

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

May 22, 2013

Finance and Facilities Committee Members Present: Vice Chair David Paskach, Trustees Brett Anderson, Dawn Erlandson, Philip Krinkie, and Thomas Renier

Other Board Members Present: Ann Anaya, Duane Benson, Alexander Cirillo, Cheryl Dickson, Clarence Hightower

Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Michael Dougherty, President Joe Opatz, President Richard Hanson

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on May 22, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Vice Chair Paskach stated that Vice Chancellor King and Chair Michael Vekich were absent today. Vice Chair Paskach called the meeting to order at 8:00 a.m.

1. Minutes of Allocation Framework 101 Study Session

The minutes of the April 16, 2013 Allocation Framework 101 Finance Committee Study Session meeting were approved as published

2. Minutes of April 16, 2013

The minutes of the April 16, 2013 Finance Committee meeting were approved as published.

3. Finance Update

Associate Vice Chancellor Brian Yolitz reported that Minnesota Management and Budget paid back \$100M of what is owed to Minnesota State Colleges and Universities, leaving an outstanding balance of \$557M. The loan will be paid back in full by June 30, 2013.

4. Report on Results of 2013 Legislative Session

Trustee Paskach said that on May 20, the 2013 legislative session concluded and Minnesota now has an enacted higher education appropriation bill which impacts Minnesota State Colleges and Universities' (MnSCU) FY2014 operating budget. Trustee Paskach asked Deb Bednarz, Director of Financial Planning and Analysis to begin the presentation. Ms. Bednarz introduced Finance Leadership Council liaisons, Presidents Opatz and Hanson, Vice Chancellor for Advancement Michael Dougherty, and Susan Anderson from Financial Planning & Analysis unit, who were present to assist with the legislative update and FY2014 Operating Budget agenda items. Ms. Bednarz asked Vice Chancellor Dougherty to present the legislative update.

Vice Chancellor Dougherty said that the higher education bill will provide \$250M in new funding for higher education and \$102M for MnSCU. The \$102M includes three elements - \$78M for tuition relief (an undergraduate tuition freeze for two years at all colleges and universities); \$17M in one-time funds to retain quality employees (with reporting requirements); and \$7.3M for leveraged equipment. In addition, there is a \$75.4M investment in the State Grant program, which will impact 7,800 part-time working students. Five percent (\$28.4M) of the FY2015 appropriation will be withheld until MnSCU reports achievement of 3 of 5 performance goals. These include 1) A 4 percent increase graduates or degrees/diplomas/certificates conferred; 2) A 1 percent increase in persistence and completion rates; 3) A 4 percent increase in related employment; 4) A plan to reduce instructional expenses by 1 percent and 5) A \$22M in reallocations/efficiencies.

Trustee Hightower asked if MnSCU would be able to achieve the performance measures. Chancellor Rosenstone responded that there was concern because 5 percent of the appropriation is at risk in the second year of the biennium and there are only nine months left to show that the metrics were accomplished. There is also concern for the timeframe of these metrics. Many of them depend on actions that were taken two years ago. There will need to be a strong push for improved retention, but Chancellor Rosenstone believes the metrics can be met. Trustee Benson asked if the 4 percent in related employment could be reached in such a short period. Chancellor Rosenstone said that, because of the improved economy, the goal is attainable because graduates will be able to find work in their fields. The metrics are providing incentives to become a performance driven system.

Trustee Benson asked about the change in the State Grant program and how it would affect students. Chancellor Rosenstone replied that the change will increase access and affordability for more than 7,800 part-time students. Trustee Dickson asked how the success of that program could be measured. Chancellor Rosenstone said a meeting has already been scheduled with Chris Halling and Craig Shoenecker to discuss the metrics. Among the items will be access, retention and completion data. A full report will be provided to the Board with proof that the pilot is successful and should continue.

Trustee Erlandson asked about the rationale for one-time funding. Trustee Erlandson asked if the University of Minnesota had performance measures and also, what percentage of part-time students will be affected by the change in the State Grant program. Chancellor Rosenstone said the legislature had the constraint of limiting budget commitments in the FY2016-2017 biennium so it became "soft" funds. MnSCU was opposed to one-time funding and made that very clear. Chancellor Rosenstone confirmed that the U of M also had 5percent withheld and called on Chris Halling to respond to the state grant question. Mr. Halling said there will be an estimated 7,800 new state grant recipients at MnSCU institutions resulting from the change to the State Grant formula for part-time students. This is new grant recipients who would not or did not receive a grant under the old system and an estimated 12-15 percent increase in the number of students receiving a state grant.

Trustee Anderson asked if there was a tuition freeze at the graduate level. Ms. Anderson responded that universities could raise tuition, but no more than 3 percent as per Board guidance.

Ms. Bednarz said that the DREAM Act passed, which changes residency eligibility, and allows undocumented students access to state financial aid and foundation scholarships. The Higher Education bill includes language regarding veterans' admission to graduate programs and consideration for credit for prior learning. The bill also eliminates bonuses in contracts.

Other legislative highlights that are relevant to MnSCU are the ratification of contracts for the IFO, MSCF, MSUAASF and Administrator's Plan for FY2012-2013; the Jobs and Economic Development Finance bill provides funding of \$1.5M per year for the 2014-2015 biennium from the workforce development fund for a grant to FastTRAC; provides one-time funds of \$987,000 to develop a pilot customized training program in skilled manufacturing at Alexandria Technical and Community College, Century College, Central Lakes College, and Hennepin Technical College; funding for STEM internship opportunities; and funding for collaboration between DEED and the Office of Higher Education to produce and publish labor market information.

The K-12 Education Finance bill increases reimbursement to colleges and universities for PSEO students by \$3 per credit, amounting to \$900,000 for MnSCU over the biennium. The Veterans bill expands the GI educational benefits and the Tax bill includes a provision for a Greater Minnesota internship program.

5. FY2014 Operating Budget – 1st Reading

Ms. Bednarz reported that for the first time since FY2008, the system's state support is increasing during the 2014-2015 biennium. The system's state appropriation will increase by \$102.3 million, a 9.4 percent increase. The FY2014 appropriation increased 7.8 percent over FY2013. Most of the new state funding is dedicated to tuition relief - tuition rates for students in undergraduate programs will remain at current levels for both 2014 and 2015. The system will see a slight improvement in the state support per MnSCU student (FYE) when adjusted for inflation. Between FY2002 and FY2012, student support per student FYE decreased by 40 percent.

The enacted higher education bill provides the system with two substantial allocations. The system will receive \$78 million over the 2014-2015 biennium to hold tuition at current FY2013 levels in both FY2014 and FY2015. In FY2014, this equates to an additional \$25.5M of state support and the remaining \$52.5M will be allocated to the system in FY2015. These funds are ongoing and will be part of the base appropriation going forward into the FY2016-2017 biennium. The \$17M of **one-time funds** will be allocated to the system for retaining high quality faculty and staff. Currently, the \$17M is being held back from the operating budget process until the Chancellor and Leadership Council discuss how to best allocate these funds in accordance with the enacted bill.

Ms. Bednarz said that the structure of the new funds provided by the adoption of the 2013 higher education bill alters the approach the Board of Trustees took in its 2014 - 2015 biennial budget request. The priority for the legislature was affordability and new state funding was used to keep undergraduate tuition rates at their current level for the next two

years. All this funding will be distributed to colleges and universities and used to offset revenues that would have been generated from a tuition increase.

Ms. Anderson continued that in preparation for the FY2014 operating budget, colleges and universities assumed a flat or a slight increase to state appropriation, a tuition increase of no more than 3 percent, a slight decline in enrollment, and approximately 3 percent for general operating cost inflation. These assumptions have now changed with the conclusion of the legislative session. Work is currently underway at the colleges and universities to provide revised budgets which reflect legislative outcomes and the revisions will be incorporated into the system level operating budget for the June Board report.

There is a \$42.5M increase in the system's state appropriation for FY2014 compared to FY2013. The system is also budgeting \$2M of interest earnings for total estimated resources of \$589.9M, which will be allocated within the following categories: institutional allocations, priority allocations, systemwide set-asides, and support of the system office. For FY2014, 86.4 percent of state resources received by the system are allocated to colleges and universities either as basic allocations or through priority allocations.

Of the \$451M for institution basic allocations, it is recommended that \$449M be distributed through the allocation framework and an additional \$2M be allocated as a result of general fund attributed in interest earnings. An additional \$25.5M is being allocated to cover the loss of anticipated tuition revenue as a result of freezing undergraduate tuition in FY2014.

It is recommended that \$16.4M be distributed for priority allocations that are used to drive compelling educational interests. FY2014, priority allocations include \$9.8M for Access and Opportunity activities and \$5.1M for workforce education priorities including the Centers of Excellence. Legislative priorities totaling \$1.5M are directed to Range vocational education, economic development E-Folio, community energy pilots, Cook County higher education and a legislative mandated mental health summit. Trustee Dickson asked how the mental health summit came about. Chancellor Rosenstone asked Mr. Bernie Omann to respond. Mr. Omann said that it was an initiative by Senator Clausen, who found resources to produce it.

The systemwide set asides are supported by \$42.8M and include attorney general services, debt service, enterprise technology, leadership transition, repair and replacement, system audit program, and PALS. The Learning Network of Minnesota has been appropriated \$4.1M. The budget of the system office is \$33.1M in state support – no increase over the FY2013 level.

Ms. Bednarz said that the FY2014 operating budget will reflect ongoing efforts to optimize the use of every dollar through the reallocation of resources. The system's biennial budget proposal pledged \$44M in reallocations for the upcoming biennium and the legislature has identified the reallocation of \$22 million in FY2014 as a performance goal. Savings are also expected through the work of the Campus Service Cooperative.

Revenue fund fees support auxiliary facilities, such as residence halls, student unions, parking, and other revenue generating facilities. Other than a slight increase in room and board fees of 2.79 percent, most revenue fund programs have held the line on fee increases. Thirteen campuses currently participate in the revenue fund. Student union facility fees are down 0.34 percent from last year. Health and wellness facility fees average \$123 per year and are proposed to remain the same as last year.

Colleges and universities have been discussing the FY2014 budget with campus constituents for several months and students are satisfied that the presidents and cabinets are working hard to include them in the budget review process. All student consultation letters have been posted to the MnSCU website.

Ms. Bednarz presented a table showing the FY2013 net tuition and fee increase to students based on financial aid awards. An updated table will be presented at the June Board meeting depicting FY2014 impacts. Chancellor Rosenstone noted that it is anticipated that lower income students on average will see a decrease in their tuition and fees as a result of the State Grant program changes and freezing tuition. Trustee Benson commented that he had previously asked Vice Chancellor King to further break down the table into income classes. Trustee Benson said it is the lower middle income class that are the most challenged. Chancellor Rosenstone said the information would be provided in next month's second reading and added that in the commitment to keep tuition costs down, MnSCU is preparing for a \$20M statewide scholarship campaign kick-off the first week of June. Trustee Benson asked if the legislative categorical funding restricts MnSCU's ability to manage and provide access to students in the lower middle class. Chancellor Rosenstone replied that this leads to a bigger conversation because it is the responsibility of the Board to provide the oversight, not the legislature. The legislature did not say to the Board to provide the performance measures, and it did not say to the Board spend these dollars wisely and then report back. This will be considered for a topic at the Board retreat.

Trustee Paskach asked if there was a concern for a budget deficit. Chancellor Rosenstone said that work will be done at the campuses and a balanced budget will be presented to the Board in June. Chancellor Rosenstone recognized the Finance team for putting all of the documents presented today together in 72 hours.

Trustee Hightower commended the efforts of Chancellor Rosenstone and his staff for advocating to the legislature on behalf of the Board for the operational challenges and the system's governance and that the impingement by the legislature concerning the governance should not be taken lightly.

Trustee Paskach called on President Hanson and President Opatz to comment. President Hanson said that the substantial budget challenges can create great opportunities – there must be focus on student success with retention strategies. President Hanson added that with tuition costs frozen, it is a great time to be a student. President Opatz said that when preparing the budgets, planning assumptions were met and that the legislature will not pour large funding into higher education. The good news is changes in the state grant will increase access for part-time students, which will drive enrollment growth.

Trustee Paskach concluded by saying the Board of Trustees will be asked to approve the FY2014 Operating Budget at the June meeting which will include the tuition structure (which is currently being reviewed and revised by our colleges and universities to reflect the legislative tuition buy-down and approve the revenue fund rates and fees.

5. 2014 Capital Bonding Recommendations

Associate Vice Chancellor Yolitz gave an update to the Board on the factors that influenced the development of the FY2014 capital bonding recommendation. Mr. Yolitz said that the Board approved a \$278.7M (\$110M in HEAPR and \$168.7M in capital projects) request in June 2011 for the 2012-2013 biennium. The 2012 bonding bill yielded \$132.1M (\$20M in HEAPR and \$112.1M in projects) The 2013 bonding bill sought funding for unmet requirements from 2012 and received initial strong support from the Governor and the House, but the final bill provided no funding for the system requirements. Mr. Yolitz noted that the 2012 bonding bill was the lowest biennium funding since 2000-2001.

In preparation for the 2014 recommendation, the Board approved guidelines in early 2012 with the overarching principles of taking care of what we have, make existing space more efficient and flexible, mothballing or demolishing what is not longer viable and consideration new square footage only if the requirements meet the priorities of the Strategic Framework.

Mr. Yolitz said that over 50 projects totaling more than \$280M were submitted for consideration as part of the 2014 capital program. HEAPR requirements would be on top of any recommended project funding. Mr. Yolitz said that considerations for developing the 2014 recommendations included legislative and Board input to be more efficient, enrollment trends and demographics, the impact of on-line classes, leadership changes and existing facility infrastructure needs.

The initial FY2014 recommendation is \$250M made up of smaller HEAPR requests, smaller stand- alone projects, specific call for demolition, emphasis on renovation and renewal and defer some for review and validation by strategic workgroups and new institutional leadership. However, because of the lack of funding in FY2013, feedback was sought from the Board on a larger recommendation for FY2014. Mr. Yolitz said that historically, HEAPR has been funded at approximately 50 percent of the system biennial request. HEAPR and HEAPR-like projects will be packaged into line-item capital projects. The stand-alone projects will be bundled together by themes individually or by region for better visibility on requirements and location. In closing, Mr. Yolitz said that renewal of existing space and reducing square footage is a priority and validating programs with facilities is a must. With this information, Mr. Yolitz sought input for the first reading of the capital bonding request.

Trustee Renier asked for clarification of the reduction for the HEAPR request. Mr. Yolitz said that the legislature does not seem to grasp the importance of HEAPR projects. HEAPR projects are not as glamorous as new construction, so they don't seem to get support from the legislature. Campuses will be asked to roll in HEAPR needs into new capital projects. Chancellor Rosenstone added that MnSCU is not backing off on facility renewal, but it is

hard to get backing for the request so it has become necessary to repackage MnSCU's request.

Trustee Anderson Kelliher commented that HEAPR should be renamed and suggested "Take Care of What You Have" fund and also inquired about preservation of historic facilities and assets and how the system cares for them. Mr. Yolitz responded that there are very few historical facilities within the system. The system's target would be on facilities that were built in the 1960's that drag on the budget.

Trustee Hightower said it does not make sense to ask for less in HEAPR if repair and replacement is the number one priority, especially with a \$700M backlog and suggested that there should be a systemwide initiative to get the legislature excited about it. Mr. Yolitz said that success in funding system initiatives has been weak and that is the reason for trying to present it differently. The requests will be organized by institution and then possibly rolled into a regional request with HEAPR infused into the project costs. HEAPR will remain our number one requirement through a single line item request and built into the individual projects.

Trustee Anderson asked if MnSCU goes in with the request as outlined and it does not resonate well, is there is a back-up plan in place. Chancellor Rosenstone replied that there is clarity in the Board's priorities and decisions have been made in how to best package the requests in a way that will get the job done. Further discussion can take place at the June 3rd meeting.

Trustee Paskach thanked the Board for good guidance and there will be time for more comments at the June meeting.

6. St. Cloud State University Contract Approval Exceeding \$3M for Beverage Sponsorship

Mr. Yolitz said that St. Cloud State University seeks Board approval for the university to enter into a beverage contract not exceeding \$4.5M for on-campus pouring services. Vice President of Finance and Administration Doug Vinzant was present to answer questions. The university initiated the RFP process with a timeline of selecting a vendor and having the contract in place by July 1, 2013. Trustee Paskach noted that the Board does not get involved with the selection of the vendor but because of the size of the contract, it requires Board approval.

Trustee Krinkie asked about the proposed term of the contract and payments on the contract. Mr. Yolitz responded that there is a five year or the potential for a ten year option. A scoring mechanism is in place to assist them in making final decisions. Mr. Vinzant replied that it is expected to make equal payments over the terms of either length of contract.

Trustee Dickson asked about the implications of State Services for the Blind (SSB) operating the vending machines. Mr. Yolitz said that SSB's role is out of the scope of the RFP.

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

RECOMMENDED COMMITTEE MOTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves St. Cloud State University entering into a beverage sponsorship contract not to exceed \$4.5 million for on campus pouring services. Execution of the contract is subject to the review and approval of the chancellor or his designee.

7. Metropolitan State University Contract Approval Exceeding \$3M for Facility Lease

Mr. Yolitz said that Metropolitan State University's current lease of 54,024 square feet at 1450 Energy Park Drive in St. Paul will expire July 31, 2013. Mr. Yolitz noted that President Hammersmith, Murtuza Siddiqui, and Dan Hambrock were present for questions.

The university is seeking Board approval for a new lease that will extend the term for five years, with an additional five year renewal option. The amendment includes a partial contraction right in the event the university's Science Building is funded and completed during the lease term. In addition, the university would also secure 152 additional daytime parking stalls and have the opportunity to add signage to the building.

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

RECOMMENDED COMMITTEE MOTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion.

The Board of Trustees authorizes the Chancellor or his designee to execute all necessary lease documents with the owners of 1450 Energy Park Drive, Saint Paul, consistent with the terms as summarized on Attachment C, D and E.

The meeting was adjourned at 9:58 a.m.

Respectfully submitted,

Laury Anderson, Recorder