

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

January 16, 2013

Finance and Facilities Committee Members Present: Chair Michael Vekich, Trustees Brett Anderson, Dawn Erlandson, Philip Krinkie, Alfredo Oliveira

Other Board Members Present: Duane Benson, Alexander Cirillo, Cheryl Dickson, Clarence Hightower, Louise Sundin

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 Committee held its meeting on January 16, 2013, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 8:00 a.m.

MINUTES OF November 14, 2012

The minutes of the November 14, 2012 Finance Committee meeting were approved as published.

1. FINANCE AND FACILITIES UPDATE

Vice Chancellor King recognized President Hanson and President Opatz, who serve as the Leadership Council Liaisons for the Finance Committee. Vice Chancellor King reported that with the help of Chair Hightower, she and Chancellor Rosenstone completed all of the executive branch presentations and the governor is expected to release his budget recommendations on January 22nd. There have been very positive conversations with the governor and his staff, however, the state faces a deficit and there are substantial demands before the governor.

There have been strong statements of support from both student associations. The MSCSA (two year student association) has issued 2013 legislative priorities that fully support the system's budget request, support the proposed changes to the state grant program and support prioritizing HEAPR funding. The MSUSA (four year student association) issued a 2013 legislative agenda that included support of the budget request, support for prioritizing HEAPR funding, support of the proposed changes to the state grant program, maintenance of and expansion of the Minnesota GI program and support for solutions that reduce textbook costs.

The two year faculty association (MSCF) has conveyed 2013 legislative goals that include a call for increased investment on higher education and general support for elements of the budget request. The four year faculty association (IFO) is supporting state funds for

compensation cost increases only. The Leadership Council is helping to communicate the importance of the work and the services that Minnesota State Colleges and Universities provides to the people of Minnesota.

The Capital Improvement Program report will be mailed to the board by the end of the month and it will also be posted on the website. There is tremendous capital spending activity underway with several significant projects hitting milestones this period. The tool is a great resource when visiting the campuses.

More than 100 people from across the system met at Normandale Community College the first week in January to review and score over 50 major capital and initiative projects for FY2014. Over the next several months, the Chancellor will review the results and formulate a recommendation and present it for board review in the spring, 2013.

The Finance division hosted approximately 75 college and university finance professionals in late November for the annual CFO finance conference. The agenda items included the Campus Service Cooperative, financial aid federal changes, VA benefits, a labor negotiations update, Project 2022, performance measures, enrollment modeling and a FY2014-2015 financial outlook. Several white papers addressing a variety of topics including the SWIFT conversion, Higher One update, Student health insurance, sustainability and energy management reports were published prior to the conference and posted on the website. The papers can be found at:

<http://www.finance.mnscu.edu/about/cffo/conference/CFO%20Conference%20Agenda.pdf>.

Five regional Trends and Highlights meetings are scheduled for February and March involving 22 colleges who are in the unaudited group of schools. The presidents, CFOs, CAOs, and CHROs will gather in regional groups for a discussion of financial, academic planning and performance. Vice Chancellor Mark Carlson and Vice Chancellor Doug Knowlton will also participate.

The Revenue Fund Bond Sale that will provide \$70M for board approved revenue fund projects at 5 university campuses is scheduled for February. The projects were approved at the November 2012 board meeting. The rating visits are also scheduled. Trustee Krinkie asked if the rates are affected by the state's financials. Vice Chancellor King replied that she will know more after speaking with the rating agencies.

2. METROPOLITAN STATE UNIVERSITY – APPROVAL OF CONTRACT EXCEEDING \$3 MILLION FOR WebWOC PROGRAM

Vice Chancellor King said that Metropolitan State has been engaged in a contract since 2001 with Bryant Rolstad Consultants, LLC to educate Wound, Ostomy and Continence (WOC) Nursing students through the Web. The expenditures of the current agreement are just under \$3 million for the term February 9, 2010 through December 31, 2012 and the proposed amendment will extend the contract by one year with an additional cost of \$1.45 million through December 31, 2013. This exceeds the board policy threshold of \$3 million and requires board approval.

The University will prepare an RFP, contingent upon its decision to continue the program, prior to the expiration of the final term of the contract.

Trustee Anderson moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Krinkie seconded the motion. The motion prevailed.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees approves execution of a one year amendment to the contract with Bryant Rolstad Consultants, LLC totaling \$1,450,000 for a new contract total not to exceed \$4,234,739. The board delegates execution of the contract to the Chancellor, or his designee.

3. WINONA STATE UNIVERSITY – APPROVAL OF CONTRACT EXCEEDING \$3 MILLION FOR THE eWARRIOR PROGRAM

Vice Chancellor King reported that Winona State University (WSU) launched its eWarrior laptop program in 1997 to enhance student learning. The program makes WSU distinctive in that the campus has no computer labs and WSU's new buildings were designed around a mobile computing environment. There has been strong student support of the program.

Vice Chancellor King stated that an RFP was completed during November 2012 that competitively identified a laptop and tablet vendor for the program and chose Aspen Capital to provide lease financing for five years commencing with the 2013-14 academic year. The lease cost is approximately \$5.9 million and breaks down to \$1,462 per laptop/tablet. WSU employs 113 students fully funded by the program fees. Vice Chancellor King noted that the details of the program are contained in Attachment A and called on President Olson of WSU to comment.

President Olson said that the eWarrior program has made WSU distinctive and has gained the university national attention. The program has been in existence for 15 years and during that time, there has been quality improvement, cost reduction, and has over 90% student and alumni satisfaction. The program is a significant factor in students choosing to enroll at WSU. President Olson asked Alexandra Griffin, WSU Student Senate President, to speak. Ms. Griffin stated that the program has overwhelming student support and it was a huge recruiting tool for her to choose to attend WSU. Trustee Dickson complimented her on the letter of support included in the board packet (page 19). Trustee Dickson said it was a thorough description of the student consultation process and it included student satisfaction information. Trustee Anderson added that he was impressed that the student fee for the program has declined over time.

Trustee Erlandson asked if other campuses within the system have a comparable program. President Olson replied that this program is distinctive to WSU. Many campuses use a lab based model, and others use a bring your own device (BYOD) approach. Each campus makes their own decision as to what works for them.

Trustee Anderson moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Oliveira seconded the motion. The motion prevailed.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees approves execution of a 5-year lease financing contract with Aspen Capital totaling \$5,900,000 a year to provide lease financing for Winona State University's e-Warrior: Digital Life and Learning Program; and that the board delegate execution of the contract to the Chancellor, or his designee.

4. APPROVAL OF JOINT POWERS AGREEMENT, SOUTHWEST MINNESOTA STATE UNIVERSITY

Brian Yolitz, Associate Vice Chancellor – Facilities was joined by Interim President Wood, President of Southwest Minnesota State University. Mr. Yolitz said that this Joint Powers Agreement (JPA) is considered a facilities agreement and, under Board Policy and System Procedure 6.7.2, Use of College and University Facilities, it must come to the board for approval because it is in excess of \$2 million. Policy also requires board approval when a JPA includes information of a governing board. It also requires the agreement be in compliance with Minnesota Statute 471.59, Joint Exercise of Power, which includes the following key elements: Statement of Purpose and adherence to statutory provisions for each party (in this case SMSU and Independent School District 413), one of which is open meeting requirements, including advance meeting notices and agendas, being open to the public and quorum requirements; Liability, Disbursement of Funds, and Termination of Agreement. The contemplated JPA satisfactorily addresses these areas.

The JPA establishes the working relationship between Southwest Minnesota State University (SMSU) and Marshall Public School District – Independent School District 413 (ISD 413). The agreement outlines how the partnership will manage a \$2.88M upgrade to the former Mattke Field on the SMSU campus and resulting athletic complex.

SMSU will own the property and improvements and serve as fiscal agent. The JPA creates a 10 year lease arrangement at 2% interest with ISD 413 to pay back roughly one-half of the costs of improvements to the complex grounds and surfaces. ISD 413 has already voted on and passed a lease levy for the funding. Mr. Yolitz stated that with the rental income and a percent of the gate receipts from events, the agreement will prove to be a viable operation. The governance structure includes a Supervisory Management Committee and an Operations, Scheduling and Maintenance Committee to provide overall direction and oversight of day to day operations.

Mr. Yolitz said that this is part of the SMSU master plan and will also be used in the academic arena for physical education, exercise science, and radio and TV broadcasting. Mr. Yolitz also commented that the project promotes Title IX sports and will give the university the ability to add cross country and track and field sports.

Mr. Yolitz reviewed the process that led to today's presentation to the board, including student consultation, HEAPR funding for stadium seating, predesign, and ISD 413's lease levy. With approval of the JPA today, design and construction will take place in March – November 2013 and be operational by spring 2014.

Trustee Krinkie asked Mr. Yolitz to go over the financing again. Mr. Yolitz said that the entire amount would be paid up front by SMSU's operating reserves. Half would be paid back by the school district via a 10 year lease at 2% interest and the other half will be paid back through SMSU student fees and event income.

Trustee Hightower asked if the school district needed the facility and also, if the school district didn't enter into the JPA, if they could still use the field. Vice Chancellor King responded that the JPA protects the university and ensures a continuous payment from the school district.

Interim President Wood said he views this as an exciting collaboration. The track was in need of repairs so this will be included in the project. This is a partnership with the region, and without Marshall High School's ability to use the field, it was doubtful that the project would have moved forward. Interim President Wood said the track will be renovated with materials that will last 20 years, well beyond the length of the JPA.

Trustee Anderson asked about the university's current usage of the field. Interim President Wood replied that there is a cross country team coach in place and it is anticipated that within 3 years that sport will attract 100 students. There is a cap on the number of males and it is open to females, which will help with Title IX. Increased cash flow will bring the sport to full capacity and will also improve enrollments. The artificial turf will support usage to 3,000 hours. Interim President Wood added that grass fields average only 500 hours of use.

Trustee Oliveira asked what financing amount was presented to the students during the consultation process. Interim President Wood said that about half of the total amount was presented (\$1.35M).

Chancellor Rosenstone noted that SMSU owns 51% of the projects and that ISD owns 49%. The financing has allowed the project to be cost effective and given SMSU the ability to grow programs and the cost is not put on the taxpayers of Minnesota.

Interim President Wood said that there has been extensive student consultation and 67% of the students favored moving forward. Trustee Anderson asked what the total annual fee amount would be. Interim President Wood said it would be around \$125,000 and that amount would be embedded in the fee structure.

Trustee Benson commented that the motion did not contain the name of ISD 413 and inquired if that would be beneficial. Gail Olson of General Counsel was called on for response and Ms. Olson agreed that it would be beneficial to amend the motion to include the name of ISD 413. Vice Chancellor King said the revised motion could be ready and presented during the full Board meeting.

Trustee Krinkie moved that the Finance and Facilities Committee recommend adoption of the following amended motion. Trustee Anderson seconded the motion. The motion prevailed.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees approves the following:

The Board of Trustees authorizes execution by the chancellor or his designee of a joint powers agreement with Independent School District No. 413 that establishes a governing structure to finance, construct and manage operations of the upgraded Mattke Field located on the Southwest Minnesota State University campus in Marshall, Minnesota.

5. ITASCA COMMUNITY COLLEGE 2004 REVENUE BOND REFUNDING

Associate Vice Chancellor Yolitz said that Itasca Community College (ICC) is seeking approval to proceed with a tax exempt bond refunding for the 2004 Series Student Housing Lease Revenue Bonds originally issued by the Itasca County Housing and Redevelopment Authority (HRA) to finance the design and construction of the Itasca Residence Hall at ICC. The estimated cost savings are \$34,000 annually or a total savings of \$210,000 over the life of the bonds.

Vice Chancellor King noted that refunding is a cost saver for the schools and does not present any type of risk. There has been discussion on removing routine items such as these from the board agenda so the board would have more time to review policy matters.

Trustee Krinkie moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Oliveira seconded the motion. The motion prevailed.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees approves the following:

The Resolution attached hereto as **Attachment A**, providing for the issuance of refunding bonds to refund the tax exempt Series 2004 Series, Student Housing Lease Revenue bonds, issued by the Itasca County Housing and Redevelopment Authority.

6. FINANCIAL PERFORMANCE – FISCAL YEAR 2012 AND 2011

Vice Chancellor King thanked the many Trustees present at yesterday's Audit Committee. The focus of this agenda item is on the financial performance of the system and colleges and universities and not on the audit engagement itself. Vice Chancellor King noted that in November, the board was presented with "Finance 101", which covered the board's risk management strategy including:

1. Annual Financial Statement/Audit Discipline
2. Operating Budget Reserves Maintenance/Improvement Policy
3. Unrestricted Net Asset Improvements
4. Composite Financial Index Improvements
5. Capital Improvements tied to Facilities Condition Index

The annual review of the financial statements provides the venue for the board to be apprised of the conditions of the 1st four measures above.

The entire system enterprise, the Revenue Fund and 13 colleges and universities were audited for FY2012. The results are clean opinions and no material weaknesses. The financial statements will be posted to the web and contain all funds for all colleges and universities rolled up to the system totals. The Revenue Fund statement includes all college and university activity isolated just to the Revenue Fund and related debt which is approximately 6% of system revenue and expenses, 17% of assets and 31% of liabilities. The auditors gave assurance that the system's reporting is accurate and in conformance with standards.

Vice Chancellor King reported that budgets were balanced across all schools even with significant state appropriation reductions. The reserves, which are a key risk management tool, were maintained at or above board approved levels and the operating environment risk quotient has increased every year with state and federal funding challenges, accreditation and rating agency tightening requirements. Budgetary reserves are at \$109M, which represents 2 payroll cycles and that is still very low by national metrics.

Trustee Anderson asked if there are benefits or risks involved if campuses were required to improve their reserves over the next couple of years. Vice Chancellor King answered that every improvement comes with a tradeoff. There has been a strong message sent that there is an expectation for continued improvement in budget reserves, but making that an absolute expectation would be too demanding on the presidents who already operate in tough environments. Chancellor Rosenstone said that the financial statements, with no findings and no material weaknesses over the last 3 years, speak to extremely prudent management and oversight. There are all types of risks out there – revenue risks, natural disasters, investments, accreditation, and MnSCU's bonding rating at market. The board can help by responding that strong reserves are appropriate and prudent management.

Facilities play a role in recruitment and retention. MnSCU facilities are well maintained and up to date. FYE is up 10% since 2008.

MnSCU is not a liquid operation with 68% of net assets in bricks and mortar, another 7% has external restrictions and about 25% is unrestricted. Vice Chancellor King said it is noteworthy to mention that assets increased and liabilities declined even in the presence of substantial revenue losses and the campuses did an outstanding job moving their expenses to match available revenues.

Since 2011, there has been decline in state support of \$62M, and in federal revenues of \$51M, totaling \$112M. Reductions in expenses included salary and benefit costs (\$46M), and operating expenses (\$26). Financial aid disbursements declined \$22M.

Vice Chancellor King said that overall financial aid flows increased from \$334M to \$354M between 2011 and 2012. Most of this revenue is netted across the tuition, fees and room and board lines and not apparent on the face of the statements. The decline in disbursements reveals that a greater portion of financial aid awarded is being used to pay tuition and fees and less is disbursed to the student for living expenses.

Vice Chancellor King noted that the change in net assets is predominately capital asset improvements and increases to unrestricted assets.

The Composite Financial Index (CFI) is at 2.78 versus 2.70 in 2011. Vice Chancellor King asked new Trustees to reach out if they would like more information on the CFI, which is a measure adopted by the Higher Learning Commission (HLC) as a measure of financial condition and it has become a significant feature of their accreditation review process. The indexes are reported to the HLC and if any of the institutions fall below their threshold level, they are subject to added oversight. There were two schools reporting an index of less than 1.0 in 2012 and are under a “workout plan” with the system office.

There are four components to the CFI – primary reserve, viability, net operating revenue and return on net assets. The system CFI has hovered around the 3.0 mark for the past 3 years, not including foundations’ assets. The HLC encourages campuses to include their foundations’ fundraising, but because not all foundations are audited, foundation amounts are not included in this presentation.

There is very little change in each component. However, return on net assets varies greatly with HEAPR or capital bonding projects, due to the fact that MnSCU does not pay 100% of the debt. The biggest difference is the viability- revenue bonds include 100% of the debt, but this distinction is not as large now since more two year colleges are also taking on revenue bonds.

Vice Chancellor King summarized that FY2012 yielded significant reductions in state appropriations and enrollment levels decreased by 2.8%. These reductions were countered by a managed decrease in operating expenses that resulted in a relatively strong financial performance in FY2012. Strong state and federal financial aid participation by students is a continuing concern.

Trustee Krinkie referred to slide 9 and inquired why the overall CFI is 2.78, but colleges show CFI of 2.72 and universities show a CFI of 2.65. Vice Chancellor King said she would look into it and report back prior to the board meeting. In addition, a CFI listing by institution will be provided.

The meeting was adjourned at 9:22 a.m.

Respectfully submitted,
Laury R. Anderson, Recorder

Date presented to the Board of Trustees: March 20, 2013