MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

October 21, 2014

Finance and Facilities Committee Members Present: Chair Michael Vekich, Vice Chair Jay Cowles, Duane Benson, Philip Krinkie, and Maleah Otterson

Other Board Members Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, Alexander Cirillo, Dawn Erlandson, Elise Ristau, and Louise Sundin

Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, President Douglas Allen, Associate Vice Chancellor and Managing Director of the CSC, Phil Davis, and President Robert Musgrove

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on June 18, 2014, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 12:42 p.m.

1. **Minutes of June 18, 2014**
The minutes of the June 18, 2014 Finance and Facilities Committee were approved as written.

2. **Finance and Facilities Update**
Vice Chancellor King reported the Metro State construction update, including the situation summary and remediation recommendations, is scheduled for next month. Trustees were previously briefed on the emergent ground pollution issues at the site of the parking ramp construction on the St. Paul campus.

Fall 2014 FYE enrollment is down 4.2 percent from last year—5.2 percent at MnSCU colleges and 2.7 percent at MnSCU universities. Even with the recent enrollment declines, FYE enrollment is projected to be 9.7 percent higher in FY2015 than in FY2002. Presidents and their leadership teams are managing with recruitment efforts, cost reductions and academic program planning. The final budget impacts will not be known until all the leadership actions are complete.

The resiliency model was introduced at the board retreat in September. Calls were recently completed with all system CFOs to review and refine the resiliency modeling and projections. The Finance committee will be kept informed as the tool is perfected.

The 2014 financial reporting season is almost complete. A new audit firm is on site and on campuses and coordination with Minnesota Management and Budget continues. So far, no material or adverse events have been identified. The final results will go before the Audit committee in November and will be on the Finance committee agenda in January 2015 for discussion.

There were several occasions when trustees joined campus and community leadership at dedications or ground breakings. Vice Chancellor King thanked Trustees Cowles, Anderson Kelliher, Hoffman, Charpentier-Berg, and Otterson for their participation.

As a proactive measure to Ebola, Academic and Student Affairs and system leadership are working with colleges and universities to refresh campus planning and alert systems. There are no immediate risks anywhere in the system.

3. FY2016 – FY2017 Legislative Request – 1st Reading

Chancellor Rosenstone opened the presentation with remarks highlighting the critical importance of state appropriation to the future of Minnesota State Colleges and Universities. The funding received from the state sets constraints on compensation, programs supporting growth, student success services, technologies and equipment, new initiatives and investments, opportunities for new partnerships and the ability to innovate. Chancellor Rosenstone thanked the trustees for their participation at the board retreat in September and the presidents for conducting the campus conversations last spring that helped developed this proposal. The FY2016-FY2017 request is meant to continue to protect affordability, insure access to education for all, protect in-demand programs and the faculty and staff needed to deliver those programs. Chancellor Rosenstone turned the presentation to Vice Chancellor King and President Douglas Allen.

Vice Chancellor King said the FY2014 - FY2015 operating budgets place a strong emphasis on protecting affordability for our students and supporting the strategic framework's goal of offering the highest value/most affordable higher education option in Minnesota. Freezing undergraduate tuition for a third consecutive year, placing limits on fee increases, and increases to the state grant program and federal Pell grants have helped keep the cost of attendance for undergraduate students essentially flat for the past three years, and increasing scholarship funds makes an already affordable education more affordable still. As a result of flat tuition rates in FY2014 - FY2015, MnSCU college students will save an average of $435 in tuition over the biennium ($145/year) and university students will save an average of $615 over the biennium ($205/year).

The FY2016 - FY2017 legislative request of $142 million is for funds to cover inflationary cost increases. These are the funds needed to avoid a tuition increase and to protect programs needed to serve students and communities across the state. As the state has reduced its support for higher education, students have borne a higher and higher share of the costs. In 2002, the state provided 66.3 percent of the cost of a student's education. Today that share is 43.9 percent, a decline of 34 percent. The request of $142 million is not to return to the 2002 levels of budget support, but rather to move towards a 50:50 financing plan, with the state providing 50 percent, and student provides the remaining 50 percent. State funds are not being requested to fund new initiatives. New investments will be funded internally by prioritization based on the needs of the students.

Data from 2013 financial aid records shows that over 60 percent of MnSCU undergraduate students receive some form of aid, including federal and state grants. The board, as well as our presidents and the chancellor, have been very concerned about student debt. MnSCU had more students with no debt and the lowest median debt in the state in comparison to other higher education providers, profit and non-profit.

Vice Chancellor King summarized the legislative request: $72 million to cover a portion of annual salary and fringe benefit cost increase (total of 3 percent total annual compensation increase) replaces revenue from a 3 percent tuition increase, plus $70 million to cover a portion of annual salary increases and fringe benefit increases, plus inflation on operating costs, totaling $142 million. Both elements of the request will enable MnSCU to offer services designed for student success, maintain and grow quality, in-demand programs, attract quality faculty and staff at competitive wages, and respond to growing gaps in workforce needs across the state. The $142 million in new funding would increase MnSCU's base funding by 11.4 percent from the FY2014 - FY2015 biennium. This increase would include a 5.8 percent increase over two years to fund the tuition buy down and a 5.6 percent increase over two years to fund inflationary costs.

Since last spring, MnSCU has experienced enrollment declines deeper than originally forecast. Presidents and their leadership teams have moved swiftly to improve enrollment strategies and to maintain budget discipline. The request does not ask the legislature to assist with this shortfall.

President Allen acknowledged that $142 million is a large request and said that there was unanimous consensus within the Leadership Council to keep tuition down. The legislative request needs to be what it costs to operate the system. State funding is needed to help deliver on the state's commitment to a high quality education at an affordable price. The request asks for help to cover operational cost inflation in order to keep the tuition at 2013 levels. Without it, tuition will have to increase, or programs, access, and staffing levels will need to be cut.

Vice Chancellor King said the next steps are to continue consulting with students, faculty and staff leadership, presidents and legislative leaders. The board will have the second reading of the legislative request in November, and upon approval, will be submitted to the Executive Branch on November 20, 2014.

Chair Vekich asked, if this request precludes the board from exercising its fiduciary responsibility to increase tuition if deemed necessary. Vice Chancellor King responded that $142 million is needed to accomplish the goals that are set, and if the request is not met, the board's message will be to vote to increase tuition. As an example, a $70 million shortfall would translate to 500 layoffs, closing programs (which would lose enrollments), technology investments, buildings and grounds care. Trustee Krinkie said that the legislature has given the board the responsibility for budgeting and setting tuition, and asked why the board would want to relinquish its statutory authority to set tuition on its own by saying this equates to a tuition freeze. There is the possibility that the legislature may not fully fund the request, and still impose a tuition increase. Trustee Krinkie suggested why not ask for the $142 million, with the message that this funding will allow MnSCU to hold tuition increases instead of freezing tuition voluntarily.

Vice Chancellor King responded that the board's message to the legislature is clear in that it has financial responsibility for the condition of the system, which translates into resources. The best possible approach would be to request the funding, and the board would consider a tuition freeze, but MnSCU does not have the luxury of absolute autonomy in that regard. There is no legislative history that suggests funding will be made for the full request. Assumptions, such as enrollment and contract settlements for the next two years, need to be made so that a recommendation to the board can be made. Chancellor Rosenstone said Trustee Krinkie had an important point which can be reflected in the way the resolution can be crafted for adopted in November. The resolution can be crafted that it is clear that the board has the ability to do "x" if we have the resources to do "x". That is the board making those decisions, not the legislature. There is a lot of work to be done before November in order to take Trustee Krinkie's comments into consideration, but also that MnSCU needs the $142 million.

Trustee Anderson Kelliher said that recent history shows there have been restrictions placed on the board by the legislature. It is important to make sure that it is strongly advocated that the board retains its fiduciary responsibility. There are challenges ahead in the state forecast and enrollment and urged that the wording of the request maintains that feeling. Trustee Benson suggested that MnSCU should come up with its own formula for funding because the legislature has increasingly dictated items that should be board action.

Trustee Charpentier-Berg attended a MSCSA conference and said there was consensus that students would rather see tuition increases than to see more cuts in student services at the campuses. Trustee Otterson concurred. Kaylee Schoonmaker, MSCSA president, expressed appreciation for the board's commitment to access and affordability for the tuition freeze that has been in place the past two years. Students are engaged in conversations and priorities have been identified as a continued tuition freeze, and continuation of quality education and programs. Chancellor Rosenstone noted that there is a pledge to students to be a part of the consultation process.

The chair invited members of the audience to address the committee.

June Clark, AFSCME president, approved of the tuition freeze, only if the $142 million is received.

Jim Grabowska, IFO president, said that the IFO is "all in" for the request. President Grabowska said that it is written in statute that it is the intent of the legislature to provide 67 percent of the funding. The IFO is pleased that the intent is to return to 50:50 funding for now, but is committed to having the state live up to its commitment of 67 percent. President Grabowska said the IFO is committed to the proposal and will give support to defend the board's rights to the legislature.

Chair Vekich said that there is a general consensus to support the $142 million request, with the understanding that it is clear that the board's statutory responsibility to take other actions, if necessary, is retained. Chancellor Rosenstone affirmed the board's authority for approval of contracts, modify budgets, and set tuition rates. The resolution will reflect that this authority will not be relinquished. Chancellor Rosenstone will work with Vice Chancellor King to modify the motion.

4. 2015 Capital Bonding Recommendation and Update

Brian Yolitz, Associate Vice Chancellor for Facilities, said the purpose of the capital bonding presentation was to gain board approval of capital investment priorities for the 2015 legislative session and to endorse a statutory language change for a Southwest Minnesota State University project. Capital bonding, the revenue fund, and tuition and fees are the system's sources of revenue. Capital bonding traditionally occurs during the even number years of a legislative session and supports academic priorities. The 2014 session provided $159.8 million for board approved priorities. Development is underway for 2016 recommendations.

The 2015 request includes 2014 unfunded priorities including HEAPR ($67.5 million), demolition ($5 million) and 8 unfunded projects listed on Attachment B ($39.6 million), and construction tails of 5 projects also listed on Attachment B ($70.5 million). The program total is $182.6 million. Of that $145.9 million will be funded though capital bonding and $36.7 million will be system financed.

There is $474,000 remaining from 2012 capital bonding design work at Southwest Minnesota State University. A statutory clarification will be pursued to allow the university to use the funds for pool deck repairs, entry door replacement, light replacement and design link repairs.

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

RECOMMENDED COMMITTEE MOTION:

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

The Board of Trustees approves the capital bonding priorities as presented in **Attachment B**, and authorizes submission to the executive and legislative branches for consideration as part of the 2015 legislative session. The Chancellor is authorized to make cost and related adjustments to the request as required and shall advise the board of any subsequent changes in the capital bonding request through the 2015 legislative process. In addition, as funding is authorized and appropriated by the legislature and approved by the governor, the chancellor or his designee is authorized to execute contracting actions necessary to deliver on the project scope and intent.

Further, the Board of Trustees endorses the pursuit of legislative action enabling the use of capital funds from fiscal year 2012 no longer required for capital project design work at Southwest Minnesota State University for asset preservation work through HEAPR at the university.

5. 2015 Revenue Fund Bond Sale (First Reading)

Brian Yolitz, Associate Vice Chancellor for Facilities, said the purpose of the first reading of the 2015 revenue fund bond sale is to gain board support for construction of three capital projects and enable future designs, and a refunding of outstanding bonds from the 2005 revenue fund bond sale.

The revenue fund supports auxiliary priorities such as residence halls, student unions, athletic and fitness facilities and parking ramps, with the debt carried by the institution and serviced by fees. It is a system driven process that is legislatively authorized in an odd-year cycle, opposite of the capital bonding cycle. The revenue fund is part of campus master planning, involves an extensive student consultation process, and debt capacity analysis. It includes a predesign and financial feasibility study, resulting in a preliminary project list, followed by campus work, and financial refinement and student consultation. The projects before the board today are the result of this process. Upon board approval in November, rating agency visits will be scheduled for December or January. The bond sale is scheduled for February.

The 2015 projects include the MSU, Mankato dining facility, MSU Moorhead Comstock Union renovation, Vermilion student housing, and design funds held at the system office for use to satisfy emerging private use opportunities and initiate design of future projects. The debt service is retained at the system office, and once a project is assigned, it transfers to that institution. This bond sale also includes refunding the 2005 revenue bonds that remain outstanding. (Details of the projects can be found in the board packet.)

A bond refunding involves the issuance of refunding bonds to take advantage of lower interest rates and achieve cost savings for the campuses. Two of the candidates for the refunding are the Julia Sears resident hall at MSU, Mankato, and St. Cloud State University's parking ramp. The 2015 revenue bond sale would include the bond refunding in the same issuance for new revenue bonds, with an anticipated net present value savings of $3.6 million – $4 million after the refunding is completed, translating to $300,000 - $350,000 savings per year in debt service costs.

The system proposes to sell two series of bonds: Series A tax exempt revenue bonds to fund the Vermilion Community College project and the tax exempt refunding bonds and Series B taxable revenue bonds to fund the dining facility at Mankato, the student union at Moorhead, and a small portion for MnSCU planning purposes. System revenue bonds have typically been sold in a competitive sale process, and are usually purchased by financial institutions and brokers.

Trustee Vekich asked if there was full consultation with students and other stakeholders. Mr. Yolitz replied that copies are included in the board packet. Trustee Vekich pointed out that the Vermilion student housing fees will increase 6 percent in 2015 and goes to 11 percent in 2016. The project will allow for the replacement of 84 beds in modular housing to 120 beds into a two tier townhome design. Provost Shawn Bina responded that student have been fully advised and support the fees.

6. Proposed Policy 5.25 – Use of Electronic Signatures (1st reading)

Vice Chancellor King indicated that the proposed policy represents a substantial tool in the effort to streamline administrative processes and is pleased to finally have this policy before the committee. The policy has been overseen by the General Counsel's office to ensure conformance with state and federal law and shared with Leadership Council.

The draft policy defines specific types of electronic signatures, and sets out the general parameters for campuses and the system office to follow before implementing electronic signatures for each specific use. A system procedure, currently under development, will establish the type of electronic signature allowable for specific categories of documents, considering their associated level of risk based on the dollar value of the contract and the parties involved, as well as other factors such as reputational risk and access to private data. The policy would not be effective until the related procedure is in place.

7. Rochester Community and Technical College Workforce Center Lease Exceeding $3 Million

Mr. Yolitz reported that 2012 bonding bill included an $8.746 million appropriation for the construction of a workforce center to be located on the Rochester Community and Technical College campus attached to a campus building. The legislation directed MnSCU and the Department of Employment and Economic Development (DEED) to enter into a lease that included payments that would cover the operating costs and debt service attributable to the workforce center's use. The workforce center lease is the subject of this request with the potential to exceed $3 million over the full term of the lease if all renewal options are exercised. The initial term of the lease is five (5) years with three (3) five (5) year options to renew.

Trustee Krinkie moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Cowles 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 authorizes the Chancellor or his designee to execute all necessary lease and related documents including renewals, with the Department of Employment and Economic Development (DEED), it successor, subtenants and assigns for the co-location of the Workforce Center at the Rochester Community and Technical College campus.

8. Minnesota State University, Mankato Approval of Contract Exceeding $3 Million for Beverage Sponsorship

Vice Chancellor King introduced MSU, Mankato Vice President of Finance Rick Straka. Vice Chancellor King reported that the purpose of this presentation is to request board approval of a beverage sponsorship contract with a value not to exceed $5,000,000 for on campus pouring services at Minnesota State University, Mankato.

The university has issued a call for RFPs for this purpose. Respondents were asked to provide information on exclusive pouring rights in all campus facilities, athletics, residence halls, student unions, and all other facilities. The university evaluated the term that offers the greatest benefit to the university based on consideration of the information provided in response to the RFP. The preferred vendor is not named in the materials consistent with state law concerning private data until the contract negotiations are complete and the board has approved the contract. The university last bid this relationship in 1998.

The contract would be five years in length with one option to renew for 5 additional years. The total value of the contract, if it runs the full ten years, is estimated at more than $3 million and less than $5 million.

Trustee Benson asked if this was strictly non-alcoholic. Vice Chancellor King replied yes, and these contracts are very typical at the universities. Mr. Straka added that percentage breakdowns on healthy juices, carbonated beverages and water were included in the RFP.

Trustee Otterson asked why student government letters are not included in the packet. Vice Chancellor King said student government letters are in policy as part of the operating budget and capital budget. Mr. Straka assured that students were part of the consultation process. Trustee Otterson requested that student letters be included in the packet. Vice Chancellor King responded that is a large request and asked that there be a subsequent conversation on it.

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

RECOMMENDED COMMITTEE MOTION:

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

The Board of Trustees approves Minnesota State University, Mankato entering into a beverage sponsorship contract not to exceed $5,000,000 million for on campus pouring services. Execution of the contract is subject to the review and approval of the contract by the chancellor or his designee.

9. Campus Service Cooperative Update

Associate Vice Chancellor and Managing Director Phil Davis gave an update on the Campus Service Cooperative (CSC). Mr. Davis introduced President Musgrove to assist with the presentation.

The CSC began in 2011 to demonstrate how campuses can work together to develop efficiency in delivery of support services. The board approved a contract with IBM for $4.9 million to assist with leveraging the collective purchasing power the colleges and universities, and finding ways to streamline business processes. In 2012, with the help of IBM, the CSC developed a shared services platform focusing on business office, human resources and financial aid services and sourcing and procurement initiatives. The earliest return on investments was seen in office services, managed print and purchasing cards.

The $4.9 million investment is estimated to return $6.3 million (an average annual return of 5.7 percent) in the first five years. The expectation is to receive the same $6.3 million in savings again over the following five year period, this time without any consulting expenses.

Mr. Davis acknowledged that earlier projections predicted higher returns in the early years. The difference was principally the result of lower-than-expected adoption rates, longer project launch cycles, and greater efficiency in campus spending. Mr. Davis noted that if a campus can find better pricing, then they should use that vendor and share that resource with other campuses. Chancellor Rosenstone noted that the campuses see the value of the CSC and participation is voluntary and he supports the discretion to use local vendors.

President Musgrove said the next steps for strategic sourcing will be to identify and execute high potential projects, increase the adoption rates and build a sustainable staffing model. Likewise, proposals for shared services will be solicited and campuses will be engaged in the selection and implementation. Chancellor Rosenstone asked how the projects will be housed. Mr. Davis said that the CSC will find campus champions who can manage the work, preferably campuses who are leading the initiatives.

Trustee Vekich said that he is comfortable with both the CSC's approach and with the metrics on savings, with more to come. Mr. Davis responded that there are many great ideas and the framework is set up for the greatest benefits to the campuses with minimal risks. Chancellor Rosenstone said that the CSC is a powerful example of collaboration. The presidents and the campuses own it, not the system, and it has value proposition for them.

The meeting was adjourned at 3:26 p.m.

Respectfully submitted,

Laury Anderson, Recorder