



**FINANCE AND FACILITIES COMMITTEE
MAY 22, 2013
8:00 A.M.**

**MCCORMICK ROOM
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

- (1) Minutes of Finance and Facilities Committee Study Session on Allocation Framework 101 on April 16, 2013 (pp. 1 – 5)**
- (2) Minutes of April 16, 2013 (pp. 6 - 8)**
- (3) Report on Results of 2013 Legislative Session (p. 9)
- (4) Fiscal Year 2014 Operating Budget (First Reading)
(pp. 10 - 19)
- (5) 2014-2019 Capital Budget Program Recommendations
(First Reading) (p. 20)
- (6) St. Cloud State University Contract Approval Exceeding \$3 Million for Beverage Sponsorship (pp. 21 - 23)**
- (7) Metropolitan State University Contract Approval Exceeding \$3 Million for Facility Lease (pp. 24 - 31)**

Members

Michael Vekich, Chair
David Paskach, Vice Chair
Brett Anderson
Dawn Erlandson
Phil Krinkie
Alfredo Oliveira
Thomas Renier

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

STUDY SESSION MINUTES

April 16, 2013

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

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

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its Allocation Framework 101 Study Session on April 16, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the session to order at 3:30 p.m. and noted Trustee Paskach was present by phone. Chair Vekich also noted that President Opatz and President Hanson, the Finance Committee President Liaisons, were present to assist with the discussion.

Chair Vekich said this session is a follow up to the Finance 101 study session in November where committee members indicated interest in the design, mechanics and future outlook of the allocation framework. Trustee Vekich said that there is a narrative and a PowerPoint included in the packet. The narrative provides context for the framework, describes the mechanics, and makes observations about the incentives and the effects of the design.

Vice Chancellor King introduced Deb Bednarz and Susan Anderson and began the presentation. Vice Chancellor King stated that the allocation of state appropriation makes up 29% of system revenues, a decline from 40% in 2000. The allocation framework only concerns the state appropriation of 29%. All other system revenue, including tuition, fees, auxiliary income, grants, and private gifts, is earned and retained at the individual colleges and universities, and is not a part of the allocation framework.

The current allocation framework provides the flexibility to fund priority initiatives and systemwide services and provides base funding to the institutions. The state allocation comes as a “block grant” that is distributed throughout the system through the allocation framework. The allocation framework distributed \$441M in FY2013. Vice Chancellor King added that the allocation framework is now under study for possible redesign as part of the Strategic Framework.

Vice Chancellor King said fourteen workgroups from across the system helped to develop the algorithm in the allocation framework. It was approved by Board of Trustees in 2002 and fully implemented in 2006.

In 2013, the Board was allocated \$545M by the legislature which was distributed three ways: \$467M for institutional allocations - the funding that goes directly to colleges and universities as priority funds or as base allocations; \$43M for systemwide set asides - the funding that is used to support systemwide services such as enterprise technology, debt service, and the Attorney General's office, etc.; and \$33M for system office support – a specific line-item appropriation from the legislature supported with state appropriation only, not tuition dollars.

A breakdown of how the state funds are distributed through the rubric was presented. 8% of the total funding is allocated to systemwide set asides to fund services such as enterprise technology and the system audit program that are provided across the system; 3% is allocated to colleges and universities as priority funds for programs such as Access and Opportunity. Priority funding can be determined by the board or the legislature through the budget process. 83% is allocated to the colleges and universities as “base” allocations, which is further broken down to support instruction (56%), administrative and student support (30%), facilities (7%), library (4%), and research and public service (2%). Systemwide set-asides (8%), institutionally priority funds (3%), and system office funding have separate rules.

The allocation framework determines funding levels based on each school's instructional cost, enrollment, and other factors and each school is given a great deal of discretion over how these funds are spent. The algorithm's conclusion through each portion of the allocation framework has been fairly constant over the past ten years with the exception of a 2% drop in facilities and a 2% increase in administrative and student services. The system office allocation percentage has been frozen for the past four years, which poses challenges with the continued decline in state appropriation.

The Technical Advisory Committee (TAC), made up of campus employees, institution research employees, CFOs, and CAOs was formed to address issues in the allocation framework as they arise. The Board has not “reapproved” the allocation framework since it was adopted in 2002, and there has been approximately a 1% shift in the funding between the sectors over the last 10 years. Chancellor Rosenstone emphasized that the considerations that go into the allocation framework help drive how the state allocation is distributed to the campuses, but the presidents make the final decision of how the money is used.

Trustee Hightower asked if the 6% for the system office funding has vacillated. Vice Chancellor King replied that the 6% has gone up because the \$545M has gone down. Six or seven years ago, the state appropriation was \$650M and the system office budget was about \$3M higher, but the percentage was still lower because of the higher state appropriation. Funding at its highest was \$41M when there was a large investment in technology, and, since then, it has shrunk 25%. Chancellor Rosenstone added that

because the system office does not have other revenue resources and there has been a reduction in the state appropriation, the percentage of funding for system office is shrinking as a source of support to the system.

Trustee Anderson Kelliher asked how the 4% library funding compared nationally. Vice Chancellor King said that she did not have that information on hand, but it can be provided. Trustee Anderson Kelliher asked if the system could follow the model of the governor's office, where the executive branch acts as "hub" and various constituencies pay for its functions. Vice Chancellor King said workgroups and the Campus Service Cooperative are studying the work of the system office, how it supports the campuses, and how it is paid for. Chancellor Rosenstone noted that this type of model has already been discussed at Leadership Council, where all allocation money is sent to the campuses and they, in turn, contribute to the shared services provided by the system office. This would provide greater accountability on system office activities as to who is paying for the services. Modifications to the allocation framework would take into account incentives, disincentives, and systemwide sustainability.

Vice Chancellor King said that the instructional cost study is one important component of the allocation framework. The cost of instruction of 300 programs is reviewed annually. The costs include instructional and academic support costs, less the revenue buy-down. Using data from the instructional cost study, state funding is allocated to colleges and universities based on their program mix, their enrollment and the cost of delivering their educational programs. The allocation framework also recognizes that the cost of delivering the same program can differ between institutions and compares high cost programs to other high cost programs and low cost programs to other low cost programs throughout the system. The allocation framework calculates the average cost of delivering a similar program throughout the system and calculates a 10 percent band around that average. The percentage of the state allocation distributed to the institution is then based how they fall within the bands. Vice Chancellor King said that the allocation framework is run on a net basis, allowing presidents to run some programs cost efficiently, and others not and the system office does not direct academic cost control. Campus leadership can decide to spend above or below the band as long as the overall total balances out.

Chancellor Rosenstone added that the allocation framework takes into account that courses at a technical college are more costly than those at a community college. The allocation framework builds in additional funds for inherently more expensive courses. Institutions are also rewarded for operating efficiently and penalized for operating inefficiently. Vice Chancellor King noted that the available funds distributed are based on 50% of the prior year's allocation percentage share and 50%, of the new allocation share, which builds in a slow rate of change for "winners and losers".

Vice Chancellor King called on President Opatz and President Hanson to comment. President Opatz said the allocation framework is enrollment driven. Institutions rely more and more on tuition because even if your institution experiences enrollment growth, there may be zero gain if state appropriation continues to decline. An institution must

also keep up with enrollment growth across the system. President Opatz noted that even though there is incentive for increased enrollment, student success is not factored in.

President Hanson said that he likes the predictability of the allocation framework and also likes that all tuition revenue stays at the school. President Hanson said that he agrees with President Opatz in that the allocation framework focuses on inputs, not outcomes and said that there is not incentive for collaboration. President Hanson added that in cases of funding for multiple institutions, such as Bemidji State University and Northwest Technical College, there is one allocation that needs to be divided between two institutions, and that can be challenging.

Trustee Renier asked President Hanson to elaborate on what is meant by collaboration. President Hanson gave the example of all the northwest Minnesota colleges and universities coming together and forming the Northwest Minnesota Initiative. President Hanson said that there have been roadblocks in the initiative because of the way colleges and universities are set up, but they continue to find ways to work together.

Chancellor Rosenstone said one aspect of the allocation framework is that he respects its objectiveness; it does not allow the chancellor to distribute the funding and play favorites. Chancellor Rosenstone agreed that there is little or no incentive for collaboration amongst the institutions under the current allocation framework and some institutions regard each other as competitors, rather than working collaboratively toward student success. The current allocation framework is also silent concerning the achievement gap and efficient use of square footage. Chancellor Rosenstone said this study session should help identify the strengths and weaknesses of the current allocation framework, and help build the structure for the System of the Future to accomplish the outcomes that the system is trying to achieve.

Trustee Cirillo said that leadership should look to at institutions that are performing well and lead with their practices to rebuild the allocation framework. Vice Chancellor King said that is exactly why the remodel of the allocation framework has been on pause.

Trustee Dickson said that, when funded, the Centers of Excellence were an earnest attempt at collaboration among the institutions. Trustee Dickson asked if there were any barriers that the board could help eliminate so there could be collaboration without the presence of financial incentives. Vice Chancellor King replied that advice and direction will come from the strategic workgroups and preliminary reports and recommendations will be submitted to Chancellor Rosenstone in June and final decisions will be made by the board in October.

Trustee Sundin said the vision of collaboration should be in a broader sense, including partners in businesses and school districts. Trustee Sundin noted that the partners should bring their own funding or in-kind contributions. Vice Chancellor King said that care needs to be given to keep the allocation as a block grant, in order for decisions to continue to be made at the campuses by the presidents.

Trustee Hightower asked if there was anything that the board could do to take the modifications of the allocation framework off pause. Chancellor Rosenstone replied that in order to get answers to the questions that are now before the workgroups, there needs to be clarity in the direction in which to move the system in the future. Once the direction has been identified, more work will be done to accomplish the desired strategic outcomes through modification of the framework to incent the right behaviors. There will be consultation with the system's constituencies; there will be design choices of what the system will look like in 3 – 5 years, including mandates, performance processes, establishment of metrics and goals, incentives for behavior to promote student success, and rules for the distribution of the state allocation.

The study session was adjourned at 4:32 p.m.

Respectfully submitted,

Laury Anderson, Recorder

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

April 16, 2013

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

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

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on April 16, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 4:40 p.m. and noted Trustee Paskach was present by phone.

1. Minutes March 20, 2013

The minutes of the March 20, 2013 Finance Committee meeting were approved as published.

2. Proposed Board Policy 5.24 Safety and Security Compliance (Second Reading)

Vice Chancellor Laura King presented the second reading of proposed Board Policy 5.24 Safety and Security Compliance. Vice Chancellor King said the first reading of the policy was presented at the March Finance Committee meeting. The proposed policy will be supported with system procedures in the areas of occupational safety, environmental health, physical security and emergency management planning and execution for all system locations. Chair Vekich asked if procedures would be developed under this policy. Vice Chancellor King replied that some procedures are already in place, and that this policy would act as a home for them. Vice Chancellor King noted that new and amended board policies come before the board as action items, and procedures come to the board as information items.

Trustee Anaya asked if the proposed policy addresses cyber security. Vice Chancellor King said that cyber security is addressed by Policy 5.23, which is scheduled to come before the board in June.

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

RECOMMENDED COMMITTEE ACTION:

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

The Board of Trustees approves Board Policy 5.24, Safety and Security Compliance.

3. St. Cloud State University Contract Approval Exceeding \$3M for TV Studio Upgrade

Vice Chancellor King stated that St. Cloud State University is seeking approval of a contract not to exceed \$5M for a high definition upgrade of the broadcasting equipment in the Mass Communications department. A Request for Bid was made public in March and the consultation process is complete. Vice Chancellor King introduced Douglas Vinzant, Vice President of Finance and Administration at St. Cloud State University.

Trustee Krinkie asked how the project will be funded and what would happen if there were revenue shortfalls for the project. Vice Chancellor King responded that the university has budgeted for the project from savings in the general fund. Trustee Krinkie asked if the program was revenue generating. Mr. Vinzant replied that to his knowledge, it was not. Trustee Krinkie asked if there were opportunities for revenue generation. Chancellor Rosenstone responded if interest in commercial time arose, the university would be pleased to accommodate the request. Chancellor Rosenstone added that Mass Communications is one of the largest undergraduate degree programs at St. Cloud State University, with 560 students majoring in this field, and another 650 enrolling in coursework. The studio serves a lab for students in digital communication courses. The program has high job placement success, largely attributable to the TV studio and production facility.

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 ACTION:

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

The Board of Trustees approves St. Cloud State University's request to proceed with the execution of a contract in an amount not to exceed \$5,000,000 for the high definition upgrade of its TV production facility and selected sports venues.

5. Other

Vice Chancellor King said first reading of the FY2014 Operating Budget is scheduled for the May Finance Committee meeting. The first reading of the FY2014-19 Capital Budget request is also scheduled for May. Recommendations for 2014 will be influenced by the outcome of the legislature's consideration of a bonding bill in the 2013 session.

Vice Chancellor King reported that Minnesota Management and Budget (MMB) released the state's comprehensive financial statements on March 20, 2013. The state received an "unqualified" opinion on the 2012 Comprehensive Annual Financial Report from the Office of the Legislative Auditor.

Vice Chancellor King noted that MMB borrowed another \$150 million in March 2013, bringing the balance owed to \$675M. All funds will be repaid by June 30, 2013 and historically, MMB has always repaid on time.

The meeting was adjourned at 4:55 p.m.

Respectfully submitted,

Laury Anderson, Recorder

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

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee **Date of Meeting:** May 22, 2013

Agenda Item: Report on the Results of the 2013 Legislative Session

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

The 2013 legislative session is scheduled to conclude on May 21, 2013. Staff will distribute a summary of the key accomplishments of the session at the Finance and Facilities committee meeting.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - CFO
Michael Dougherty – Vice Chancellor for Advancement

Outline of Key Points/Policy Issues:

Background Information:

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

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee **Date of Meeting:** May

Agenda Item: FY2014 Operating Budget – 1st reading

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

Board Policy 5.9, Biennial and Annual Operating Budget Planning and Approval, requires the Board of Trustees to approve the systemwide annual all funds operating budget plans for colleges, universities and the system office. This is the first reading of the Minnesota State Colleges and Universities’ fiscal year 2014 (FY2014) operating budget.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - CFO
Deborah Bednarz, Director – Financial Planning and Analysis

Outline of Key Points/Policy Issues:

The focus of this report is to describe possible funding scenarios based on the Governor, House and Senate proposals, and to analyze their potential impact on college and university operating budgets. With this information, board members will be able to better understand the implication of the enacted FY2014-15 biennial budget on the system’s FY2014 operating budget.

Background Information:

At this time, the 2013 legislative session has not concluded and state funding levels for Minnesota State Colleges and Universities are not yet known. Significant differences remain between the Governor’s, House and Senate budget proposals for Minnesota State Colleges and Universities. Depending on the outcome of the conference committee and the appropriation bill that is signed into law, the assumptions used to develop the annual operating budget could change significantly.

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

ACTION ITEM
Fiscal Year 2014 Operating Budget (First Reading)

BACKGROUND

Board Policy 5.9, *Biennial and Annual Operating Budget Planning and Approval*, requires the Board of Trustees to approve the systemwide annual all funds operating budget plans for colleges, universities and the system office. This is the first reading of the Minnesota State Colleges and Universities’ fiscal year (FY) 2014 operating budget.

At this time, the 2013 legislative session has not concluded and state funding levels for Minnesota State Colleges and Universities (MnSCU) are not yet known. Significant differences remain between the Governor’s, House and Senate budget proposals for Minnesota State Colleges and Universities. The annual operating budget is substantially dependent upon the outcome of the higher education conference committee and the appropriation bill that is ultimately signed into law.

For this reason, detailed budgets, tuition and fee tables, and revenue fund information are not included in the May board materials. This information will be included in the June, 2013 board materials when the outcome of the legislative session is known and the budget parameters are established. Assuming the legislature completes its work by the scheduled May 20 adjournment date, updated enterprise level budget information will be distributed at the May Board meeting.

The focus of this report is to describe possible funding scenarios based on the Governor’s, House and Senate proposals, and to analyze their potential impact on college and university operating budgets. With this information, board members will be able to better understand the implication of the enacted FY2014-15 biennial budget on the system’s FY2014 operating budget.

Operating Budget Development Process for Minnesota State Colleges and Universities

The system’s colleges and universities have considerable autonomy and flexibility to plan, implement, and manage their budgets, within the parameters established by the Board of Trustees. They also must adhere to any legislatively imposed constraints, such as tuition caps, that are enacted in law. Except for these systemwide limitations, the development of the operating budget is best characterized as a “ground-up” process.

Once budget parameters are established, college and university leadership meet with students and other key constituencies to discuss their budgets, tuition and fee rates, enrollment projections, state support and other budget assumptions. Budgets are developed by the institutions, with decisions made locally. Budget materials are submitted to the system office and reviewed for accuracy, completeness, structural soundness and compliance with budget guidelines. College, university and the system office budgets are then rolled-up to create the system's enterprise level all funds operating budget.

While this process ensures local control and better budget decisions, it requires additional time to develop the annual systemwide operating budget, especially when budget assumptions change significantly.

LEGISLATIVE UPDATE: BIENNIAL BUDGET REQUEST

State Budget Outlook: Improving Budget Picture, Smaller Projected Deficits

The legislatively adopted FY2014-15 biennial budget will be based on the revenue and expenditures projections published in Minnesota Management and Budget's (MMB) February Economic Forecast. In that forecast, MMB reported continued improvement in the state's budget outlook. The strengthening economy has allowed the state to rebuild its reserves and repay a significant portion of the K-12 funding shift. Despite the brightened budget outlook, MMB is projecting a \$627 million shortfall for the FY2014-15 biennium, with \$801 million of school shift remaining.

Notwithstanding real improvement in the state's economic and budget outlook, risks remain. The expiration of the payroll tax cut in January could slow economic growth. Federal sequestration may slow economic growth nationally, although federal budget cuts are not expected to have significant impact on Minnesota's economy in comparison to other states whose economies are more dependent on federal government spending.

Minnesota State Colleges and Universities Biennial Budget Request - \$97 million

In November, the Board of Trustee's approved Minnesota State Colleges and Universities Biennial Budget request, *Working Together for Minnesota's Prosperity*. The request asked for \$97 million in new state funding over the biennium, \$40 million in FY2014 and \$57 million in FY2015, an 8.9 percent increase over the biennium.

The additional support was directed to three specific areas tied directly to advancing the Strategic Framework: 1) advance competitiveness of Minnesota's workforce; 2) increase access and affordability; and 3) accelerate completion.

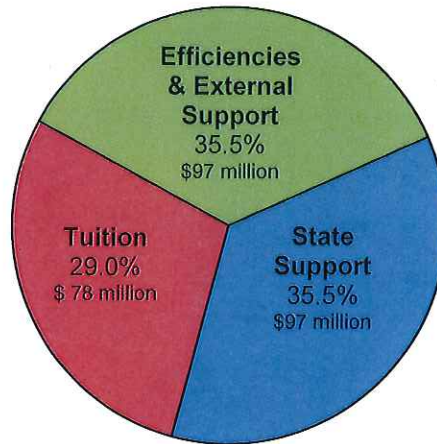
The budget proposal was built on the principles of shared responsibility and accountability. Shared responsibility included not just asking for additional funding from the legislature but also asking:

1. our colleges, universities, and system office to reallocate existing resources to meet emerging needs and increase their fundraising efforts to support student scholarships;

2. Minnesota business and industries to support our students by providing student internships and helping fund instructional equipment needs; and
3. our students to pay for a modest annual tuition increase of \$145 for full-time college students and \$205 for full-time university students.

Chart A below illustrates the system's shared responsibility funding proposal.

Chart A



In addition, the budget proposal included both long-term and short-term performance metrics that would hold the system accountable for its commitments to students, the legislature, and the citizens of Minnesota. Table 1 summarizes the biennial budget request.

Table 1

\$ in millions

Priorities	TOTAL	Sources of Revenue			
		State Support	Tuition	Efficiencies	External Funding
Advance Competitiveness of Minnesota's Workforce	91	41	17	0	33
<i>Transforming Education</i>	25	8	17		
<i>Internships in high demand areas</i>	24	12			12
<i>Leveraged Equipment</i>	42	21			21
Increase Access and Affordability	30	10	0	0	20
<i>State-wide scholarship campaign</i>	20				20
<i>Meeting needs in high demand professions</i>	10	10			
Accelerate Completion of an Extraordinary Education	151	46	61	44	
<i>Retain quality and high performing staff and faculty</i>	103	34	47	22	
<i>Other inflationary operating costs</i>	36		14	22	
<i>High Impact Strategies - Engagement, Retention, and Success</i>	12	12			
TOTAL	272	97	78	44	53
Percent of Total		36%	29%	16%	19%

If funded, the dollars for the initiatives would be distributed to colleges and universities as described in Table 2 below:

Table 2

Initiative	Allocation Method
Advance Competitiveness	
Education innovations	Percent share of allocation framework
Internships/apprenticeships	FY2012 student credit headcount
Leveraged equipment	Institution's 5 year average equipment spending
Increase Access and Affordability	
High demand professions	To be determined
Accelerate Completion	
Retain quality staff and faculty	Percent share of allocation framework
High impact strategies	Percent share of allocation framework

Current Executive and Legislative Recommendations

The Governor and Senate both recommended substantial increases to the Minnesota State Colleges and Universities, the University of Minnesota and the Minnesota State Grant program. The Governor and the Senate supported similar elements (though not exactly the same) in each portion of the overall higher education request.

The House recommendations, at a lower overall spending level, depart in both spending levels and in policy approach from both the Governor and the Senate. While the Governor and the Senate support the tuition strategies suggested by MnSCU, the House bill includes language that prohibits the Board from raising tuition in 2014 or 2015. The House proposal also declines to support the recommendation supported by the Governor and the Senate to invest substantial new funds in the Minnesota State Grant program.

Table 3 below summarizes the FY2014-15 biennial budget funding recommendations for higher education and for Minnesota State Colleges and Universities.

Table 3

<i>\$ in millions</i>	2014-2015 Base	Governor - recommended increase	Senate - recommended increase	House – recommended increase
Higher Education Target	2,565.3	262.7	262.7	149.9
MnSCU Recommendation	1,090.7	80.0	80.0	78.0
Tuition Impact		78	78	0

Governor's Recommendation - \$80 Million (\$262.7 million Higher Education Target)

The Governor's budget recommendation for the FY2014-15 biennium closely mirrored MnSCU's request but at slightly lower funding levels.

- \$80 million in new funding recommended
- Initiatives for student internships, leveraged equipment, educational innovations, and compensation needed to retain high quality faculty and staff (inflation) funded at or above requested levels
- Initiatives to support completion and expand access to high demand professions were not recommended for funding
- Accepted proposed annual tuition increase of \$145 (colleges)/\$205 (universities)/per year for full-time students

Senate Recommendation - \$80 Million (\$262.7 million Higher Education Target)

The Senate recommended the same level of funding as the Governor for Minnesota State Colleges and Universities. The Senate recommendation also closely mirrored MnSCU's request.

- \$80 million in new funding recommended
- All initiatives funded at some level
- Performance funding: five percent of FY2015 appropriation tied to meeting three of five performance goals
- Amendment to limit tuition increases to three percent over the biennium adopted on Senate floor. Staff understands a drafting error occurred and the intention was to limit to three percent annually, consistent with the board's position.

House Recommendation - \$78 Million (\$149.9 million Higher Education Target)

The House recommended a substantially lower overall higher education funding level and a slightly lower target for the system, and used the new state funding to buy-down the Board's proposed tuition increase in both FY2014 and FY2015.

- \$78 million for tuition relief to buy-down the \$145/\$205 proposed annual full year equivalent tuition increase
- No funding for initiatives
- Required any shortfalls in funding to come from "reductions in costs associated with central administration of the system and executive administration of individual campuses, or through reallocation of non-state funds received by the system"

ANALYSIS OF GOVERNOR'S, SENATE AND HOUSE PROPOSALS

The Governor's, Senate and House proposals represent fundamentally different approaches to funding Minnesota State Colleges and Universities. If enacted, each proposal would

require our colleges and universities to develop significantly different financial plans. The focus of this section is to summarize and highlight those differences.

The revenue and expenses analysis shown in Table 4 illustrates how “new” state appropriation dollars would be appropriated and spent. The analysis assumes that compensation will increase by three percent each year of the biennium. It also assumes that \$44 million of the compensation and operating cost inflation will be covered through the reallocation of existing resources at the colleges and universities, as proposed in MnSCU’s initial biennial budget plan. Conclusions from the analysis are summarized after Table 4.

Table 4

**Minnesota State Colleges and Universities
Comparison of 2014-2015 Biennial Budget Plans ¹**

<i>\$s in millions</i>	MnSCU Request	Gov's Rec	Senate Rec	House Rec
Revenues				
Initiatives (State Appropriation):				
Education innovations	8	8	8	0
Internships	12	12	2	0
Leveraged equipment	21	26	19	0
High demand professions	10	0	10	0
Retain quality staff and faculty	34	34	29	0
High impact strategies	12	0	12	0
Subtotal Initiatives	97	80	80	0
Tuition relief	0	0	0	78
Total New State Support	97	80	80	78
Tuition Revenue	78	78	52	0
Total New Resources	175	158	132	78
Expenses				
Compensation (Inflation) ²	95	95	95	95
Initiative Spending	80	63	63	0
Total New Spending	175	158	158	95
Gap	0	0	(26) ³	(17)

(1) Amounts noted above are biennial budget totals for both FY 2014 and FY 2015.

(2) \$44M in reallocations directed to cover \$36M in operating cost inflation and \$8M of forecast compensation inflation.

(3) Correction of drafting error increases tuition revenue to \$78 million and eliminates gap shown.

Governor's Recommendation Analysis

- No shortfall projected; projected new revenues equal projected new expenses
- \$63 million in new investments are made in student internships, leveraged equipment, and educational innovations
- \$34 million in state funding for retaining quality faculty and staff
- \$58 million in private matching funds and student scholarships are leveraged
- \$78 million in tuition revenue generated

Senate Analysis:

- \$63 million in new investments are made in student internships, leveraged equipment, educational innovations, high impact strategies for completion, and high demand professions
- \$29 million in state funding for retaining quality faculty and staff
- \$41 million in private matching funds and student scholarships are leveraged
- Without correction of the drafting error, the tuition cap will create a \$26 million budget shortfall in FY2015
- \$52 million in tuition revenue generated

House Analysis:

- All new state dollars used to fund tuition relief
- No new funding for initiatives
- Inflationary costs not covered, resulting in a \$17 million budget shortfall over the biennium
- No matching funds leveraged
- No new tuition revenue generated

ENROLLMENT ANALYSIS

Minnesota State Colleges and Universities continue to educate more Minnesotans than any other post-secondary institution or system in the state. The system experienced rapid enrollment growth and record setting enrollment levels between FY2006 and FY2011. That growth has fallen off slightly as students entered higher education at the start of the recession graduated and as the economy and job market has improved.

FY2013 full year equivalent (FYE) enrollment is projected to be 150,214, a decrease of 2.1 percent over FY2012 levels. In FY2014, FYE enrollment is projected to fall slightly (0.3 percent) to 149,736, with enrollment at colleges estimated at 93,594 FYE and enrollment at universities projected at 56,142 FYE. Enrollment projections for 2014 indicate enrollment levels 7 percent above 2008 levels. Forecast now indicates 2013 enrollment below 2012 levels but remaining above 2009 levels.

Virtually all of the enrollment change occurred at the colleges, with very little movement at the universities. Consistent with past experience, enrollment levels are tracking with the employment rates in the general population. As employment rates climb, enrollment levels

flatten or decline. Table 5 below provides historical and projected enrollment by college and university from FY2008 to FY2015.

Table 5
MINNESOTA STATE COLLEGES AND UNIVERSITIES
Student Full Year Equivalent (FYE) for FY2008-2015

Institution	Actual FY2008	Actual FY2009	Actual FY2010	Actual FY2011	Actual 2012	Projected FY2013 (Feb 13)	Projected FY2014 (Feb 13)	Projected FY2015 (Feb 13)
STATE COLLEGES								
Alexandria Technical & Community College	2,110	2,063	2,270	2,290	2,268	2,323	2,300	2,300
Anoka-Ramsey Community College	5,113	5,339	6,174	6,327	6,048	5,940	5,881	5,881
Anoka Technical College	1,527	1,643	1,896	1,876	1,692	1,582	1,503	1,503
Central Lakes College	2,645	3,020	3,384	3,558	3,434	3,386	3,321	3,321
Century College	6,287	6,714	7,650	7,879	7,662	7,400	7,400	7,400
Dakota County Technical College	2,104	2,206	2,484	2,549	2,475	2,500	2,500	2,500
Fond du Lac Tribal & Community College	1,268	1,242	1,376	1,421	1,388	1,297	1,303	1,310
Hennepin Technical College	3,781	3,889	4,493	4,779	4,678	4,560	4,560	4,560
Inver Hills Community College	3,656	3,784	4,284	4,329	4,140	4,074	4,074	4,074
Lake Superior College	3,415	3,549	3,679	3,675	3,749	3,756	3,756	3,756
Minneapolis Community & Technical College	6,252	6,538	7,405	7,302	6,963	6,760	6,733	6,733
Minnesota State College-Southeast Technical	1,552	1,660	1,988	1,985	1,796	1,700	1,700	1,750
Minnesota State Community & Technical College	4,595	4,584	4,884	5,116	5,056	4,858	4,950	5,000
Minnesota West Community & Technical College	2,062	2,088	2,360	2,469	2,287	2,250	2,250	2,250
Normandale Community College	6,648	6,869	7,405	7,426	7,131	7,066	7,100	7,200
North Hennepin Community College	4,314	4,625	5,110	5,058	4,928	4,928	4,780	4,780
Northeast Higher Education District	4,273	4,314	4,525	4,630	4,399	4,178	4,170	4,170
Hibbing Community College	1,207	1,315	1,370	1,346	1,246	1,127	1,130	1,130
Itasca Community College	999	969	1,073	1,118	1,074	1,032	1,050	1,050
Mesabi Range Community & Technical College	1,148	1,194	1,186	1,216	1,128	1,080	1,060	1,060
Rainy River Community College	304	261	296	307	302	309	300	300
Vermilion Community College	615	575	600	643	649	630	630	630
Northland Community & Technical College	2,814	2,788	2,938	2,828	2,659	2,750	2,750	2,750
Northwest Technical College****								
Northwest Technical College (Bemidji)	870	831	943	918	848	720	750	775
Pine Technical College	479	516	619	651	633	660	680	700
Ridgewater College	3,304	3,306	3,514	3,537	3,381	3,250	3,200	3,200
Riverland Community College	2,329	2,274	2,599	2,562	2,406	2,350	2,400	2,400
Rochester Community & Technical College	4,270	4,410	4,714	4,582	4,438	4,450	4,475	4,475
Saint Paul College	3,499	3,785	4,383	4,590	4,729	4,785	4,833	4,881
South Central College	2,504	2,714	2,989	3,099	2,912	2,660	2,700	2,750
St. Cloud Technical & Community College	2,983	3,046	3,484	3,668	3,447	3,490	3,525	3,560
SUBTOTAL	84,654	87,797	97,550	99,104	95,547	93,673	93,594	93,979
STATE UNIVERSITIES								
Akita Campus								
Bemidji State University	4,272	4,276	4,485	4,715	4,634	4,340	4,250	4,300
Metropolitan State University	4,745	5,069	5,412	5,850	6,086	6,390	6,522	6,720
Minnesota State University Moorhead	6,578	6,558	6,733	6,812	6,574	6,251	6,283	6,383
Minnesota State University, Mankato	13,624	13,773	13,933	14,388	14,443	14,193	14,100	14,100
Southwest Minnesota State University	3,678	3,716	3,822	3,764	3,681	3,760	3,800	3,820
St. Cloud State University	14,382	14,563	15,096	14,976	13,938	13,017	12,647	12,589
Winona State University	7,952	8,172	8,391	8,294	8,544	8,590	8,540	8,540
SUBTOTAL	55,231	56,127	57,872	58,799	57,900	56,541	56,142	56,452
TOTAL	139,885	143,924	155,422	157,903	153,447	150,214	149,736	150,431
Change from Prior Year	3.0%	2.9%	8.0%	1.6%	-2.8%	-2.1%	-0.3%	0.5%

NEXT STEPS

Based on the outcome of legislative session, the system office will request updated budgets, tuition and fee tables, revenue fund information and reallocation reports from colleges and universities. A complete and detailed operating budget plan will be included in June board materials report.

Any new information will be shared with the Board of Trustees at the May meeting.

Date submitted to Board of Trustees: May 22, 2013

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

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee **Date of Meeting:** May 22, 2013

Agenda Item: 2014-2019 Capital Budget Program Recommendations (First Reading)

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

The purpose of this report is to present the Chancellor's recommendation for the 2014-2019 Capital Budget.

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

Outline of Key Points/Policy Issues:

Staff will distribute materials at the Finance and Facilities Committee meeting.

Background Information:

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

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee **Date of Meeting:** May 22, 2013

Agenda Item: St. Cloud State University Approval of Contract Exceeding \$3 Million for Beverage Sponsorship

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

Board Policy 5.14, Procurements and Contracts, requires approval by the Board of contracts exceeding \$3,000,000.

Scheduled Presenter(s): Laura M. King, Vice Chancellor - CFO
Douglas Vinzant, Vice President, Finance & Administration
St. Cloud State University

Outline of Key Points/Policy Issues:

The purpose of this report is to request Board approval of a beverage sponsorship contract with a value not to exceed \$4,500,000 for on campus pouring services at St. Cloud State University (SCSU).

Background Information:

The university has issued a call for RFP for campus pouring services. The published notice asks vendors who respond to RFP to provide financial information for two contract term periods—five years and ten years. The university will evaluate the term that offers the greatest benefit to the university based on consideration of the information provided in response to the RFP.

The university initiated the RFP process on May 1, 2013 and anticipates receiving responses on May 21, 2013. Board approval in May is necessary so a fully executed contract with the selected vendor can be completed by July 1, 2013.

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

BOARD ACTION

**St. Cloud State University Contract Approval Exceeding \$3 Million
for Beverage Sponsorship**

BACKGROUND

Board Policy 5.14, Procurements and Contracts, requires approval by the Board of contracts exceeding \$3,000,000. The purpose of this report is to request Board approval of a beverage sponsorship contract with a value not to exceed \$4,500,000 for on campus pouring services at St. Cloud State University.

The university has issued a call for RFPs for this purpose. The published notice asks vendors who respond to the Request for Proposal (RFP) to provide financial information for two contract term periods—five years and ten years. The university will evaluate the term that offers the greatest benefit to the university based on consideration of the information provided in response to the RFP.

The university initiated the RFP process on May 1, 2013 and anticipates receiving responses on May 21, 2013. Board approval in May is necessary so a fully executed contract with the selected vendor can be completed by July 1, 2013. The schedule for the RFP and decision-making process is presented below.

RFP Selection and Implementation Timeline

Wednesday, May 1, 2013	Publish RFP notice at MMD solicitation website
Tuesday, May 7, 2013	Deadline for RFP proposal questions
Tuesday, May 14, 2013	SCSU responses to questions
Tuesday, May 21, 2013	Deadline for RFP proposal submissions
Wednesday, May 22, 2013	MnSCU Board approval
Friday, May 31, 2013	Final decision by SCSU
Monday, July 1, 2013	Contract is fully executed

Respondents to the RFP are also being asked to provide information for (a) exclusive pouring rights in all campus facilities; and/or (b) shared pouring rights among athletics, residence halls, student union, and all other facilities. Pursuant to Minnesota Statute § 248.07, Subd. 7, Minnesota State Services for the Blind (SSB) operates the vending machines in all university buildings. Therefore, the successful responder must work cooperatively with SSB.

*St. Cloud State University Contract Approval
Exceeding \$3 Million for Beverage Sponsorship*

After responses are received from vendors, they will be evaluated by university staff from the university's divisions of Finance and Administration, Student Life and Development, and Athletics. This group will evaluate the proposals and make a recommendation to the President.

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.

RECOMMENDED BOARD 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.

Date submitted to the Board of Trustees: May 22, 2013

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

Agenda Item Summary Sheet

Committee: Finance and Facilities Committee **Date of Meeting:** May 22, 2013

Agenda Item: Metropolitan State University Contract Approval Exceeding \$3 Million
for Facility Lease

Proposed Policy Change Approvals Required by Policy Other Approvals Monitoring

Information

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

Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires Board of Trustees approval of all contracts, including leases, valued at greater than \$3 million.

Scheduled Presenter(s): Brian Yolitz, Associate Vice Chancellor - Facilities

Outline of Key Points/Policy Issues:

The university's current lease of 54,024 square feet is scheduled to expire July 31, 2013. The new lease amendment maintains the same square footage, extends the term for five (5) years, including an additional five year option to renew, and adjusts the rent downward to reflect current market conditions. This lease amendment includes a partial contraction right in the event the university's Science Building is funded and completed during the lease term. System leases maintain a statutory right to terminate at any time with proper notice provided relocation is not to another non-state owned facility for the same use.

The university also would secure 152 additional daytime parking stalls, raising the total daytime stall count from 203 to 355. The amendment also provides the university the opportunity to add signage on the building and/or upgrade the current pylon sign.

Background Information:

Metropolitan State University entered into a lease at 1450 Energy Park Drive, Saint Paul, also known as Energy Technology Center (ETC) beginning in 1995. The ETC building is located in the Midway neighborhood of Saint Paul.

Starting in FY1996, Metropolitan State University leased 26,397 square feet at ETC. Due to the success of the programs at the site, the university expanded its lease incrementally every few years since its inception. The purpose of today's report is to request board approval for the university to enter into its 13th lease amendment.

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

BOARD ACTION

**Metropolitan State University Contract Approval Exceeding \$3 Million
for Facility Lease**

POLICY

Board Policy 5.14, Procurement and Contracts, Subdivision 3, requires Board of Trustees approval of all contracts, including leases, valued at greater than \$3 million.

BACKGROUND

Metropolitan State University entered into a lease at 1450 Energy Park Drive, Saint Paul, also known as Energy Technology Center (ETC) beginning in 1995. The ETC building is located in the Midway neighborhood of Saint Paul, and is illustrated on **Attachment A**.

Starting in FY1996, Metropolitan State University leased 26,397 square feet at ETC. Due to the success of the programs at the site, the university expanded its lease incrementally every few years since its inception. The purpose of today's report is to request Board approval for the university to enter into its 13th lease amendment. A historical summary of the rent and square footage at ETC is contained in **Attachment B** for reference.

MASTER PLAN

In May 2011, Metropolitan State University presented their latest master facilities plan, which called for the establishment of a "West Metro" campus located in the western suburbs of the Twin Cities. The plan was subsequently approved by the Vice Chancellor - Chief Financial Officer. The plan would have resulted in the university transitioning the programs from ETC to the new western suburban location, and letting the ETC lease lapse. During the summer of 2012, the university extensively evaluated western Twin Cities' locations. University leadership ultimately concluded that there was not a suitable site in the western metropolitan area that would accommodate the university's existing and future student populations without substantial investments in renovation. At many sites, parking was more constrained than at ETC. After reaching this conclusion, university leadership refocused their efforts on the ETC site and sought to renegotiate and extend the lease agreement.

The broader question of how best to provide the facilities needed to meet the baccalaureate demands in the metropolitan area is now under study. The solution will require a coordinated effort that includes all the universities providing instruction and associated student support. Metropolitan State University is a participant in these broader deliberations, which will inform any new long term space planning.

CURRENT AMENDMENT

The university's current lease of 54,024 square feet is scheduled to expire July 31, 2013. The new lease amendment maintains the same square footage, extends the term for five (5) years, including an additional five year option to renew, and adjusts the rent downward to reflect current market conditions. This lease amendment includes a partial contraction right in the event the university's Science Building is funded and completed during the lease term. System leases maintain a statutory right to terminate at any time with proper notice provided relocation is not to another non-state owned facility for the same use. The proposed rent terms are contained in **Attachment C**.

Of some note, the university also would secure 152 additional daytime parking stalls, raising the total daytime stall count from 203 to 355, a major deal point that will allow the university to expand its daytime class offerings. (During FY2012, the university taught 211 classes at ETC. Of those, 147 classes started at 6 p.m. or later). The amendment also provides the university the opportunity to add signage on the building and/or upgrade the current pylon sign.

A summary of major lease terms and financial analysis is contained in **Attachments D and E**.

RECOMMENDED COMMITTEE ACTION:

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

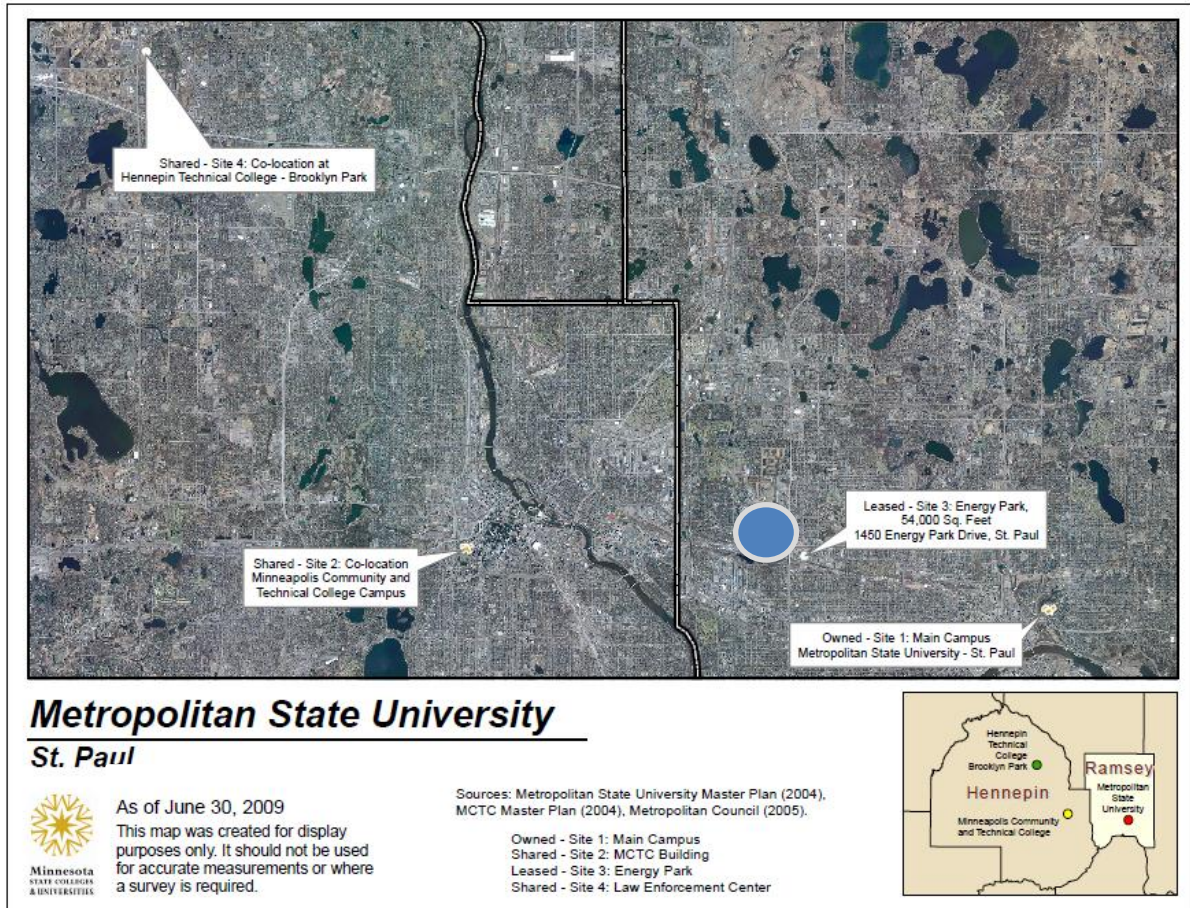
The Board of Trustees authorizes the Chancellor or his designee to execute all necessary lease documents with the owners of 1450 Energy Park Drive, Saint Paul, consistent with the terms as summarized on Attachment C, D and E.

RECOMMENDED 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.

Date submitted to the Board of Trustees: May 22, 2013

Attachment A



Attachment B

**ENERGY TECHNOLOGY CENTER (ETC)
HISTORICAL LEASE SYNOPSIS**

Fiscal Year	Rent	Ave. Sq. Ft.	Ave \$/Sq. Ft
FY96*	\$ 59,393.25	26,397	\$13.50
FY97	\$ 370,333.25	26,610	\$13.92
FY98	\$ 417,319.25	28,947	\$14.42
FY99	\$ 441,662.75	29,607	\$14.92
FY00	\$ 457,366.25	29,667	\$15.42
FY01	\$ 500,879.75	31,460	\$15.92
FY02	\$ 564,833.00	34,393	\$16.42
FY03	\$ 655,523.67	38,731	\$16.92
FY04	\$ 687,888.67	39,496	\$17.42
FY05	\$ 707,636.67	39,496	\$17.92
FY06	\$ 798,770.92	39,496	\$20.22
FY07	\$ 906,848.90	47,479	\$19.10
FY08	\$ 906,848.90	47,479	\$19.10
FY09	\$ 1,039,962.00	54,024	\$19.25
FY10	\$ 1,053,468.00	54,024	\$19.50
FY11	\$ 1,134,504.00	54,024	\$21.00
FY12	\$ 1,134,504.00	54,024	\$21.00
FY13	\$ 1,134,504.00	54,024	\$21.00

*The University had been leasing a portion of the building prior to the original lease start date of September 1, 1995.

GROSS LEASE: Operating costs all inclusive.

Attachment C

**ENERGY TECHNOLOGY CENTER (ETC)
PROPOSED RENT TERMS**

Term	Rent	Ave. Sq. Ft.	Ave \$/Sq. Ft
8/01/13 – 7/31/14	\$ 985,938.00	54,024*	\$18.25
8/01/14 – 7/31/15	\$ 999,444.00	54,024	\$18.50
8/01/15 – 7/31/16	\$1,012,950.00	54,024	\$18.75
8/01/16 – 7/31/17	\$1,026,456.00	54,024	\$19.00
8/01/17 – 7/31/18	\$1,039,962.00	54,024	\$19.25
Option to Renew			
8/01/18 – 7/31/19	\$1,053,468.00	54,024**	\$19.50
8/01/19 – 7/31/20	\$1,066,974.00	54,024	\$19.75
8/01/20 – 7/31/21	\$1,080,480.00	54,024	\$20.00
8/01/21 – 7/31/22	\$1,093,986.00	54,024	\$20.25
8/01/22 – 7/31/23	\$1,107,492.00	54,024	\$20.50

*Option to give back up to 4,317 square feet upon science building opening.

**Option to give back up to 7,000 square feet during renewal term.

PARKING: Increases daytime parking by 152 stalls for a new total of 355 daytime stalls.

GROSS LEASE: Operating costs all inclusive.

Attachment D

**ENERGY TECHNOLOGY CENTER (ETC)
SUMMARY OF MAJOR PROVISIONS
LEASE AMENDMENT NO. 13**

Premises	Current: Unchanged. 54,024 square feet, occupying lower level, first and third floors.
Commencement	August 1, 2013
Term	August 1, 2013 – July 31, 2018
Rental Rate	Year 1 \$18.25 Year 2 \$18.50 Year 3 \$18.75 Year 4 \$19.00 Year 5 \$19.25
Renewal Option	Year 1 \$19.50 Year 2 \$19.75 Year 3 \$20.00 Year 4 \$20.25 Year 5 \$20.50
Contraction/ Termination	Standard right to terminate for lack of funding; statutory right to terminate (Minn. Stat. 16B.24) Option for partial termination at no charge of up to 4,317 sq. ft. if the university's science building is constructed on main campus and labs are relocated
Parking	Current: 203 stalls for daytime use Amendment: adds 152 stalls for daytime use Total Daytime: 355 stalls Total evening: 850 stalls
Signage	Option to add exterior and pylon and new interior way-finding signage (at university's cost)

ATTACHMENT E

**FINANCIAL SUMMARY
Metropolitan State University
Lease Amendment No. 13
Energy Technology Center
1450 Energy Park Drive, Saint Paul**

Average annual gross rent	\$1,012,950
NPV - 5 years at 8%	\$4,036,137
Average annual rent rate	\$18.75 psf