only one contract and each campus will have its own license and decide what they will purchase and use. Chancellor Rosenstone said this is an opportunity to use a customizable standard platform with state of the art technology that will save money systemwide.

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

RECOMMENDED BOARD MOTION:

The Board of Trustees approves the system-wide Microsoft Campus Agreement for the period of July 1, 2012 through June 30, 2015 and the competitive source process described in this narrative, not to exceed $4.5 million, subject to final approval by the Chancellor or his designee.

Chair McElroy adjourned the meeting at 9:58 a.m.

Respectfully submitted,

Laury Anderson, Recorder

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance and Facilities **Date of Meeting:** April 18, 2012

Agenda Item: Project 2022 Overview

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

☒ Information

Cite policy requirement, or explain why item is on the Board agenda:
Project 2022 is an analytical, scenario-driven tool to help Minnesota State Colleges and Universities (MnSCU) leaders and decision makers better understand and plan for a changing financial landscape.

Scheduled Presenter(s): Deborah Bednarz – Director of Financial Planning and Analysis

Outline of Key Points/Policy Issues:
For the past several years, colleges and universities have been operating in a rapidly changing financial environment. State funding has fallen sharply, enrollment has reached historic levels, and reliance on tuition revenue has grown. Creating a cohesive and viable financial plan in the midst of this change and uncertainty has proven to be one of the most important challenges facing MnSCU. Project 2022 is being developed as a tool to help decision makers better understand and plan for this new fiscal landscape.

Background Information:
In its FY2012-2014 Action Plan, the Board of Trustees called for "a fiscal sustainability agenda that draws on the collaborative and creative capacity of the system." Project 2022, an Excel-based financial analysis and planning tool, was developed to address the Board's directive. The goal of the project is to create a financial planning tool which models how changes in key financial drivers affect the financial viability of MnSCU over time.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM
Project 2022 Overview

PURPOSE

Project 2022 is an analytical, scenario-driven tool to help Minnesota State Colleges and Universities (MnSCU) leaders and decision makers better understand and plan for a changing financial landscape.

BACKGROUND

In its FY2012-2014 Action Plan, the Board of Trustees called for "a fiscal sustainability agenda that draws on the collaborative and creative capacity of the system." Project 2022, an Excel-based financial analysis and planning tool, was developed to address the Board's directive. The goal of the project is to create a financial planning tool which models how changes in key financial drivers affect the financial viability of MnSCU over time. A prototype will be shown to the Board at its April 2012 meeting.

INITIAL OBSERVATIONS

- The tool provides an easy way to demonstrate the relative importance of various factors in MnSCU's financial model and how changes in those factors can influence financial viability over time.
- Viewing scenarios from an all funds, general fund, or revenue fund perspective allows for identification of problems that might not otherwise be recognized.
- Project 2022 reiterates the message: Decisions today impact choices tomorrow.
- All projections are estimates based on the best information available, with shorter-term projections providing more reliable estimates than longer-term projections. Nonetheless, longer term projections can be instructive in identifying trends that may threaten or support fiscal sustainability.

LINK TO STRATEGIC FRAMEWORK

Project 2022 supports the strategic framework's goal of creating and executing a long-term financial strategy to ensure affordable, excellent academic programs that meet the state's workforce and community needs.

PROJECT 2022 OVERVIEW

For the past several years, colleges and universities have been operating in a rapidly changing financial environment. State funding has fallen sharply, enrollment has reached historically high levels, and reliance on tuition revenue has grown. Creating a cohesive and viable financial plan in the midst of this change and uncertainty has proven to be one of the most important challenges facing MnSCU.

Project 2022 is being developed as a tool to help decision makers better understand and plan for this new fiscal landscape. The tool allows users to adjust key variables in order to:

1) analyze how changes in these variables impact the financial outlook over time,
2) better understand the relationships between key financial factors, and
3) assist in long-term financial and strategic planning.

Project 2022 is being built from the ground up, starting with high-level, systemwide data and analysis, then adding in more complexity and nuances over time. The longer term goal is to develop a tool robust enough to use at the individual college and university level.

DESIGN OBJECTIVES

In September 2011, Vice Chancellor King directed her Associate Vice Chancellors of Finance and Facilities to convene a working group to address the Board's fiscal sustainability directive and develop a planning tool for use at the system and campus level. As work progressed, it became evident that additional expertise was needed to create an enrollment module. The cross-divisional working group includes members from both the Finance and Academic and Student Affairs divisions.

The work group is responsible for designing and creating the tool, including analyzing and verifying data, identifying various economic and financial variables, and determining their relationship to one another.

An advisory committee of campus representatives was formed to provide guidance on the development and design of the tool. Charged with reviewing the financial framework and economic assumptions, the advisory committee provides input and guidance to the working group. This collaborative approach ensures that all perspectives are considered throughout the design and development process.

The working group initially investigated the option of modifying off-the-shelf products but concluded these products did not meet the needs of the system's colleges and universities. The decision was made to create a customized tool specifically designed for MnSCU based on the following design objectives.

- *Easy to Use Interface*: To allow users to enter different assumptions and consider various financial and economic scenarios.
- *Built on accrual-based financial data:* To provide accrual-based forecasting outcomes.

- *Capacity to Ask "What If" Questions about the Most Relevant Financial Factors:* To help users understand the "big picture" of financial decisions or changes in key financial factors.
- *Ability to Model the Interaction between Key Variables:* To help users understand how changes in one factor can impact other areas, such as the interaction between enrollment changes, tuition revenues and compensation costs.
- *Multi-dimensional:* To analyze the impact of assumptions from an all funds, general fund or revenue fund perspective.
- *Flexible:* To be used for a variety of purposes including strategic planning, financial management and education.
- *Customizable:* To allow the tool to be adapted to the needs of individual colleges and universities and to account for new and emerging variables and model adjustments.

APPLICATIONS AND CONSTITUENCIES

Project 2022 is being designed for use by several different constituencies whose needs and use of the tool will vary considerably.

Target Constituencies:

- Board of Trustees
- Chancellor, Presidents and Cabinet
- College and University Chief Finance Officers
- System Office and Campus Research and Planning Staff
- System Office Finance Division
- Legislature, Students and the Public

Planned Applications:

- *Analytical Tool (macro level/system-wide)*: To analyze and consider the impact of changes to key economic variables at a systemwide level.
- *Educational Tool*: To educate key constituencies about the key economic drivers, their relative importance and their relationship to each other.
- *Analytical and Planning Tool (micro level/institution):* To analyze and model the impact of changes to key economic variables at the institution level.

DESIGN ELEMENTS

The Project 2022 financial analysis and planning tool consists of several separate but interrelated modules: enrollment, tuition, state appropriation, compensation, general obligation bonds, purchased services and supplies. Each module will allow the user to make different assumptions about key economic factors (e.g., increases or decreases in state appropriation, level of capital investment, tuition rate increases, etc.) in order to see how those changes impact overall financial viability over a ten-year time horizon. All projections are estimates based on actual fiscal year 2011 audited financial data.

Enrollment: Academic and Student Affairs is leading the development of the enrollment module. Analysis is underway to consider the impact of demographic information, population changes, availability of student financial aid, the projected number of Minnesota high school graduates by region, tuition rate increases, post-secondary participation rates, retention rates and economic indicators on enrollment. The prototype model currently allows the user to input assumptions about enrollment growth or decline.

Tuition and Fees: This module projects tuition and fee revenues for colleges and universities. Users are allowed to make different assumptions about the rate of increase on tuition and fees by institution type (college versus universities). The tuition module interfaces with the enrollment module so as enrollment increases tuition revenues increase and vice versa. This module is being developed by the Financial Planning and Analysis unit.

State Appropriation: This module allows users to make various assumptions about increases or decreases in state funding. As currently designed, users can enter the rate of projected state funding growth or decline.

Compensation: The compensation module allows users to project differing rates of increase for salary and benefits. Separate assumptions can be made about the rate of growth for salary and benefits and for instructional and non-instructional staff. Full time equivalent staffing data and full year equivalent student data are available for users who want to analyze changes in student/staffing ratios. Financial Planning and Analysis is the unit responsible for the development of this module.

General Obligation Bonds: Led by the Facilities group, this module is designed to calculate the general obligation bond debt service cost over time. Current debt service cost for general obligation bonds is built in along with three separate scenarios for additional capital investment: robust, moderate and austere. Users have the ability to select an investment scenario.

Supplies and Purchased Services: These two modules identify the largest components of the remaining expenses. Analysis of prior spending rates informed the development of this module.

Fund Options: Project 2022 allows users to view results of any analysis from an all funds, general fund or revenue fund perspective.

NEXT STEPS

With the prototype version complete, the next step is to develop a tool that can be used at the individual college and university level. Currently, the advisory committee is prioritizing the modifications required for the tool to be useful at the campus level. The current plan is to work with one or two schools to develop a prototype campus version by late September.

In addition, more complexity is being added to the system-wide modeling, including completion of the enrollment module, the ability to model changes in the Revenue Fund, and incorporating balance sheet/CFI forecasting functionality. This work will continue through the summer, with an enhanced model planned for September 2012.

Submitted to the Board of Trustees: April 18, 2012

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: **Finance and Facilities** **Date of Meeting:** **April 18, 2012**

Agenda Item: **Campus Service Cooperative Update**

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

☒ Information

Cite policy requirement, or explain why item is on the Board agenda:
The Campus Service Cooperative (CSC) is a key initiative to deliver efficiency, quality, and compliance in support of the Strategic Framework, in particular the goal to "deliver to students, employers, communities, and taxpayers the highest value/most affordable option."

Scheduled Presenter(s):
Colin Dougherty – Associate Vice Chancellor for Finance
President Richard Davenport – Minnesota State University, Mankato (CSC Leadership Committee)
President Tim Wynes – Inver Hills Community College (CSC Leadership Committee)

Outline of Key Points/Policy Issues:
The CSC continues to make significant progress and gain additional participation throughout Minnesota State Colleges and Universities. An expanded CSC leadership committee, comprised of three university presidents and five college presidents, now meets monthly to help drive the vision, strategy, and implementation. Finance, human resources, financial aid and information technology work teams are launched and moving quickly. CSC leadership is now exploring proposals from a number of firms including Accenture, Deloitte Consulting, IBM, and Public Consulting Group to provide additional short term project support. Performance goals, metrics, project timelines and deliverables are targeting substantial implementation progress by calendar year end.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

INFORMATION ITEM
Campus Service Cooperative Update

PURPOSE

The Campus Service Cooperative (CSC) is a key initiative to deliver efficiency, quality, and compliance in support of the Strategic Framework, in particular the goal to "deliver to students, employers, communities, and taxpayers the highest value/most affordable option". This presentation will focus on progress to date and plans for engaging additional outside resources to accelerate success and adoption throughout Minnesota State Colleges and Universities (MnSCU).

BACKGROUND

The CSC mission is a focus on efficient and transformational delivery of services, while maintaining the distinct educational mission of each college and university.

The initiative's tag line is "One Team, Many Campuses". The CSC embraces best practices, tools, processes and strives to tackle campus work together in the "cloud" through virtual common work queues across member campuses. Savings are realized through efficiency and attrition. The CSC approach includes a relentless pursuit of continuous improvement.

The CSC is focusing initially on projects within finance, human resources, and financial aid. Specific finance related projects include: accounts payable, purchase card, workflow, direct lending, payroll, account reconciliation (both local bank accounts and state treasury accounts), strategic sourcing, procurement, and employee record updates.

One of the Finance specific efforts is "Project Harmon," an opportunity for business offices throughout MnSCU to come together and share ideas for improving the way in which they perform their work. Together, the campus leaders identify common best practices and search out better ways to do things. New processes, tools, forms, controls, systems, reporting, and work-flow are all under consideration. The project team explores suggestions and ideas then documents them and seeks input from a compliance/audit perspective. Participating campuses can then implement these improvements, knowing that processes are shared by the other participants in Project Harmon. Currently, Project Harmon consists of five campus business offices - one university, and four colleges, along with the system office.

Systemwide human resources leadership has been engaged in both a systemwide shared services planning effort and multiple shared services pilot projects. Chief human resources officers (CHROs) from across the system have participated in lively and creative conversations in a series of sessions identifying and prioritizing opportunities to apply a shared services model to human resources functions. These sessions lead to the development of project teams that focused on five high priorities. The teams are charged with developing a project scope and anticipated return on investment report. The Campus Services Cooperative and Human Resources (HR) staff, leaders, and stakeholders will use the reports to further focus resources toward shared services opportunities that will most successfully result in efficiencies and real savings for our campuses.

Separate from these five project teams, a number of campus HR departments have employed a shared services model in order to ensure the delivery of HR services to their employees. Over the past year, an increasing number of CHROs have established shared services projects with colleagues at other institutions when there has been an absence or departure of key staff. The success of these collaborations has resulted in a greater interest in turning to shared services as a solution.

Systemwide financial aid leadership group has formed a steering committee that has been meeting for the past year to identify those financial aid functions that must remain on campuses and those that could be efficiently performed in a cooperative setting. The steering committee has identified a number of information technology enhancements that will enable work-flow improvements and will generate significant productivity improvements.

As an outgrowth of the steering committee work, six working groups have been established that will lead to standardized financial aid "set-up" within the ISRS financial aid module, greatly simplifying the task of designing "coop-friendly" processes and allowing a school to assist other schools – the most basic "One Team, Many Campuses" model. That model should then be scalable and utilized by greater numbers of institutions. Working groups will also design a standard Student Loan Default Management and Loan Counseling program that can be implemented centrally and will benefit all institutions.

In the area of information technology, a workgroup of campus chief information officers (CIO) has conducted and analyzed a survey of the various applications hosted at each campus. Based on this work, the CIO community has selected three short-term technology projects that incorporate the principles of the CSC. They are a systemwide "Active Directory" project that provides secure access to Microsoft environments; Winona State University will host a systemwide collaboration tool (Microsoft Sharepoint); and implementation of systemwide classroom and event management software (Dean Evans EMS). The campus CIOs and system office ITS are actively collaborating to identify and prioritize additional CSC information technology projects.

The CSC continues to gain additional participation throughout MnSCU. The chancellor has appointed the CSC leadership committee, comprised of three university presidents and five college presidents, which meets monthly to help drive the CSC vision, strategy, and implementation. The Leadership Council has endorsed the strategy and implementation plan.

The CSC held a half-day resource launch pre-proposal session at Harmon Place with four potential partners: Accenture, Deloitte Consulting, IBM, and Public Consulting Group. These firms will submit proposals to two statements of work: business process and strategic sourcing. The vendors were asked to propose metrics, implementation strategies, financing methods and execution plans for both the administrative services and the sourcing initiatives. Steady, strong, implementation progress is targeted for the balance of this calendar year.

Date presented to the Board of Trustees: April 18, 2012

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance and Facilities **Date of Meeting:** April 18, 2012

Agenda Item: FY2014-2019 Capital Budget Guidelines (Second Reading)

- [ ] Proposed Policy Change
- [x] Approvals Required by Policy
- [ ] Other Approvals
- [ ] Monitoring
- [ ] Information

Cite policy requirement, or explain why item is on the Board agenda:
The purpose of this request is to seek Board of Trustee approval of guidelines in preparing the capital budget request for FY2014-2019. This is the second reading.

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

Outline of Key Points/Policy Issues:
The Minnesota State Colleges and Universities Board of Trustees will review and approve a capital budget request for fiscal years FY2014-2019 for submission to Minnesota Management and Budget in June 2013. The approved budget will be submitted to the Minnesota legislature and governor for consideration as part of a FY2014 capital bonding bill.

Background Information:
The state of Minnesota is asked to issue general obligation bonds as a part of the biennial capital budget for academic and direct support facilities and infrastructure. The three primary elements include Higher Education Asset Preservation and Replacement (HEAPR), major capital projects, and system initiatives.

Second Reading

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

ACTION ITEM

FY2014 - 2019 Capital Budget Guidelines

PURPOSE

The purpose of this request is to seek Board of Trustee approval of guidelines for the preparation of the capital budget plan for 2014-2019. Committee feedback has been incorporated into the final document for committee and Board review and approval scheduled for April 18, 2012.

BACKGROUND

The Minnesota State Colleges and Universities (MnSCU) Board of Trustees will review and approve a capital budget plan for fiscal years FY2014-2019 for submission to Minnesota Management and Budget (MMB) in June, 2013. The approved plan will be submitted to the Minnesota legislature and governor for consideration as part of a FY2014 capital bonding bill. The state of Minnesota is asked to issue general obligation bonds as a part of the biennial capital budget for academic and direct support facilities and infrastructure. Capital investments for dormitories, student unions, wellness centers, and parking lots and ramps area are made through the system's revenue fund bonding authority.

The general obligation capital bonding plan for academic and direct support facilities and infrastructure has three primary elements:

> **Higher Education Asset Preservation and Replacement (HEAPR**): Capital requirements addressing code compliance including health and safety, Americans with Disabilities Act (ADA), hazardous material abatement, access improvement, or air quality improvement; building energy efficiency improvements; or building or infrastructure repairs necessary to preserve the interior and exterior of existing buildings; or renewal to support the existing programmatic mission of the campuses. Projects contained in this element are subject to the statutory definition of eligibility. Up to ten percent of a HEAPR appropriation may be used for design costs for future HEAPR projects. The system pays no debt service on HEAPR appropriations.
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> **Major Capital Projects:** This element includes capital requirements, typically over $2 million, for major maintenance, repair, and renewal; reconfiguration and rightsizing; demolition; and construction of new facility spaces. All major projects are part of an approved facilities master plan and have a completed predesign evaluating project scope, cost, value, return on investment, alternatives, phasing, and schedule implications. The predesigns also identify design and construction delivery options and offer extensive justification. Wherever possible, campus planners are encouraged to blend projects to address a facilities deferred maintenance backlog.

Projects that are smaller than $5 million have typically sought both design and construction funding in a single biennium with the expectation that all work will be completed within two to three years. Larger projects, greater than $5 million, seek design funding in one biennium and construct in the next.

For major capital projects, the system is responsible for one-third of the debt. The Board historical policy has assigned one-sixth of the debt to the system as a whole and one-sixth to the institution requesting the project. The state typically sells 20-year bonds, so the system and institution's debt service obligation is similarly 20 years.

System Initiatives: The third element concerns smaller capital projects, typically less than $750,000, bundled together under a theme addressing a specific program need at several campuses in a single line item capital request. System initiative themes in the past have sought to address program needs for demolition, small projects, real estate acquisition, smart classrooms, classroom renovation, energy, and science technology, engineering and math (STEM) spaces.

Similar to major capital projects, the system is responsible for one-third of the debt for initiative projects. One-sixth of the debt is covered from the system as a whole and one-sixth is paid by the institution requesting the project. Again, these are typically 20 year obligations.

Capital Investment Strategy: The basic capital investment strategy has been to "keep up and catch up". The strategy seeks to "keep up" with the anticipated life cycle facility renewal needs and to "catch up" by reducing the deference maintenance backlog. Recognizing that resources for facility investment are limited, a ten year goal was set to reduce the deferred maintenance backlog by 50%. The result would improve the overall system Facility Condition Index (FCI), the ratio of the deferred maintenance backlog to the plant replacement value, form .11 to .06.

Based on calendar year 2010 data, the estimated renewal needs (keep up) for the system academic and support facilities is $800 million, the deferred maintenance backlog (catch up) is $655 million and the estimated plant replacement value for these assets is $6.0 billion. This puts the system current FCI at 0.11.

Applying the "keep up and catch up" strategy to the next 10 years results in:

- an annual "keep up" requirement of $80 million ($800M/10 years),
- an annual "catch up" requirement of roughly $33 million ($655 X 50%/10 years)
- In addition, there is an estimated $30 million in annual capital investments needs for campus infrastructure renewal and facility modernization.

The 10 year investment plan results in a total annual requirement of $143 million or $286 million over a biennium. Funding for new or substantially re-purposed facility space would be on top of these figures.

Capital Investment Sourcing: Funds for the upkeep and maintenance of academic and support facility spaces comes from HEAPR, major capital projects that have renovation/modernization and backlog reduction as key components of their scope of work, and campus repair and replacement (R&R) funding.

The investment strategy in support of the above requirements has historically been:

- An annual target of $55 million from HEAPR
- An annual target of $65 million for major capital projects with HEAPR-like renovation/modernization and backlog reduction
- A Board approved annual target of $22 million in campus funded repair and replacement (based on goal of $1.00 / academic and support square foot)

The above three strategies represent a total target investment in the existing plant of $142 million annually or $284 million over a biennium.

FY2012-2017 Capital Program Assessment:

The total capital budget plan for FY2012-2017 seeks $278.7 million for FY2012 and proposed $204 million for 2014 and $158 million for 2016.

Within the FY2012 plan, $110 million is for HEAPR and $101 million in HEAPR-like work in the requested major capital projects.

Campus R&R investment has exceeded the target in FY2010 and FY2011 at $1.22/square foot. If the pattern continues, an additional $54 million will be invested annually in FY2012 and FY2013 by the campuses.

Were the 2012 capital request to be fully funded, the investment strategy would be slightly below the above outlined targets at a total biennial investment of $265 million or $132.5 million annually.

CAPITAL BUDGET GUIDELINES FOR FY2014-2019

The overarching principles for capital planning in FY2014-2019 are:

- Take care of what we have
- Make campus space more efficient and flexible
- Mothball or demolish what is no longer viable in terms of conditions, operating costs and programs, and
- Only consider new square footage if the requirement meets the three priorities in the strategic framework.

Projects meeting the above criteria will also be asked to demonstrate their role in advancing the system strategic framework.

Ensure access to an extraordinary education for all Minnesotans: Projects must reflect state and regional demographic trends, advance workforce related certificates, as well as baccalaureate programming, enhance access, and address underrepresentation issues. Projects shall have evidence that they:

- Support redesign of the classroom experience or academic programs to create an extraordinary education,

- Increase access to baccalaureate programs,
- Contribute to academic success of students traditionally underrepresented in higher education,
- Enable greater collaboration among colleges and universities in courses, academic programs, and student services,
- Advance a regional and/or state-wide academic plan, and
- Meet changes in student demand in programs where there is evidence that the demand will be sustained into the future.

Be the partner of choice to meet Minnesota's workforce and community needs: Projects will reflect partnerships with current and emerging workforce and community as partnerships and collaboration with the system. Projects shall have evidence that it will:

- Contribute to the delivery of programs that address continuing or emerging workforce and/or community needs
- Advance growth in programs demonstrating strong and sustained future demand that align with workforce needs
- Support and enhance STEM programs, and
- Increase retention, completion, and transfer within the system.

Deliver to students, employers, communities and taxpayers the highest value/most affordable option: Projects will represent value through academic multipurposing of spaces and improved utilization, energy efficiency, improved utilities or infrastructure, improved facility conditions/reduced deferred maintenance, and institutional financial stability. Projects shall have evidence that it will:

- Advance cooperation among campuses to reduce costs and enable the sharing of administrative operations, academic programs, and academic support.
- Demonstrate an investment to preserve and protect facilities, infrastructure and reduce operating costs.
- Maximize the efficient use of existing space on campus or within the region.
- Represent a net neutral or reduction of total campus space through a combination of construction, renovation, reutilization and demolition.
- Create flexible space with greater capacity for changes in program utilization and/or individual program growth.
- Represent a 'major' reduction in deferred facility maintenance backlog and a positive impact on the FCI.
- Indicate sound planning in terms of overall project cost through metrics such as dollars per square foot, cost per FYE, etc.
- Support evidenced by campus local investment in terms of sustained R&R rates.
- Minimize the need to create new or additional utility and support infrastructure.
- Represent a financially viable effort in terms of current and future campus financial position and Composite Financial Index (CFI).
- Incorporate substantial resource (water/utility) savings and conservation and "rightsizing" of the campus fulfill financial ability, ensure access to all regions and advance academic programs.

Workforce Alignment: Minnesota State Colleges and Universities are where Minnesotans turn for workforce preparation and training. Emerging from regional meetings jointly hosted by system office Academic and Student Affairs staff and the Department of Employment and Economic Development are "25 Occupations in Demand." Capital project documentation, including HEAPR work, will include evidence of their support to these workforce areas**.**

Quality classrooms supporting general studies and liberal arts play an important role in creating a foundation for all of our workforce preparation, transfer programs, advanced studies and in supporting four-year baccalaureate studies. Projects that protect, renovate, and create these spaces will also be documented and supported.

Other Components: In streamlining the project evaluation process, both the written documentation and the evaluation methods will be more precise in a number of areas. Improved guidance will be given on criteria to avoid vagueness.

- Process will be looking for objective data or documentation to demonstrate evidence of the framework.
- Scoring instrument will favor additional funds that the campus can bring to the table to reduce the system's and state's cost for the capital project.
- Projects previously approved in the 2012 budget cycle will be reviewed for their priority in relationship to other carry forward projects as well as newly proposed projects. Staff will also evaluate both prior approved projects and new projects for cost, schedule and any scope changes along with the costs of inflation.
- Presentation to gain Board approval will include a recommendation for the FY2014 bonding request as well as a list of all anticipated capital bonding requirements for FY2016 and 2018. The Board will be asked to only approve bonding projects and priorities for FY2014. Projects in later years will be reviewed, approved, and prioritized when ready for specific design and/or construction. Prior Board approval of design or initial work should not imply future project approval or priority.

OVERALL SIZE OF CAPITAL BUDGET REQUEST

A report to the Board on Physical Plant and Budget Size in April 2011 indicated the system had debt capacity to handle a request for major and initiative projects of between $150 million and $250 million in FY2012 and $150 million per biennium thereafter. The major and initiative project target is in addition to a biennial HEAPR request of $110 million. For FY2012-2017, the total system capital plan is $278.7 million which includes $168.7 million for major and initiative capital projects and $110 million for HEAPR.

In keeping with the "keep up and catch up" strategy, the chancellor will prepare a FY2014 capital program substantially weighted toward HEAPR and HEAPR-like major capital projects with a combined target funding of $240 million. Capital projects will be supported after individual assessments and settlement of the 2012 capital program discussion with the legislature. The overall total program is expected to come in at less than $350 million.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends the Board of Trustees adopt the following motion:

The Board of Trustees approves the FY2014-2019 Capital Budget Guidelines as presented.

RECOMMENDED MOTION:

The Board of Trustees approves the FY2014-2019 Capital Budget Guidelines as presented.

Presented to the Board of Trustees: April 18, 2012