



**FINANCE AND FACILITIES COMMITTEE  
JANUARY 17, 2012  
1:00 P.M.**

**McCORMICK ROOM  
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 November 16, 2011** (pp. 1-6)
- (2) Finance and Facilities Update
- (3) FY2011 and FY2010 Audited Financial Statements (pp. 7-16)
- (4) FY2014-2019 Capital Program (pp. 17-21)
- (5) Revenue Fund Update (pp. 22-34)
- (6) Acquisition of Real Property**  
**Bergwall Arena, Minnesota State College – Southeast Technical** (pp. 35-38)

Members

Dan McElroy, Chair  
Michael Vekich, Vice Chair  
Jacob Englund  
Clarence Hightower

Phil Krinkie  
Thomas Renier  
James Van Houten

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
FINANCE AND FACILITIES COMMITTEE  
MEETING MINUTES  
November 16, 2011**

*Finance and Facilities Committee Members Present: Dan McElroy, Chair, Trustees Jacob Englund, Clarence Hightower, Phil Krinkie, James Van Houten and Michael Vekich*

*Other Board Members Present: Trustees Brett Anderson, Duane Benson, Cheryl Dickson, Alfredo Oliveira, Louise Sundin, and Scott Thiss*

*Leadership Council Representatives Present: Vice Chancellor Laura King, President Joe Opatz, and President Richard Hanson*

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on November 16, 2011, 4<sup>th</sup> Floor, McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair McElroy called the meeting to order at 10:30 a.m.

**1. MINUTES OF October 18, 2011**

The minutes of the October 18, 2011 meeting were approved as published.

**2. FINANCE AND FACILITIES UPDATE**

Vice Chancellor King began her update with a summarized copy of the Finance division's FY2012 workplan. She noted that the workplan aligns with the system action plan, the strategic plan, strategic framework and also the Board goals. She recognized President Hanson and President Opatz as the Finance Committee's Leadership Council liaisons and noted that Board guidance will be sought as the work moves forward.

The Campus Service Cooperative (CSC) launched "Project Harmon" (named after its geographical location) last week. It offers innovative approaches to the delivery of business office services across multiple campuses, most recently the accounts payable purchase card pilot at Dakota County, with three other institutions expressing interest.

Sourcing through the Coop will be a portable service to any interested buyers. So far it includes the CSC participating in a joint RFP for microscopes with the U of M, an athletic ticket service RFP at St. Cloud State which will allow the system to utilize any resulting contract, the Hobsons contract completion, and Higher One financial disbursement service, where 8 colleges and universities elected to use one master contract. All institutions will soon be upgraded to the Student Direct Deposit that will eliminate paper warrants and allows for self-service entry and maintenance of banking information. Trustee Van Houten stated that he had attended the American Council of Trustees and Alumni conference and had an opportunity to do a brief presentation on innovation. He shared the CSC handout which created substantial interest in the project

and he hopes the CSC will get some publicity from it. He has given the contact information to Vice Chancellor King.

The Audit Committee reported yesterday that all 14 exit conferences were completed, all with excellent results. Vice Chancellor King noted that the positive outcome is the result of the campuses making a personal commitment to excellence. A letter was sent to Minnesota Management and Budget (MMB) regarding unsolved issues with the SWIFT conversion. A reply letter is expected soon. Although it is not a critical issue yet, there is necessary clean-up and MMB shares the concern for resolution. Trustee McElroy thanked those who participated in the audits and noted that with the MAPS to SWIFT conversion, the favorable audit results may be more difficult to achieve in the future, but the expectation still exists.

The system office continues to examine its spending, organizational structure, services, activities, and service delivery methods in an effort to balance its FY2012 budget. Work on Project 2022 continues with the development of an Excel-based financial tool to consider how changes in tuition rates, enrollment, state operating and capital appropriations, financial aid, compensation, debt service and other operating expenses impact MnSCU's financial statement. The institutional cost study is underway and revisions to the CE/CT component of the allocation formula are being analyzed by a working group that will provide recommendations by the end of the year.

Work has begun on the FY2011 funded capital projects including Northeast Higher Education District's (NHED) Engineering program, and Metropolitan State University's science addition along with the FY2012 design of Saint Cloud Technical and Community College's Medium Heavy Truck/Auto Body addition and renovation. Groundbreakings took place at St. Cloud State University (ISELF Building) and St. Paul College (parking ramp).

The State Safety Conference was held Oct. 25<sup>th</sup> and 26<sup>th</sup> with 30 safety officials throughout the system participating.

Legislative and MMB tours and briefings have taken place at twelve of the MnSCU institutions. The campuses have provided good hospitality. We have had great support from our government relations team and the legislators have gained good knowledge of our projects.

### 3. **BOARD COMMITTEE GOALS**

Vice Chancellor King reported that system-wide coordinated administrative solutions and long term financial planning are being recommended to the Finance Committee for consideration as the FY2012 goals. Both are identified as high priority activities with strong policy implications and would benefit from strong Board participation.

The system-wide coordinated administrative solutions will require bringing in campus expertise. With a governance structure in place and clear benchmarking, the goal should see substantial progress. Long term financial planning aligns with the fiscal

sustainability goal outlined in the Board's and the Chancellor's workplan. Vice Chancellor King reported that this work will build a 10 year model for system level operating budgets (2013 - 2022). There would be two tiers to the modeling – an enterprise level that would require campus leaders to be readers and reactors and then rolling it out to the campus level. Trustee McElroy suggested there be an analysis of the current appropriation distribution model. Vice Chancellor King responded that new thinking for current and future approaches to the framework should be considered including incentives and disincentives. FY2012 would allow for gathering feedback and design work; FY2013 would allow for building the design; FY2014 would allow for the implementation of the design. Trustee McElroy clarified that both goals will include ongoing work and does not include creating a plan for FY2013. Trustee Englund liked the 10 year analysis because it could provide information on the value of education, the price of education, and the earning potential – a tool to understand the cost of education and the return on investment. Vice Chancellor King liked his perspective and saw where it could be used as a marketing tool in the future. Trustee McElroy noted that Career One Stop and iSeek could also be a measure of return on investment.

**4. FY2012 CAPITAL PROJECTS UPDATE**

Associate Vice Chancellor Brian Yolitz reported that after minor adjustments, the FY2012 capital budget was finalized at \$278.7 million for the Higher Education Asset Preservation and Replacement (HEAPR) work, 22 capital projects and 3 initiatives to address science, technology, engineering, and math (STEM), energy and classroom renovation. Mr. Yolitz stated that it is perceived as modest and doable list. The FY2011 special session included approximately \$132 million for HEAPR and capital projects. To date, \$6.6 million of HEAPR has been encumbered. 90% is expected to be encumbered by March, 2012. The campuses have done a good job hosting visits from legislators. Mr. Yolitz reported that Anoka Ramsey Community College and MSU Moorhead have projects under design and Hennepin Technical College, St. Cloud State University and Normandale are all in the construction phase of their projects. Design negotiations are underway for Metropolitan State and NHED Mesabi Range Community and Technical College. Trustee McElroy inquired how the bids are comparing with the estimates. Mr. Yolitz responded that on average the bids are within 3 – 4 % of actual costs. There is incentive for the campuses to come in under budget because unused funds can go toward their HEAPR projects.

**5. REVENUE FUND ISSUANCE CEILING**

Associate Vice Chancellor Brian Yolitz thanked Heather Anderson and Greg Ewig for their work on running the Revenue Fund numbers. He reported that in 2008 all state colleges and universities became eligible to participate in the Revenue Fund to help finance auxiliary buildings. All institutions are eligible to participate. While operating revenues normally produce enough funds for operations and R&R, reinvestment funds have typically come from the sale of Revenue Fund bonds. Each institution is required to present a financially sustainable plan for revenue fund facilities that meets all bond covenants. There are currently 12 campuses that participate in the Revenue Fund. They are delegated the responsibility to manage the Revenue Fund programs at their

institutions. In 2009, Normandale and MSU Mankato had shovel ready projects and used the Revenue Fund to get them completed. Eight institutions (seven universities and one college) have projects that are in the pre-design phase. Most are residential life, student life and dining facilities. The total cost of the project is \$120 million and that figure is expected to go down. Available authority for a 2013 bond sale is \$46 million, leaving a \$74 million gap in statutory authority. After the potential 2013 sale, the projected fund level debt service would be approximately \$33-34 million per year.

The Revenue Fund is subject to a statutory debt ceiling, which is currently established at \$300 million. A capacity analysis aligns with the request to increase the ceiling to \$430 million for this session. In preparation for a bond sale, a preliminary project list is produced, taking into account long term viability of the project, including individual campus visits. Because Revenue Fund bonds are repaid from student fees, students will be consulted through the meet and confer process. The Board is advised of the progress, including a letter of support from the students, and then preparation for the legislative request gets underway to increase the debt ceiling.

Trustee Hightower inquired if there has been some type of shift in the thought process of how the fund is used. He stated he understood the increase from \$200 million to \$300 million when the colleges came on board but the jump from \$300 million to \$430 million is more than items such as parking lots. Mr. Yolitz stated that there has been more sophistication in the master planning process and more analysis will take place through Project 2022. There is a better understanding of how to care for residence halls and student unions and pressing requirements that go along with them. The same modeling used in the General Fund will be used in the Revenue Fund including reserves to fund projects on our own. Vice Chancellor King said that in order to keep costs down, there had not been any substantial investment in facilities for years which has created a huge backlog of deferred maintenance.

Trustee Van Houten said it seems there should be a correlation between the operations of the system and the capital budget and that the capital budget could track where students were taking on-campus courses. He expressed concern for investing in non-academic projects when long term enrollment projections indicate a downward trend. Trustee McElroy shared his concern but noted that there have been investments in academics, particularly lab spaces and growth in engineering programs. He stated that in order to attract students it is necessary to keep up on amenities in order to keep competitive with private institutions. In addition, the increase in non-traditional students will continue to grow and keep enrollments up. Chancellor Rosenstone stated that what is presented today is a hint of what is to come and no decisions need to be made. He said conversations will take place campus by campus and projects will come to the Board case by case to be voted on. In response to correlation between the operations of the system and capital budget, the operating budget is not affected because the Revenue Fund is paid through student fees. Vice Chancellor King added that her objective today is that she has the support of the Board to move ahead with the statutory change and the Board is aware they will have full opportunity to vote yes or no on individual projects that move forward

sometime in late 2012. In order to keep the capital management cycle on track, she would like to seek increase in authority this session so the bond sale can be planned.

Trustee Englund asked if there was a term limit on student fees when they are increased to support specific projects. Mr. Yolitz responded that the fees would decrease once the debt is satisfied. Trustee McElroy inquired what would happen if a residence hall received funding and tuition became too high so enrollment dropped. Chancellor Rosenstone replied that decision needs to be made campus by campus. Projects need to be right for both the System and the campus. Mr. Yolitz added that the campus portfolios dictate their needs through a detailed plan including an analysis of 20 – 50 year demographic trends. The information presented today is advisory only and no action is required. The Board will be updated on tuition and fee discussions and the final projects and bond sale proposals will be submitted to the Board in late 2012.

Trustee McElroy noted that this is a complex issue that will need further discussion.

**6. ACCEPTANCE OF GIFT OF REAL ESTATE FROM MINNESOTA STATE UNIVERSITY MOORHEAD FOUNDATION**

The Minnesota State University Moorhead Foundation owns four properties internal to the campus boundary. The foundation originally purchased these properties in contemplation of giving them to the Minnesota State University Moorhead. Two of the four properties' interim use has been for surface parking. The long range plan had been to demolish the two remaining houses and construct parking lot(s). The foundation will not charge the university for the property. The university will only pay the cost of conveyance to accept them.

Trustee Hightower 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 approves the acceptance of the four properties located at:

811 11<sup>th</sup> Street South, Moorhead, MN 56560 (land and house)  
1026 7<sup>th</sup> Avenue South, Moorhead, MN 56560 (land and house)  
615 11<sup>th</sup> Street South, Moorhead, MN 56560 (land)  
1120 6<sup>th</sup> Avenue South, Moorhead, MN 56560 (land)

and directs the Chancellor or his designee to execute all necessary documents and fulfill the processes necessary to complete the conveyance of the properties from the Minnesota State University Moorhead Foundation.

**OTHER**

Trustee Benson inquired if the Board should have a discussion on the strategic framework in regards to a need to change the funding formula. Vice Chancellor King responded that the current framework was built under a different Board and agreed it

should be examined to see if the right things are being rewarded and correct outcomes are encouraged. She agreed that joint committee conversations should be formulated. Chancellor Rosenstone added that the current framework was built at a time when 70% of revenue came from state support and 30% from students. There needs to be clarity on the objectives sought to be achieved. He further said it is time to examine finance and sustainability and advance the excellence of the enterprise by connecting the dots on operating and capital budgets, projections, needs for programs and return on investments. There should be understanding on them by the end of the year setting the stage to build a design for a new way to proceed.

Chair McElroy adjourned the meeting at 11:52 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:** January 17, 2012

**Agenda Item:** FY2011 and FY2010 Audited Financial Statements

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

**Cite policy requirement, or explain why item is on the Board agenda:** The purpose of this Board report is to present to the Finance committee of the Board of Trustees the audited financial report for the Minnesota State Colleges and Universities for the year ending June 30<sup>th</sup>, 2011 and 2010 and the results of individual institutions financial statement audits.

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

**Outline of Key Points/Policy Issues:** 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. LarsonAllen LLP remarked this is a notable accomplishment. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

Fiscal year 2011 operating results yielded improvement in financial position at June 30, 2011, with a \$75.6 million net operating revenue surplus, compared to a prior year net operating revenue surplus of \$68.4 million.

**Background Information:** The financial statements were prepared by the Finance Division of the system office with the assistance of the campus Finance departments and have been audited by the firm of LarsonAllen LLP.



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

**FY2011 and FY2010 Audited Financial Statements**

**BACKGROUND**

The purpose of this Board report is to present to the Finance and Facilities committee of the Board of Trustees the audited, consolidated financial statements for the Minnesota State Colleges and Universities for the years ending June 30, 2011 and 2010. These financial statements were prepared by the Finance division of the system office with the assistance of the campus Finance departments and have been audited by the firm of LarsonAllen LLP. This is the second year of a three year contract with LarsonAllen LLP as the system auditor. These statements were presented to the Audit Committee by the Finance division and LarsonAllen LLP, at the November 15, 2011 Audit Committee meeting.

**AUDIT RESULTS**

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. LarsonAllen LLP remarked this is a notable accomplishment- it is a commendable achievement that no significant deficiencies were identified throughout the fiscal years 2011 and 2010 audit processes. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

The three external audit firms, LarsonAllen LLP, Kern DeWenter Viere, Ltd., and Baker Tilly Virchow Krause, LLP presented their respective results of audits, including audit opinions, internal control matters and other required communications at the November 15, 2011 Audit Committee meeting.

The Revenue Fund and thirteen individual college and university financial statements have been incorporated into the consolidated system wide financial statements along with the financial statements of the unaudited colleges. The Audit Committee members spent considerable individual time reviewing the various annual financial reports prior to the formal meeting. The two hour formal Audit Committee meeting generated good discussion based on Trustees' questions. The Audit Committee recommended release of the audited statements, a motion that was approved by the full Board of Trustees at the December 2011 meeting.

All audited financial reports may be viewed on the system's website at:  
<http://www.finance.mnscu.edu/accounting/financialstatements/index.html>

## **INFORMATION**

The system-wide financial report for fiscal years 2011 and 2010 is presented in accordance with Statement No. 35 *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as established by the Governmental Accounting Standards Board (GASB). The system's financial information is presented in one column form as a "Business Type Activity". The resources are still governed by the governmental fund based principles and continue to be accounted for in the general, special revenue, enterprise, agency, and revenue funds. Fund level information can be found in the financial statement supplemental schedules contained in a separate report (unaudited) titled "*Supplement to the Annual Financial Report for the year ended June 30, 2011.*" This supplemental report also contains financial statements for each college and university.

All university foundations plus the Century College Foundation and Fergus Area College Foundation are separately included in the related institutions' financial reports and the system's financial report. Reporting standards require the inclusion of component entities if found to be "significant" to the primary organization. The foundations and their auditors are very cooperative in adjusting their audit schedules in order to conform to the system's financial reporting audit schedule.

## **Summary of Financial Results**

Fiscal year 2011 operating results yielded improvement in financial position at June 30, 2011, with a \$75.6 million net operating revenue surplus, compared to a prior year net operating revenue surplus of \$68.4 million.

- Net assets increased \$146.3 million or 8.5 percent; most of the increase was due to fiscal year 2010 capital appropriation revenue of \$65.5 million that funded capital asset investment, preservation and replacement.
- Income before other revenues, expenses, gains or losses, also termed "net operating revenue", increased from a surplus of \$68.4 million in fiscal year 2010 to a surplus of \$75.6 million in fiscal year 2011. This net operating revenue surplus is the net of \$1,979.6 million of operating and non-operating revenues less \$1,904 million of operating and non-operating expenses.
- Capital appropriation revenue of \$65.5 million plus other capital asset related revenue combined with the \$75.6 million net operating revenue surplus and generated a change in net assets of \$146.3 million, a slight decrease from the \$179.6 million change in net assets generated in fiscal year 2010.

### **Consolidated Statements of Net Assets**

The primary driver of change within the Statements of Net Assets between June 30, 2011 and 2010 is capital asset development and renewal activity related to the system's 26 million plus square feet of academic and administrative buildings.

- New construction in progress of \$140.6 million was the primary factor increasing the capital assets balance, net of depreciation, by \$97.1 million.
- Capital asset financing came primarily from \$65.5 million of capital appropriation and \$150.8 million of new long-term debt.
- Net assets (e.g., net worth) increased \$146.3 million including a \$41.7 million increase in net assets invested in capital assets, net of related debt.

### **Consolidated Statements of Revenues, Expenses and Changes in Net Assets**

Fiscal year 2011 operating expenses of \$1,867.4 million averaged \$5.1 million per day when divided by 365 days. Looking at the operating expense number in relation to liquid assets, the system's \$798.5 million of unrestricted cash, and equivalents plus unrestricted investments would be adequate to cover approximately 5.1 months of expenses, an improvement of 0.5 months from fiscal year 2010.

- Revenue sources funding operations included \$613.4 million of state appropriation; \$835.3 million of student payments, net of scholarship allowance; \$485.7 million of federal and state grants; and \$45.2 million of other revenue.
- Expenses supporting operations included \$1,249.3 million of compensation, \$218.8 million of purchased services (utilities, enterprise and other IT support, etc.), \$164.3 million of supplies, \$97.3 million of depreciation and other expenses of \$174.3 million.

### **TRENDS IN FINANCIAL AID**

In fiscal year 2011, there was significant growth in financial aid awards to Minnesota State Colleges and Universities students. Total dollars of financial aid reached \$1.3 billion, an increase of \$.13 billion or 11 percent, compared to fiscal year 2010. Additional key metrics related to financial aid are:

- The number of financial aid recipients grew by 6,000, or 4 percent, to more than 172,000 students, during this same period.
- Fully 62 percent of credit students now receive financial aid, up from 60 percent in 2010, and 56 percent in 2009.
- Grants were received by 42 percent of students in 2011.

- Grant awards increased by \$41 million, or 11 percent, most of which was increases in federal Pell grants.
- Student borrowing increased by \$88 million, or 12 percent, most of which was increases in federal loans.
- The number of students that borrowed increased by almost 7,000, or 7 percent, with 42 percent of students borrowing in 2011.
- The average award for all types and sources of aid increased by 7 percent, from \$7,274 in 2010 to \$7,781 in 2011.
- Compared to 2003, total financial aid awards increased 151 percent, from \$533 million to \$1.3 billion in 2011.
- This growth came from both loans and grants, with approximately 2/3 coming in the form of loans and just under 1/3 coming in the form of grants.
- The number of financial aid recipients increased by 48 percent while total system headcount enrollment grew by 17% since 2003.
- The total amount of borrowing increased by 179 percent from \$301 million to \$838 million since 2003.
- The average loan from all sources increased by 60 percent from \$4,441 to \$7,126 since 2003.
- The average award for all types and sources of aid increased by 76 percent, from \$4,433 in 2003 to \$7,781 in 2011.

These trends represent a growing dependence by our students on loans and grants to fund their education. In turn, these trends represent a growing dependence by Minnesota State Colleges and Universities on financial aid as a means to achieve its mission to enable the people of Minnesota to succeed by providing the most accessible, highest value education in the nation.

**Measuring, Monitoring and Improving Financial Health:  
Composite Financial Index (CFI) and Financial Health and Compliance Indicators**

The Composite Financial Index calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. This CFI calculation methodology is also used by the Higher Learning Commission as a gauge of member institutions' financial health. Without detailing the actual calculation methodology,

financial ratio values are converted into strength factors which in turn are weighted to allow summing of the four components into a single, composite value.

Institutions may have differing values across the four component ratios but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the composite scores, *Strategic Financial Analysis for Higher Education* suggests a composite value of 1.0 is equivalent to very little financial health, in the for-profit world it could perhaps be viewed as a “going-concern” threshold value, while a composite value of 3.0 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3.0 represent increasingly stronger financial health.

November’s Audit Committee meeting included a high-level discussion of CFI, and the System’s Annual Financial Report for the Years Ended June 30, 2011 and 2010 included much of the CFI information that follows within the Management Discussion and Analysis.

***How does the System’s financial health compare to other public institutions?***

The FY2010 values in the Composite Financial Index (CFI) Comparisons in the following table are computed from ratio values contained in *Moody’s Fiscal Year 2010 Public College and University Medians* report and as such represent median values for 220 public colleges and universities rated (in whole or in part) within Moody’s public college and university portfolio. Fiscal year 2011 public college and university financial data is not available as yet. Rated components range from large state higher education systems to small public colleges and universities.

The letter-based credit rating designations in the CFI comparison table below are defined and used by Moody’s Investors Services. All ratings denote creditworthiness relative to other U.S. municipal or tax-exempt issuers or issues. The relative credit worthiness is: Aaa = highest quality; minimal credit risk, Aa = high quality; very low credit risk, A = upper medium grade; low credit risk.

Required calculations have been made by the system using four specific Moody’s median financial ratio values for each rating category and for the population as a whole. This information should only be used as an approximate indicator of the system’s financial health relative to the financial health of other public colleges and universities. The system’s individual colleges and universities show a similar range of composite values.

Financial Performance Measure										
Financial Performance Measure	FY11 System & Revenue Fund		Moody's 2010 Public College/University medians – Converted to Weighted Values and Composite Financial Index (CFI)							
	System	Revenue Fund only	<u>All</u>	<u>Aaa</u>	<u>Aa1</u>	<u>Aa2</u>	<u>Aa3</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>
Primary Reserve	<b>0.83</b>	2.33	1.00	2.09	1.66	1.34	1.20	1.03	<b>0.83</b>	0.41
Viability	<b>0.84</b>	0.26	0.65	1.55	1.16	<b>0.91</b>	<b>0.70</b>	0.55	0.31	0.22
Net Operating Revenue	<b>0.32</b>	1.00	0.28	0.42	<b>0.35</b>	<b>0.29</b>	0.20	0.34	0.34	(0.18)
Return on Net Assets	<b>0.92</b>	0.89	0.78	<b>1.01</b>	<b>.85</b>	0.75	0.69	0.80	0.81	(0.67)
CFI	<b>2.91</b>	4.48	2.81	5.07	4.02	<b>3.29</b>	<b>2.78</b>	2.72	2.29	1.13
	The shaded cells link system values to the closest value(s) within a credit rating category									
	<ul style="list-style-type: none"> <li>• The system ratios include the General Funds, Revenue Funds, Special Revenue Funds, Enterprise Funds, Agency Funds, and 9 Foundations deemed to be material.</li> <li>• Consistent with Moody's underlying ratios, the system's individual and composite (CFI) values include component units as reported in the Consolidated Financial Statement. Component units increased CFI from 2.70 to 2.91 due primarily to the foundations' collective realized and unrealized gains on investment. See <i>Minnesota State Colleges' and Universities' Foundations Statements of Activities</i>.</li> <li>• Moody's data includes 220 separate organizations.</li> </ul>									

**Summary Ratios for FY2011 and FY2010**

The system-wide financial ratios and other measures presented below are generally consistent with prior years' presentations. The focus this year is on the four financial ratios used in computing CFI. The "National Median" data is taken from *Moody's Fiscal Year 2010 Public College and University Medians* report. All system ratios are computed using financial data taken from the accrual financial statements. *Note: Higher values are deemed better for all ratios presented.* The *Supplement to the Annual Financial Report* may be examined to view individual college and university financial statements (<http://www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/index.html>).

The fiscal year 2011 CFI of 2.91 went down compared to 2010's CFI of 3.25. These ratios represent Moody's ratings of Aaa to Aa1 for 2011, consistent with fiscal year 2010 ratio rating representation.

The following table provides reference benchmarks for individual components of the CFI for achieving a total CFI score of 3.0, a sign of good financial position but with additional room for improvement.

	<u>Weight</u>	<u>Benchmark</u>	<u>System</u>	<u>2 Yr</u>	<u>4 Yr</u>
Primary Reserve	35%	1.05	0.83	0.71	0.71
Viability	35%	1.05	0.84	1.13	0.52
Net Operating Revenue	10%	0.30	0.32	0.26	0.32
Return on Net Assets	<u>20%</u>	<u>0.60</u>	<u>0.92</u>	<u>1.10</u>	<u>0.57</u>
Composite Financial Index (CFI)	100%	3.0	2.91	3.20	2.12

### Ratio Variability across Colleges and Universities

There is considerable variability in individual CFI financial ratio values across the 32 colleges and universities. The following tables, which exclude foundations, highlight the broad range in the results:

	<u>High</u>	<u>Low</u>	<u>Median</u>
Primary Reserve – <i>resource availability</i>	1.34	0.36	0.60
Viability – <i>debt coverage</i>	3.50	0.30	0.95
Net Operating Revenue – <i>surplus or deficit</i>	0.69	(0.40)	0.32
Return on Net Assets – <i>asset stewardship</i>	<u>2.00</u>	<u>(0.43)</u>	<u>1.28</u>
Composite Financial Index (CFI)	6.69	0.83	2.72

Midpoint of Quartiles	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
Primary Reserve – <i>resource availability</i>	1.09	0.70	0.53	0.41
Viability – <i>debt coverage</i>	2.60	1.34	0.77	0.46
Net Operating Revenue – <i>surplus or deficit</i>	0.55	0.35	0.21	(0.15)
Return on Net Assets – <i>asset stewardship</i>	1.76	1.08	0.63	0.02
Composite Financial Index (CFI)	5.48	3.36	2.38	1.42

### Other Financial Measures

There are additional financial metrics which are used to measure, monitor, and improve the financial condition of each college and university.

The Board required reserve ratio below compares general fund cash-basis operating revenues to that portion of the general fund’s end-of-year cash balance that has been designated as a special reserve amount. The system-wide figure of 6 percent for fiscal year 2011 represents a reserve balance of \$91.2 million, an increase of 12.5 percentage points, or \$10.2 million, from fiscal year 2010.

In fiscal year 2011, 4 of the system’s 32 colleges and universities generated negative net operating revenues using a generally accepted accounting principles measurement; this compares to 6 colleges and universities in fiscal year 2010. Of the 4 colleges and universities with negative net operating revenue in fiscal year 2011, 2 also had negative net operating revenue in fiscal years 2010 and 2009. Ongoing operating deficits negatively impact the ability of these 2 institutions to maintain normal operations under adverse economic circumstances and to implement new strategic initiatives. Negative unrestricted net assets generally indicate a college or university has experienced ongoing operating deficits. A Board reserve at less than 3 percent can also be an indicator of poor financial condition.

	<u>FY2011</u>		<u>FY2010</u>		<u>FY2009</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
<b>Net operating revenue loss*</b>	4	13%	6	19%	15	47%
<b>Negative unrestricted net assets</b>	0	0%	0	0%	1	3%
<b>Board reserves below 3%</b>	0	0%	1	3%	2	6%

\* As shown in financial statements on line titled “Income (loss) before other revenues, expenses, gains, or losses.”

**Are we balanced right? Should we be taking on more risks? Should we be even more prudent with respect to the stewardship of our resources?**

The Audit Committee presentation of these results in November 2011 prompted members to ask the auditors and the staff to respond to the above questions. The system auditor responded in part;

*The increased (strengthening) movement in the CFI as well as the pyramid of financial reporting shows (the system) moving into more advanced capability, ... the more sophisticated your financial management process is and the more distinct the quality, the system can run a little closer to the edge because it’s more in control. ....(However) the system is certainly not at the point where it has too much or is too financially stable, because state shutdowns, dramatic changes in student demographics and so many other things can happen. So I would encourage ...slowly moving the CFI up a bit would be advisable. What the system has already accomplished is very solid and positive financially from the financial reporting process, but continued moderate improvement is recommended.*

Vice Chancellor King responded, in part:

*... we really have nothing but downside risk in front of us. We have state appropriation exposure, ...downward pressure on revenue, federal Pell debate which could have a catastrophic impact on us from a student affordability standpoint. And we learned from the state shutdown that we have few degrees of freedom from an operating environment standpoint. I don’t see the upside that gives*



*us the freedom to not be as conservative as the Board has been, and as strongly supportive of improving these ratios, as this Board had been. ...I would like to see the system-wide (CFI) number go up, because it is a large number covering a lot of volatility. And there is some real risk inside that number on a school by school basis that gets shielded when we do it on a composite level.*

Chancellor Rosenstone summarized the discussion in the following manner;

*I am hearing a sense of not just proper balancing of the management of risk and the stewardship of resources vs. the opportunity cost of doing so, but if anything, an expression of caution. Both caution to ensure that we have the basis for the transformative innovations that have been suggested, but also we have the base to protect the quality of our academic program in the light of this very long list of risks we are facing and that we have a responsibility to manage forward.*

In comparing the system wide CFI number to our peers, the system is either in the same range or higher than state universities and state systems of higher educations, while significantly lower than the private colleges and universities.

## **CONCLUSION**

The Minnesota State Colleges and Universities system maintained a relatively strong financial position in fiscal year 2011, as measured by the \$75.6 million net operating revenue surplus and the \$146.3 million increase in net assets, despite a \$48.2 million reduction in state appropriation funding. This performance reflects the strong financial management exercised by the system's leadership team and the continued strong investment in capital assets. The leadership team continues to maintain its focus on aggressively managing costs to deliver efficient and effective services to our students. The current weak economy is providing both challenges and opportunities. The system experienced unprecedented enrollment in the last few years as more citizens pursued their education and job enhancing skills during these difficult economic times, however this trend is leveling off for the upcoming years. The system continues to remain dependent on the state's support in order to maintain affordability and access for students. The state's continued support is more critical now as colleges and universities educate Minnesota's workforce and fundamental participants of our state's economy.

*Date Presented to the Board of Trustees: January 17, 2012*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** January 17, 2012

**Agenda Item:** FY2014-2019 Capital Program Update

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

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

At a first reading in March 2012, the Board will be asked to consider specific guidelines. The Board will be asked to approve FY2014-2019 Capital Budget Guidelines after a second reading in April 2012.

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

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

The approval of the FY2014-2019 Capital Budget Guidelines will represent the formal start of the capital budget request development process that will culminate in candidate projects being reviewed, prioritized and approved by the Board in June 2013 for consideration by the governor and the legislature in late 2013/early 2014.

**Background Information:**

This report outlines the proposed basic framework for developing capital budget guidelines for the system’s FY2014-2019 capital bonding request and seeks Board of Trustee comment. The framework reflects Chancellor guidance and direction and input from system office and campus leadership and staff garnered in meetings, two webinars and through Leadership Council.

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

<b>INFORMATION ITEM</b>
<b>FY2014-2019 Capital Program Update</b>

**BACKGROUND**

This report outlines the proposed basic framework for developing capital budget guidelines for the system’s FY2014-2019 capital bonding request and seeks Board of Trustee comment. The framework reflects Chancellor Rosenstone’s guidance and direction and input from campus leadership and staff garnered in meetings, two webinars and through the Leadership Council.

At a first reading in March 2012, the Board will be asked to consider specific guidelines. The Board will be asked to approve the FY2014-2019 Capital Budget Guidelines after a second reading in April 2012. This will represent the formal start of the capital budget request development process that culminates in candidate projects being reviewed, prioritized and approved by the Board in June 2013 for consideration by the governor and the legislature in late 2013/early 2014.

**CAPITAL REQUIREMENTS**

All Minnesota State Colleges and Universities capital requirements emerge from individual campus facility master plans. Master plans are reviewed and approved by the Vice Chancellor – Chief Financial Officer. Capital requirements are also informed by the system’s Strategic Plan and the Strategic Framework. Those capital requirements for revenue generating facilities such as residence halls, student unions, parking ramps and wellness/fitness centers, are funded through the system revenue fund with MnSCU bond sales typically carried out in the odd numbered years. The next revenue fund bond sale is planned for early 2013. System capital requirements for academic and support facilities are funded through State Minnesota general obligation bonds. State bond sales are typically authorized by the Minnesota Legislature in the even numbered years (e.g., the 2012 session).

The system has historically categorized requirements in one of three ways:

**Higher Education Asset Preservation and Replacement (HEAPR):** Capital requirements to address code compliance including health and safety, Americans with Disabilities Act (ADA) requirements, hazardous material abatement, access improvement, or air quality improvement; building energy efficiency improvements using current best practices; 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. Up to ten percent of a HEAPR appropriation may be used for design costs for future HEAPR projects. The system annually reports to the commissioner of Minnesota Management and

Budget and to the chairs of the Higher Education Finance Divisions, the Senate Finance Committee, and the House of Representatives Capital Investment Committee a list of the projects executed with money from HEAPR appropriations during the preceding calendar year as well as a list of those priority projects for which HEAPR appropriations will be sought in that year's legislative session. The Board has given top priority to HEAPR requirements in the past in a concerted effort to take care of system facility assets and reduce the deferred maintenance backlog. All HEAPR projects of significant size, typically over \$1 million, have a completed and approved predesign evaluating project scope, cost, value, return on investment, options, phasing, and schedule implications. The system pays no debt on HEAPR appropriations.

**Major Projects:** Capital requirements, typically over \$2 million, address major maintenance, repair, and renewal; reconfiguration and rightsizing; demolition; and new facility space needs. All major projects are part of an approved facilities master plan and have a completed predesign evaluating project scope, cost, value, return on investment, options, phasing, and schedule implications. These predesigns also identify design and construction delivery options and offer extensive justification. To address deferred maintenance requirements, blending major projects with improving deferred conditions has been strongly encouraged. As a result, the system has been able to improve critical programmatic as well as overall facility conditions.

Based on ability to execute the design and construction work in a timely manner, projects smaller than \$5 million have typically sought design and construction funding in a single biennium with larger projects, greater than \$5 million, seeking design funding in one biennium and construct in the next. For major projects, the system is responsible for one-third of the debt. One-sixth of the debt is covered from the system as a whole and one-sixth is serviced by 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 .

**Initiative Projects:** These are smaller capital projects, typically less than \$750,000, addressing a specific campus program need. Initiative projects from multiple campuses are bundled together as a single capital requirement. Themes for initiative projects in the past have been: demolition, small projects, real estate acquisition, smart classrooms, classroom renovation, and science technology, engineering and math (STEM). In the system's FY2012 capital request, an energy initiative was included along with STEM and classroom renovation initiatives. As with major 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 serviced by the institution requesting the project. Again, these are typically 20 year obligations.

### **CAPITAL BUDGET REQUEST GUIDELINE FRAMEWORK FOR FY2014-2019**

Guidelines for shaping projects and ultimately the system's FY2014-2019 capital budget request are rooted in the system's Strategic Plan and recently adopted Strategic Framework. Finance and Facilities staff have aligned the Strategic Framework with Board, Chancellor, and Presidential comments from the FY2012 process and key facility planning and programming elements to create an initial basic framework for the FY2014-2019 guidelines:

**Ensure access to an extraordinary education for all Minnesotans:** Projects should reflect positive impact on access. They should take into account state and regional demographics, underrepresented group needs, both in terms of access and in terms of workforce development, workforce related certificates, as well as baccalaureate degrees, and campus “rightsizing” to fulfill the financial ability to continue to ensure access in regions to academic programs. Candidate projects should provide evidence of:

- Supporting redesign of the classroom experience or academic programs to create an extraordinary education.
- Increasing access to baccalaureate programs.
- Contributing to academic success of students traditionally underrepresented in higher education.
- Enabling greater collaboration among colleges and universities in courses, academic programs, and student services.
- Advancing a regional and/or state-wide academic plan.
- Meeting changes in student demand in programs where there is evidence demand will be sustained well into the future.

**Be the partner of choice to meet Minnesota’s workforce and community needs:**

It is critical for projects to reflect partnerships with current and emerging workforce and community needs. Specific value will be given to manufacturing or STEM related projects that identify direct partnerships to the workforce. Candidate projects should provide evidence of:

- Increasing retention, completion, and transfer within the system.
- Contributing to delivery of programs addressing continuing or emerging workforce and/or community needs.
- Advancing growth in programs demonstrating strong and sustained future demand that align with workforce needs.
- Supporting and enhancing STEM programs.

**Deliver to students, employers, communities and taxpayers the highest value/most affordable option:** This section considers overall project value, academic multi-purposing of spaces, space use improvement, energy efficiency, ability for project to improve utilities or infrastructure, deferred maintenance reduction, operational and programmatic costs, financial stability, and other planning areas that contribute to highest value/most affordability. Candidate projects should provide evidence of:

- Advancing greater cooperation among campuses to substantially reduce costs and enable sharing of administrative operations, academic programs, and academic support.
- Demonstrating an investment that will preserve and protect State facilities and infrastructure and reduce operating costs.
- Maximizing efficient use of existing space on campus or within the institution or within the region.
- Representing a net neutral or reduction of total campus space through a combination of construction, renovation, renewal, reutilization and demolition.

- Creating flexible space with greater capacity for changes in programs, utilization and/or individual program growth.
- Representing a ‘major’ reduction in deferred facility maintenance backlog and a positive impact on the Facility Condition Index (FCI).
- Indicating sound planning in terms of overall project cost through metrics such as cost per square foot, cost per FYE, etc.
- Having follow on support as evidenced by local campus investment in terms of sustained R&R rates.
- Minimizing the need to create new or additional utility and support infrastructure.
- Representing a financially viable effort in terms of current and future campus financial position and Composite Financial Index (CFI).
- Incorporating substantial resource (water/utility) savings and conservation.

### **OTHER COMPONENTS**

In addition to the alignment with the Strategic Framework, several items will be refined and included as part of the final guidelines and ultimate scoring process. These include:

- Outlining additional objective data or documentation to demonstrate evidence of the elements above.
- Accounting for additional funds a campus can bring to the table to reduce general obligation supported capital project costs.
- Determination of whether special consideration will take place in the 2014 review for projects recommended but ultimately not funded in FY2012
- Allowing accommodation for emergencies or late emerging opportunities without diminishing the discipline of the central process.
- Acknowledging new square footage due to program needs that cannot be accommodated in renovated or leased spaces.
- Reconsideration of the current debt service cost allocation method between the system overall and college/universities awarded capital funds.

**Overall size of capital budget request:** The Board Goal presentation in April 2011 on Physical Plant and Budget Size 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. This is in addition to a biennial HEAPR request of \$110 million. For FY2012-2017, the total system capital request is \$278.7 million which includes \$168.7 million for major and initiative capital projects and \$110 million for HEAPR. Staff will bring a recommendation to the Board in March regarding overall size targets for the 2014 program.

### **NEXT STEPS**

Based on Board of Trustee’s feedback and direction during the January Board meeting, staff will prepare expanded and specific capital budget guidelines for a first reading in March 2012 and final Board approval in April 2012.

*Date Presented to the Board of Trustees: January 17, 2012*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** January 17, 2012

**Agenda Item:** Revenue Fund 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 Board received an update about the revenue fund in November 2011, which included a status report of the 2013 revenue bond sale and plans for a request to the 2012 legislature to increase revenue bond authority from \$300 million to \$430 million. The purpose of this report is to provide the Board of Trustees with additional information on revenue fund facilities size, age, and debt capacity.

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

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

Requirements for revenue fund facilities are integrated in the system’s overall capital planning process. Twelve campuses currently have revenue fund facilities and participate in the fund.

**Background Information:**

With colleges gaining eligibility to participate in the revenue fund in 2008, both colleges and universities began better integrating revenue fund projects into their facilities master planning efforts. There have been larger revenue bond sales in recent years resulting in part from colleges gaining eligibility to use the revenue fund. The majority of the recent increase in revenue bonds activity is attributable to residential life updates of university residential halls and student unions that were primarily built in the 1960s.

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

<b>INFORMATION ITEM</b>
<b>Revenue Fund Update</b>

**BACKGROUND**

The Board received an update about the revenue fund in November 2011, which included a status report of the 2013 revenue bond sale and plans for a request to the 2012 legislature to increase revenue bond authority from \$300 million to \$430 million. The purpose of this report is to provide the Board of Trustees with additional information on revenue fund facilities size, age, and debt capacity.

**REVENUE FUND PLANNING**

Requirements for revenue fund facilities are integrated in the system’s overall capital planning process. Twelve campuses currently have revenue fund facilities and participate in the fund. With colleges gaining eligibility to participate in the revenue fund in 2008, both colleges and universities began better integrating revenue fund projects into their facilities master planning efforts. Despite the alignment of overall capital planning processes, the revenue fund capital process is distinguishable from the general obligation/capital bonding process in a few very important ways:

1. The revenue fund is self-directed. The system’s revenue bond authority is the primary distinction from the general obligation/capital bonding process. The Board issues its own revenue bonds for revenue fund projects, and controls when and how many bonds it issues within established debt authority limits. In the capital bonding process, system capital needs compete during a legislative session with other Minnesota agencies’ capital needs for a limited supply of general obligation bonds.
2. The revenue fund is a self-nominating process. The revenue fund is driven by the needs and planning efforts of individual campuses to put forth a project. The campus drives the project nomination process, along with student input and consultation. Often times, student support is the crucial ingredient to a revenue fund project moving ahead. Unlike the general obligation bond process, the revenue fund does not rely on a competitive scoring mechanism to rank projects that establish funding priorities as part of the Board approval process.
3. Revenue bond projects are self-supported. Although revenue fund projects are not rank ordered, they are analyzed on a project by project basis. Debt and revenue profiles of each project will vary depending on the size of a campus and project type.



Dedicated fee revenues are required for each project, meaning each revenue fund project is able to support itself in terms of debt service, operating expenses and reserves before being added to a project list for Board consideration.

Revenue fund policy and practice have taken a two prong approach to capital investment:

1. Keeping revenue fund facilities, “safe, warm and dry,” similar to what HEAPR funds are used for academic facilities, and
2. Responding to the Board’s strategic directions to support enrollment and demographic changes by offering updated residential and student lifestyle facilities (student unions, wellness/athletic centers, etc.)

## **DATA AND ANALYTICS OF THE REVENUE FUND**

The following section describes revenue fund facilities in greater detail about the size, age, and debt load. The revenue fund was created in 1955 for the state university system. Six residential campuses participated in the revenue fund in varying ways, starting with one of the first revenue bond sales in 1956. The primary goal was to build residence halls and student unions in support of the growth of higher education enrollment during the 1960s.

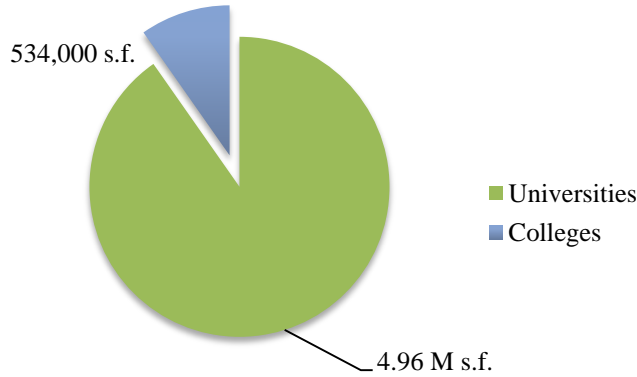
### **Square Footage**

Revenue fund facilities comprise approximately 20% of the overall system square footage. As of June 30, 2011, the system’s reported square footage of revenue fund facilities was 5.2 million square feet out of a total system-wide square footage of approximately 27.2 million square feet. The Normandale Community College parking ramp, which was approved after June 30, is expected to add approximately 200,000 sq. ft. to the revenue fund for a revised total of approximately 5.5 million square feet.

When comparing space distribution for revenue fund facilities, universities have 4.96 million square feet (90%) and colleges have 534,000 square feet (10%), which is not surprising considering that the state universities have utilized the revenue fund since 1955.

**Chart 1** shows the square footage distribution of improved revenue fund facilities between universities and colleges. The improved square footage includes the area attributable to parking ramps and expected new square footage from the 2011 bond sales. The amount does not include non-building structures such as surface parking lots (Century College) and recreational fields (MSU, Mankato).

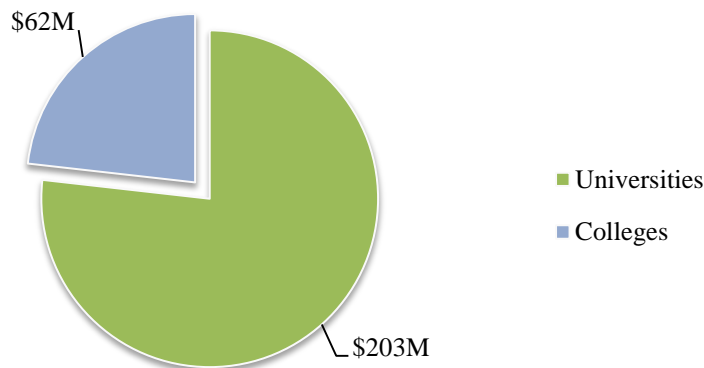
**Chart 1: Amount of improved square footage in the revenue fund**



**Revenue Fund Debt Outstanding**

Although the universities comprise 90% of the overall square footage of the fund, the revenue fund outstanding debt exhibits a slightly different distribution. As long-time members of the fund, universities carry the majority of the debt - about \$203 million (77%). Colleges carry the balance - \$62 million or 23% of the outstanding revenue fund debt. **Chart 2** illustrates the revenue fund debt comparison between colleges and universities.

**Chart 2: Comparing outstanding revenue fund debt between colleges and universities**

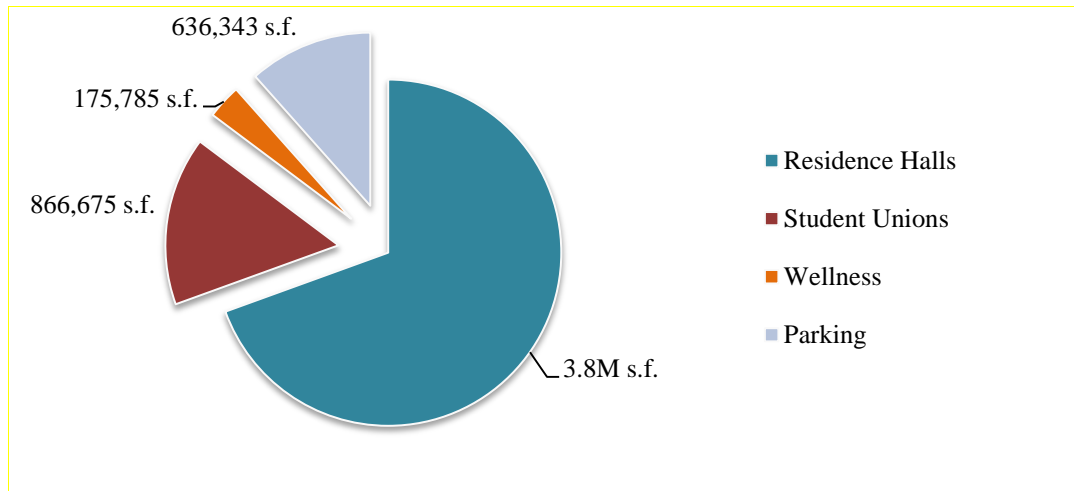


**Debt and Square Footage by Program**

With the addition of the new square footage from the parking ramp at Normandale Community College, the total improved square footage in the revenue fund is expected to be approximately 5.5 million square feet. On a program basis, residence halls represent the sizable majority of square footage in the revenue fund with 3.8 million square feet (69%). Student unions comprise a distant second with 866,675 square feet (16%), parking ramps

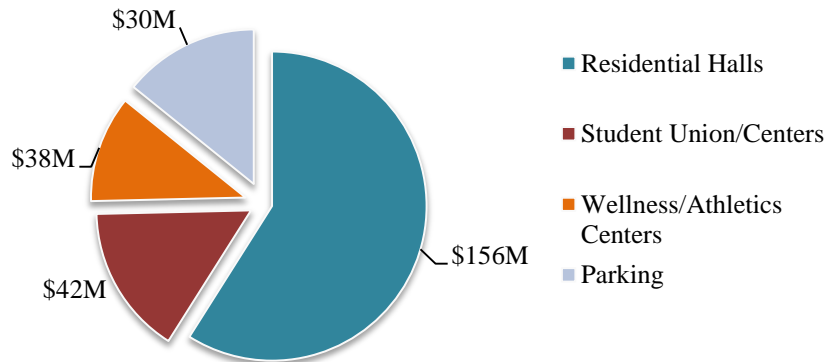
make up 636,343 square feet (12%), and health/wellness centers make up the remainder of square footage in the fund with 175,785 sq. ft. (3%) **Chart 3** illustrates program space by square footage in the revenue fund.

**Chart 3: Program square footage**



As expected from the total square footage holdings, the residence hall program holds the majority of outstanding revenue bond debt at \$156 million (59%). Student unions carry \$42 million (16%), parking carries \$38 million (14%), and wellness/athletic centers hold \$30 million (11%). **Chart 4** illustrates the distribution of debt by program.

**Chart 4: Outstanding debt by program**

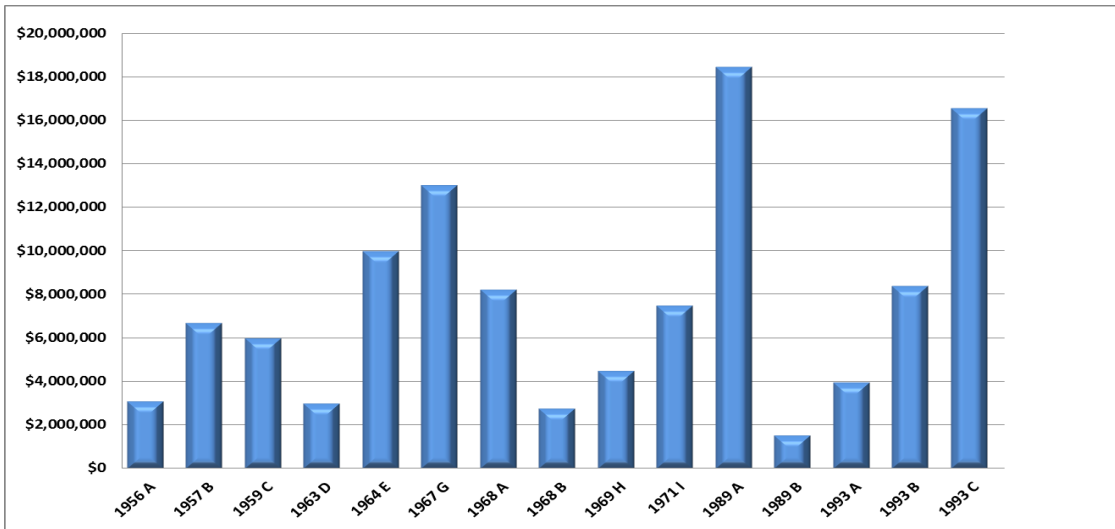


**REVENUE FUND BONDING**

The revenue fund issued approximately \$113 million of revenue bonds from 1955-2001 for state university system needs, primarily residence halls and student unions. In 2001, the system defeased all remaining revenue bonds and started over with a new bonding program beginning with the 2002 sale. **Chart 5** shows the revenue bond sales prior to 2001. The bulk of investment occurred in the late 1950s and 1960s with periods of activity during the late

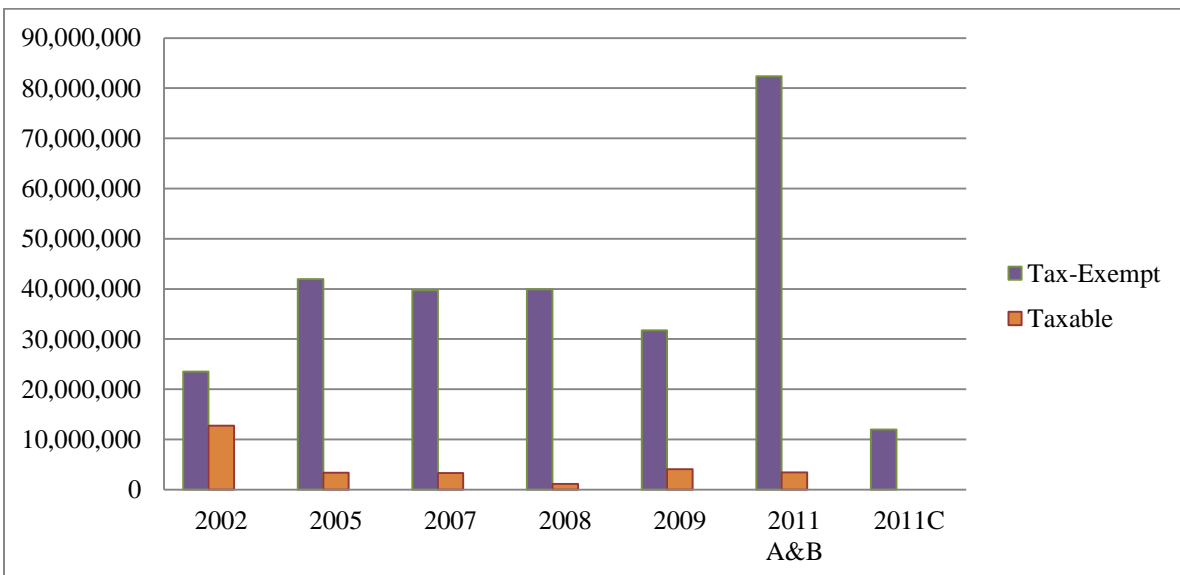
1980s/early 1990s just prior to merger. The largest bond sale during that time period occurred in 1989.

**Chart 5: Pre-2001 revenue bond sales**



Starting in 2002, the system began issuing new revenue bonds. In contrast to the pre-merger, bond sales sold for the state universities, the system bond sales have been significantly larger to address deferred maintenance issues and create new residence life products. The largest bond sale occurred in 2011, when the system sold approximately \$84 million worth of tax exempt and \$3 million worth of taxable bonds. Since 2002, the system has issued nearly \$300 million of revenue bonds, and currently has \$265 million of revenue bonds outstanding. **Chart 6** illustrates the revenue bond sales since 2002.

**Chart 6: Revenue Bond Sales from 2002 to present**



The following table lists the total amount of revenue bonds by campus. The largest university user of revenue bonds, MSU, Mankato, reflects their robust residence hall upgrade strategy that includes the renovation, replacement or updating of all their residence halls on campus. The largest college user of revenue fund bonds, Normandale Community College, reflects its status as one of the largest colleges in the system. Normandale obtained revenue bonds for their student center (2009) and parking ramp (2011).

There are several reasons for the larger revenue bond sales in recent years. As may be expected, some of the increase in revenue bond sales in recent years resulted from colleges gaining eligibility to use the revenue fund. The majority of the increase in revenue bonds activity, however, is attributable to residential life updates of residential halls and student unions that were primarily built in the 1960s

**Table: List of Revenue Bonds by Campus**

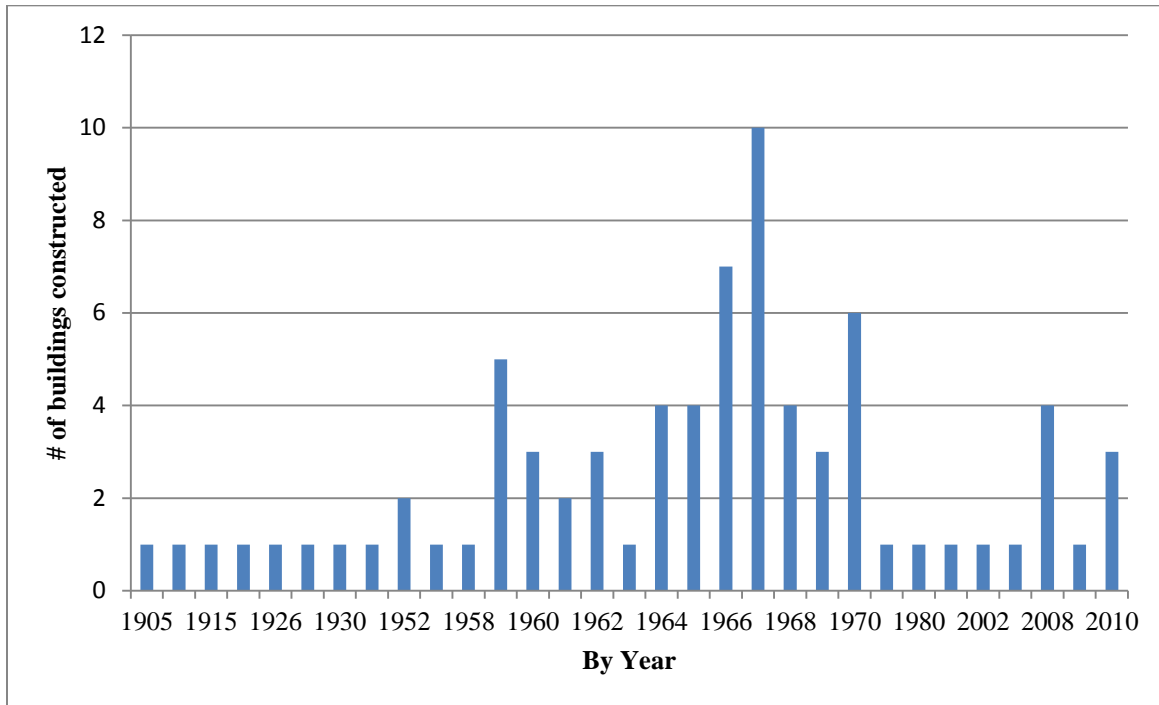
<i>Campus</i>	<i>Par Amount of Bonds</i>	<i>%Total</i>
Minnesota State University, Mankato	\$ 82,417,703	27.59%
Winona State University	\$ 47,054,283	15.75%
St. Cloud State University	\$ 33,752,270	11.30%
Minnesota State University Moorhead	\$ 29,619,275	9.92%
Normandale Community College	\$ 27,965,392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

### **Building Construction Dates**

**Chart 7** identifies the building construction dates for revenue fund facilities from 1905 to present. Seventy-seven (77) revenue fund buildings are represented on the chart.

The majority of revenue fund construction occurred during the 1960s (which also coincided with a spike in enrollment at state universities) and related revenue bonding, and are almost exclusively residential facilities. The largest building boom occurred in 1967, when ten buildings were constructed. Between 1959 -1970, fifty-two (52) revenue fund facilities were constructed, meaning roughly two-thirds of the total buildings in the revenue fund predate 1970.

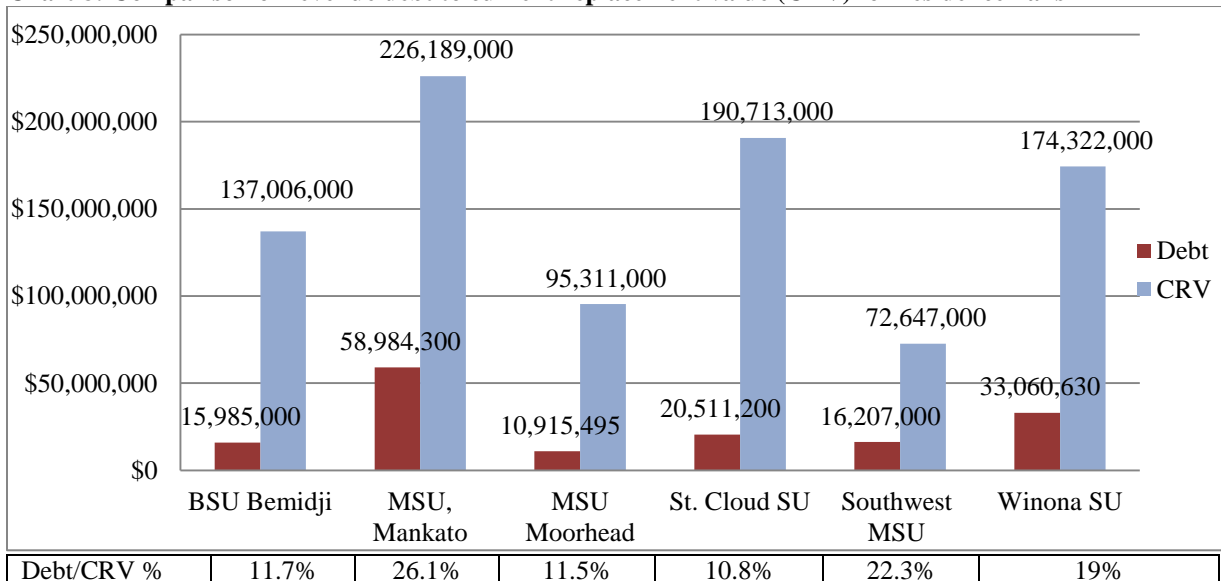
**Chart 7: Number of Revenue Fund Buildings Constructed by Year**



**Building Replacement Values**

**Chart 8** illustrates the current replacement value of the residence halls with the total outstanding debt attributable to each residence hall program. The average debt/replacement value is 16.7%. The highest leverage is at MSU, Mankato with 26.1%. The lowest is 10.8% at St. Cloud State University. The table below the chart incorporates the percentage of debt to CRV for each residential campus.

**Chart 8: Comparison of revenue debt to current replacement value (CRV) for residence halls**



**REVENUE BOND AUTHORITY INCREASE**

Staff are proposing to seek a \$130 million increase in revenue bond authority from \$300 million to \$430 million during the 2012 legislative session. The proposed increase would accommodate up to two cycles of revenue fund projects in 2013 and 2015.

During the November board meeting, the Board was advised of revenue fund needs of approximately \$120 million for 2013. Since November, a \$15 million renovation of Atwood Student Union was removed from the list when students voted against the project. As a result, the 2013 revenue bond request has been revised to \$105 million.

Despite the Atwood project dropping from the project list for 2013, the revenue fund needs for 2013 will exceed the available revenue fund debt authority ceiling, and it is anticipated that the Atwood project will likely be a candidate in a 2015 sale. The 2015 sale is currently projected at \$60 million. To illustrate system plans, a table is provided with the projected needs, outstanding debt, and a comparison of the proposed debt authority with the outstanding debt for the next three years.

**Table Comparing Projected Needs and Revenue Fund Statutory Debt Limit (in millions)**

<b>Year</b>	<b>Project Needs</b>	<b>Proposed Debt Limit</b>	<b>Proposed Outstanding Debt</b>	<b>Limit minus Outstanding</b>
<b>2012</b>		\$300	\$265	\$35
<b>2013</b>	\$105	\$430	\$370	\$60
<b>2015</b>	\$60	\$430	\$430	\$0

The strategy of asking for sufficient authority for up to two revenue fund cycles is a change from our historic approach, and is a reflection of two trends:

1. The system’s growing maturity in projecting revenue fund needs, and
2. Formalizing the revenue fund bond sales on a two year planning cycle

A secondary reason for the request is to allow some flexibility in restructuring debt as the situation arises to achieve cost savings by taking advantage of historically low bond interest rates on tax exempt debt.

**Current debt load**

The following table is provided to show current debt load in the revenue fund on a system-wide level. The table illustrates the debt service coverage, the level of the debt authority that was in effect during a corresponding year, and Moody’s bond rating for those issuances. Years when the system issued revenue bonds are in bold.

**Table: Operating Revenues and Debt Service Coverage**

Year	Revenue	Average Annual Debt Service	Debt Service Coverage	Authority	Moody's Rating	
<b>2002</b>	54,871,000	2,969,550		\$100M	Aa3	
2003	59,250,000	2,969,550				
2004	65,421,000	2,969,550	4.05			
<b>2005</b>	68,682,000	2,969,550	5.47			Aa3
2006	72,828,000	6,156,180	4.94	\$150M		
<b>2007</b>	76,856,000	9,188,180	3.87			Aa3
<b>2008</b>	83,619,000	12,350,020	3.02			Aa3
<b>2009</b>	93,781,000	15,307,320	2.66	\$200M	Aa3	
2010	101,413,000	15,307,320	2.23	\$300M		
<b>2011</b>	108,102,000	21,914,520	2.45	\$300M	Aa2	

Although projections forward are very uncertain, estimates have been prepared based on current interest rates. If an additional \$100 million dollars in revenue fund debt were issued through tax exempt revenue bonds, approximately \$7.5 million would be added in annual average debt service. Average operating revenues have been variable, but generally have grown an average of 7% a year since 2002.

Some caveats to the numbers:

1. The 2011 revenues do not reflect the full load of revenues from the new 2011 projects. There is an expected increase in revenues for 2012 as all the new projects are completed and come on line.
2. The 2012 debt service will remain fairly stable at or around \$22-\$23 million, and may actually go down depending on the cost savings from a pending refinancing of the 2002 revenue bonds. Staff will present the refinancing proposal at the March Finance Committee of the Board.

**Revenue Bond Authority per Student FYE**

During the November Board meeting, there was interest in a ratio comparing the amount of revenue bond authority to student full year equivalents (FYE). The following table reflects the enrolled students at institutions that were eligible for the revenue fund, meaning that the pre-2008 numbers reflect university-only enrollment. Total system enrollment is incorporated after 2008 when all system institutions became eligible to participate in the revenue fund.



**Revenue Bond Authority/Student FYE**

Year	Debt Authority	Student FYE*	Authority/FYE
2003	\$ 100,000,000	54,286	\$ 1,842.10
2005	\$ 100,000,000	54,551	\$ 1,833.15
2007	\$ 150,000,000	54,373	\$ 2,758.72
2008	Colleges added to the revenue fund		
2009	\$ 200,000,000	143,924	\$ 1,389.62
2011	\$ 300,000,000	158,060	\$ 1,898.01
2013	\$ 430,000,000	154,467	\$ 2,783.77

\* FYE before 2008 - universities only

Enrollment numbers: Finance Division - master FYE document as of September 2011

When factoring in the total amount of student enrollment before and after 2008, the ratios appear to be closely aligned. The conclusion that could be reached is that an increase to \$430 million of revenue bond authority, even assuming a modest decline in enrollment, would be very close to the ratio in 2007 before the colleges joined the fund. In fact, the current ratio with the \$300 million authority appears to fit with the ratios that occurred during university-only eligibility.

**Revenue Bonds and Debt Costs per User**

This table on the following page reports the total revenue fund debt by campus and by program, and illustrates the annual debt per student attributable to the revenue fund. The table includes all outstanding debt. It will be modified and provided to the Board again when any 2013 projects are brought forward. The table was developed as a means to show what portion of a student’s fees for room and board can be attributable to the revenue fund debt. It isolates the debt cost only, as part of the student’s cost of attendance. The calculation is derived by using the amount of average annual debt service a particular campus’s revenue fund program pays divided by the number of applicable students that are subject to a fee or room/board charge to support the program facilities.

Revenue Bonds and Debt Cost Per Program		Total Bonds	Proposed FY 2012 Enroll/Users	Avg. Annual Debt Service	Annual Debt/Student
<b>Minnesota State University, Mankato</b>		<b>\$ 82,417,703</b>			
	Residential Halls	\$ 62,757,565	3,192	\$ 4,633,000	\$ 1,451
	Student Union	\$ 12,850,138	14,525	\$ 1,030,000	\$ 71
	Recreational Fields	\$ 6,810,000	14,525	\$ 503,000	\$ 35
<b>Winona State University</b>		<b>\$ 47,054,283</b>			
	Residential Halls	\$ 39,353,558	2,226	\$ 2,852,000	\$ 1,281
	Wellness Center	\$ 7,700,725	8,655	\$ 664,000	\$ 77
<b>St. Cloud State University</b>		<b>\$ 33,752,270</b>			
	Residential Halls	\$ 22,164,480	2,600	\$ 1,733,000	\$ 667
	Student Union	\$ 3,322,790	14,051	\$ 305,000	\$ 22
	Parking	\$ 4,865,000	14,051	\$ 386,000	\$ 27
	Hockey (phase I)	\$ 3,400,000	14,051	\$ 401,000	\$ 29
<b>Minnesota State University Moorhead</b>		<b>\$ 29,619,275</b>			
	Residential Halls	\$ 12,652,067	1,662	\$ 1,117,000	\$ 672
	Student Union	\$ 3,747,208	6,640	\$ 305,000	\$ 46
	Wellness Center	\$ 13,220,000	6,640	\$ 664,000	\$ 100
<b>Normandale Community College</b>		<b>\$ 27,965,392</b>			
	Student Union	\$ 15,965,392	7,150	\$ 1,335,000	\$ 187
	Parking	\$ 12,000,000	7,150	\$ 837,000	\$ 117
<b>Southwest Minnesota State University</b>		<b>\$ 19,046,788</b>			
	Residential Halls	\$ 19,046,788	724	\$ 1,435,000	\$ 1,982
<b>Bemidji State University</b>		<b>\$ 17,820,000</b>			
	Residential Halls	\$ 17,820,000	1,318	\$ 1,352,000	\$ 1,026
<b>Minneapolis Community &amp; Technical College</b>		<b>\$ 17,014,290</b>			
	Student Union	\$ 11,515,000	7,050	\$ 881,000	\$ 125
	Parking	\$ 5,499,290	7,050	\$ 447,000	\$ 63
<b>Saint Paul College</b>		<b>\$ 11,730,000</b>			
	Parking	\$ 11,730,000	4,695	\$ 885,000	\$ 188
<b>Anoka Ramsey Community College</b>		<b>\$ 6,420,000</b>			
	Wellness/Athletic	\$ 6,420,000	5,947	\$ 484,000	\$ 81
<b>Century College</b>		<b>\$ 4,330,000</b>			
	Parking	\$ 4,330,000	7,643	\$ 511,000	\$ 67
<b>M-State Moorhead</b>		<b>\$ 1,560,000</b>			
	Wellness/Athletic	\$ 1,560,000	5,131	\$ 118,000	\$ 23

**RECAP AND NEXT STEPS**

This is an informational item, and no action is required by the Board. The system staff provided this material in response to questions raised by the Trustees during the November 2011 Revenue Fund update. The intent is to inform the Board about the strategy and rationale for seeking an increase in the revenue bond authority ceiling from \$300 million to \$430 million during the 2012 legislative session. Upon legislative approval, staff will complete all due diligence on proposed 2013 projects and return to the Board. The Board will approve or deny the projects and any resulting bond sale. Current timelines have project details and sale planning actions before the Board in Fall 2012.

*Presented to the Board of Trustees: January 17, 2012*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** January 17, 2012

**Agenda Item:** Acquisition of Real Property – Bergwall Arena,  
Minnesota State College - Southeast Technical College

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

**Cite policy requirement, or explain why item is on the Board agenda:** The Board of Trustees is asked to approve the acquisition of the Bergwall Hockey Arena located within the boundaries of the Minnesota State College - Southeast Technical campus in Red Wing. Board Policy 6.7, Real Estate Transactions, requires Board approval for acquisitions funded by campus operating monies valued at or greater than \$1.0 million or one percent (1%) of a college or university annual operating budget. The acquisition in this request exceeds the 1% threshold established by policy

**Scheduled Presenter(s):** Brian Yolitz, Associate Vice Chancellor for Facilities

**Outline of Key Points/Policy Issues:** The acquisition of the arena has been a priority for the campus for several years, and was most recently considered a potential 2008 capital project candidate by the campus. After weighing the likelihood of obtaining funds for the acquisition, the college ultimately declined to pursue acquisition funding via the capital budget process, and instead sought alternative means to finance the acquisition of the property.

**Background Information:** The Bergwall Arena and related parking and access is within the boundaries of the campus, and was excepted out of the conveyance to the Minnesota State Colleges and Universities system during the 1995 merger. The arena is physically connected to the Red Wing campus building. The Red Wing school district has retained ownership and management of the arena since 1995, and primary user of the facility is the local hockey association.

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

<b>BOARD ACTION</b>
<b>Acquisition of Real Property Bergwall Arena, Minnesota State College – Southeast Technical</b>

**BACKGROUND**

The Board of Trustees is asked to approve the acquisition of the Bergwall Hockey Arena located within the boundaries of the Minnesota State College - Southeast Technical campus in Red Wing. Board Policy 6.7, Real Estate Transactions, requires Board approval for acquisitions funded by campus operating monies valued at or greater than \$1.0 million or one percent (1%) of a college or university annual operating budget. The acquisition in this request exceeds the 1% threshold established by policy, although the funding mechanism is described in greater detail in the narrative below. Consistent with Board Policy 6.7, Southeast Technical College requests Board approval for the acquisition of the Bergwall Arena, as outlined in the following narrative.

**DETAILS**

The Bergwall Arena and related parking and access is within the boundaries of the campus, and was excepted out of the conveyance to the Minnesota State Colleges and Universities system during the 1995 merger. The arena is physically connected to the Red Wing campus building. The arena location is identified on **Attachment A**. The Red Wing school district has retained ownership and management of the arena since 1995, and primary user of the facility is the local hockey association.

The acquisition of the arena has been a priority for the campus for several years, and was most recently considered a potential 2008 capital project candidate by the campus. After weighing the likelihood of obtaining funds for the acquisition, the college ultimately declined to pursue acquisition funding via the capital budget process, and instead sought alternative means to finance the acquisition of the property.

- A. Consistency with Master Plan.** The 2009 Facilities Master Plan for Southeast Technical College identified the arena as an immediate candidate for acquisition and demolition.
  
- B. Property characteristics.** The original building was constructed in 1982, and contains approximately 28,121 gross square feet. The property includes 2.5 acres of land and the easement area over the parking area. The property has immediate strategic value to the college, as it will consolidate control over the property.

- C. Intended use.** The Red Wing school district operates the arena, primarily for youth hockey, and local efforts are underway for a capital campaign to replace the hockey arena elsewhere in the community. As part of a compromise worked out between the college and school district, the college is proposing to lease back the building to the school district for a period of up to three years or until a new arena is constructed, whichever occurs first. At the end of the 3 year term or when the new arena is constructed, the college intends to demolish the facility using its operating funds. If the arena requires any repair or maintenance in excess of stipulated amount during the lease term -- which is still being negotiated at the time of this writing -- the college would have the right to terminate the lease and proceed with demolition.
- D. Purchase Price and Funding.** The purchase price is \$900,000. The college is providing \$300,000 from its operating funds and the Southeast Technical College Foundation is providing the college with \$600,000 to purchase the property and parking easement impacting approximately 200 stalls on campus.
- E. Due Diligence.** The college obtained a Facility Assessment in 2006 that found no evidence of hazardous materials that would require special attention or disposal. The college currently estimates demolition cost of approximately \$200,000. Title work is ongoing and will be verified prior to closing.
- F. Student Consultation.** Southeast Technical College has advised the Student Senate on several occasions of this property acquisition during this process.

**RECOMMENDED COMMITTEE ACTION:**

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

**RECOMMENDED MOTION:**

The Board of Trustees approves the acquisition of Bergwall Arena and all related rights located at Southeast Technical College at Red Wing from the school district, subject to final approval of the terms and conditions by the Chancellor or his designee.

*Date Presented to the Board of Trustees: January 17, 2012*



**Minnesota State College  
Southeast Technical**  
**Red Wing Main Campus**



Minnesota  
STATE COLLEGES  
& UNIVERSITIES

As of June 30, 2010

This map was created for display purposes only. It should not be used for accurate measurements or where a survey is required.

Sources: Goodhue County, Minnesota State College Southeast Technical Master Plan (2008), USDA FSA (2009).

