**MINNESOTA STATE COLLEGES AND UNIVERSITIES**
**BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities Committee **Date of Meeting:** June 19, 2013

**Agenda Item:** 2014 Capital Budget Request - Second Reading

| | | | |
|---|---|---|---|
| ☐ Proposed Policy Change | ☒ Approvals Required by Policy | ☐ Other Approvals | ☐ Monitoring |

☐ Information

**Cite policy requirement, or explain why item is on the Board agenda:**

This report presents the Chancellor's recommendation for the FY2014 Capital Budget and is provided to the Board consistent with the Board of Trustees Policy 6.5, *Capital Program Planning.* The Board is asked to consider and approve the enclosed motion regarding the capital budget request.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - CFO
Brian Yolitz, Associate Vice Chancellor - Facilities

**Outline of Key Points/Policy Issues:**

Campus facilities master planning drives planning and strategy for capital projects, and the projects on the list typically begin as an item on a campus master plan. The system began work on the 2014 capital budget upon the Board of Trustees issuing guidance to shape and focus the capital programming process. The Board reviewed and approved 2014 capital guidelines in April 2012.

**Background Information:**

The proposed 2014 capital budget recommendations started with campus facilities master plans and are the result of an ongoing facility planning process. Institutions reviewed their facilities master plans, prepared, updated, and refined candidate project predesigns, and created and submitted project narrative and data sheets documenting candidate projects. Throughout the summer and fall of 2012, system office staff reviewed project documentation and provided feedback and recommendations to institutions in preparation for formal project scoring. In January, the candidate projects were reviewed and scored by campus and system office representatives from academic affairs, student affairs, information technology, finance, and facilities. By Board direction, the review and scoring process included capital projects approved by the Board as part of the 2012 process that were not funded in the 2012 capital bonding bill. The scoring results were reviewed and used to shape the capital budget recommendation

**BOARD OF TRUSTEES**
**MINNESOTA STATE COLLEGES AND UNIVERSITIES**

| **BOARD ACTION** |
| --- |
| **2014 Capital Budget Request**<br>**Second Reading** |

This report presents the Chancellor's recommendation for the FY2014 Capital Budget and is provided to the Board consistent with the Board of Trustees Policy 6.5, *Capital Program Planning.* The Board is asked to consider and approve the enclosed motion regarding the capital budget request. The recommended capital project and priority list is contained in Attachment A.

## BACKGROUND

The proposed 2014 capital budget recommendations started with campus facilities master plans and are the result of a deliberate, ongoing facility planning process taking into account academic program priorities, space utilization, enrollment, and financial trends and requirements as well as age and condition of the existing physical plant and its supporting systems.

Campus facilities master planning drives programming for capital projects, and takes into account the Chancellor and Boards strategic instructions. In preparation for a bonding bill, the Board issues capital budget instructions. The Board adopted the 2014 capital budget guidelines in April 2012, which are found here:
http://www.mnscu.edu/board/materials/2012/april18-docs/fin-05-capbudg.pdf

The Board-approved 2014 guidelines are rooted in the elements of the strategic framework and include four guiding principles:

1. Take care of what we have
2. Make campus space more efficient and flexible
3. Mothball or demolish what is no longer viable in terms of conditions, operating costs and programs, and
4. Only consider new square footage if the requirement meets the three priorities in the strategic framework

In response, institutions reviewed their facilities master plans, prepared, updated, and refined proposed project predesigns, and created and submitted project narrative and data sheets documenting proposed projects. Throughout the summer and fall of 2012, system office staff reviewed project documentation and provided feedback and recommendations to institutions in preparation for formal project scoring.

In early January 2013, more than 100 representatives from campuses and the system office reviewed and scored proposed projects which included 54 capital projects totaling $264.0 million. Participants in the review and scoring process included campuses and system office representatives from academic affairs, student affairs, information technology, finance, and facilities.

By Board direction, the review and scoring process included capital projects approved by the Board as part of the 2012 process that ultimately were not funded in the 2012 capital bonding bill. The scoring results were reviewed and used to shape the capital budget recommendation contained in Attachment A.

## CAPITAL BUDGET RECOMMENDATION FOR FY2014

The recommended 2014 program is aligned with the system's overall strategic framework, the Board's capital guidelines, and is informed by the Chancellor's commitment to financial sustainability and greater physical efficiency. The recommendation for the 2014 capital budget at Attachment A totals $286.5 million and includes:

| | |
|---|---|
| HEAPR | $110.0 million |
| Demolition of obsolete facilities: | $20.6 million |
| Capital projects: | $155.9 million |
| Total | $286.5 million |

The proposed capital budget request aligns with the system's emphasis on STEM facilities and the ongoing work in meeting Minnesota's workforce needs. In particular, the capital guidelines emphasized STEM facilities, and the 2014 capital review process supported projects that would align with Minnesota workforce and industry sector's needs.

**The 2014 capital budget by the numbers:**

- $89 million investment in STEM and Allied Health facilities at six campuses throughout the state (Metropolitan State University, Lake Superior College, Saint Paul College, Minnesota State University, Mankato, South Central College and Northland Community and Technical College, East Grand Forks)

- $125 million for projects meeting Minnesota's workforce needs. These are projects in the healthcare/allied health, manufacturing, engineering, information technology, energy, transportation, agriculture, mining and natural resources, and financial services sectors. The capital projects meeting these market sectors are designed to produce graduates that Minnesota businesses and industry need.

- 27 campuses have capital projects on the list and all 54 campuses have HEAPR projects.

- 1.5 million square feet will be touched in some way by the 2014 capital budget. This translates to about 5% of overall academic space. This will occur through renovating

and renewing existing space, construction of new facilities and space, or demolishing obsolete facilities.

- $13-$14 million worth of HEAPR-like work embedded within the capital projects representing approximately 190,000 sq. ft.

- 101,000 full-year equivalent (FYE) enrollment (FY12) at campuses impacted by capital projects

The major facets of the 2014 capital budget include:

1. **Higher Education Asset Preservation and Replacement (HEAPR). $110 million.** The system's number one priority is to address the deferred maintenance and repair backlog in our academic facility space that totals over $700.0 million. HEAPR funds touch every campus in the system, and address a wide variety of backlog within building systems, such as installation of new roofs, heating, ventilating, and cooling equipment, boiler replacements, Americans with Disabilities Act (ADA) improvements, electrical systems upgrades, asbestos abatement, window replacement, and similar upgrades to infrastructure items.

   New Minnesota Management and Budget criteria for HEAPR this year require consideration of projects for the Guaranteed Energy Savings Program (GESP). The state will be examining the system's HEAPR list to determine possible candidates for using the Department of Commerce's newly implemented GESP in place of HEAPR funds. The GESP uses Energy Performance Contracts (ESPC), a performance-based procurement and financing mechanism that uses energy and operational cost savings achieved through the installation of energy efficient and renewable energy equipment, to finance the cost of the building retrofit and renewal project, with no net cost increase to the public entity. St. Cloud State University is currently undertaking the first steps of participating in GESP to tackle some of its backlog. The current HEAPR list identifies approximately $30-$40 million worth of projects that may be suited to GESP.

2. **Capital Projects, $155.9 million.** The capital projects include about $155.9 million of major design and construction projects throughout the state and $15.9 million in campus-specific initiative (smaller) projects centered on renovating and optimizing existing classroom and lab space. The project list will impact approximately 1.5 million square feet. When taking into account the demolition of obsolete space, the 2014 capital budget culminates in a net overall reduction in square footage.

3. **Demolition of obsolete space, $20.6 million**

   About 132,195 sq. ft. worth of demolition is embedded in capital projects. Projects at Hibbing and at Minnesota West Community and Technical College have planned demolitions of major amounts of square footage and are designed to address the mothballed or extremely inefficient space. The project at Northland Community and

Technical College, Thief River Falls campus involves the demolition and replacement of new hangar and work space for the unmanned aerial drone program.

Additional detail on the capital project lists are contained below on Table 1 and on Attachment A**.** Generally, the square footage is broken into four categories: Renovation, Renewal, New Facilities, and Demolition. A high level summary is contained below in Table 1:

**Table 1 – FY2014 Capital Program Impact on Facilities**

| | Square Footage | % of 2014 Program | Change In Square Footage |
|---|---|---|---|
| **Renovation** | **540,800** | **34.7%** | **0** |
| **Renewal** | **202,301** | **13.0%** | **0** |
| **New Facilities** | **278,285** | **17.9%** | **+278,285** |
| **Demolition** | **535,645** | **34.4%** | **-535,645** |
| **Total Impacted Space** | **1,557,031** | **100.0%** | **-257,360** |

- **Renovation, 540,800 sq. ft.** The majority of projects on the recommended list include renovation and are fairly diverse in work and scope. Renovations involve the repurposing of space from one use to another or substantial interior and infrastructure work, such as the movement of walls and installation of new programmatic furniture and equipment. The largest of the renovation projects is a combined renovation and renewal project located at Minneapolis Community and Technical College. MCTC's project is Phase 2 of their workforce renovation work, and includes a substantial portion of infrastructure renewal and HEAPR-like work. The second largest is Bemidji State University, which is also undertaking some substantial renovations, bringing academic units back into the core of campus from an outlying building and demolishing an obsolete hall as part of their work.

- **Renewal, 202,301 sq. ft**. Renewal work primarily involves traditional "lights and brights," or more generally, expenditures required to keep the physical plant in reliable operating condition for its present use. Such work includes new floor coverings, paint, new doors, lights and furnishings (chairs, tables, etc), and may include a component of HEAPR-like work. The largest of the renewal projects is at South Central College at the North Mankato campus, and represents one of the major STEM and healthcare workforce renewals and renovations. Similarly, Central Lakes College is another large reconfiguration and renewal project to rightsize their Staples campus.

- **New Facilities. 278,285 sq. ft.** There are five major projects that involve new square footage, including Metropolitan State University (Science), Saint Paul College, MSU, Mankato, M State Moorhead, Century College and St. Cloud State University. (Although included in the new square footage line, the project at St. Cloud State University renovates and adds a new floor within the existing building. No new

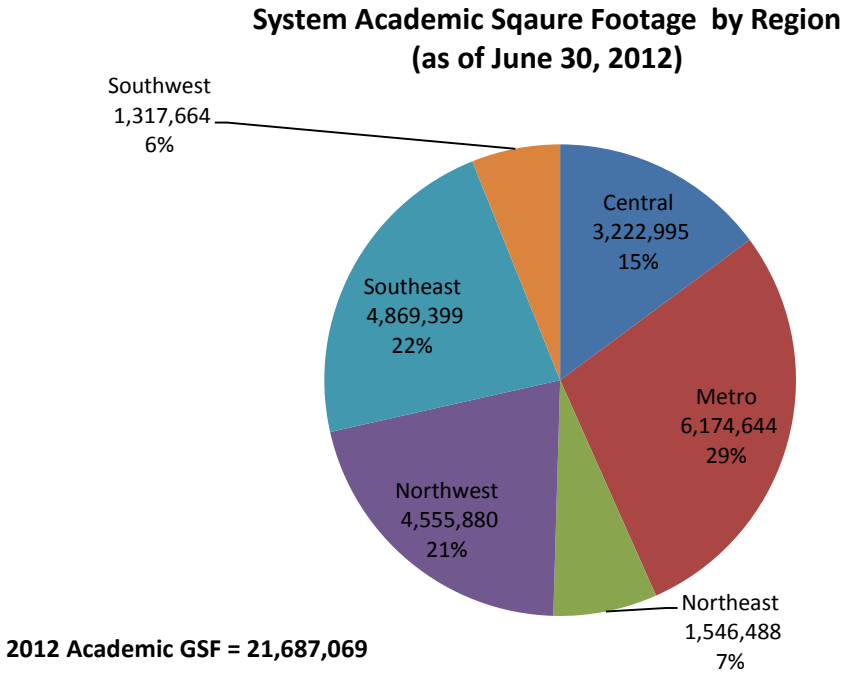
square footage is being constructed outside the existing footprint.) Funding to construct new square footage is recommended only at campuses where the project is in strong alignment with the strategic framework, and where space utilization is expected to remain high.

- **Demolition line item, about 400,000 sq. ft.** Using a candidate list culled from facilities master plans and in consultation with campuses, the amount includes funds for design, demolition, and modest renovation of relocated space resulting from demolition work. A preliminary list of campuses that have identified demolition in their master plans or have substantial rightsizing plans demolition are listed in the supplemental information at the end of this report.

## SYSTEMWIDE FACILITIES STATISTICS

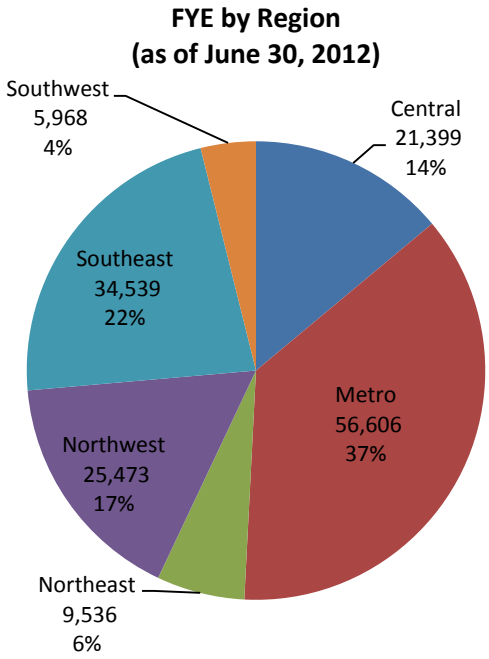
As of June 30, 2012, the system had approximately 21.7 million sq. ft. of academic space. Of that, a little over one-half (1/2) is located in the Metropolitan and Southeast regions. The Southwest region maintains the smallest square footage by region. **Chart 1** below identifies the distribution of gross square feet by region.

**Chart 1 - System Gross Square Footage (GSF) By Region (FY12)**




Despite having only 29% of the system square footage, the Metropolitan region represents nearly 37% of the system's FYE students. The Southeast region, although it contains about the same square footage, serves around 22% of the system's FYE students.

**Chart 2 – System Full-Year Equivalent (FYE) By Region**

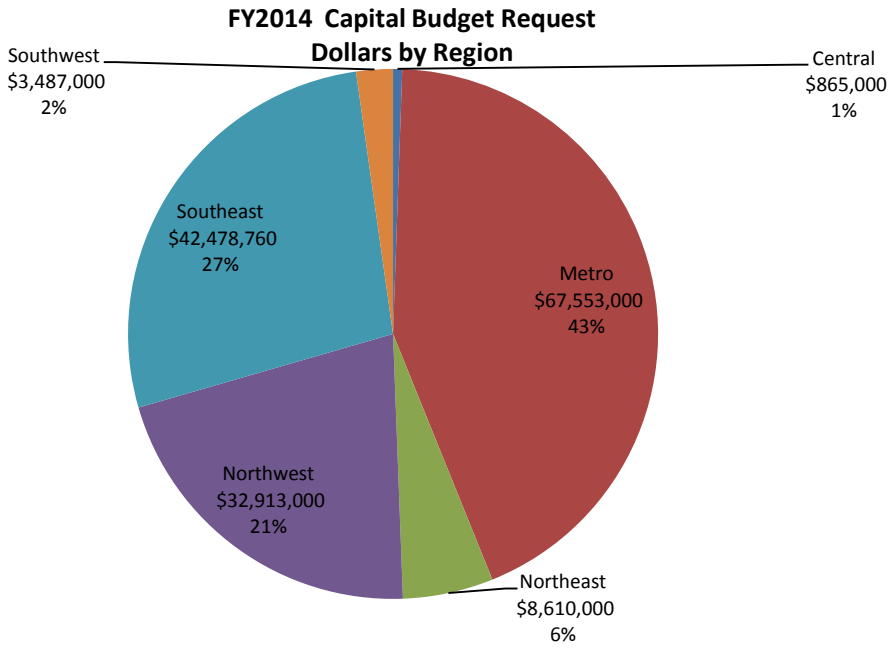



The next chart breaks out the FY2014 capital budget investment by regional distribution. Chart 3 highlights how the bonding bill – if full funded – would be apportioned by region.

Some noteworthy considerations

- This is based on the distribution of the $155 million of capital projects if fully funded
- The chart does not take into account HEAPR funding nor demolition funding
- The metropolitan region and southeast regions, which have the highest FYE, are identified for the highest amount of capital project dollars in FY2014 capital budget
- Despite the minimal funding, the central region has historically had proportionate funding. St. Cloud State University's request is for design only in this biennium, which has made the request appear fairly low.

**Chart 3 – FY2014 Capital Investment in Projects by Region**




## FUTURE CAPITAL PROGRAM

Fifteen (15) projects with an estimated cost of approximately $178.0 million were scored during the process but did not make the recommended list for 2014. Five (5) of the projects were for large, new space requests to be funded over two biennia.

Two of the projects not on the recommended list – the original requests at Bemidji State University for Hagg-Sauer and at Rochester Community and Technical College for Memorial and Plaza Halls – were dropped, but two new line items were added to the recommended list to assist both Bemidji State and Rochester campuses post-demolition that would provide planning funds to design renovation and better right size the campuses.

## 2013 CAPITAL BONDING RESULTS

During the 2012 legislative session, the system received $132.1 out of a $278.7 million capital budget request, representing about 47% of the total request. The 2012 appropriation included $20.0 million in HEAPR and $112.1 million for design and construction of projects, leaving $146.6 million unfunded from the 2012 request.

Shortly before the 2013 legislative session, the system learned that the legislature and governor were considering introduction of a 2013 bonding bill. After inquiries from legislative and the governor's staff, the system submitted a 2013 bonding request that included the unfunded requirements left over from the Board's 2012 priorities. When

accounting for inflation and minor project adjustments, the 2013 request totaled $151.4 million and included $90 million in HEAPR and $61.4 million in capital projects for 2013. The 2013 list of projects are shown on Attachment B.

Both the House and Governor put forth a bonding bill including system projects, but ultimately, that version of the bonding bill did not pass. The legislature did pass and the governor did sign a pared down bonding bill in the waning hours of the session, but the legislature adjourned without including any projects for the system. Projects on the 2013 list were already part of the 2014 capital budget review process.

## PAST CAPITAL BONDING REQUESTS

Since 2006, the system has requested approximately $1.8 billion of capital bonding. The system has received approximately $836 million of the $1.8 billion total request from 2006-2013, representing about a 52% funding rate during the bonding years and a combined funding rate of around 38% overall since 2006.

The table below identifies the past four biennial capital requests (years in bold) and the appropriation results, and includes the veto amounts and governor's recommendation during the given years. A more detailed breakdown is contained in the supplemental information at the end of this report.

**Table 2 – Systemwide Capital Bonding Request and Appropriation (2006-2013)**

| Bonding Year | Request | Received | % Received | Governor Veto | Governor Recommends |
|---|---|---|---|---|---|
| **2006** | **$280.4** | **$191.4** | **68%** | | **$142.6** |
| 2007 | $33.8 | $0.0 | 0% | | $0 |
| **2008** | **$350.2** | **$234.2** | **67%** | **$46.7** | **$128.7** |
| 2009 | $117.1 | $40.0 | 34% | $38.9 | $40.0 |
| **2010** | **$396.8** | **$106.2** | **27%** | **$133.8** | **$114.6** |
| 2011 | $279.8 | $131.6 | 47% | | $127.6 |
| **2012** | **$278.7** | **$132.1** | **47%** | | **$111.9** |
| 2013 | $151.4 | $0.0 | 0% | | $89.3 |
| **Total** | **$1.8 B** | **$835.5M** | **38%** | **$219.4M** | **$754.7M** |

## NEXT STEPS

All capital bonding requests are due to MMB on June 21, 2013. The legislature will use this preliminary information as they make visits around the state this summer and fall to become familiar with proposed capital requests. Specific project cost estimates on Attachment A may change over the next several months as some design work is completed on previously funded projects. Final adjustments to the requested projects must occur no later than October 2013

for preparation of the Governor's capital budget recommendation to the 2014 legislative session.

**RECOMMENDED COMMITTEE ACTION:**

Finance and Facilities Committee recommend the Board of Trustees adopt the following motion:

The Board of Trustees approves the 2014 capital bonding request as presented in Attachment A, specifically the projects and priorities for 2014. The Chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through Minnesota Management and Budget to the Governor for consideration in the state's 2014 capital budget. The Chancellor shall advise the Board of any subsequent changes in the capital bonding request prior to the 2014 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the Governor, the Chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

**RECOMMENDED MOTION:**

The Board of Trustees approves the 2014 capital bonding request as presented in Attachment A, specifically the projects and priorities for 2014. The Chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through Minnesota Management and Budget to the Governor for consideration in the state's 2014 capital budget. The Chancellor shall advise the Board of any subsequent changes in the capital bonding request prior to the 2014 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the Governor, the Chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

*Date Submitted to the Board of Trustees: June 19, 2013*

Minnesota State Colleges and Universities
FY2014 Capital Budget Request - Recommended List
Second Reading

**ATTACHMENT A**

| Priority | Institution | Campus/ Location | Region | Project Title | Design OR Construct | Project Type | Project Cost | | Square Footage | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 2014 | 2016 | New | Renovate | Renewal | Demo/ Mothball |
| 1 | **HEAPR** | Systemwide | System wide | Higher Education Asset Preservation and Replacement | D/C | | $110,000,000 | | | | | |
| 2 | **Demolition** | Systemwide | System wide | Demolition of obsolete space on campuses | D/C | | $20,576,000 | | | | | 403,450 |
| 3 | **Metropolitan State University** | St. Paul | Metro | Science Education Center new construction | C | ◯ | $35,865,000 | | 65,712 | 3,500 | | |
| 4 | **Bemidji State University** | Bemidji | North West | Memorial, Decker, and Sanford Hall renovation, demolition; design, post-demolition Hagg Sauer | D/C | ◯ | $13,790,000 | $5,000,000 | 4,000 | 46,700 | 11,800 | 17,000 |
| 5 | **Lake Superior College** | Duluth | North East | Allied Health ('86 Wing) Revitalization renovation | C | ◯ | $5,266,000 | | | 36,500 | 4,500 | |
| 6 | **Minneapolis Community & Technical College** | Minneapolis | Metro | Workforce Program Phase 2 renovation | C | ◯ | $3,600,000 | | | 90,470 | | |
| 7 | **Saint Paul College** | St. Paul | Metro | Culinary Arts Lab and Machine Tool renovation | D/C | △ | $1,500,000 | | | 16,773 | 10,777 | |
| 8 | **Minnesota State College - Southeast Technical** | Red Wing, Winona | South East | Welding/Industrial Labs, Science Labs, and Multipurpose Classrooms renovation | D/C | △ | $1,700,000 | | | 14,250 | | |
| 9 | **Central Lakes College** | Staples | North West | Campus Rightsizing renovation | D/C | □ | $4,581,000 | | | 7,435 | 56,895 | 17,810 |
| 10 | **Minnesota State University, Mankato** | Mankato | South East | Clinical Science Building new construction, renovation | C | ◯ | $25,818,000 | $4,444,000 | 55,717 | 13,191 | 8,584 | |
| 11 | **Minnesota State Community & Technical College** | Moorhead | North West | Transportation Center addition | C | □ | $6,544,000 | | 22,630 | 23,186 | | 2,900 |
| 12 | **Rochester Community and Technical College** | Rochester | South East | Design, post-demolition Plaza, Memorial & Art buildings | D | □ | $1,000,000 | $5,000,000 | | 13,530 | | |
| 13 | **Minnesota West Community and Technical College** | Jackson, Canby | South West | ITV Classrooms, Powerline Training Facility, and Geothermal System renovation | D/C | △ | $3,487,000 | | 10,900 | 44,090 | | 18,000 |
| 14 | **Dakota County Technical College** | Rosemount | Metro | Transportation & Emerging Technologies lab renovation | C | ◯ | $7,586,000 | | | 42,580 | 22,970 | |
| 15 | **Century College** | White Bear Lake | Metro | Digital Fabrication, Kitchen space, and Solar Panel System renovation | D/C | △ | $2,020,000 | | | 6,000 | 1,700 | |
| 16 | **Northland Community Technical College** | Thief River Falls | North West | Aviation Maintenance Facility Expansion demolition and addition | C | ◯ | $5,864,000 | | 20,410 | 5,790 | | 21,680 |
| 17 | **(NHED) Northeast Higher Education District** | Itasca, Hibbing, Rainy River, Vermilion | North East | Science Labs (3), Art Classroom, Biomass renovate; Rightsizing/ Demolition | D/C | △ | $3,344,000 | $8,600,000 | 20,000 | 19,371 | 8,500 | 46,805 |
| 18 | **Winona State University** | Winona | South East | Education Village, Phase I, renovation | D/C | □ | $5,902,000 | $18,697,000 | 1,000 | 18,816 | | |
| 19 | **Anoka Technical College** | Anoka | Metro | Manufacturing Technology Hub and Auto Tech Lab renovation | D/C | △ | $1,500,000 | | | 42,025 | | |
| 20 | **Saint Paul College** | St. Paul | Metro | Health and Science Alliance Center addition | C | ◯ | $14,482,000 | | 36,770 | 3,248 | | 8,000 |
| 21 | **Century College** | White Bear Lake | Metro | Classroom and Workforce Alignment addition | D | ○ | $1,000,000 | $12,432,000 | 25,584 | 4,000 | 1,000 | |
| 22 | **South Central College** | North Mankato | South East | STEM and Healthcare Workforce renovation | D/C | ○ | $7,467,000 | | | 19,765 | 71,125 | |
| 23 | **St. Cloud State University** | St. Cloud | Central | Integrated Student Health and Academic Programs renovation | D | ○ | $865,000 | $15,000,000 | 15,562 | 43,291 | | |
| 24 | **Minnesota State Community and Technical College** | Fergus Falls, Wadena | North West | Campus Rightsizing and Center for Student Success renovation | D/C | △ | $1,385,000 | | | 21,832 | | |
| 25 | **Northland Community and Technical College** | East Grand Forks | North West | Laboratory renovation | D/C | △ | $749,000 | | | 754 | 4,450 | |
| 26 | **Winona State University** | Winona | South East | Psychology Lab - Phelps Hall renovation | D/C | △ | $591,760 | | | 3,703 | | |
| | | | | **FY2014 - 2019 Major, HEAPR, and Demolition GRAND TOTAL:** | | | **$286,482,760** | **$69,173,000** | **278,285** | **540,800** | **202,301** | **535,645** |

**Project Type Legend**

◯ Previous Appropriation (2008-2012)
□ Appeared on 2013 Capital Budget Bonding List
○ First Time Submittal
△ Initiative - *Small Projects*

| | |
|---|---|
| **HEAPR:** | **$110,000,000** |
| **Projects:** | **$176,482,760** |
| ***user (MnSCU) Financing:*** | $58,827,587 |
| ***General Obligation:*** | $227,655,173 |

# Attachment B
# 2013 Capital Bonding Priorities - Results

| Priority | Project Title | Campus/Location | FY2012 Request | FY2012 Funding | Request | 2013 Approved and Funded |
|---|---|---|---|---|---|---|
| 1 | Higher Education Asset Preservation and Replacement (HEAPR) | Systemwide | $110.000 | $20.000 | $90.000 | |
| 2 | Metropolitan State University - Science Education Center, *construction* | St. Paul | $31.000 | | $33.800 | |
| 3 | Systemwide STEM Initiative - Renovation (Century College, MSU Moorhead, NHED Itasca Community College, NHED Mesabi Range - Eveleth), *design and construction* | White Bear Lake, Moorhead, Grand Rapids, Eveleth | $5.200 | $2.500 | $2.700 | |
| 4 | Rochester Community and Technical College - Classroom renovation, *design* | Rochester | $0.900 | | $0.900 | |
| 5 | Central Lakes College, Staples - Agriculture reconfiguration, and renovation, *design & construction* | Staples | $3.458 | | $3.458 | |
| 6 | Riverland Community College, Albert Lea - Demolition, reconfiguration, and renovation, *design and construction* | Albert Lea | $3.083 | | $3.083 | |
| 7 | Systemwide Energy Initiative - Renovation ( Century College, Minnesota West - Canby and Jackson, NHED Itasca Community College), *design and construction* | White Bear Lake, Canby, Jackson, Grand Rapids | $3.700 | | $3.700 | $0 |
| 8 | Systemwide Classroom Initiative - Renovation (Century College, Inver Hills Community College, NHED Vermilion Community College, Saint Paul College), *design and construction* | White Bear Lake, Inver Grove Heights, Ely, St. Paul | $2.675 | | $2.675 | |
| 9 | Minnesota State Community and Technical College, Moorhead - Transportation Center addition & renovation, *design and construction* | Moorhead | $5.210 | | $5.210 | |
| 10 | Winona State University - Business & classroom renovation, *design and construction* | Winona | $5.828 | | $5.828 | |
| | **Total Program** | | | | **$151.354** | |
| | **HEAPR** | | | | **$90.000** | |
| | **Projects** | | | | **$61.354** | |
| | | | | | | |
| | **User Financing** | | | | **$20.451** | |
| | **General Obligation** | | | | **$130.903** | |

## Supplemental Information for Second Reading

*The following supplemental information addresses the issues and questions raised by the Board when the Board first considered the request on June 3, 2013.*

A. *Capital Bonding by Capital Projects and HEAPR (2006-2014)*
B. *Debt Capacity*
C. *Initiative Project History*
D. *Demolition of Obsolete Space – Candidate List*
E. *Comparison of Metropolitan area and Rural Area Capital Budget Projects*

## A. CAPITAL BONDING BY CAPITAL PROJECTS AND HEAPR

| Year | Board Approved Requests | Governor Recommends | Governor Vetos | MnSCU Appropriation Received | % of Request |
|---|---|---|---|---|---|
| **2006** | **280,410,000** | **142,580,000** | | **191,430,000** | **68%** |
| Capital | 170,410,000 | 122,580,000 | | 151,430,000 | 89% |
| HEAPR | 110,000,000 | 20,000,000 | | 40,000,000 | 36% |
| **2007** | **33,800,000** | | | **0** | **0%** |
| Capital | 3,800,000 | | | 0 | 0% |
| HEAPR | 30,000,000 | | | 0 | 0% |
| **2008** | **350,210,000** | **128,675,000** | **46,710,000** | **234,225,000** | **67%** |
| Capital | 240,210,000 | 88,675,000 | 46,710,000 | 179,225,000 | 75% |
| HEAPR | 110,000,000 | 40,000,000 | | 55,000,000 | 50% |
| **2009** | **117,110,000** | **40,000,000** | **38,875,000** | **40,000,000** | **34%** |
| Capital | 67,110,000 | | 38,875,000 | 0 | 0% |
| HEAPR | 50,000,000 | 40,000,000 | | 40,000,000 | 80% |
| **2010** | **396,811,000** | **114,645,000** | **133,751,000** | **106,169,000** | **27%** |
| Capital | 286,811,000 | 64,645,000 | 133,751,000 | 54,169,000 | 19% |
| HEAPR | 110,000,000 | 50,000,000 | | 52,000,000 | 47% |
| **2011** | **279,794,000** | **127,621,000** | | **131,586,000** | **47%** |
| Capital | 221,794,000 | 97,621,000 | | 101,586,000 | 46% |
| HEAPR | 58,000,000 | 30,000,000 | | 30,000,000 | 52% |
| **2012** | **278,722,000** | **111,863,000** | | **132,126,000** | **47%** |
| Capital | 168,722,000 | 91,863,000 | | 112,126,000 | 66% |
| HEAPR | 110,000,000 | 20,000,000 | | 20,000,000 | 18% |
| **2013** | **151,354,000** | **89,294,000** | | **0** | **0%** |
| Capital | 61,354,000 | 54,294,000 | | 0 | 0% |
| HEAPR | 90,000,000 | 35,000,000 | | 0 | 0% |
| **2014** | **286,482,760** | | | **0** | **0%** |
| Capital | 176,482,760 | | | | 0% |
| HEAPR | 110,000,000 | | | 0 | 0% |
| **Grand Total** | **2,174,693,760** | **754,678,000** | **219,336,000** | **835,536,000** | **44%** |
| **Capital** | **1,396,693,760** | | | **598,536,000** | |
| **HEAPR** | **778,000,000** | | | **237,000,000** | |

## B. DEBT CAPACITY

In modeling debt capacity, the system established an annual debt service target of no more than 3% of annual operating revenues. For analysis purposes, the base year operating revenue is derived from FY12 financial statements and represents unrestricted funding sources that may be eligible to pay debt service. Operating revenues for that purpose include tuition and fees, appropriations, and scholarship and grant revenues. The amount excludes restricted revenues, such as fees from the operations of revenue fund facilities.

*One-Third Rule*

Upon passage of a bonding bill, the state of Minnesota issues debt in the form of general obligation bonds for capital projects. Since the early 1990s, both public higher education systems in Minnesota have been obligated to pay the debt service on one-third (1/3) of the principal amount of general obligation bonds sold to finance capital projects authorized by a bonding bill. The current outstanding principal associated with system capital bonding projects is $230.4 million and the total debt service payable in 2012 was $27.5 million. Half of the debt would be passed on to the individual institutions receiving the project with the remaining half paid for by the system. HEAPR projects are not subject to the one-third debt service rule.

*Student Cost*

By itself, the student cost of capital bonding debt is very low, and softened by two factors: 1) that the state does not charge the system debt service for HEAPR, and 2) only one-third (1/3) of the debt service for capital projects is paid by the system, while the remaining two-thirds (2/3) is paid by the state.

The impact of capital bonding debt is further lessened by how the system allocates debt responsibility between the individual campus benefiting from the project and the system as a whole. In an analysis completed for the legislature earlier this year, the system reported that institutional debt service averaged about $2.71 per credit for FY12, and historically has ranged between $1.50 - $2.71. Tab 13:

http://www.mnscu.edu/media/publications/mnscudata/docs/MnSCU_Financial_Demographic_Data_2-13-13.pdf

This calculation assumes that all debt service was being paid out of tuition. In reality, colleges and universities use a combination of tuition, state appropriation and other revenues to pay operating expenses, including debt service.

*Forecasting Need*

The system used the 2014 Capital Budget of $176 million per biennium as a guide for future capital request modeling. The amount includes capital projects only and does not include

HEAPR appropriations, where debt is not charged to the system. Three questions were analyzed:

1. *How much debt could the system handle if the system continued asking for the same amount in capital budget requests?*
2. *How much more debt service could the system handle?*
3. *How much could revenue decline before reaching the debt threshold?*

**Analysis**

1. *How much debt could the system handle if the system continued asking for the same amount in capital budget requests?*

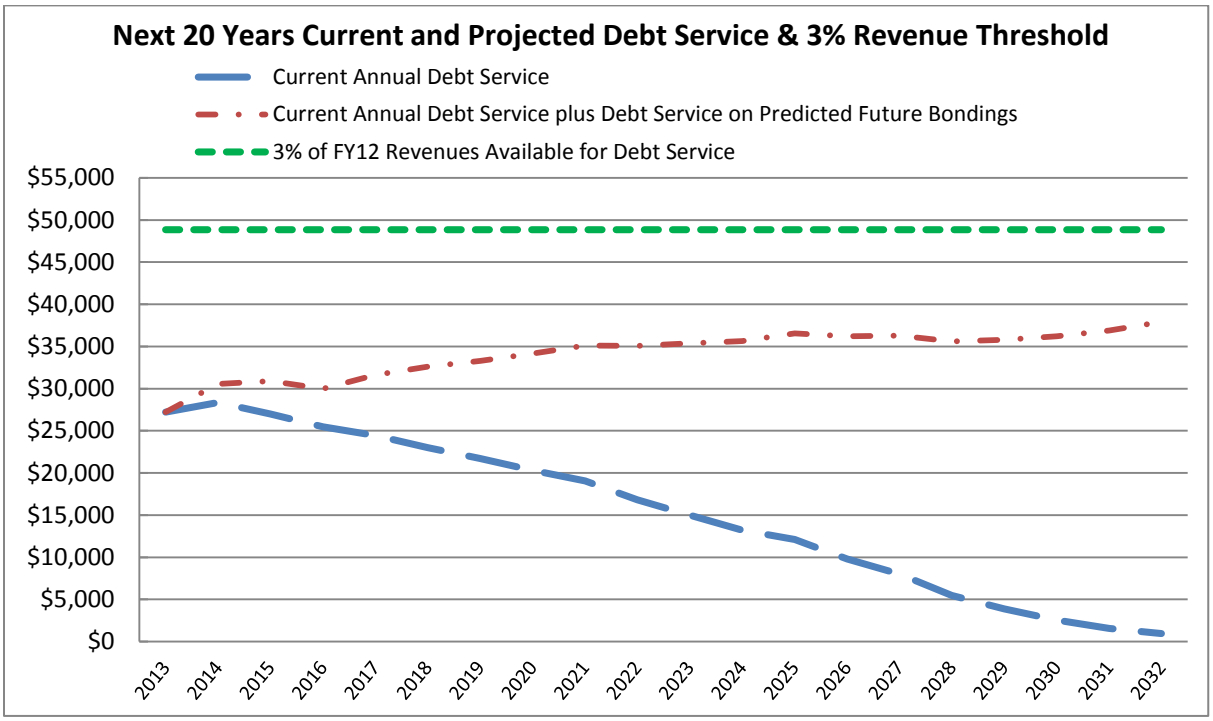
The assumptions under this first scenario include:

- Current debt service
- Flat revenues into the future
- New debt service on $176 million of new capital projects each biennium
- Excludes HEAPR
- Bond interest = 4% true interest cost

Under the above assumptions, the system would be able to add $176 million per biennium and comfortably remain under the 3% threshold for the next 20 years and likely longer.

The resultant debt profile shows that the current debt that is paid off in the next 20 years and the amount that is added each biennium follows a slow, upward trend from around $27.5 million currently to just a little under $40 million worth of debt service in 2032. This scenario is graphically represented by the following chart:

**Chart 1: 20 Year Debt Service Trend at $176M of Capital Project Requests Each Biennium**




*2. How much debt service could the system handle?*

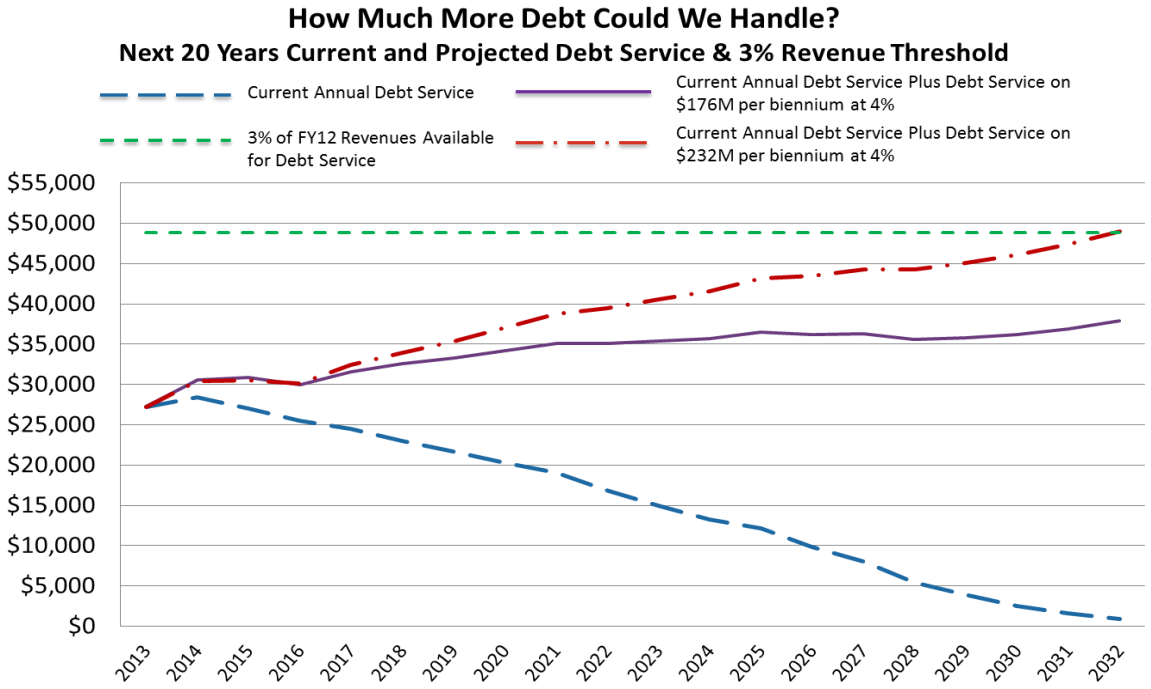
This scenario assumed the following factors:

- Current debt service
- Flat revenues into the future
- Excludes HEAPR
- Bond interest = 4% true interest cost

The approach to this question controls for interest rate shifts and revenue declines, and looks at what sort of additional capacity the system would have to pursue more capital projects above $176 million per biennium.

The chart below includes the current debt service, projected flat revenues, the annual projected debt service based on capital projects of $176 million per biennium and the projected debt service based on capital projects of $232 million per biennium.

**Chart 2: 20 Year Debt Service Trend at $176M and $232M of Capital Project Requests Each Biennium**




Based on the above, the system would generate approximately $48-49 million worth of projected annual debt service that the system could support. This translates into an average capital project request of approximately $232 million per biennium for the next 20 years before reaching the 3% revenue threshold around 2032.

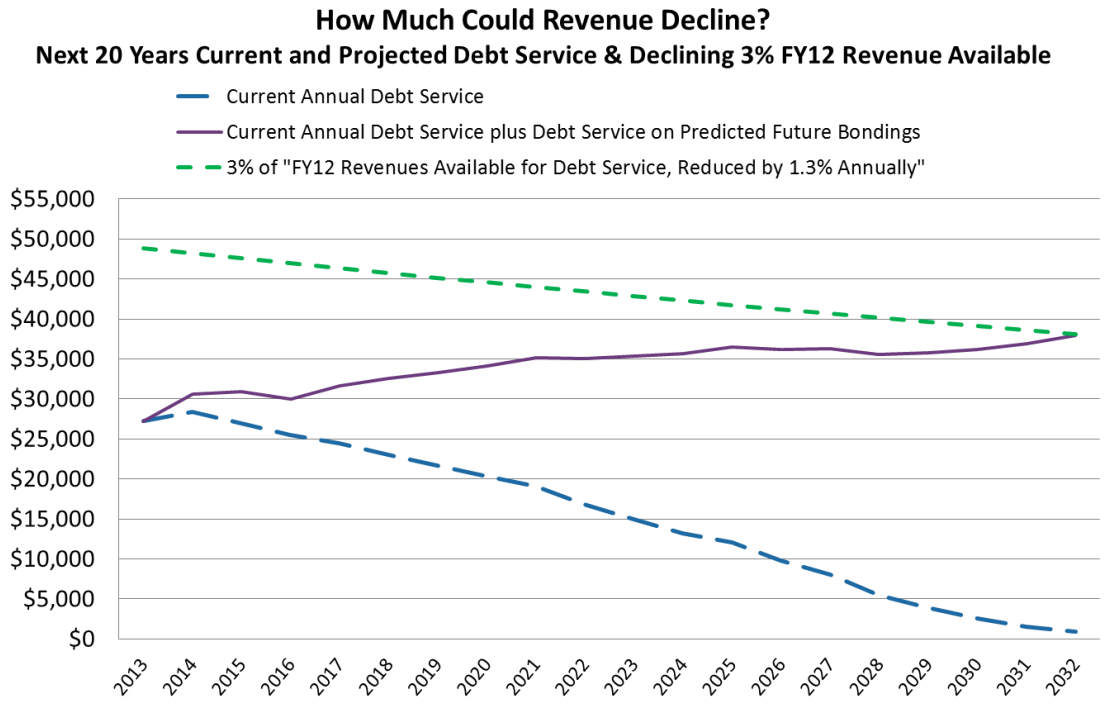
*3. How much could revenue decline before reaching the debt threshold?*

This scenario assumes:

- Current debt service
- Adding $176 million per biennium
- Decreasing revenues
- Excludes HEAPR
- Bond interest = 4% true interest cost

The last scenario evaluates how much revenues would have to decline before reaching the 3% revenue threshold, assuming continued requests of $176 million in capital projects per biennium. The chart below shows that revenues would have to decline an average of 1.3% annually before the threshold would be reached around 2032.

**Chart 3: 20 Year Debt Service Trend at $176M of Capital Project Requests Each Biennium and Declining Revenues**




*Summary*

At present rates, the student burden attributable to capital project debt service is about $2.71 per credit assuming all debt service is paid by tuition. At current revenue rates and modest increase in bond interest rates, the system can regularly afford $176 million worth of capital projects in biennial bonding bills without dramatically increasing that cost to students. The system could afford as much as $232 million worth of capital projects per biennium and remain under the 3% threshold until about 2032. By contrast, revenues could decline by an average of 1.3% annually for the next 20 years before the debt service would hit the 3% revenue threshold.

## C. HISTORY OF INITIATIVE (BUNDLED) PROJECTS

### Initiative Projects

Initiative projects have been packaged in bonding requests since 2010 and are smaller capital projects (usually less than $1 million) organized around a programmatic theme, such as science labs, energy, and classroom renovations. Initiatives mostly focus on renovating existing space, although there have been instances where initiatives targeted land acquisitions or demolition of obsolete space. The system began packaging these smaller projects as a strategy to improve high demand or strategic goals by 1) offering smaller scale renovations as a targeted approach to improving campuses, and 2) increase the success in receiving funding from the legislature.

**FY 2000** **Minor Construction and Remodeling, Request $5,600,000**

- Nine campuses
- **Result:** Not Funded

**FY 2002** **Science Lab Renovations, Request: $1,900,000:**

- Six campuses - targeting science and nursing
- **Result:** Funded at $1,900,000

**FY 2004/5** **Science Labs, Workforce, Technology Programs, Consolidation, and Demolition, Request: $13,868,000**:

- Five separate initiatives affecting 31 campuses benefitting science, nursing, technology, high-demand workforce programs
- **Result:** Funded at $25,740,000

**FY2006** **Science and Workforce Programs, Demolition and Land Acquisition**: **Request: $18,200,000**

- Three separate initiatives affecting 16 campuses benefitting science, nursing, technology, high-demand workforce needs; improved space utilization and facilities condition through demolition
- **Result:** Funded at $10,200,000

**FY 2008** **Science Technology, Engineering and Math (STEM) renovations, Request: $5,775,000**

- Affected eleven campuses benefitting science, allied health, and technology
- **Result:** Funded at $5,775,000

**Classroom renovations for seven campuses, Request: $3,625,000**

- **Result:** Not Funded ($3,625,000), and not funded in 2009

**FY 2010** **Science, Technology, Engineering and Math (STEM) renovations, Request, $4,835,000:**

- Affecting nine campuses benefitting science, allied health, and technology

- **Result:** Not Funded ($4,835,000), and again in 2011

**Classroom renovations for seven campuses, Request, $3,883,000**:

- **Result:** Funded at $3,883,000

**Technical College library renovations, Request, $3,448,000:**

- Renovation of library spaces at eight technical colleges
- **Result:** Not Funded ($3,448,000)

**FY 2012** **Science, Technology, Engineering and Math (STEM) renovations, Request, Request: $5,200,000:**

- Affected nine campuses benefitting science, allied health, and technology
- **Result:** Funded at $2,500,000 (partial), and again in 2013

**Energy renovation and additions, Request $3,700,000**

- Affected six campuses benefitting various types of solar panels and demolitions
- **Result:** Not Funded ($3,700,000), and again in 2013

**Classroom renovations, Request: $2,675,000**

- Affected four campuses benefitting 40+ year old classrooms and improve HVAC
- **Result:** Not Funded ($2,675,000), and again in 2013

## D. DEMOLITION OF OBSOLETE SPACE

A preliminary list of campuses that have identified demolition in their master plans or have substantial rightsizing plans demolition are listed. The intent of this effort to demolish obsolete space is three-fold:

1. To decrease operating costs
2. To remove backlog
3. To drive further efficiencies in the use of space through increased space utilization

The list is not intended to be exhaustive and would remain open for other campuses that develop a project to demolish qualifying, obsolete campus space. Projects with resources already committed to demolition are not part of this demolition request.

**Total Request: $20.6 million**

| No. | Institution (Alphabetically) | Campus/ Location | Region | Project Title | Project Cost | Square Feet |
|---|---|---|---|---|---|---|
| 1 | **Alexandria Technical and Community College** | Alexandria | Central | Temporary Building (TH8), Small Engine and Marine Repair; | $ 255,000 | 5,000 |
| 2 | **Bemidji State University** | Bemidji | Northwest | Hagg Sauer | $ 4,207,500 | 82,500 |
| 3 | **Central Lakes College** | Staples | Northwest | Ag/Energy Center Campus | $ 306,000 | 6,000 |
| 4 | **Minnesota State Community & Technical College** | Detroit Lakes, Fergus Falls, Wadena | Northwest | Demolition of obsolete space (TBD) | $ 2,550,000 | 50,000 |
| 6 | **Minnesota West Community and Technical College** | Canby | Southwest | Building 1 and Building 3 | $ 841,500 | 16,500 |
| 7 | **Minnesota West Community and Technical College** | Granite Falls | Southwest | 300 Building | $ 1,190,850 | 23,350 |
| 8 | **NHED - Vermilion Community College** | Ely | Northeast | Demolition of old IT Center | $ 117,300 | 2,300 |
| 9 | **NHED - Various Campuses** | Mesabi, Hibbing, Rainy River | Northeast | Demolition of obsolete space (TBD) | $ 1,275,000 | 25,000 |
| 10 | **Riverland Community College** | Albert Lea, Austin | Southeast | AL - 1986 Addition, Gateway bldg; AU - TBD | $ 4,029,000 | 79,000 |
| 11 | **Southwest Minnesota State University** | Marshall | Southeast | Various locations on campus | $ 2,448,000 | 48,000 |
| 12 | **Rochester Community and Technical College** | Rochester | Southeast | Memorial, Plaza Hall, and Art Hall | $ 2,233,800 | 43,800 |
| 13 | **Design and Demolition** | Systemwide | | To design and demolish small projects, systemwide | $ 1,122,000 | 22,000 |
| | | | | **Total** | **$20,575,950** | **403,450** |
| | | | per Square Foot | | | $51 |

## E. COMPARISON OF METROPOLITAN AREA AND RURAL AREA CAPITAL