

**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.

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MINNESOTA STATE COLLEGES AND UNIVERSITIES**

INFORMATION ITEM
FY2014-2019 Capital Program Update

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