

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

Name: Finance and Facilities Committee

Date: October 21, 2014

Title: 2015 Capital Bonding Recommendation and Update

Purpose (check one):

Proposed
New Policy or
Amendment to
Existing Policy

Approvals
Required by
Policy

Other
Approvals

Monitoring /
Compliance

Information

Brief Description:

Seeking Board approval for a 2015 bonding package that would include the Board's previously approved work and, in priority order, provide funding for HEAPR, a select portion of the 2014 demolition initiative, validated priorities not funded in 2014 and "construction tails" associated with ongoing designs funded in 2014, all reflective of inflation. This request would total \$183.2 million. Additionally, seeing Board endorsement of 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.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor for Facilities

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

ACTION ITEM

2015 Capital Bonding Recommendation and Update

BACKGROUND

In May 2014, Governor Dayton signed a \$1.1 billion statewide capital investment bonding bill which included \$159.8 million for Minnesota State Colleges and Universities. This included \$42.5 million for higher education asset preservation and replacement (HEAPR) and \$117.3 million for 13 capital projects on 19 campuses. This funding represented 56 percent of the Board’s total original 2014 program request, 39 percent of the requested HEAPR and 66 percent of the requested capital projects. **See Attachment A.**

Capital bonding is the primary focus of even-year legislative sessions. There have been occasions where capital bonding has been taken up as part of an “off-bonding” or odd-year legislative session. Past practice has been for the Board to consider and recommend off-year funding for those capital priorities not fully funded in the prior year’s bonding bill.

2015 CAPITAL BONDING PLANNING

A total of \$126.6 million of the Board’s 2014 priorities were not funded in the most recent capital bonding bill. These unfunded priorities include \$67.5 million in HEAPR requirements, \$20.6 million from the demolition initiative, and \$38.5 million for nine priority line-item projects for work at 11 campuses.

Board priorities not funded in 2014 have been revalidated with college and university leaders. There continues to be strong demand for asset preservation through HEAPR. The Board made a strong statement on managing costs, affordability, and institutional financial sustainability in seeking funding to demolish obsolete space in 2014. Although the legislature ultimately did not support demolition as a stand-alone package, the demolition initiative triggered several efforts on campuses in Granite Falls, Staples, and Detroit Lakes to evaluate and seek alternative use for obsolete space, including partnering with local school districts or organizing efforts for other local governmental and non-profit partners to deliver and leverage space available on campuses. In Hibbing, Bemidji and Canby, campuses integrated demolition into an overall rightsizing effort and have incorporated demolition as part of the planning strategy for a 2016 capital request. The 2015 capital request incorporates a modest demolition line for campuses to incorporate where there are little or no potential for reuse opportunities.

The bulk of the 2015 requests represent a direct carry over from the 2014 approved program, adjusting for inflation of 5 percent. At Century College, although design only, the focus will

be on meeting program needs in existing space and has removed the proposal for additional space from the project.

Within the 2014 bonding bill, 5 funded priorities initiated design for construction to be pursued in future bonding bills. Design work for Bemidji State University, Rochester Community and Technical College, Hibbing Community College, Winona State University and St Cloud State University is under contract and continues to progress. Future construction (so called “construction tails”) at these institutions is consistent with Board adoption and approval of the 2014 capital bonding program. See Attachment A (page 11) of the June 2013 Board Packet at: <http://www.mnscu.edu/board/materials/2013/june19/fin-04-capbudget.pdf>. Executive and legislative branch support to finish this work may bring this construction into consideration for a 2015 capital bonding bill. In the meantime, all are being prepared for consideration within a 2016 capital bonding recommendation.

A recommended 2015 bonding package would include the Board’s previously approved work and, in priority order, provide funding for HEAPR, a select portion of the 2014 demolition initiative, validated priorities not funded in 2014 and “construction tails” associated with ongoing designs funded in 2014, all reflective of inflation. This request would total \$183.2 million, with funding in the four categories outlined below and details provided in Attachment B.

HEAPR	\$67.5 million
Select demolition	\$5.0 million
Priorities not funded in 2014	\$39.6 million
“Construction tails” from 2014	\$70.5 million
<hr/> Program Total	<hr/> \$182.6 million
GO Funded	\$145.9 million
System Financed	\$36.7 million

PRIOR YEAR CAPITAL PROGRAM UPDATES

There are two noteworthy updates to capital projects during the last few months. First, St. Cloud State University and system staff determined a need to seek conversion of the portion of tax exempt bond financing issued for St. Cloud State University’s Integrated Science and Engineering Learning Facility (ISELF) from tax exempt to taxable bonds. This conversion allows St. Cloud State the flexibility to develop applied learning partnerships that the university is seeking from the private sector. Tax exempt bond financing limits these types of applied learning partnerships, as they implicate private use limitations imposed by the Internal Revenue Service rules for buildings financed with tax exempt bond debt. In August of this year, Minnesota Management and Budget (MMB) executed a repurposing and refunding of tax-exempt bonds sold for the design and construction of St. Cloud State University’s ISELF and an issuance of taxable bonds. This action enabled the university to enter into public private arrangements for space within ISELF to offer students greater learning opportunities and remain in compliance with Internal Revenue Service rules on private use.

Second, the 2015 legislative request is expected to include clean up language to convert unused bond funds from a renovation project at Southwest Minnesota State University to HEAPR funds for use on campus. In the 2012 bonding bill, \$500,000 was appropriated for the university to design a renovation of their science laboratories and an addition to the plant science learning center in the science and math building. After design funding was appropriated, it was determined the project should not proceed to construction funding based on several factors, including leadership transitions, the university's plan to update their facilities and academic plans, challenging financial outlook, and a priority need for additional repair and replacement dollars. As a result, the design work was terminated, leaving a balance of \$474,306.37 from the 2012 appropriation. The system sought to convert these funds to HEAPR funding for the campus's use on other high priority repair and replacement projects. Ordinarily, the conversion of left over project funds to HEAPR funding is fairly straightforward and involves a request to the Minnesota Management and Budget office. However, in this case, Minnesota Management and Budget is seeking some legislative direction before it was willing to allow the conversion to HEAPR funding.

RECOMMENDED COMMITTEE ACTION:

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.

RECOMMENDED 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.

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

Attachment A

Minnesota State Colleges and Universities
Capital Bonding Funding – 2014 Results

FY2014 Board Priority	Campus Name	Location	Project Title	Request (\$000)	2014 Funding (\$000)
1	HEAPR	Systemwide	Higher Education Asset Preservation and Replacement	\$110,000	\$42,500
1	Demolition	Systemwide	Demolition of obsolete spaces on system campuses	\$20,601	\$0
2	Metropolitan State University	St. Paul	Science Education Center new construction	\$35,865	\$35,865
3	Bemidji State University	Bemidji	Memorial, Decker renovation, Sanford Hall demolition, and Hagg Sauer design	\$13,790	\$13,790
4	Lake Superior College	Duluth	Allied Health ('86 Wing) Revitalization renovation	\$5,266	\$5,266
5	Minneapolis Community & Technical College	Minneapolis	Workforce, Phase 2 renovation	\$3,600	\$3,600
6	Saint Paul College	St. Paul	Culinary Arts and Computer Numerical Control/Machine Tool renovation	\$1,500	\$1,500
7	Minnesota State College – Southeast Technical	Red Wing, Winona	Welding, Science Labs, and Classrooms renovation	\$1,700	\$1,700
8	Central Lakes College	Staples	Campus Rightsizing renovation	\$4,581	\$4,234
9	Minnesota State University, Mankato	Mankato	Clinical Sciences Facility new construction and renovation	\$25,818	\$25,818
10	Minnesota State Community & Technical College	Moorhead	Transportation Center addition and renovation	\$6,544	\$6,544
11	Rochester Community and Technical College	Rochester	Art Hall renovation and post-demolition design of Plaza, Memorial Halls	\$1,000	\$1,000
12	Minnesota West Community and Technical College	Jackson, Canby	Classroom, Powerline Facility, and Geothermal System renovation	\$3,487	\$0
13	Dakota County Technical College	Rosemount	Transportation and Emerging Technologies renovation	\$7,586	\$0
14	Century College	White Bear Lake	Digital Fab Lab, Kitchen space, and Solar Panel System renovation	\$2,020	\$2,020
15	Northland Community Technical College	Thief River Falls	Aviation Maintenance Facility addition and demolition	\$5,864	\$5,864
16	(NHED) Northeast Higher Education District	Itasca, Rainy River, Vermilion, Hibbing	Science Labs, Classroom, Biomass Heating renovation, and demolition	\$3,344	\$3,344
17	Winona State University	Winona	Education Village, Phase I, renovation	\$5,902	\$5,902
18	Anoka Technical College	Anoka	Manufacturing Technology Hub and Auto Tech Lab renovation	\$1,500	\$0
19	Saint Paul College	St. Paul	Health & Science Alliance Center addition	\$14,482	\$0
20	Century College	White Bear Lake	Classroom and Workforce Alignment addition	\$1,000	\$0
21	South Central College	North Mankato	STEM and Healthcare renovation	\$7,467	\$0
22	St. Cloud State University	St. Cloud	Student Health and Academic renovation	\$865	\$865
23	Minnesota State Community and Technical College	Fergus Falls, Wadena	Campus Rightsizing and Center for Student Success renovation	\$1,385	\$0
24	Northland Community and Technical Colleges	East Grand Forks	Laboratory renovation	\$749	\$0
25	Winona State University	Winona	Phelps Hall Psychology Lab renovation	\$592	\$0
			Total	\$286,508	\$159,812
			GO	\$234,539	\$120,708
			MnSCU Financed	\$51,969	\$39,104

Attachment B

**Minnesota State Colleges and Universities
2015 Capital Bonding Recommendation**

2014 Carry Forward Projects			\$ 112,083
HEAPR	Systemwide	Higher Education Asset Preservation and Replacement	\$ 67,500
Demolition	Systemwide	Demolition of obsolete spaces on system campuses	\$ 5,000
Minnesota West Community and Technical College	Jackson, Canby	Powerline Facility, and Geothermal System renovation	\$ 3,661
Dakota County Technical College	Rosemount	Transportation and Emerging Technologies renovation	\$ 7,965
Anoka Technical College	Anoka	Manufacturing Technology Hub and Auto Tech Lab renovation	\$ 1,575
Saint Paul College	St. Paul	Health & Science Alliance Center addition	\$ 15,206
Century College	White Bear Lake	Classroom and Workforce Alignment addition	\$ 1,050
South Central College	North Mankato	STEM and Healthcare renovation	\$ 7,840
Minnesota State Community and Technical College	Fergus Falls, Wadena	Center for Student Success, Campus Rightsizing and renovation	\$ 1,500
Northland Community and Technical Colleges	East Grand Forks	Laboratory renovation	\$ 786
Construction Tails from 2014:			\$ 70,500
Bemidji State University	Bemidji	Hagg Sauer replacement	\$ 16,000
Rochester Community and Technical College	Rochester	Art, Hall, and Memorial Halls renovation and replacement	\$ 9,000
(NHED) Northeast Higher Education District	Hibbing	Renovation and rightsizing	\$ 8,500
Winona State University	Winona	Education Village, Phase II, renovation	\$ 18,500
St. Cloud State University	St. Cloud	Student Health and Academic renovation	\$ 18,500
		Total	\$ 182,583
		GO	\$ 145,889
		MnSCU Financed	\$ 36,694