

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

January 21, 2014

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

Other Board Members Present: Trustees Ann Anaya, Margaret Anderson Kelliher, Alexander Cirillo, Cheryl Dickson, Clarence Hightower, Maria Peluso, 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 January 21, 2014 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Vice Chair Erlandson called the meeting to order at 2:00 p.m. and noted that Trustees Krinkie and Paskach were present by phone.

1. Finance and Facilities Update

Vice Chancellor King reported that the 2014-2016 capital project bonding tours concluded in early December. There are a few more visits to the schools in the metro area by the Senate in early February.

Last week marked the start of the annual Trends & Highlight meetings. The meetings include a small group format with presidents, campus leadership, system office finance and facilities staff, and other system office representatives. This year, the meetings were expanded to include campus human resources leadership. The format is designed to use historical data as the starting point for group discussions of recent performance and outlook, along with plans for upcoming years. This year's focus includes enrollment strategies, financial planning, and human resources planning. There are eight meetings scheduled, and the agenda will be expanded next year to include academic and student affairs data review and outlook.

Finance and Facilities leadership awards were presented to campuses at the December CFO conference. A list of the award recipients is at each Trustee's place. Vice Chancellor King said that there is outstanding work happening across the system and the awards are a way to acknowledge it. The Chancellor's Award was given to Mike Brossart from Riverland College for his work in safety and security. Fifteen Outstanding Service Awards were given and ten Certificates of Appreciation were awarded for assisting with the work of the Campus Service Cooperative.

Vice Chancellor King noted that the Minnesota Management and Budget (MMB) loan balance is currently \$400 million and it is expected to hold there for several more months; the FY2013 financial statements are now posted to the web; and the CFO Conference held in early December was attended by over 100 campus finance and facilities leaders.

2. Minutes of November 19, 2013

The minutes of the November 19, 2013 Finance and Facilities Committee were approved as published.

3. FY2013 and FY2012 Audited Financial Statements

Vice Chancellor King introduced this item as a recap of the financial performance of the Minnesota State Colleges and Universities (MnSCU) system. There are audits of the system as a whole, thirteen campus stand-alone audits and the revenue fund. The audited financial statements resulted in clean opinions and no material weaknesses, and at the system level, there were no significant deficiencies. The auditors look for errors in excess of \$12 million, which is the system's threshold number. The thirteen campus audits had a threshold in a range between \$500,000 and \$3 million.

The FY 2013 system financial results are stable. There were flat revenues and tight expense controls, resulting in balanced budgets by the colleges and universities. The reserves are thinly funded, but stable, remaining within Board approved levels. The primary reserves would cover 3.5 months of operating budgets and the budgetary reserves would cover the equivalent of 2.5 payroll cycles. With smaller margins and stable or declining enrollment, some resiliency has been lost in the system's financial position and strategic measures are in place to improve the financial condition.

In FY2013, the system had \$1,889.8 billion in total revenue, and \$1,891.8 billion in total expenses. This is a change of about \$65 million from the prior period - not much revenue growth, and an increase of \$75 million in expenses, much of which is payroll increases and increases in financial aid disbursements. Vice Chancellor King noted that compensation expense alone increased by \$48.4 million from FY 2012 to FY 2013.

Systemwide, there are \$2 billion in net assets at the end of FY2013. The increase is due mainly to additional capital asset improvements and some refunded and reissued bonds.

Because colleges and universities are all very different, the Composite Financial Index (CFI) has been used by MnSCU as a way of making comparisons. It normalizes an institution's performance and takes into account long-term and current performance. (More information on this tool can be found on the Finance webpage.) The two long-term components are primary reserve and the viability measure, which account for 70 percent of the weighting. The return on net position and net operating revenue are the short-term components. The CFI target threshold is 3.0 and currently the overall system CFI is 2.26 versus 2.78 in 2012. The

reduction is a result of a negative operating position ratio in FY 2013 versus a positive one in FY 2012. The measure is significantly volatile at the institution level, and moves more moderately at the system level. The numbers are monitored over a large number of years in order to wash out abnormal years. The presidents and CFOs are very aware of the CFI methodology.

Trustee Hightower requested clarification of return on net position and viability. Vice Chancellor King responded that return on net position captures MnSCU reinvestment in its assets and illustrates whether the investment rate is sufficient to protect what is in place. The Higher Education Asset Preservation and Replacement (HEAPR) investments help with this number. Viability represents the debt load carried compared to the cash available to repay the debt. From a financial statement standpoint, MnSCU is fortunate to get state funding because MnSCU gets 100 percent of the asset on its books but only pay for one-third of it. When comparing colleges to universities, viability is the biggest difference in CFI because of the revenue fund; however, the distinction is lessening with more colleges taking on revenue bonds.

Trustee Renier asked when does the CFI become a concern. Vice Chancellor King replied the CFI is flagged and monitored if it is below 1.5 over two years or if it drops to 1.0 or below in any given year. There were two schools in FY 2012 below 1.0 and four in FY 2013. If a measure raises concern, the system office works with the school's CFO to resolve the issue. If the financial concern continues beyond a reasonable amount of time, it is brought to the attention of the chancellor and the Board of Trustees in an exception report. Vice Chancellor King said that for FY 2013, nine colleges and one university have tripped monitoring flags established in procedure. Procedure calls for development of a financial recovery plan (often a multi-year plan), including established periodic reporting to the Vice Chancellor – CFO. The goal is to help schools regain financial and operational health. Board Policy 7.3 and Procedure 7.3.16 addresses monitoring protocols. The financial management plan includes peer review and assistance, enrollment and margin improvement strategies and revenue and expense forecasting and monitoring. The elements are discussed as part of the Trends and Highlights agenda.

Vice Chancellor King said that colleges and universities are managing budgets through focused planning of revenue and expenses. There are thin margins, which leaves the campuses vulnerable to surprises. Strategic enrollment management and strong program development are important factors to mitigate risks. The reserves also provide some protection for enterprise risk. It is a matter of balancing risk management against overcharging students or investing in facilities. Chancellor Rosenstone added that risks to MnSCU have increased dramatically. The CFI numbers are below the Board's expectations. Colleges and universities are responsible for managing risks, even with thin margins. MnSCU must keep working to find ways to remain resilient enough to protect students, programs and community partnerships.

4. 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

Brian Yolitz, Associate Vice Chancellor for Facilities, said Interim President Gail O’Kane was present to help answer questions that may arise. Mr. Yolitz thanked his staff and Rochester Community and Technical College (RCTC) staff for their help with this item. Mr. Yolitz said there are two distinct initiatives before the Board today – the Career Technical Education Center at Heintz/Science, Technology, Engineering, and Math Village (CTECH/STEM) and the third phase of the sports stadium project.

The city of Rochester reauthorized a .5 percent sales tax increase in November 2012 through a general election referendum. Ten projects have been funded with the funds throughout the city of Rochester. The city has provided the Development and Financing agreement, committing the funds necessary to complete the projects on the RCTC campus. The campus is responsible for the design and construction. Mr. Yolitz presented a map from the Facilities Master Plan at the RCTC campus, identifying the location of the two projects. Mr. Yolitz showed images of the initiatives; the regional stadium with a new “bubble” covering the field and a new set of bleachers to be constructed on the visitor’s side; and the general location of the site targeted for the CTECH/STEM Village. Both projects will exceed \$3 million, requiring Board approval.

Mr. Yolitz said that each Trustee would find a revised copy of the motion at their place which has three elements – the acceptance of tax proceeds from the city of Rochester, the authorization of the chancellor or designee to proceed with the projects and to proceed with the legislative authority to execute the projects.

The CTECH/STEM Village project is before the Board because the Board must authorize construction on state lands for projects funded by gifts or grants. (None of the funding comes from state appropriation or tuition dollars.) The Board must also grant approval to seek any necessary legislative authority. The CTECH/STEM Village, a 22,350 sq. ft. addition to the Heintz Center, is a joint project with Rochester Public Schools to add traditional technical education facilities that are not presently available in the school district. Mr. Yolitz noted that the project also adds Winona State University’s teacher resource center. Targeted completion dates are Fall 2014 for the stadium and Fall 2015 for the CTECH/STEM Village.

Trustee Anderson Kelliher asked if the CTECH/STEM Village was a capital request that was unfunded, or if it is to gain Board permission to put this package together with partners involved. Mr. Yolitz said it is the latter; it is not a capital request that was unfunded. Vice Chancellor King added that it is general authority in statute to accept gifts for building improvements under certain conditions.

Trustee Benson asked if we are funding any other projects in the system though local sales tax. Vice Chancellor King was not aware of any. There are local sales taxes and hospitality taxes in cities in which we are located including in Minneapolis, St. Paul, Duluth, St. Cloud and Bemidji and MnSCU has no capital relationships with any of them. Trustee Anderson Kelliher noted that there are facilities that MnSCU utilizes that would have been built with funding from local sales tax, such as the Mankato Civic Center and Hockey area. MSU, Mankato doesn't own that facility but leases the facility for its hockey team.

[Note: Subsequent research find sales and hospitality taxes are also present in Brainerd, Detroit Lakes, Fergus Falls, Mankato, Marshall and Worthington.]

Trustee Benson said that the original sales tax was incorporated in the early 1980s for flood control and has been ongoing ever since. The residents of the city of Rochester, plus outlying communities, pay the tax. Vice Chancellor King said that there were multiple uses presented for the revenue, including these two items. MnSCU was not a part of the discussion of how the sales tax should be used. The city of Rochester has been a strong partner with the college and viewed the construction as a community benefit, and open to the community for use. Vice Chancellor King said the sales tax is external in that it is charged for food and beverage. Trustee Anderson Kelliher inquired if the two projects are independent of each other. Mr. Yolitz confirmed that they are. Funding has been secured for the projects and both have pre-design completed to get a sense of the scope for the construction. Schematic designs are underway and the projects will be executed through Construction Manager at Risk.

Trustee Anderson Kelliher asked if there is a commitment by the city of Rochester for the use of these facilities, and if so, for how long and if a maintenance component is included. Mr. Yolitz said that documents are being drafted that would expand the agreement already in place for the stadium - the operating expenses are covered through the rent and shared use agreement. An agreement is being drafted between MnSCU, the city of Rochester, and the school district for the lease and fee agreement for the CTECH/STEM Village. The initial term is five years, with the expectation for ongoing renewal.

Trustee Krinkie asked what the current HEAPR backlog is for the system. Mr. Yolitz responded that HEAPR is just over \$700 million systemwide for academic facilities. Trustee Krinkie said, because of the lack of legislative support for HEAPR, and without a guarantee of a lease or maintenance agreement longer than five years, he'd be reluctant to support adding more facilities. Mr. Yolitz said the Board could direct to extend the agreement to ten years or more. There is enough demand for the stadium to continue and to sustain operations, even without the lease. The CTECH/STEM Village has opportunities to be explored for other lease agreements if RCTC felt the agreement in place was becoming risky. Interim President O'Kane added that the CTEC/STEM Village has been part of the community planning for a long time. The public schools, business, and community support the project. There has been high demand for career and technical education in the community. There has been higher use of the stadium than expected. The Rochester Amateur Sports Commission expects to draw new tournaments after the expansion is complete. The Rochester area population is also growing.

Trustee Anderson Kelliher complimented RCTC on their innovative work with the community and supported a ten year agreement with the community partners, and noted that not all communities can impose a local sales tax to support projects, lease community facilities, and the prioritization of the capital bonding list no longer means just moving up the ladder. Trustee Benson expressed concern for the smaller communities that don't have the ability to impose a local sales tax. The "gift" from the city of Rochester came from the people of Rochester and the people of surrounding communities. Other communities may not have an opportunity to impose a local sales tax because they don't have the population/tax base to support it. Additionally, the sales tax was imposed for a specific purpose, but with legislative approval, the purpose was changed.

Trustee Hightower said this is an opportunity and MnSCU should find ways to do more of this kind of community partnering. Trustee Erlandson and Renier gave examples of other communities that have local sales tax and acknowledged it is the city that is the decision maker on what is funded with the revenue, and Rochester chose to partner with RCTC. Trustee Dickson said the initial stadium was built with city tax dollars and the Board is just expanding on what was previously approved. The disparity of community tax bases should not stand in the way of community partnerships that choose MnSCU institutions.

Trustee Krinkie said both of these projects will benefit the community and RCTC, however, they circumvent two processes in the purview of the legislature - tax policy process and capital improvement process. Trustee Sundin said if all campuses and their surrounding communities feel they must all get the same, second thoughts should be given to embarking on Charting the Future. Trustee Anaya said any student in Minnesota can attend Rochester and enjoy the new facilities, so it is not a matter of fairness, since it not only benefits RCTC, it benefits MnSCU.

Chancellor Rosenstone said the system must find new ways to work together and the partnership presented today with the city of Rochester supports public schools, the community and higher education. The programs offered will fuel the healthcare workforce of that region. It is proper for the Board to be concerned about the risks involved, and the Board is entitled to its opinion on the sales tax usage for the project, but the system needs to look creatively for new and innovative opportunities. In this case, there has been a long standing partnership between RCTC and the city of Rochester, and stepping back from these projects would not only send a wrong message to the city of Rochester, but it would hinder RCTC's ability to serve the Rochester area at a critical moment in its development.

Trustee Paskach asked if there was consensus to expand the agreement to ten years. Vice Chancellor King said that a motion is not needed and the advice of the Board will be considered. There is authority in Board policy to negotiate beyond five years. The pros and cons of extending the agreement will be evaluated. Trustee Krinkie requested a roll call vote.

Trustee Paskach moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Paskach seconded the motion. The motion prevailed with Trustee Benson and Trustee Krinkie voting in dissent.

REVISED RECOMMENDED COMMITTEE ACTION:

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

The Board of Trustees approves the acceptance of sales tax proceeds from the City of Rochester 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, and authorizes the chancellor or his designee to enter into the necessary contracts for the projects and to seek any legislative authority needed for construction.

5. Dakota County Technical College Surplus Declaration

Mr. Yolitz said that Dakota County Technical College (DCTC) is requesting the Board to designate property located at 125 Grand Ave. East in South St. Paul as surplus property. The property includes a 6,400 sq. ft. technical classroom building and a small 360 sq. ft. storage building. It was conveyed to MnSCU as part of the merger in 1995. The property is located 15 miles away from the main campus and 5.5 miles away from Inver Hills Community College. DCTC's long term plan has been to sell the property since the building is not suitable for renovation or reuse. Consistent with statute, the Board may declare property that is no longer needed by system as surplus, and offer it up for public sale. The estimated value is \$255,000 and the proceeds from the sale of the property will be used to help fund capital projects.

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

RECOMMENDED COMMITTEE ACTION:

Finance and Facilities Committee recommend 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.

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

Mr. Yolitz said that President Temte and President Shrubbs were present to help answer questions about housing concerning their campuses. The locations of the proposed third party housing are in Thief River Falls and Worthington, both facing housing shortages due to the

Bakken oil fields and Digikey in Thief River Falls, and Worthington faces competition for low price rental housing from processing plant workers. The Board last considered two-year housing in 1999 and established guidelines that included an analysis of the demand, financing, and long-term viability. Since that time, several two year colleges have added housing including Fond du Lac Tribal and Community College, Hibbing Community College, Itasca Community College, Alexandria Technical College, and Vermilion Community College.

There are three types of two year housing – owned, third party ownership, and unaffiliated (advertised as student housing and marketed predominantly to students). The proposal is for unaffiliated housing at Northland and Minnesota West.

Trustee Benson asked why the owned housing properties are located in the iron range only, and if funding could have come from Iron Range and Rehabilitation Board (IRRRB). Vice Chancellor King gave a rundown of the financing for each college that owned housing, and said none of it was IRRRB money but she would verify that. Several other colleges will be exploring housing options in the future.

Under statute, the Board has the authority to pursue two-year housing developments that meet certain requirements, including that no funding can come from appropriation and/or tuition, satisfaction of financial viability, siting and design consistent with the master facilities plan, and the lease term of less than 30 years.

Both campuses have gone through the process of consulting local municipalities, exploring partnerships with local landlords, and completing a demand and market analysis. They have both engaged an architecture firm to evaluate siting and locations. Northland and Minnesota West have concluded that student housing is a desired tool to enhance enrollment and support persistence, and seeks a developer to design, finance, and construct student housing on their campuses.

Mr. Yolitz showed current and future dimensions of the rental properties of Thief River Falls and Worthington. Thief River Falls has a vacancy rate of 1.7 percent, 65 percent of students commute 45 minutes or more to campus and there is demand for 140 beds. Likewise, Worthington has a vacancy rate below 1 percent, 63 percent of students commute 45 minutes or more to campus and there is demand for 100 – 110 beds. Mr. Yolitz added that part of the urgency is the limited housing options in the community, despite low vacancy rates.

Moving forward into negotiations, certain conditions must be met to assure a balance. The housing is to be used for the benefit of enrolled students and facilities master plan and design and construction standards must be met. Financing is at the expense of the developer. Rent is to be all-inclusive, but there may be an extra charge for parking. At the end of the term, there is an option to purchase for \$1 or remove it from the site.

Trustee Anderson Kelliher asked if there are any zoning issues that would be a potential obstacle. Mr. Yolitz replied that a zoning process will be followed, no red flags are anticipated, and the communities are aware of the projects.

Trustee Renier moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Ristau seconded the motion. The motion prevailed with Trustee Benson and Trustee Krinkie voting in dissent.

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.

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

Respectfully submitted,

Laury Anderson, Recorder