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

INFORMATION ITEM

Revenue Fund Update

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. <u>The revenue fund is self-directed.</u> 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. <u>The revenue fund is a self-nominating process</u>. 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. <u>Revenue bond projects are self-supported</u>. 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.

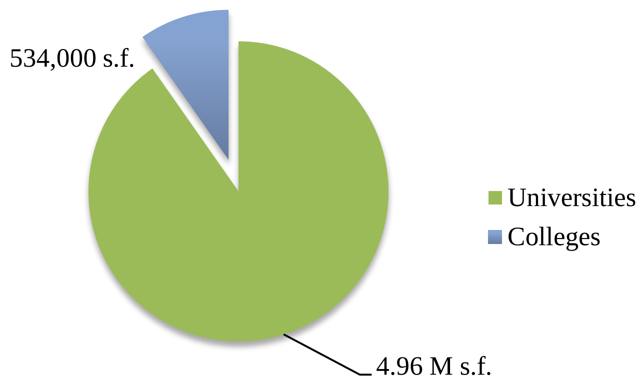
Square Footage

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).

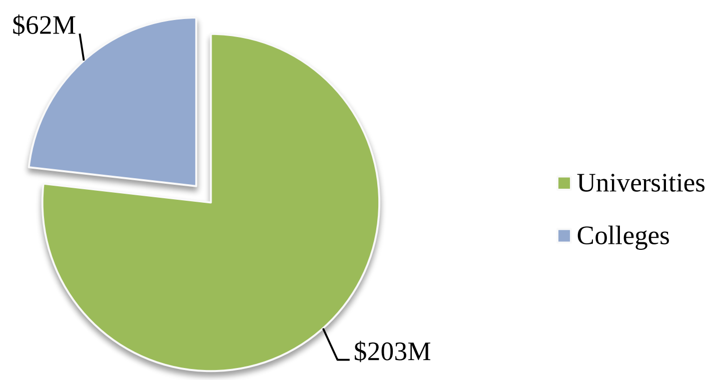
Chart 1: Amount of improved square footage in the revenue fund



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.

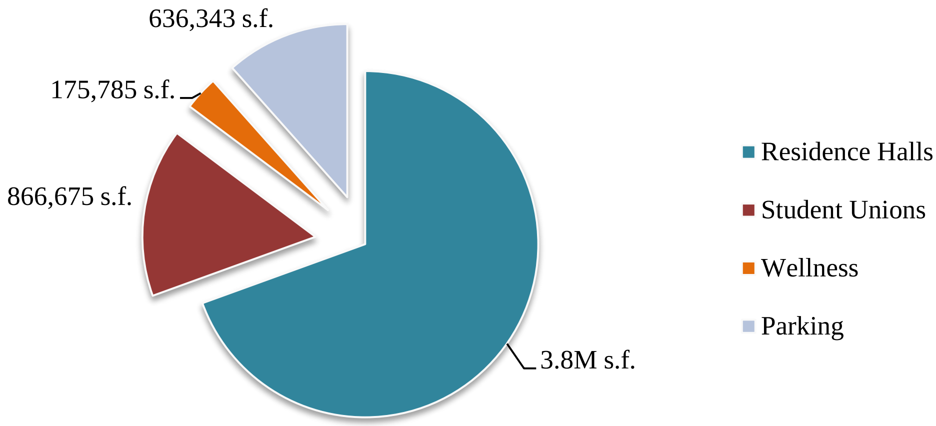
Chart 2: Comparing outstanding revenue fund debt between colleges and universities



Debt and Square Footage by Program

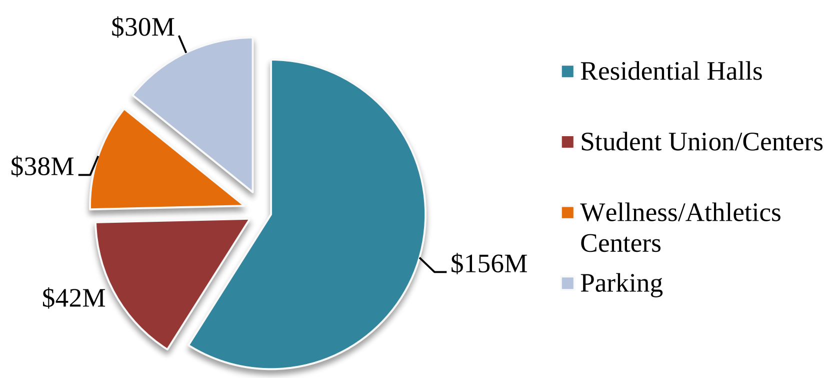
With the addition of the new square footage from the parking ramp at Normandale Community College, the total improved square footage in the revenue fund is expected to be approximately 5.5 million square feet. On a program basis, residence halls represent the sizable majority of square footage in the 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

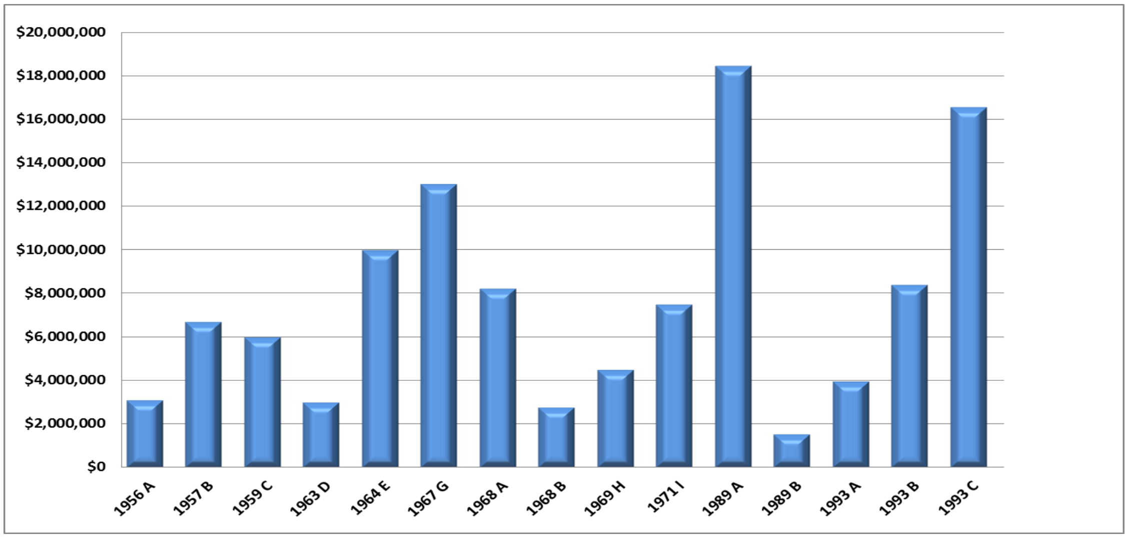


REVENUE FUND BONDING

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

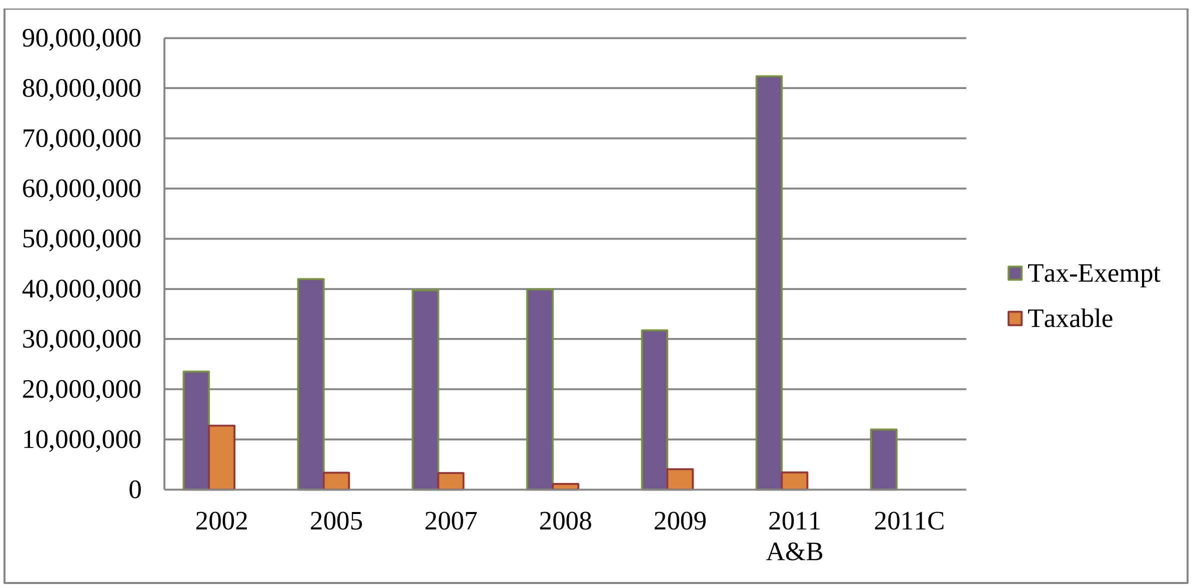
1980s/early 1990s just prior to merger. The largest bond sale during that time period occurred in 1989.

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

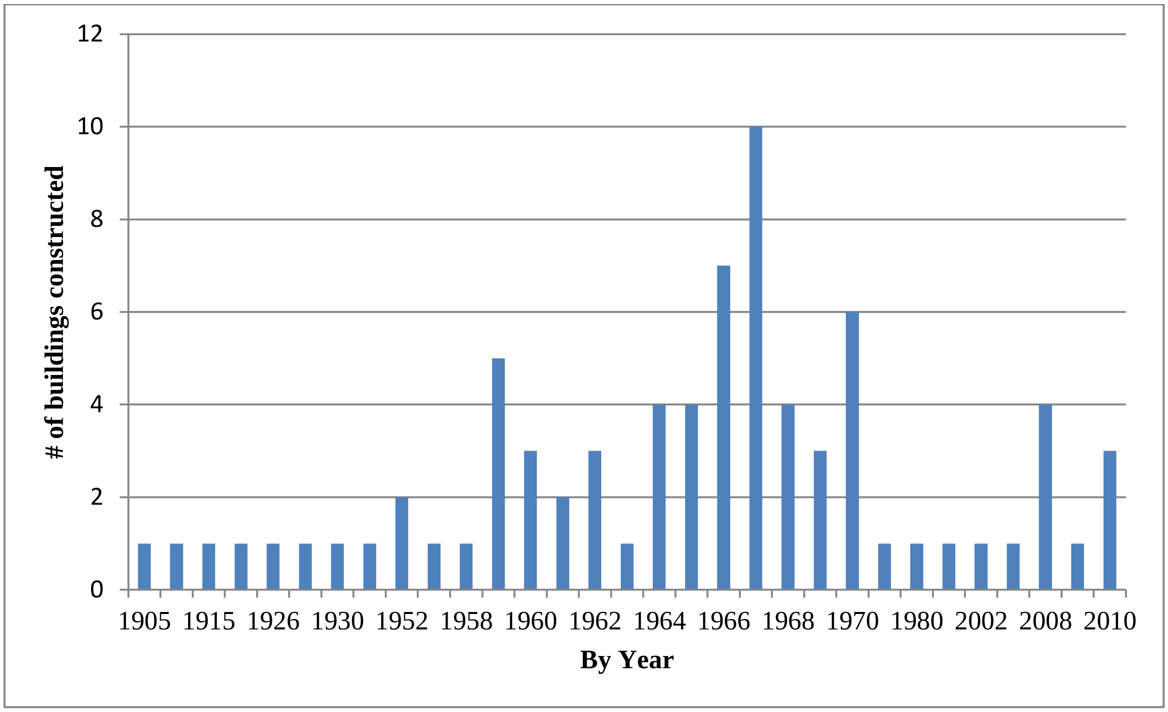
Campus	*Par Amount of Bonds*		*%Total*
Minnesota State University, Mankato	$	82,417,703	27.59%
Winona State University	$	47,054,283	15.75%
St. Cloud State University	$	33,752,270	11.30%
Minnesota State University Moorhead	$	29,619,275	9.92%
Normandale Community College	$	27,965,392	9.36%
Southwest Minnesota 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%
Total Par Amount of Bonds	$	298,730,000	100.00%

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.

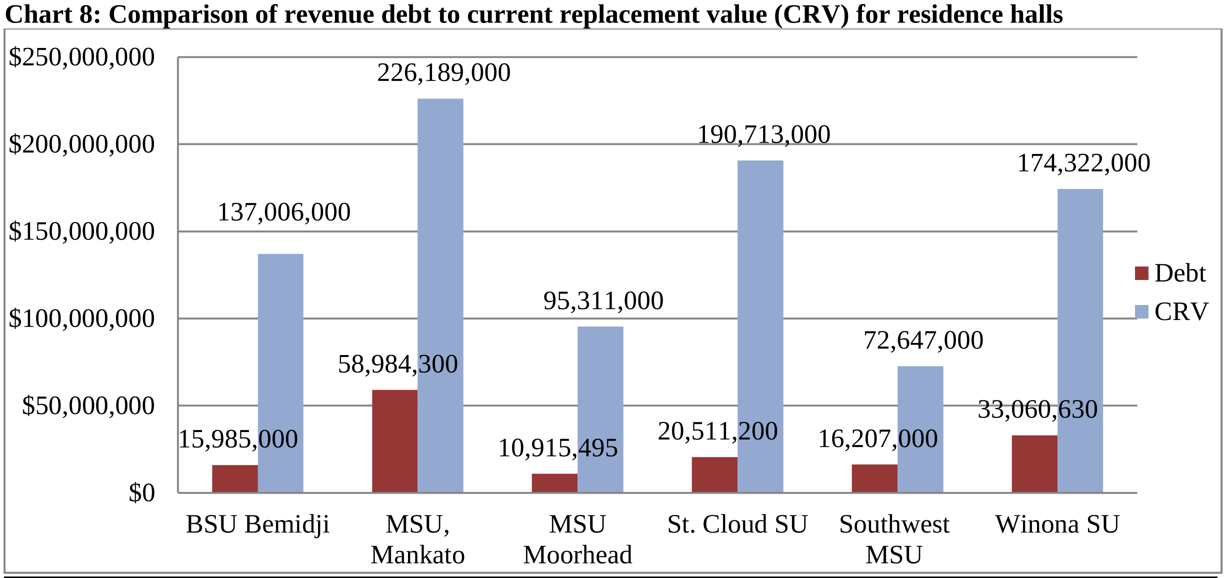
Chart 7: Number of Revenue Fund Buildings Constructed by Year



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



Debt/CRV %	11.7%	26.1%	11.5%	10.8%	22.3%	19%

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)

Year	Project Needs	Proposed Debt Limit	Proposed Outstanding Debt	Limit minus Outstanding
2012		$300	$265	$35
2013	$105	$430	$370	$60
2015	$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
2002	54,871,000	2,969,550		$100M	Aa3
2003	59,250,000	2,969,550			
2004	65,421,000	2,969,550	4.05		
2005	68,682,000	2,969,550	5.47		Aa3
2006	72,828,000	6,156,180	4.94	$150M	
2007	76,856,000	9,188,180	3.87		Aa3
2008	83,619,000	12,350,020	3.02		Aa3
2009	93,781,000	15,307,320	2.66	$200M	Aa3
2010	101,413,000	15,307,320	2.23	$300M	
2011	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
Minnesota State University, Mankato		**$ 82,417,703**			
	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
Winona State University		**$ 47,054,283**			
	Residential Halls	$ 39,353,558	2,226	$ 2,852,000	$ 1,281
	Wellness Center	$ 7,700,725	8,655	$ 664,000	$ 77
St. Cloud State University		**$ 33,752,270**			
	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
Minnesota State University Moorhead		**$ 29,619,275**			
	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
Normandale Community College		**$ 27,965,392**			
	Student Union	$ 15,965,392	7,150	$ 1,335,000	$ 187
	Parking	$ 12,000,000	7,150	$ 837,000	$ 117
Southwest Minnesota State University		**$ 19,046,788**			
	Residential Halls	$ 19,046,788	724	$ 1,435,000	$ 1,982
Bemidji State University		**$ 17,820,000**			
	Residential Halls	$ 17,820,000	1,318	$ 1,352,000	$ 1,026
Minneapolis Community & Technical College		**$ 17,014,290**			
	Student Union	$ 11,515,000	7,050	$ 881,000	$ 125
	Parking	$ 5,499,290	7,050	$ 447,000	$ 63
Saint Paul College		**$ 11,730,000**			
	Parking	$ 11,730,000	4,695	$ 885,000	$ 188
Anoka Ramsey Community College		**$ 6,420,000**			
	Wellness/Athletic	$ 6,420,000	5,947	$ 484,000	$ 81
Century College		**$ 4,330,000**			
	Parking	$ 4,330,000	7,643	$ 511,000	$ 67
M-State Moorhead		**$ 1,560,000**			
	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