

**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, 4th Floor, McCormick Room, 30 East 7th 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. 25th and 26th 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 11th Street South, Moorhead, MN 56560 (land and house)
1026 7th Avenue South, Moorhead, MN 56560 (land and house)
615 11th Street South, Moorhead, MN 56560 (land)
1120 6th 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