

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

May 15, 2012

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

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

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

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on May 15, 2012, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:00 a.m.

1. MINUTES OF April 18, 2012

The minutes of the April 18, 2012 meeting were approved as published.

2. FINANCE AND FACILITIES UPDATE

Rating agency presentations

Vice Chancellor King reported that the system office staff made presentations to both Standard & Poor's and Moody's as part of the preparation for the approved refunding of the St. Cloud State University related debt. Revenue fund ratings were affirmed at Aa2 by Moody's and AA- stable by Standard & Poor's. Vice Chancellor King is pleased with the results. The Moody's write up can be forwarded upon request.

Stipulation Agreement Update

Minnesota State Colleges and Universities (MnSCU) has reached agreement with the Minnesota Pollution Control Agency (MPCA) concerning waste management practices within the system. The agreement will be signed in mid-May. The MPCA considers the system as a single entity, rather than 31 individual institutions, so it is the system's duty to act collectively. The agreement calls for the system to map and process waste streams, ensure/validate training, and pay fines when warranted.

State Cash Flow Loan

Short term borrowing of MnSCU's cash balances by Minnesota Management and Budget (MMB) continues. MMB recently repaid \$200M to MnSCU, leaving an outstanding

balance of \$370M. The terms of the loan specify full repayment before the close of each fiscal year. Vice Chancellor King has been assured by the state that this will happen.

Omnibus Bill

Governor Dayton signed the omnibus Higher Education bill Wednesday, May 2, 2012. The bill includes provisions important to MnSCU including the Continuing Operations language that will allow colleges and universities access to their cash and supporting MMB services in order to continue serving students if a government shutdown were to occur again.

The bill also includes an increase in the Revenue Fund authority from \$300M to \$405M. This will allow campuses the opportunity to evaluate and plan, in consultation with students, for future Revenue Fund projects. The Board has final issuance authority on any new Revenue Fund debt. Vice Chancellor King anticipated that the Board will receive a presentation in six to eight months on the 2014 Revenue Fund program. Trustee Renier inquired if \$405M was the initial request. Vice Chancellor King replied it was originally submitted for \$430M, but it was reduced due to concerns by the two-year student association, which translated into the reduction.

The textbook language in the bill includes the establishment of a work group to study methods that would result in lower textbook costs for students and requirements for MnSCU institutions to publish course schedules and material lists on the institution's website.

On Thursday, May 10, 2012, Governor Dayton signed a bill that provides \$457,000 in one time funds to MnSCU for a leveraged equipment program. Chancellor Rosenstone has begun discussions with the presidents regarding the allocation of the funds. Conditions of the program will include a minimum of a 1:1 hard match, alignment with the workforce assessment results, fast equipment acquisition and in service by January 1, 2013.

3. FISCAL YEAR 2013 OPERATING BUDGET

Vice Chancellor King acknowledged Deb Bednarz and Susan Anderson of the Finance Planning and Analysis unit and Presidents Opatz and Hanson who serve as the Leadership Council Liaison Presidents. Vice Chancellor King oriented the Board with the new layout of the report and said that the college and university budget narratives and student consultation letters are now posted on the web instead of included in the packet. Trustee McElroy added that the requests to speak forms are available for audience comment.

Vice Chancellor King gave a brief overview of the FY2013 budget including budget principles, trends and analysis, cost of education and the FY2013 all funds budget. The budget objectives align with the Strategic Framework, address the reallocation of funds to meet emerging priorities, keep tuition increases at a minimum, improve efficiency and productivity, mitigate risks and look at a multi-year perspective.

Since 2000, state support per MnSCU student is down 45% in constant dollars. In 2008, there was roughly a 50/50 split between state funding and tuition costs. With declining state support, tuition accounted for 61% of general revenue in 2013. Between 2008 and 2013, there has been a \$182M decrease in state funding for the system. Campuses have incorporated aggressive budget management to keep tuition increases down. As a result, campuses are operating more efficiently and there has been a 10% decline in the cost of educating students.

Over \$76 million has been reallocated over the 2012-2013 biennium, reducing over 500 programs and impacting over 500 faculty and staff positions. Some of the resources will be reallocated to higher priorities and others will be used to balance the budget.

The proposed tuition increases are 3.7% at the colleges and 4.4% at the universities which are below the legislative mandated tuition caps and planning guidance outlined by the Board. There has been consultation with the campus presidents, student associations and constituencies across Minnesota to help determine these rates. MnSCU continues to offer lower tuition rates than other colleges and universities throughout the state, resulting in the highest value and most affordable higher education option. With the proposed rates, lower income college students will see a \$126 increase per year; lower income university students will see a \$208 increase per year. Student receiving state grants will have their tuition offset by 50%, so there is still substantial support for lower income students.

Vice Chancellor King outlined new and reallocated resources - tuition revenue (\$25.4M), other revenue (\$10.4M), and reallocated funds (\$22.9M), and no new state funding. Expenses will include new programs and services (\$23.9M), estimated compensation increases (\$28M) and facility investments (\$6.8M) which conforms to the guidance that the campuses have been given. Program decisions, labor negotiations, and enrollment will impact the balance.

Vice Chancellor King referred to the motion outlined in the packet on pages 29 – 30 and asked the Board to adopt the all funds budget of \$2B, approve the tuition structure and approve the Revenue Fund rates and fees. The budget includes a forecast revenue increase of 1.8% and a forecast expense increase of 2.0%. Vice Chancellor King added that the FY2013 budget was built with a focus on the 2014 – 2015 biennial budget which is the focus of the next legislative session

President Hanson said that the reallocation process was completed at Bemidji State University with diligence and it makes him more optimistic for the FY2014-2015 biennial budget. President Hanson commented that being a non-metro area school, certain demographics and the university's connection to business and industry impact the budget and there are certain expectations by regional accreditors for positive outcomes.

President Opatz said that the focus at Normandale Community College has been student success strategies. The reallocation has allowed for expanding learning communities and

supplemental instruction, building a new tutoring center, expansion of the early warning systems, and increased advising.

Trustee Hightower asked what enrollment assumptions have been made. Vice Chancellor King responded that there is a 2.5% decline in FY2011-2012 and enrollment is expected to stay flat through FY2013. In the future, the work of Project 2022 will help solidify predictions.

Trustee Krinkie asked if there is any enrollment data as to what happens to students when their financial aid has been exhausted. Vice Chancellor King said that it is a fact that student success contributes to persistence and completion and students who run out of financial aid tend to drop out, so they are related. Vice Chancellor King will check with staff to see if they have information related to the inquiry.

Trustee Van Houten acknowledged the great work of Vice Chancellor King and her staff. He referred to the tables on page 19 and suggested adding the option of two years at a college and two years at a university, resulting in the cost of a bachelor's degree at \$5,800. Trustee McElroy added that the cost could be further driven down by adding the PSEO, college and university option. Vice Chancellor King also recommended amending the table to show the four year university cost without the Revenue Fund which would make the cost \$7,000 per year.

Trustee Van Houten pointed out that there are significant variances across the institution for on-line courses and overall, they are more costly than those taken on campus. Trustee Van Houten compared St. Cloud State University at 32% more for on-line courses to Minneapolis Community and Technical College at 13% and recommended a cost study take place. Vice Chancellor King said that the rates are set within Board policy, but with the growth of on-line courses and other courses that charge differential tuition (approx. 1700 courses), an assessment will be part of the FY2013 work plan. Trustee Oliveira asked about instructional costs for teaching on-line courses. Vice Chancellor King said faculty that teach online courses are paid differently and the rates are tied to class size and credits sold versus credits taught.

Trustee Thiss asked what is happening with the Centers of Excellence and how the money is being spent. Vice Chancellor King responded that both the Centers of Excellence and the Access and Opportunity program remain as special Board initiatives. Many of the special initiatives on the green sheet have been rolled into the base allocation in anticipation of the reduction of the state allocation, allowing as much flexibility as possible for the campuses. The Access and Opportunity funds continue to go to the campuses and tie to diversity through 2013. After that time, those funds would become part of their annual base budget. Chancellor Rosenstone has been working with the presidents to reposition the Centers of Excellence to work better across the system and state within their industries by putting some of the funds into workforce analysis to identify demand and create new programs to support it. Chancellor Rosenstone said that both of these initiatives were set up as soft expenditures (not recurring expenditures) that would be funded for a period of time and then transition to other sources of funding.

100% of the Access and Opportunity funds remain committed to Access and Opportunity and the reallocated funds will go to the campuses and they can facilitate the how they are best used.

There is \$475,000 committed to the Centers of Excellence. The current centers are being phased out to make room for the development of new centers and that they will provide statewide leadership. The dollars will stay in this initiative to fund the retooling of academics to support workforce needs.

Trustee Hightower wanted clarification that the 40% was a reduction within the Access and Opportunity funding and if the Diversity Committee was consulted. Vice Chancellor King confirmed it was a reduction and that the remaining funds are to be reallocated within the fund and will be better used across the campuses. Vice Chancellor King was not aware of communication with the Diversity Committee, but rather with Whitney Harris, Director of Diversity and Equity in the decision making process.

Trustee McElroy referred to the Supplemental Packet – Attachment B and asked if students who only take online courses pay the student life/student activity fee. Susan Anderson responded that fees are set by the individual schools and many times schools waive those fees as well as the parking fee. In the future, Trustee McElroy asked for footnotes to indicate which schools are charging student activity/student life fees, along with other fees that may be applicable to online students. Trustee McElroy asked for the specifics of Moorhead's proposed 6.2% fee increase. Vice Chancellor King said that the consultation process was complex and more conversations need to take place to finalize the fees and a report will be provided to the Board before the second reading.

Trustee Hightower asked how comments get put into the budget. Vice Chancellor King said comments and good advice are included in the 53 consultation letters that were received and all but four indicated satisfaction with the process. Forty-four regional workforce planning meetings have occurred and feedback is expected from those. Also, comments are welcome here today. Chancellor Rosenstone added that the budget proposal was built from the ground up at the campus level with input from students, staff, faculty through Shared Governance, and extensive conversation with the Leadership Council.

Trustee Englund expressed concern that every time tuition increases, it deters students from enrolling and soon it will outpace wages and create unsustainability. Trustee Paskach said he was satisfied with the numbers presented, but would like a breakdown of any fees that increase by 10% or more. Trustee Paskach also asked that an analysis of shared services savings be included in the FY2014 budget. Vice Chancellor King said that the individual institutions will need to be contacted for the fee breakdown and that it was a good idea to add the shared services data.

Trustee Anderson inquired if guaranteed tuition was an option. Vice Chancellor King said that the 2012 omnibus bill offered permission to look at it. It has been studied in the past and there is mixed feelings of its effectiveness. Trustee Van Houten agreed that it is

unfair to charge a student more in the first year, just to keep second year costs down. Chancellor Rosenstone said that the cost of enrollment is 10% less than it was 10 years ago. The reduction in state funding has been made up by wage freezes and reallocations, forcing the system to become more efficient. Unfortunately some of the reduction has to be absorbed through tuition increases. Chancellor Rosenstone said that it is time for the State of Minnesota to start reinvesting in higher education because 70% of all jobs in 2018 will require some form of higher education. Since 1999, Minnesota has reduced higher education funding by 40% compared to 19% nationally and that is not a strategy for Minnesota to move forward.

4. CAPITAL BUDGET UPDATE

Associate Vice Chancellor of Facilities Brian Yolitz reported that on Friday, May 11th, Governor Dayton signed a bonding bill that provides \$132.126 million for Minnesota State Colleges and Universities requirements, which is 22% of the nearly \$500 million bill. This breaks down financially into \$94.751 million in general obligation (19% of GO) and \$37.375 million (53%) in user financing.

Mr. Yolitz distributed a list of the projects to the Board. Mr. Yolitz explained that the bill provides \$112.126 million for 16 projects and the Science, Technology, Engineering and Math (STEM) initiative and includes funding for the Board's top 14 requirements plus projects for Itasca and St. Cloud Technical and Community College. It also funds design for an emerging requirement at Northland Community and Technical College, which not on the Board's list originally approved in June of 2011.

Eleven of the funded projects were part of the FY2010 bonding bill, leaving just two requirements for Rochester Community and Technical College and Alexandria Technical and Community College unfunded.

Anoka Ramsey, Southwest State, St. Paul College, MSU Mankato and Northland will begin their design phase for their projects. Four projects will begin construction in six months, and five more will be underway within 12 months. Two more will join them as they complete their design work.

In terms of square footage impact to MnSCU spaces from the funded construction work, 400,000 square feet of facility space will be renovated and 200,000 square feet of space will be eliminated through demolition, mothballing, or by lease termination. Approximately 131,000 in new square footage will be added to meet documented workforce program growth needs. The net impact is a reduction of over 60,000 square feet for the system.

Mr. Yolitz said that the bill provides \$20 million for Higher Education Asset Preservation and Replacement (HEAPR) requirements, bringing the total for the legislative term to \$50 million. HEAPR funds will be used to address the most critical needs and some campuses will see no HEAPR funding this year. Trustee Hightower asked why the project for Rochester was funded at \$5.3 million when the request was for \$3.1 million.

Mr. Yolitz replied that the additional award was for a 23,000 sq. ft. DEED Workforce Center that involved a lease arrangement.

Trustee Krinkie asked for reasoning behind the low HEAPR funding. Mr. Yolitz replied HEAPR projects don't come with names attached, ground breaking celebrations and ribbon cuttings, but they are still a priority. In the future, a better method of presenting HEAPR projects needs to be developed. Chancellor Rosenstone added then when it comes down to the wire of passing a budget, it is easier to reach for a project than it is to ask for additional HEAPR funding. One strategy will be to package the HEAPR requests into geographic regions.

Trustee Renier asked if HEAPR-line projects go against the backlog of HEAPR projects and Mr. Yolitz responded that those projects would result in a reduction of backlog.

Mr. Yolitz thanked the campuses for their hard work in preparing and refining master plans and projects, hosting visits, responding to requests for additional information and making calls of support for their projects as well as system needs as a whole.

In preparation for FY2014, the approved guidelines with project information template will be sent out to formally begin the process.

As many as eight projects (\$56.9 million) could return again in FY2014 and according to guidelines, be scored against the approved criteria and ranked against any new projects being submitted for consideration and a recommendation will be presented in about a year from now.

Trustee McElroy adjourned the meeting at 9:25 a.m.

Respectfully submitted,

Laury Anderson, Recorder