



**FINANCE AND FACILITIES COMMITTEE
JANUARY 21, 2014
2:00 P.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 the Finance and Facilities Committee – November 19, 2013**
(pp. 1 - 6)
- (2) FY2013 and FY2012 Audited Financial Statements (pp. 7 - 24)
- (3) **Rochester Community and Technical College Contracts Exceeding \$3 Million for Regional Sports Center and Career Technical Education Center at Heintz/Science, Technology, Engineering, and Math Village** (pp. 25-30)
- (4) **Dakota County Technical College Surplus Declaration** (pp. 31 - 34)
- (5) **Authorization to Negotiate Third Party Housing Agreement at Minnesota West Community and Technical College and Northland Community and Technical College** (pp. 35 - 41)

Members

Michael Vekich, Chair
Dawn Erlandson, Vice Chair
Duane Benson
Phil Krinkie
David Paskach
Thomas Renier
Elise Ristau

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

November 19, 2013

Finance and Facilities Committee Members Present: Chair Michael Vekich, Trustees Duane Benson, Dawn Erlandson, Philip Krinkie, David Paskach, Thomas Renier, and Elise Ristau

Other Board Members Present: Trustees Margaret Anderson Kelliher, Cheryl Dickson, Alfredo Oliveira, and Louise Sundin

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on November 19, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 3:00 p.m. and noted that Trustee Paskach was present by phone. Chair Vekich said that each Trustee would find a revised motion for the three Campus Service Cooperative contracts at their place. The revision combined the three recommended committee actions in the Board packet into one action item.

1. Minutes of October 23, 2013

The minutes of the October 23, 2013 Finance and Facilities Committee were approved as published.

2. Finance and Facilities Update

Vice Chancellor King reported that colleges and universities are updating their FY2014 operating budgets, taking into account fall enrollment results, the revised spring outlook, and Minnesota Management and Budget (MMB) contract settlements. Trustees may hear of colleges and universities' efforts concerning budget reductions in FY2014 or FY2015.

The FY2013 Financial Statement audits are in the final review stages. MMB is on target for a December 31, 2013 deadline for the Comprehensive Annual Financial Report (CAFR).

Vice Chancellor King said some of the Trustees have been aware of the work that has been going on in the Metropolitan State University east side neighborhood concerning construction plans for a new parking ramp and student center. Trustees Hightower and Vekich toured the site earlier this fall. The ramp is required to support the board's #1 2014 bonding priority for the new science building on the campus. The university has reached an agreement with the neighborhood that was unanimously endorsed by the community group last week. The agreement locates the ramp mid-block, moves the student center to 7th Street

and pledges to work with the city to calm traffic on Maria Street. Detailed design work is already underway. The ramp and student center construction will start in the spring. The ramp will be finished in January, 2015 and the student center in June, 2015.

Vice Chancellor King expressed thanks to President Lantry and Mayor Coleman for their steadfast support of the university and neighborhood partnership.

3. Proposed Amendment to Board Policy 5.21 Possession or Carry of Firearms (Second Reading)

Chair Vekich introduced the second reading of the proposed amendment to Board Policy 5.21 Possession or Carry of Firearms. The proposed changes would allow any employee who is a licensed peace officer to carry a firearm in accordance with law while in work status as a Minnesota State Colleges and Universities' (MnSCU) employee. The new language also provides that federally authorized law enforcement officials may carry firearms on system property consistent with federal requirements. The recommended changes also would delete part 8 of the current policy. This part provides that colleges and universities are to adopt policies consistent with board policy, which is redundant. Board Policy 1A.1 allows colleges and universities to adopt policies consistent with board policy and system procedure. No changes are proposed to the policy's prohibition of students and other employees from carrying firearms on system property.

Chair Vekich said no follow-up was received from Trustees, presidents or others.

Trustee Renier moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Benson 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 the changes to Board Policy 5.21 Possession or Carry of Firearms.

4. Proposed Amendment to Board Policy 5.23 Security and Privacy of Information Resources (Second Reading)

Chair Vekich introduced the second reading of proposed amendment to Board Policy 5.23 Security and Privacy of Information Resources. The proposed changes would add the requirement that Minnesota State Colleges and Universities adopt plans, programs, and training consistent with the commitment, direction, and expectation to minimize risks with regard to information resources.

Chair Vekich said no follow-up was received from Trustees, presidents or others.

Trustee Benson 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 the changes to Board Policy 5.23 Security and Privacy of Information Resources.

5. Campus Service Cooperative Contracts Exceeding \$3 Million

Vice Chancellor King introduced Colin Dougherty, Managing Director and Jason Cavallo, Strategy Director and Lead Project Manager with the Campus Service Cooperative and Todd Jagerson, Chief Information Officer at Dakota County Technical College (DCTC) to present the three Campus Service Cooperative (CSC) contracts.

Mr. Cavallo thanked IBM, the Itasca Project, Chancellor Rosenstone and campus leaders for their help with sourcing and leveraging throughout the system. Participants in the Itasca Project have a vested interest in the success of higher education in Minnesota and are leaders in both strategic sourcing and shared services. United Health Group (UHG), with 250 employees working in procurement across the globe, has been helping the CSC with strategic sourcing strategies. Mr. Cavallo recognized Julene Donnay and Eric Noyes of UHG. Ms. Donnay has been working full-time, on-site at the CSC, helping with procurement. The CSC will use resources throughout the system to create efficiencies modeled by UHG.

Mr. Jagerson said that at DCTC, being a smaller college in the outskirts, there is importance of getting the full value out of purchases and to do the work really well, one time. Mr. Jagerson is working with District 917, located in DCTC, as well as looking into working with other local K-12's to find ways that they, too, can benefit from the work done by the CSC in managed print services, and IT. Mr. Jagerson said that the CSC has already identified best values so he does not have to spend time meeting with vendors.

Mr. Cavallo said the CSC has been working with the University of Minnesota and the Department of Administration on all contracts presented today. Working jointly, all of the agencies involved will be able to benefit from the purchasing card and managed print contracts.

Mr. Cavallo said with the proposed purchasing card contract, the CSC will be able to double the rebates the system is already experiencing. Currently, purchasing is a costly, paper laden process with many different vendors and agreements across the system. It costs approximately \$150 to process one purchase order and there are thousands per campus processed each year. A collective agreement will drive down the prices. The CSC is recommending approval of a purchasing card contract for all campuses and the system office that will improve controls, efficiency, compliance and return on investment.

The system is currently using twelve different IT vendors. The proposed agreement will reduce the vendors to two, which the system CIO community helped identify. Mr. Jagerson said the brand of the computer was not the primary reason for vendor selection – it was the specifications and standards needed at the campuses. The specifications were presented to the vendors, who then came back with pricing, service, and warranty information. Now Micro and CDW-G were selected. Mr. Jagerson said DCTC expects an annual saving of 13% resulting in \$100,000 to reinvest each year. Mr. Cavallo added that when campuses are in need of product or service, they will have the leverage to speak as MnSCU, not an individual school.

Trustee Dickson asked, if the current price to process a purchase order is \$150, what will the new cost be? Mr. Cavallo replied that it would be reduced by approximately one-third to one-half and that will be dependent on the process execution behind it.

Trustee Benson inquired if the Board will someday see a motion before them that will address items such as hammers, tractors, or lawnmowers. Mr. Cavallo said that the CSC has addressed high commoditized items first that could be tackled quickly and yield significant savings. Presidents will help address what comes next. Food services, equipment and energy have already been identified.

Trustee Krinkie asked why not purchase off of the state vendor system. Mr. Cavallo replied that the state vendor system is used for items such as cellular and courier service; however, there is an opportunity for larger savings in other areas. The State is a partner in the managed print and purchasing card agreements, for which MnSCU pursued the RFP. Trustee Krinkie inquired as to why IT was a separate agreement and how could MnSCU obtain a better contract than the State. Mr. Cavallo said it was because of IBM's and UHG's position to further negotiate pricing, and MnSCU's ability to identify what was spent on specific items (SKUs), instead of a requesting a list price discount.

Trustee Vekich asked about the length of the contracts, projected saving and contract start dates. Mr. Cavallo said that each was a three year contract with two one-year extension options. For the purchasing card there is actually \$30 million of spend that goes through, and the CSC is expecting \$6 million in rebates by switching from a paper to electronic process. The start date is still being negotiated. On IT hardware and software, \$12 million is spent annually and \$1.2 million is the expected savings over the life of the contract and the contract is ready to be signed; \$7 million is spent on managed print annually and the CSC is looking to save \$4.2 million over the life of the contract. The managed print is in a pilot program at a couple of the campuses. Trustee Vekich asked about acceptance from the campuses. Mr. Cavallo replied that change is hard, but there is support from the campus leadership. Campuses are not required to purchase off of the contracts, however, metrics will be provided. If campuses can find better pricing, it should be shared with the CSC.

Trustee Anderson Kelliher asked if the savings are bottom line savings. Mr. Cavallo said 100% of the savings go back to the campuses. With sourcing savings, two thirds is deployed to the campus and one third is kept by the CSC to help pay for the initiative.

Trustee Oliveira asked if the projected savings were based on the assumption that all campuses would participate and if there has been pushback from any of the campuses. Mr. Cavallo said the goal is to have 100% participation and the key to understanding will be in the metrics. When pushback occurs, the current spending and projected savings explained and generally, the result has been buy-in. Chancellor Rosenstone added that there are two ways to proceed – carry a big stick and demand the contracts are utilized, or follow the process which Mr. Cavallo explained that builds on commitment and informed decision making. The metrics have already been shared with the presidents at Leadership Council. The presidents have been instructed that they are welcome to use a different vendor as long as it is a better deal, but then they need to share so others can get in on the best pricing possible.

Trustee Benson asked if there could be potential resistance from any of the smaller schools that may have a relationship with a local vendor that may not be the best value or most efficient. Mr. Cavallo replied the biggest impact that a campus has on a community is the jobs and education that it brings which helps local business. Saving money by the campuses will help preserve jobs in the local community.

Trustee Vekich asked Ms. Donnay and Mr. Noyes to say a few words. Ms. Donnay's career has been in sourcing; she has worked for UHG since 2005, specializing in procurement. As a loaned executive to the CSC, Ms. Donnay (a three-time MnSCU alumna) has been observing current processes, and providing insight to items that should be considered as the work progresses. Mr. Noyes leads the UHG strategic sourcing initiative including RFPs and reverse auctions. The group that he and Ms. Donnay work in is Enterprise Sourcing and Procurement, and he has been with UHG for 17 years. Trustee Vekich thanked them on behalf of the Board of Trustees for their involvement and commitment.

Trustee Dickson suggested it would be nice for past Trustees to receive a report on the progress that has made through the CSC as a result of their prior support and work.

Trustee Cirillo asked Ms. Donnay if there was a way that the CSC could give her more exposure to the campuses. Ms. Donnay said she had traveled with Mr. Dougherty and Mr. Cavallo to Alexandria Technical College. It was beneficial because Ms. Donnay made some recommendations which put some reservations at ease. This is campus collaboration, not a mandate, and working together will help build leverage through expertise.

Trustee Anderson Kelliher asked if there is anything more that the Board should know about the work in progress. Mr. Noyes responded that the key is using successes as sales tools. Because the CSC team is small, it is important to identify individuals who have a vested interest in the success of the CSC, like Mr. Jagerson, to help others get on board.

Mr. Dougherty thanked Mr. Noyes and Ms. Donnay and said that there is tangible evidence of their work in the CSC contracts that are presented today. In addition to UHG, Cargill will also be providing a loaned executive to help with processes and global services. Mr. Dougherty said opportunities ahead are bigger than anyone realized, but so is the

implementation. IBM has brought tools to help with change management. A track record of success will also help.

Trustee Benson 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 execution of three contracts: 1.) To Managed Print Supplier/s, not to exceed \$21 million for a term not to exceed three years, with two additional one-year options; 2.) Execution of contracts with NowMicro and CDW-G, for a combined total not to exceed \$36 million and a term of three years, with two additional one-year options; 3.) Execution of a contract with the selected Purchasing Card vendor for a term not to exceed three years.

The Board directs the Chancellor or his designee to execute all necessary documents.

The meeting was adjourned at 3:57 p.m.

Respectfully submitted,

Laury Anderson, Recorder

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Finance and Facilities Committee

Date: January 21, 2014

Title: FY2013 and FY2012 Audited Financial Statements

Purpose (check one):

- | | | |
|---|---|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input checked="" type="checkbox"/> Information | |

Brief Description:

The purpose of this Board report is to present to the Finance and Facilities Committee of the Board of Trustees the audited financial statements for the Minnesota State Colleges and Universities (MnSCU) for the years ending June 30, 2013 and 2012. These financial statements were prepared by the Finance division of the system office with the assistance of the campus Finance departments and have been audited by the firm of CliftonLarsonAllen LLP.

The MnSCU system audit, Revenue Fund audit, and the thirteen individual college and university audits, received unmodified opinion letters from the respective audit firms. There were no reported material weaknesses and only two reported significant deficiencies in internal control, both at the campus level. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

Scheduled Presenter(s):

Laura King, Vice Chancellor – Chief Financial Officer

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

FY2013 and FY2012 Audited Financial Statements

BACKGROUND

The purpose of this Board report is to present to the Finance and Facilities Committee of the Board of Trustees the audited financial statements for the Minnesota State Colleges and Universities (MnSCU) for the years ending June 30, 2013 and 2012. These financial statements were prepared by the Finance division of the system office with the assistance of the campus Finance departments and have been audited by the firm of CliftonLarsonAllen LLP. This is the fourth year with CliftonLarsonAllen LLP as the system auditor. These statements were presented to the Audit Committee by the Finance division and CliftonLarsonAllen LLP, at the December 3, 2013 Audit Committee meeting.

AUDIT RESULTS

The MnSCU system audit, Revenue Fund audit, and the thirteen individual college and university audits, received unmodified opinion letters from the respective audit firms. In addition, there were no reported material weaknesses and only two reported significant deficiencies in internal control, both at the campus level. The opinion letters provide the Board and other users of the financial statements with assurance that the information is accurate and reliable in all material respects.

The three external audit firms, CliftonLarsonAllen LLP, Kern DeWenter Viere, Ltd., and Baker Tilly Virchow Krause, LLP, presented their respective results of audits, including audit opinions, internal control matters and other required communications at the December 3, 2013 Audit Committee meeting.

The Revenue Fund and the thirteen individual college and university financial statements have been incorporated into the MnSCU system financial statements along with the financial statements of the unaudited colleges. The Audit Committee recommended release of the audited statements, a motion that was passed by the full Board of Trustees at the December 3, 2013 meeting.

All audited financial reports will be available on the system's website at:
<http://www.finance.mnscu.edu/accounting/financialstatements/index.html>

The MnSCU system financial report for fiscal years 2013 and 2012 is presented in accordance with Statement No. 35 *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* as established by the Governmental Accounting Standards Board (GASB). The system’s financial information is presented in one column form as a “Business Type Activity”. The resources are governed by the governmental fund based principles and continue to be accounted for in the general, special revenue, enterprise, agency, and revenue funds. Fund level information can be found in the financial statement supplemental schedules contained in a separate report (unaudited) titled “*Supplement to the Annual Financial Report for the year ended June 30, 2013.*” This supplemental report also contains financial statements for each college and university.

All university foundations plus the Century College Foundation and Fergus Area College Foundation are separately included in the related institutions’ financial reports and the system’s financial report. Reporting standards require the inclusion of component entities if found to be “significant” to the primary organization. The foundations and their auditors are very cooperative in adjusting their audit schedules in order to conform to the system’s financial reporting audit schedule.

Summary of Financial Results

Fiscal year 2013 operating results yielded a slight decrease in financial position at June 30, 2013, with a \$2.0 million net operating revenue deficit, compared to a prior year net operating revenue surplus of \$62.9 million.

- Net position increased \$91.1 million or 4.6 percent; most of the increase was due to fiscal year 2013 capital appropriation revenue of \$88.5 million that funded capital asset investment, preservation and replacement.
- Income before other revenues, expenses, gains or losses, also termed “net operating revenue,” decreased from a surplus of \$62.9 million in fiscal year 2012 to a deficit of \$2.0 million in fiscal year 2013. This net operating revenue deficit is the net of \$1,889.8 million of operating and non-operating revenues less \$1,891.8 million of operating and non-operating expenses.
- Capital appropriation revenue of \$88.5 million plus other capital asset related revenue combined with the \$2.0 million net operating revenue deficit generated a change in net position of \$91.1 million in fiscal year 2013, a decrease from the \$121.5 million change in net position generated in fiscal year 2012.

Statements of Net Position

The primary driver of change within the statements of net position between June 30, 2013 and 2012 is capital asset development and renewal activity related to the system’s 27 million plus square feet of academic and administrative buildings.

- New construction in progress of \$175.8 million was the primary factor increasing the capital assets balance, net of depreciation, by \$91.6 million.

- Capital asset financing came primarily from \$88.5 million of capital appropriation and \$77.4 million of new long-term debt.
- Net position (e.g., net worth) increased \$91.1 million including a \$72.9 million increase in net investment in capital assets.

Statements of Revenues, Expenses and Changes in Net Position

Fiscal year 2013 operating expenses of \$1,857 million averaged \$5.1 million per day when divided by 365 days. Looking at the operating expense number in relation to liquid assets, the system's \$883.1 million of unrestricted cash and equivalents plus unrestricted investments would be adequate to cover approximately 5.7 months of expenses, an improvement of 0.1 months from fiscal year 2012.

- Revenue sources funding operations included \$553.2 million of state appropriation; \$837.2 million of student payments, net of scholarship allowance; \$459.5 million of federal and state grants; and \$39.9 million of other revenue.
- Expenses supporting operations included \$1,251.6 million of compensation, \$225.1 million of purchased services (utilities, enterprise and other IT support, etc.), \$145.6 million of supplies, \$107.9 million of depreciation, and other expenses of \$161.6 million.

Measuring, Monitoring and Improving Financial Health: Composite Financial Index (CFI) and Financial Health and Compliance Indicators

The Composite Financial Index calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. This CFI calculation methodology is used by the Higher Learning Commission as a gauge of member institutions' financial health. Without detailing the actual calculation methodology, financial ratio values are converted into strength factors which in turn are weighted to allow summing of the four components into a single, composite value.

Institutions may have differing values across the four component ratios but still have equivalent overall financial health as indicated by similar composite scores. This approach allows easy comparisons of relative financial health across different institutions. Looking at the composite scores, *Strategic Financial Analysis for Higher Education* suggests a composite value of 1.0 is equivalent to very little financial health, in the for-profit world it could perhaps be viewed as a "going-concern" threshold value, while a composite value of 3.0 is considered to signify relatively strong financial health, an organization with moderate capacity to deal with adversity or invest in innovation and opportunity. CFI scores greater than 3.0 represent increasingly stronger financial health.

The December's Audit Committee meeting included a high-level discussion of CFI, and the system's Annual Financial Report for the Years Ended June 30, 2013 and 2012 included much of the CFI information that follows within the Management Discussion and Analysis section of the report.

Summary CFI Ratios for Fiscal Year 2013 and Fiscal Year 2012

The MnSCU system’s financial ratios and other measures presented below are generally consistent with prior years’ presentations. The focus this year is on the four financial ratios used in computing CFI. All system ratios are computed using financial data taken from the accrual financial statements.

Note: Higher values are deemed better for all ratios presented. The Supplement to the Annual Financial Report will be available to view individual college and university financial statements.

<http://www.finance.mnscu.edu/accounting/financialstatements/yearendstatements/index.html>

The fiscal year 2013 CFI of 2.26 went down compared to 2012’s CFI of 2.78.

The following table provides reference benchmarks for individual components of the CFI for achieving a total CFI score of 3.0, and illustrates the system, college and university average composite scores.

	<u>Weight</u>	<u>Benchmark</u>	<u>System</u>	<u>2 Yr</u>	<u>4 Yr</u>
Primary Reserve	35%	1.05	0.91	0.81	0.90
Viability	35%	1.05	0.90	1.16	0.60
Net Operating Revenue	10%	0.30	(0.01)	(0.07)	0.02
Return on Net Position	<u>20%</u>	<u>0.60</u>	<u>0.46</u>	<u>0.48</u>	<u>0.41</u>
Composite Financial Index (CFI)	100%	3.00	2.26	2.38	1.93

CFI Ratio Variability across Colleges and Universities

There is considerable variability in individual 2013 CFI financial ratio values across the 31 colleges and universities. The following tables, which exclude foundations, highlight the broad range in the results:

	<u>High</u>	<u>Low</u>	<u>Median</u>
Primary Reserve – <i>resource availability</i>	1.52	0.20	0.77
Viability – <i>debt coverage</i>	3.05	0.41	0.98
Net Operating Revenue – <i>surplus or deficit</i>	0.43	(0.40)	(0.05)
Return on Net Position – <i>asset stewardship</i>	<u>2.00</u>	<u>(0.43)</u>	<u>0.35</u>
Composite Financial Index (CFI)	4.73	0.39	2.47

The financial values have been divided into quartiles so to illustrate the range of scores. Individual colleges and universities could be placed in several quartiles based on the individual values in each measure.

Midpoint of Quartiles	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
Primary Reserve – <i>resource availability</i>	1.28	0.89	0.67	0.38
Viability – <i>debt coverage</i>	2.39	1.33	0.85	0.55
Net Operating Revenue – <i>surplus or deficit</i>	0.26	0.00	(0.11)	(0.31)
Return on Net Position – <i>asset stewardship</i>	1.35	0.50	0.24	(0.16)
Composite Financial Index (CFI)	4.19	3.04	1.89	0.85

Other Financial Measures

There are additional financial metrics which are used to measure, monitor, and improve the financial condition of each college and university.

The Board required budget reserve ratio compares prior year general fund cash-basis operating revenues to that portion of the general fund’s end-of-year cash balance that has been designated as a special reserve amount. The systemwide figure of 7 percent for fiscal year 2013 represents a reserve balance of \$100.0 million, an increase of \$0.2 million, from fiscal year 2012. All of the colleges and universities report budget reserves within the Board policy expectation.

In fiscal year 2013, 20 of the system’s 31 colleges and universities generated negative net operating revenues using a generally accepted accounting principles measurement; this compares to 10 colleges and universities in fiscal year 2012. Of the 20 colleges and universities with negative net operating revenue in fiscal year 2013, only two also had negative net operating revenue in fiscal years 2012 and 2011. The significant number of institutions reporting net operating losses is attributed principally to the use of fund balance as a part of a budget strategy. Ongoing operating deficits negatively impact the ability of this institution to maintain normal operations under adverse economic circumstances and to implement new strategic initiatives. Negative unrestricted net position generally indicates a college or university has experienced ongoing operating deficits. No college or university reported a negative unrestricted net position.

	<u>FY2013</u>		<u>FY2012</u>		<u>FY2011</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
Net operating revenue loss*	20	65	10	32	3	10
Negative unrestricted net position	0	0	0	0	0	0
Board reserves below 3%	0	0	0	0	0	0

* As shown in financial statements on line titled “Income (loss) before other revenues, expenses, gains, or losses.”

Financial Health and Compliance Indicators

The system has developed financial administration and financial health monitoring measures that are utilized to track patterns and trends at each of the colleges and universities. The measures are in support of board policy and board procedure.

Board Policy 7.3 Part 1. includes the expectation that:

“ It is the policy of the Board of Trustees to provide sound financial administration to safeguard the resources of the State of Minnesota, the system, the colleges and universities and the constituencies they serve. Effective financial administration will facilitate monitoring and improving managerial performance and evaluating the financial effects of management decisions.

Board procedure 7.3.16 includes the statement in Part 1

“Financial Administration policy, effective financial administration will facilitate monitoring, improving managerial performance and evaluating the financial effects of management decisions. The Board of Trustees will be periodically updated on the administration and financial management of the system.”

Management, working with the college and university chief financial officers, has developed a financial monitoring and compliance protocol in order to support policy and procedure expectations. Each measure is defined in procedure along with the data elements, the triggers and the management consequences for tripping the performance measure. The measures, and the implementation elements were defined in consultation with all the colleges and university CFOs.

There are seven measures; four with a short term – financial administration focus and three with a long term – financial health focus. The four short term measures requires monthly/quarterly reporting for a period if any of the measures triggered.

- Repair and replacement expenditures per square foot (-three-year moving average) of at least \$1.00 per square foot.
- Overdraft in a local bank account during the fiscal year.
- MnSCU to MAPS (SWIFT) reconciliation (including adjustments).
- Timely and complete bank reconciliation (including adjustments).

There are 3 long term measures which the procedure requires the preparation of a financial recovery plan if certain thresholds are triggered.

- Negative accrual based net operating revenue ("Income (Loss) Before Other Revenues, Expenses, Gains or Losses").
- Low accrual primary reserve level.
- Low Composite Financial Index (CFI) score.

Based upon 2013 financial statements, eight colleges and one university have been asked to work with the system office in the preparation of a financial recovery plan. The goal of the plans is to help colleges and universities get back to financial/operational health. The plans often have a multi-year horizon. This matter has the chancellor's awareness and is a part of his annual discussion with the responsible presidents.

2014 OUTLOOK

The leadership at the colleges and universities is working aggressively to manage the revenue and expense outlook during challenging times. The schools are operating with very thin margins as cost pressures build in compensation and operating inflation. The 2014 enrollment outlook requires focused planning, targeting enrollment growth strategies and expanded retention and student success efforts. The colleges and universities are reporting stable, but thin reserves as protection against enterprise risk.

Strategic enrollment management and strong program development are key to successful year.

CONCLUSION

Minnesota State Colleges and Universities maintained a sound financial position in fiscal year 2013, despite systemwide tuition freezes and significant increases to compensation expense. The system maintained a relatively strong financial position in fiscal year 2013, as measured by the \$91.1 million increase in net position. The system continues to rely heavily on state operating appropriation support to implement new programs tailored to the needs of the state's workforce, to maintain ongoing operations, and to devise the innovative strategies necessary to successfully manage the future challenges presented by a weak economy and a constantly evolving higher education marketplace.

The state, national and global economies are beginning to overcome the impacts of a significant recession throughout fiscal years 2013 and 2012. However, while in the years prior to 2011, increases in the general unemployment rate has resulted in increases in enrollment, the opposite occurred in fiscal years 2013 and 2012. Overall enrollment levels at the colleges and universities have decreased 2.3 percent, and 2.8 percent, and increased 1.6 percent in fiscal years 2013, 2012 and 2011, correspondingly. Enrollment forecasts in 2014 and 2015 are stable or slightly declining compared to 2013. It is expected that enrollment will once again moderate as the state's unemployment rate declines. The system's colleges and universities have aggressively managed class sizes, course offerings, and hours of operations in order to serve as many students as possible.

In the spring of 2013, the state legislature approved an increase in appropriation sufficient to fund a systemwide tuition freeze for the upcoming biennium. In the 4 years prior to fiscal year 2013, state appropriation revenue was reduced, although reductions were somewhat offset with one-time federal stimulus funds totaling \$79.2 million in fiscal years 2010 and 2011. System leadership has worked tirelessly to minimize tuition increases and the detrimental impact of cost cutting on the system's approximately 4,000 educational programs

and 420,000 students; both efforts are aimed squarely at limiting the negative impacts of state reductions on students.

The changes in the federal financial aid program, in concert with the state and national economic conditions, has resulted in a substantial increase in federal financial aid participation by the system's students over the past three years. Reliance on state and federal financial assistance by current and future students is a state and national concern as affordability competes with the withdrawal of state support for public higher education. Further, the increased personal debt burden of today's students threatens participation and completion rates.

The continuing success of the system depends in part on a partnership with the state of Minnesota and its citizens. Preservation of the high quality, broadly accessible system of colleges and universities now available across the state will require continuing support from the state. The system leadership is committed to a statewide partnership with government, industry and the community to add to the prosperity of Minnesota. The system will also continue its aggressive management of costs and services to ensure efficient, effective operations on behalf of current and future students. The partnership enables the provision of accessible, high value, affordable higher education in accord with the economic and intellectual needs of the state. The state's continued support is critical to maintaining both affordability and access for students.

Date Presented to Board of Trustees: January 21, 2014

Financial Performance Fiscal Year 2013 and 2012



Financial Statements of the system overall and select colleges
and universities
Finance and Facilities Committee
Board of Trustees
January 21, 2014

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.

Agenda

- FY 2013 audited financial statements
- FY 2013 financial performance
- Composite Financial Index (CFI)
- Financial monitoring protocols
- FY 2014 outlook



Fiscal Year 2013 Audited Financial Statements Results

- System statements
- 13 university and college statements
- Revenue fund
- “Clean” opinions
- No material weaknesses
- Two significant deficiencies (campus level)



FY2013 System Financial Results are Stable

- Flat revenues with tight expense controls result in balanced college and university budgets
- System and college and university reserves stable but thinly funded
- College and university budget stress emerging in CFI calculations



Changes in Net Position

FY 2013 vs. FY 2012 (\$ millions)

(includes colleges, universities and system office)

Revenue/(Expense)	FY2013	change	FY2012
Total revenues	\$1,889.8	\$10.7	\$1,879.1
Total expenses	(1,891.8)	(75.6)	(1,816.2)
Net operating revenue	(2.0)	(64.9)	62.9
Capital appropriation revenue	88.5	32.2	56.3
Other revenue, net	4.6	2.3	2.3
Change in Net Position	\$ 91.1	\$ (30.4)	\$ 121.5



Changes in Net Operating Revenue

FY 2013 vs FY 2012 (\$ millions)

(includes colleges, universities and system office)

Revenue/(Expense)	FY2013	change	FY2012
Components and changes			
Revenue from students, net of financial aid	\$ 837.2	\$5.7	\$ 831.5
State appropriation revenue	653.2	1.9	651.3
Federal and state grant revenue	459.5	16.0	443.5
Compensation expense	(1,251.6)	(48.4)	(1,203.2)
All other revenues/(expenses), net	(600.3)	(40.1)	(560.2)
Net operating revenue	\$ (2.0)	\$(64.9)	\$ 62.9



Statement of Net Position (\$ millions)

(includes colleges, universities and system office)

Assets, Liabilities and Net Position			
Fiscal Year	FY2013	FY2012	FY2011
Total assets	\$3,125.3	\$2,955.0	\$2,883.3
Total liabilities	\$1,042.6	\$963.4	\$1,013.2
Total net position	\$2,082.7	\$1,991.6	\$1,870.1

- Total assets increased each year due mainly to additional capital asset investments
- Total liabilities increased by 8 percent due primarily to new revenue bond issue of \$58M and \$19M in GO bonds.



Statement of Revenues, Expenses and Changes in Net Position (\$ millions)

(includes colleges, universities and system office)

Revenues, Expenses and Net Position			
Fiscal Year	FY2013	FY2012	FY2011
Total revenues	\$1,982.8	\$1,938.3	\$2,050.3
Total expenses	\$1,891.8	\$1,816.8	\$1,904.0
Change in Net Position	\$91.0	\$121.5	\$146.3

- Total revenue increased by \$45 million due to \$32 million of additional capital appropriation along with \$17 million of additional state financial aid grants.
- Operating expenses increased by \$75 million, with \$48 million of that attributable to compensation, and \$9 million increase in financial aid paid to students.



Statement of Revenues, Expenses and Changes in Net Position (\$ millions)

(includes colleges, universities and system office)

Revenues, Expenses and Net Position			
Fiscal Year	FY2013	FY2012	FY2011
Total revenues	\$1,982.8	\$1,938.3	\$2,050.3
Total expenses	\$1,891.8	\$1,816.8	\$1,904.0
Change in Net Position	\$91.0	\$121.5	\$146.3

- Total revenue increased by \$45 million due to \$32 million of additional capital appropriation along with \$17 million of additional state grants as part of financial aid streams.
- Operating expenses increased by \$75 million, with \$48 million attributable to compensation, along with \$9 million increase in financial aid paid to students.



System Composite Financial Index

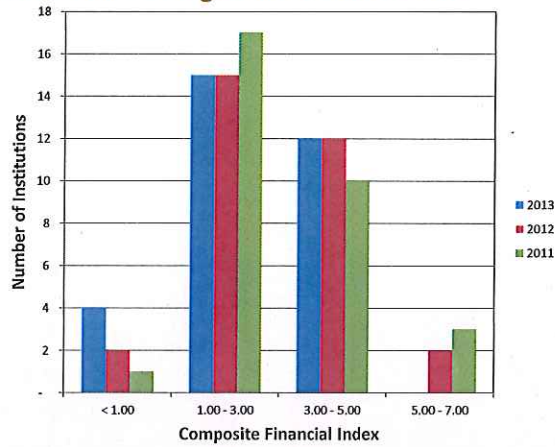
(includes colleges, universities and system office results)

Components of CFI

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Return on Net Position	0.46	0.65	0.85
Net Operating Revenue	(0.01)	0.26	0.29
Primary Reserve	0.91	0.92	0.76
Viability	<u>0.90</u>	<u>0.95</u>	<u>0.80</u>
CFI	2.26	2.78	2.70



Composite Financial Index Trends for College and Universities



Composite Financial Index Variability in the Colleges and Universities

	2013 Averages		2012 Averages		2011 Averages	
	Colleges	Universities	Colleges	Universities	Colleges	Universities
Primary Reserve	0.81	0.90	0.82	0.92	0.71	0.71
Viability	1.16	0.60	1.17	0.67	1.13	0.52
Net Operating Revenue	(0.07)	0.02	0.13	0.38	0.26	0.32
Return on Net Position	<u>0.48</u>	<u>0.41</u>	<u>0.60</u>	<u>0.68</u>	<u>1.10</u>	<u>0.57</u>
CFI	2.38	1.93	2.72	2.65	3.20	2.12



FY2013 Financial Summary

- CFI variability narrows amongst colleges & universities
- CFI trends have been fairly stable last three years
- System CFI improved in the two long term measurements
- Campuses displaying focused budgeting, planning and analysis



Financial Monitoring Protocols

- Policy 7.3
- Procedure 7.3.16
- Seven measures
 - 4 short term – financial administration focus
 - 3 long term – financial health focus
- Monitoring, data, trigger and consequence agreed to by all CFOs
- Remedies include periodic certification, reports and/or workout plans



FY2013 Monitoring Results

- 7 colleges and 1 university reported negative accrual based operating revenue two years running
- 6 colleges and 1 university reported CFI below 1.50 based on 2 year average or less than .5 in most recent year



Monitoring Actions

- Procedure calls for certifications or financial recovery plan
- Monthly, quarterly, biannual reporting to VC- CFO office
- Goal is to help colleges and universities get back to financial/operational health
- Often a multi-year plan
- Issue has Chancellor's awareness



FY2014 Outlook

- Colleges and universities managing revenue and expense outlook
- Very thin margins require focused planning
- Stable, but thin reserves provide some protection for enterprise risk
- Strategic enrollment management and strong program development are key to successful year



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

Agenda Item Summary Sheet

Finance and Facilities Committee

Date: January 21, 2014

Title: Rochester Community & Technical College Contracts Exceeding \$3 Million for Regional Sports Center and Career Technical Education Center at Heintz/Science, Technology, Engineering, and Math Village

Purpose (check one):

- | | | |
|---|--|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input checked="" type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

A city of Rochester sales tax referendum November 6, 2012 authorized the dedication of local sales tax funding for two projects at Rochester Community and Technical College: 1) \$6.5 million for the 22,350 gross square foot Career Technical Education at Heintz and Science, Technology, Engineering and Math Village (CTECH/STEM Village), involving a collaboration with Rochester public schools, Rochester Community and Technical College and Winona State University; and 2) \$5,017,667 for Phase III of the Regional Stadium to increase the seating capacity to 5,000 add locker rooms, a press box, and ticket counter.

Board Policy 5.14 requires approval for contracts in excess of \$3 million. The college expects to enter into Construction Manager at Risk contracts for each project, each with a value in excess of \$3 million. The college will manage the design and construction, and the city shall fund the cost of such design and construction work. The college will own and maintain the buildings and finance operations from leases and facilities use agreements.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor for Facilities
Gail O’Kane, Interim President, Rochester Community and Technical College

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

BOARD ACTION

**Rochester Community & Technical College Contracts Exceeding \$3 Million for
Regional Sports Center and Career Technical Education Center at Heintz/Science,
Technology, Engineering, and Math Village**

Rochester Community and Technical College seeks approval of two construction contracts, each expected to be in excess of \$3 million, pursuant to Board Policy 5.14. The college expects to enter into construction manager at risk contracts for each project, each with a value in excess of \$3 million.

BACKGROUND

A city of Rochester sales tax referendum November 6, 2012 authorized local sales tax funding for two projects at Rochester Community and Technical College:

- 1) \$5 million for Phase III of the Regional Stadium to increase the seating capacity to 5,000 seats, add locker rooms, concessions stand, additional storage, a new press box and related seating, and ticket counter at the main gate.

- 2) \$6.5 million for the 22,350 gross square foot Career Technical Education at Heintz and Science, Technology, Engineering and Math Village (CTECH/STEM Village) facilities, involving a collaboration with the Rochester Public Schools, RCTC and Winona State University.

The college will manage the design and construction of the projects, and the city will fund the cost of such design and construction work. The college will own and maintain the buildings and finance operations from leases and facilities use agreements once the improvements are completed. The college has elected to use the Construction Manager at Risk process for both the projects, as it has been used effectively on several other MnSCU projects and benefits from bringing in a construction manager early in the design process.

Predesigns have been completed for both projects, and have been reviewed and approved by the system office. The city of Rochester has reviewed and authorized a Capital Development and Funding Agreement between RCTC and the City of Rochester at their December 16, 2013 City Council meeting.

PROJECTS

The city of Rochester has been a strong supporter of the college, including past capital funding support for the field house, baseball and softball fields and the Regional Sports Stadium.

*Rochester Community & Technical College Contracts Exceeding \$3 Million
for Regional Sports Center and Career Technical Education Center
at Heintz/Science, Technology, Engineering, and Math Village*

The Regional Sports Stadium project is being financed exclusively from City of Rochester sales tax monies and is considered the third and final phase of development of the stadium. This phase of the project includes the increase in seating capacity from 1,500 to 5,000 seats, a new press box and relocation of existing press box, added VIP rooms, lockers rooms and changing areas, a ticket counter and concession sales. A sketch incorporated in **Attachment A** shows the layout of the stadium and the new site plan. The estimated construction cost is approximately \$4.2 million out of a project cost of approximately \$5,017,667. The college plans to complete the work by September 2014.

The Career Technical Education Center at Heintz (CTECH) and Science, Technology, Engineering and Math (STEM) Village facilities are a collaboration between Rochester Community and Technical College, the Rochester Public Schools, and Winona State University. The project scope includes classroom and lab spaces for career and technical education offerings that currently are not available within the Rochester Public Schools, such as construction and hospitality programs. The scope also includes the relocation of an existing Health Sciences Career Center to Heintz Center and the creation of a STEM Village resource center to provide shared educational resources for high school teachers.

The 22,350 gross square foot addition will be added to the Heintz Center as shown on **Attachment B**. The current construction cost estimate is approximately \$5.6 million out of a total project cost of \$6.5 million. The college plans to complete the project by April 2016.

RECOMMENDED COMMITTEE ACTION:

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

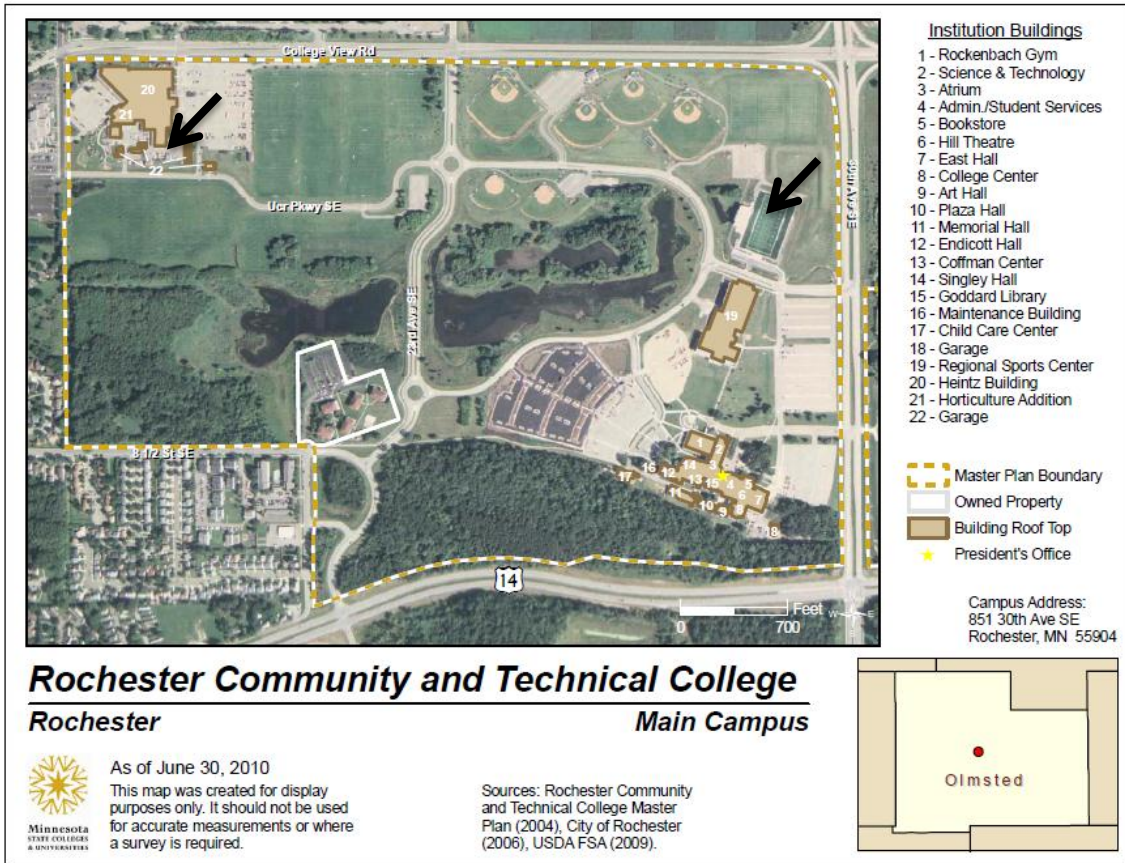
The Board of Trustees authorizes the Chancellor or his designee to enter into the necessary contracts for the Regional Sports Center and the Career Technical Education Center at Heintz/Science, Technology, Engineering, and Math Village for Rochester Community and Technical College.

RECOMMENDED MOTION:

The Board of Trustees authorizes the Chancellor or his designee to enter into the necessary contracts for the Regional Sports Center and the Career Technical Education Center at Heintz/Science, Technology, Engineering, and Math Village for Rochester Community and Technical College.

Date Presented to the Board of Trustees: January 21, 2014

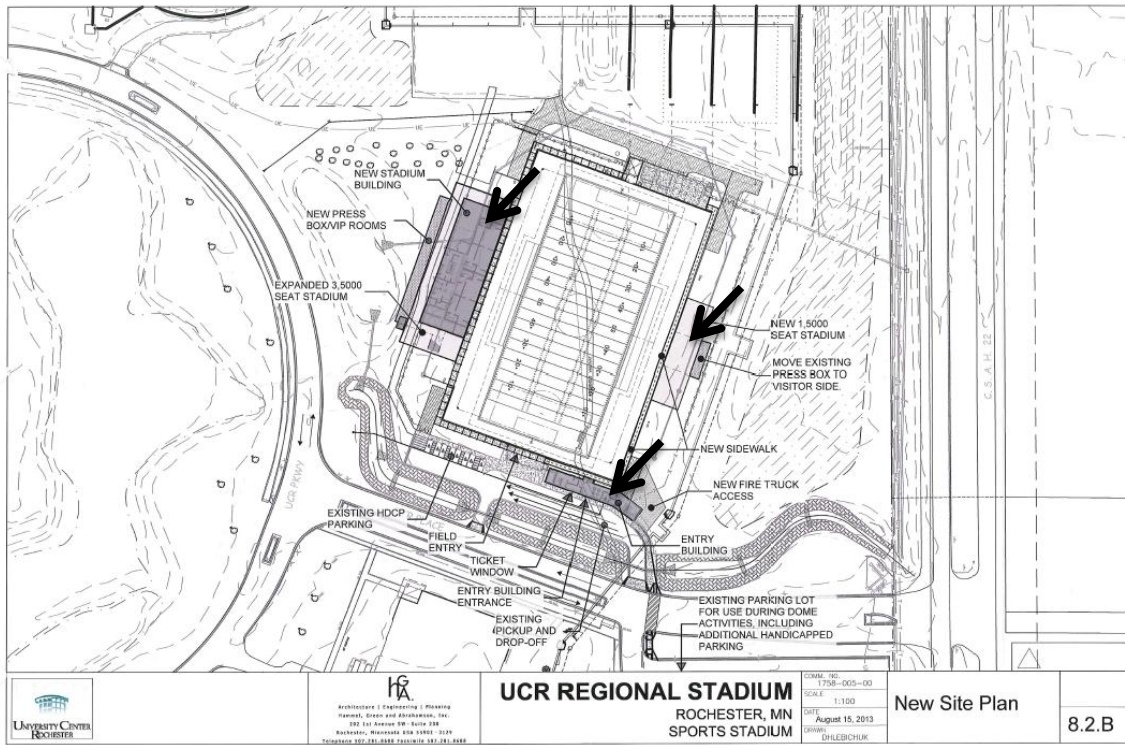
*Rochester Community & Technical College Contracts Exceeding \$3 Million
for Regional Sports Center and Career Technical Education Center
at Heintz/Science, Technology, Engineering, and Math Village*



↙ Project Areas

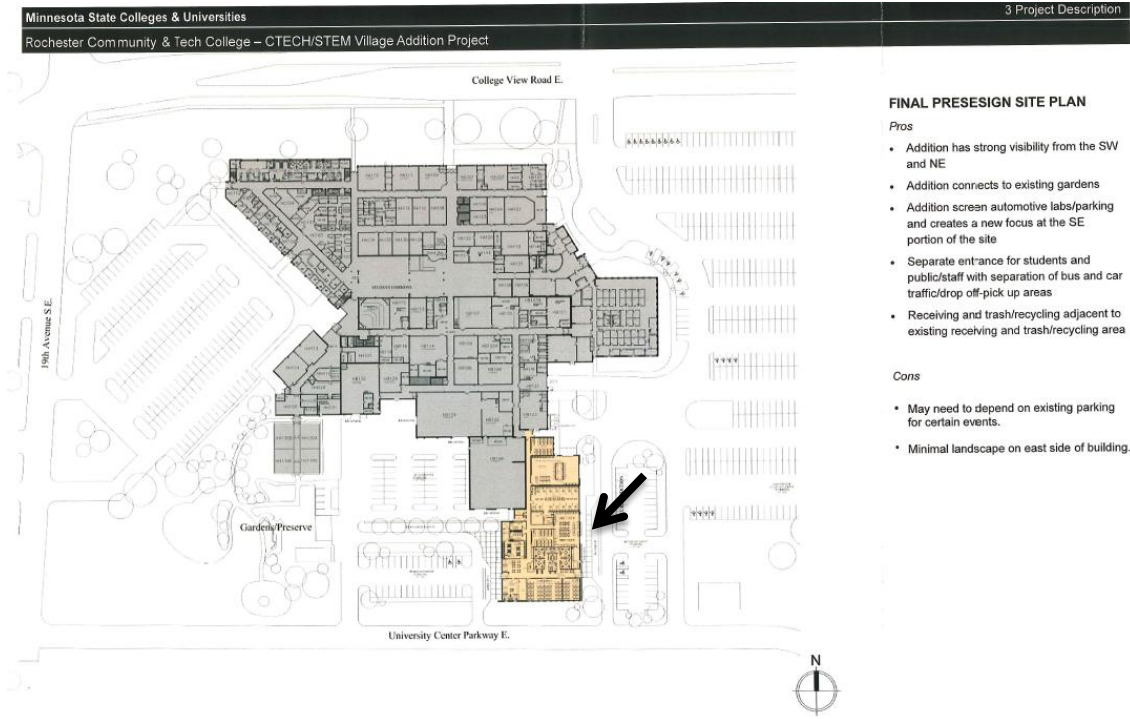
*Rochester Community & Technical College Contracts Exceeding \$3 Million
for Regional Sports Center and Career Technical Education Center
at Heintz/Science, Technology, Engineering, and Math Village*

Attachment A – Regional Stadium Site Plan



*Rochester Community & Technical College Contracts Exceeding \$3 Million
for Regional Sports Center and Career Technical Education Center
at Heintz/Science, Technology, Engineering, and Math Village*

Attachment B – CTECH/STEM Addition



**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
Agenda Item Summary Sheet**

Finance and Facilities Committee

Date: January 21, 2014

Title: Dakota County Technical College Surplus Declaration

Purpose (check one):

- | | | |
|---|--|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input checked="" type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

Minn. Stat. §136F.60, Subd. 5(a) and Board Policy 6.7 requires the Board to declare land and improvements that are no longer needed as surplus, and may offer them for sale consistent with state law.

Dakota County Technical College requests the Board to declare the 1.84 acre parcel located at 125 Grand Avenue East in South St. Paul as surplus real estate. The parcel includes a 6,400 sq. ft. building that has not been used by the campus for programming for over 8 years, and has served as a storage facility for the campus. The sale is expected to generate more than \$250,000.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor for Facilities
Tim Wynes, Interim President, Dakota County Technical College

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

BOARD ACTION
Dakota County Technical College Surplus Declaration

Dakota County Technical College requests the Board to designate the property located at 125 Grand Avenue East in South St. Paul as surplus real property.

BACKGROUND

The property at 125 Grand Avenue East in South St. Paul was conveyed to Minnesota State Colleges and Universities as part of the merger in 1995, and included an approximately 6,400 sq. ft. technical classroom building and a small (360 sq. ft.) outbuilding used for storage. Prior to its development as a technical college site in the 1970s, the property had been part of the stockyard district in South St. Paul, and has inherent environmental conditions that would need to be addressed during any redevelopment of the property. The facility has not been used by the campus for classes for over 8 years, and the college presently uses the entire facility for storage. The Facilities Condition Index for the classroom building is 0.18, well above the system average of 0.11.

The subject property is located nearly 15 miles away from the main campus and about 5.5 miles away from Inver Hills Community College. Dakota County Technical College’s long term strategy for the property, as articulated in its facilities master plan, has been to sell it. This strategy remains unchanged, although the college did evaluate whether opportunities existed for Inver Hills Community College to take over the property, rehabilitate it, and use it for academic programming. Ultimately, it was decided that the building is not suitable as a candidate for rehabilitation and reuse, and reconfirmed the intent to sell the property.

The college obtained its most recent independent real estate appraisal in October 2013. The appraisal took into account the cost to demolish existing improvements and to correct environmental conditions if the property is redeveloped. Based on those factors, the appraiser estimated an “as is” value of approximately \$255,000.

Statute provides that the Board may declare state lands or improvements under its control that are no longer needed by the system to be surplus and may offer them for public sale. Under the statute, MnSCU offers the property first to the city, county and school district for no less than the appraised value. If no offers are forthcoming, the property is placed for sale to the general public.

RECOMMENDED COMMITTEE ACTION:

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

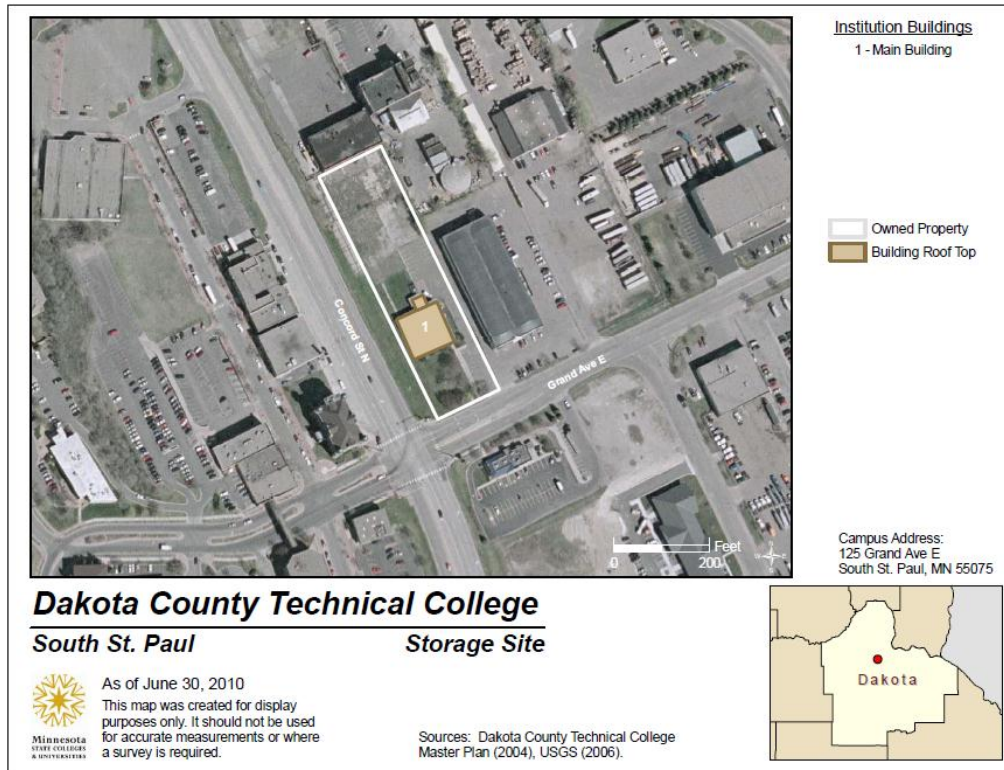
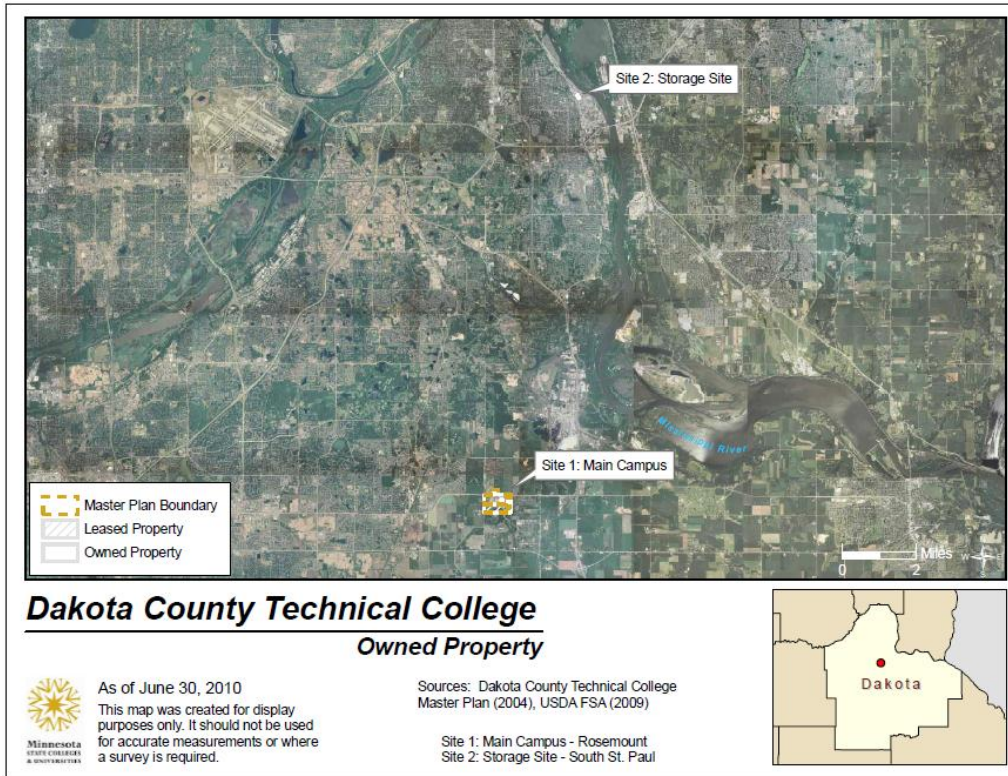
The Board of Trustees designates the property located at 125 Grand Avenue East, South St. Paul, Minnesota, as surplus, and delegates authority to the Chancellor or the Chancellor's designee to execute such documents as may be necessary to complete the sale for no less than the appraised value.

RECOMMENDED MOTION:

The Board of Trustees designates the property located at 125 Grand Avenue East, South St. Paul, Minnesota, as surplus, and delegates authority to the Chancellor or the Chancellor's designee to execute such documents as may be necessary to complete the sale for no less than the appraised value.

Date Presented to Board of Trustees: January 21, 2014

Attachment A



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

Agenda Item Summary Sheet

Finance and Facilities Committee

Date: January 21, 2014

Title: Authorization to Negotiate Third Party Housing Agreement at Minnesota West Community and Technical College and Northland Community and Technical College

Purpose (check one):

- | | | |
|---|--|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input checked="" type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

Minnesota West Community and Technical College and Northland Community and Technical College seek authority to continue negotiations with a third party developer and issue a ground lease, provided that no tuition revenues or state appropriations are used for the capital cost of the facility, siting and design are consistent with the campus master plan and design standards, and the financial and contractual obligations demonstrate the financial viability of the proposed project.

Scheduled Presenter(s):

Laura King, Vice Chancellor – Chief Financial Officer
Brian Yolitz, Associate Vice Chancellor for Facilities
Richard Shrubbs, President, Minnesota West Community and Technical College
Anne Temte, Northland Community and Technical College

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

BOARD ACTION

**Authorization to Negotiate Third Party Housing Agreement at Minnesota West
Community and Technical College and Northland Community and Technical
College**

The Board is asked to authorize further negotiations with a third-party developer to finance, construct and operate student housing on campuses in Thief River Falls at the Northland Community and Technical College campus and in Worthington at the Minnesota West Community and Technical College campus. Development of third-party student housing must follow the requirements of Minn. Stat. §136F.60(3)(c).

BACKGROUND

Northland Community and Technical College in Thief River Falls and Minnesota West Community and Technical College in Worthington each identified housing pressures that are detrimentally impacting their ability to recruit and retain students. Each campus has met with their local municipal leaders and surrounding apartment owners to address these issues. In both communities, the success of local businesses and the migration of workers into these communities have put pressure on student renters and made finding suitable rentals a challenge. As a result, each campus has seen downward pressures on enrollment and complaints from students about the quality and location of available housing near their campuses. To combat these trends, the campuses began to explore the idea of developing student housing on or near their campuses over a year ago.

After initial investigations by the campuses, a strategy was devised to investigate student housing that would be financed, developed and operated by a third-party developer. Minnesota Statute §136F.60, Subd. 3(c) offers a framework for these sorts of developments, and provides in relevant part:

“The board may convey or lease real property under the board's control, with or without monetary consideration, to provide a facility for the primary benefit of a state college or university or its students if the board certifies that project revenues, other gifts or grants, or other sources of funds are available for project costs and that no tuition revenues or state or federal appropriations are used for the capital cost of the facility.”

Using Minn. Stat. §136F.60, Sub. 3(c) as a guide, each college began investigating and verifying financial and market conditions with a plan toward developing a Request for Proposal to solicit developer interest in such a development.

REQUEST FOR PROPOSAL

Each campus followed a similar approach in their preparations for their respective Request for Proposal, starting with a student housing market feasibility study by Maxfield Research that analyzed each campus's current student characteristics and enrollment, local rental market, including any new apartments in the pipeline, rent/price sensitivity, and recommendations as to potential student housing demand.

As a companion to the market research, the campuses each engaged architectural firms to complete preliminary evaluations of site locations, including the identification of preferred parcels to ground lease based on proximity to campus, parking location, infrastructure needs, and general site considerations, including the parcel fit with the campus facilities master plans. The preferred locations are contained on **Attachment A**, which is incorporated as part of this request.

After completing the market study and site evaluations, each campus advertised the RFP to student housing developers during the Fall 2013.

STUDENT HOUSING PROPOSALS

The response to the request for proposals at each location was fairly modest and reflected the challenges of a rural student housing development. Nevertheless, a dozen individuals attended a pre-proposal meeting in Worthington, where two developers eventually chose to make a proposal. In Thief River Falls, two developers attended the pre-proposal meeting and one developer made a proposal.

Orb Management was ultimately selected as the developer by both campuses to continue further discussions. (Orb was the lead developer involved in the development of the 150 bed student housing located adjacent to the Alexandria Community and Technical College campus.) As a result of Orb being the selected vendors for both campuses, the structures of the deal look very similar. They include the following preliminary terms:

BASIC TERMS

Developer: Orb Management

Tenant: Special purpose LLC established for financing and operating purposes

Property
Manager: Selected based on local market conditions

Term: 30 year ground lease

Ground Rent: \$1.00

*Authorization to Negotiate Third Party Housing Agreement at
Minnesota West Community and Technical College
and Northland Community and Technical College*

Est. # Beds: Minnesota West 100 - 110
Northland 140 – 150

ADDITIONAL REQUIREMENTS

- Targeted Occupancy Date. August 1, 2015
- Eligibility. Apartments shall be for the primary benefit of enrolled students of the institution; faculty and/or staff may be eligible to rent on a space available basis.
- Site Location. Campus has final decision as to location of project on campus
- Facilities Master Plan. The development must fit within the campus's facilities master plan.
- Financing. Developer shall provide to campus a full accounting of the project costs and proposed operating costs.
- Furnishings. Apartments shall include all furnishings and shall be turn key to the students.
- Rent. Rent shall be all inclusive (all utilities, internet service, waste removal). College shall be consulted on rent structure.
- Parking. Surface parking shall be available; a separate fee for parking may be charged.
- Approval. Campus shall retain the right to review and approve project construction plans, budget and contracts for construction, development and management.
- Campus Responsibility. Campus shall promote the availability of the project to the student body. Campus shall not provide any revenue assurance.
- End of Term. Campus shall have the option at the end of the lease term either to require conveyance of the project at the end of the ground lease term to the campus or require the removal of the improvements at the end of the ground lease term.

*Authorization to Negotiate Third Party Housing Agreement at
Minnesota West Community and Technical College
and Northland Community and Technical College*

RECOMMENDED COMMITTEE ACTION:

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

The Board of Trustees delegates authority to the Chancellor or the Chancellor's designee to continue negotiations, up to and including execution of ground leases and related documents with the third-party housing developer for student housing at Minnesota West Community and Technical College and Northland Community and Technical College. The Board further directs that final agreements with the developer shall be consistent with the terms and conditions outlined herein, and shall be subject to the approval of the Chancellor or the Chancellor's designee.

RECOMMENDED MOTION:

The Board of Trustees delegates authority to the Chancellor or the Chancellor's designee to continue negotiations, up to and including execution of ground leases and related documents with the third-party housing developer for student housing at Minnesota West Community and Technical College and Northland Community and Technical College. The Board further directs that final agreements with the developer shall be consistent with the terms and conditions outlined herein, and shall be subject to the approval of the Chancellor or the Chancellor's designee.

Date Presented to Board of Trustees: January 21, 2014

*Authorization to Negotiate Third Party Housing Agreement at
Minnesota West Community and Technical College
and Northland Community and Technical College*

Attachment A

Northland Community and Technical College
Proposed location



Authorization to Negotiate Third Party Housing Agreement at
 Minnesota West Community and Technical College
 and Northland Community and Technical College

Attachment B - Minnesota West Community and Technical College

