



**FINANCE AND FACILITIES COMMITTEE
JANUARY 28, 2015
10:00 A.M.**

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

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

- (1) **Minutes of November 18, 2014 (pp. 1 – 9)**
- (2) **Proposed Amendments to Policy 7.3 Financial Administration
(Second Reading) (pp. 10 – 13)**
- (3) **Proposed Amendments to Policy 7.5 Financial Institutions and Investments
(Second Reading) (pp. 14 – 17)**
- (4) **Minnesota State University, Mankato Approval for Guaranteed Energy Savings
Program Contract Exceeding \$1 Million (pp. 18 – 22)**
- (5) **St. Cloud Technical and Community College Approval for Building Renovation
Contract Exceeding \$1 Million (pp. 23 – 26))**
- (6) **Minnesota State University Moorhead Approval for Athletic Field Improvement
Contract Exceeding \$1 Million (pp. 27 – 30)**
- (7) Proposed Amendment to Policy 7.1 Finance and Administrative Authority of Board,
Chancellor and Presidents (First Reading) (pp. 31 – 34)
- (8) 2013 and 2014 Audited Financial Statements Review (pp. 35 – 49)
- (9) System Financial Resiliency Framework (pp. 50 – 61)

Committee Members

Michael Vekich, Chair
Jay Cowles, Vice Chair
Duane Benson
Phil Krinkie
Maleah Otterson
Erma Vizenor

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

November 18, 2014

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

Other Board Members Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, Alexander Cirillo, Dawn Erlandson, Robert Hoffman, Thomas Renier, and Louise Sundin

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on November 18, 2014, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 8:00 a.m. and stated Trustee Krinkie was participating by phone.

1. Minutes of October 21, 2014

The minutes of the October 21, 2014 Finance and Facilities Committee were approved as written.

2. Finance and Facilities Update

Vice Chancellor King reported that Minnesota Management and Budget would be releasing the Minnesota revenue forecast update on December 4, 2014. To date, receipts have been running positive.

FY2016 capital budget development efforts are continuing. Thirty eight projects have emerged totaling \$265 million. The scoring will take place in January and February of 2015. Board consideration of recommendations are on track for May/June 2015.

Trustees will receive the biennial capital improvement program status report in the mail in December. The report can also be found at www.finance.mnscu.edu/facilities/design-construction/cip.

FY2016 – FY2017 Legislative Request – 1st Reading

Vice Chancellor King introduced Leadership Council liaison, President Richard Hanson. Vice Chancellor King thanked the board, faculty, staff and student associations for their insight at the board retreat in September when the legislative request was first discussed. Vice Chancellor King thanked the Leadership Council for hosting campus conversations that also helped shape

the request and said it is critical that everyone stand together in support of student success and affordability.

Vice Chancellor King reported that after extensive consultation with these constituencies, access and affordability, student success, academic excellence and workforce, and community partnerships emerged as priorities for the FY2016-FY2017 legislative request.

Minnesota must remain committed to the quality of an educated workforce for which it is nationally known. As the state has reduced its support for higher education, students have borne an increasing share of the costs. The FY2016-FY2017 legislative request does not ask to return to 2002 levels of budget support, but to move toward a 50:50 financing plan, with the state providing 50 percent and student the remaining 50 percent. This approach enables MnSCU to hold down the cost of tuition while continuing to protect access to high quality, high value education.

Tuition and fees as a percentage of median family income, before the application of any financial aid, has been essentially flat from 2011 – 2014, and increased less than one percent prior to that. Financial aid lowers the household contribution for a considerable portion of our students.

The affordability of MnSCU is the result of very aggressive cost management over the years. Compared to other state systems of higher education, MnSCU ranks 38th out of 51 in institutional support spending per FYE in FY2012 and total spending is 15 percent below the national average. Systemwide institutional support spending (president's office, business office, IT, HR, accounting, etc.) has declined from a high of 12.4 percent in 2011 to 12.0 percent in 2013.

The FY2016 - FY2017 legislative request of \$142 million includes \$108 million for a 3 percent compensation increase, and an additional \$34 million for a 3 percent inflationary increase in operating costs. The request, if funded, 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 5.6 percent over two years to fund inflationary costs. The recommendation delivers all its benefits to the cost of attendance for current and future students.

Trustee Krinkie asked what the enrollment projections are over the next two years. Vice Chancellor King said there is a 3.7 percent decline projected for FY2015 and from FY2015 - FY2016, there is an additional .5 percent enrollment decline projected. Trustee Krinkie asked what the enrollment declines translate to in terms of additional funding. Vice Chancellor King replied that enrollments are not tied to the legislative request. The \$142 million in funding is to cover inflationary costs for salaries and operating budgets. If enrollment projections do not perform, then campuses would have to make cuts to balance their budgets. Trustee Vekich noted that there is work being done on resiliency and stress testing. Vice Chancellor King commented that the board should see the results of the testing sometime in January.

Vice Chancellor King introduced the revised motion (edits are underlined), which had been strengthened from the first reading to highlight to external audiences that the board has final decision-making for setting tuition.

President Hanson commented that Bemidji State University is planning for three separate budget scenarios – one with 100 percent funding from the legislature, one at 50 percent and one with no funding. If anything less than the 100 percent is received, difficult decisions will need to be made, including reductions in staff and programs.

Kaylee Schoonmaker, president of the MSCSA, said that students place a high value on affordability and even the slightest increase in tuition can impact their decision to attend. Approval by the board to support the legislative request freezing tuition would be a positive step in supporting affordability.

Trustee Benson said that under the current request, the tuition may be frozen, but MnSCU may not get the funding and that he plans to vote against the motion. Trustee Benson urged the board to come up with a new type of funding strategy, perhaps per pupil.

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

RECOMMENDED COMMITTEE MOTION:

Minnesota's future depends upon a broad-based, highly-trained, highly-skilled workforce. To support increased educational and economic opportunities for all Minnesotans, the Board of Trustees of the Minnesota State Colleges and Universities is committed to protecting affordability and the access it provides to our academic programs and student success; providing the talented faculty and staff who deliver an extraordinary education to our students and prepare them for work and careers; and protecting the programs on our campuses that are vital to serving our students and communities across Minnesota and vital to the economic growth of our state.

The FY2016-FY2017 legislative request strengthens the state's commitment to access and affordability. The Board of Trustees approves the 2016-2017 biennial budget request in the amount of \$669,143,000 in FY2016 and \$717,143,000 in FY2017 for a total of \$1,386,286,000. The board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities biennial budget request. The Board of Trustees has been entrusted in state statute with the authority to govern and operate Minnesota State Colleges and Universities. The board, after full consultation with MnSCU constituencies, will make final budget decisions, including the matter of tuition, at the conclusion of the legislative session. If the legislative request is fully funded the board intends to hold resident tuition rates at current levels.

3. 2015 Revenue Fund Bond Sale (Second Reading)

Brian Yolitz, Associate Vice Chancellor for Facilities, said the purpose of the capital bonding presentation was to gain board approval of revenue fund bond sales for construction of three capital projects and enable future designs and refunding of outstanding bonds from the 2005 revenue funds bond sale to achieve cost savings.

The revenue fund bond sale is a legislatively authorized, system driven process, set up on an odd-year cycle. In May 2013, there was a call for projects, including discussions with the students and campus on scope and funding. In summer through fall of 2013, preliminary fee discussions and initial student consultation were held, resulting in a preliminary project list. In spring through summer of 2014, project pre-design and financial refinement were finalized, solidifying the project list. In fall 2014, extensive student consultation took place, along with the first reading of the 2015 revenue fund bond sale in October and second reading today. If approved, rating agency (Moody's and Standard and Poor's) visits will take place in January and February of 2015, followed by the actual sale in February 2015.

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

RECOMMENDED COMMITTEE MOTION:

The Board of Trustees authorizes a revenue bond sale for not more than \$40,000,000 of tax-exempt Series 2015A Bonds and for not more than \$44,000,000 of taxable Series 2015B Bonds subject to the sale parameters as presented on **Attachment A**. The Board of Trustees approves the Series Resolution as described in **Attachment B**. In addition, as bond proceeds are made available, the Chancellor or his designee is authorized to execute contracting actions necessary to deliver on the project scope and intent.

4. Proposed Policy 5.25 – Use of Electronic Signatures (2nd reading)

Vice Chancellor King reported that the materials presented at the first reading in October 2014 are unchanged with the exception that the motion has been framed to provide that the effective date be set at March 1, 2015 in order to allow the related procedure to be in place.

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.

Trustee Cowles 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 Board Policy 5.25 Use of Electronic Signatures, effective March 1, 2015.

5. Proposed Amendments to Policy 7.3 Financial Administration (1st reading)

Vice Chancellor King reported that this policy conveys the board's overall policy statement concerning the expectation of sound financial management. As a part of the regular review of policies, very modest changes were identified to policy 7.3. The changes have gone through the systemwide consultation process and are now offered for consideration by the committee.

6. Proposed Amendments to Policy 7.5 Financial Institutions and Investments (1st reading)

Vice Chancellor King said this policy concerns the board policy that governs financial institutions and investments. The proposed amendments make it very clear to MnSCU's banking community how MnSCU approaches the issue of collateral and custodial duties. Vice Chancellor King referenced line 24, and said that the policy would have the board designating each college, university and system office as a custodian to the extent that it conforms with FDIC regulations, and line 31 further states that MnSCU expects any depository agreements that it has with banking partners to provide for collateral in accordance with state statute and board policy. MnSCU's view of the FDIC's collateral is that it is available once, not at each occasion of a local relationship with the bank. The board has governance over the colleges and universities and they are not their own legal entities. The changes have gone through the systemwide consultation process and are now offered for consideration by the committee.

7. Metropolitan State University Construction Update

Brian Yolitz, Associate Vice Chancellor for Facilities said the purpose of this report was to update the board on the ongoing construction at Metropolitan State University (Science Education Center, parking complex, and Student Center), to gain approval of updated project budgets, and provide a status update on the property acquisition on Bates Avenue.

The parking ramp and student center initial designs and configuration were challenged by the surrounding neighborhood. The system office assisted with negotiations through facilitators, resulting in program redesign and construction costs of an additional \$4.7 million, delaying the parking ramp by seven months, and the Student Center by 11 months. Accommodations included re-siting and reorienting the ramp and Student Center, limiting the ramp height, and scope, green space, and calming the Maria Avenue access. The Science Center is progressing on schedule.

Soil contamination of diesel and gasoline organic compounds exceeding permissible limits was discovered during the initial ramp excavation. This contamination is the result of a vehicle maintenance function on the property that operated there from the 1920's to the 1960's. The Minnesota Pollution Control Agency assisted in the coordinated removal, disposal and replacement of contaminated soil. A vapor barrier had to be installed between the remaining soil and the clean backfill, and a stormwater filtration system had to be redesigned. The cost of the remedies totaled approximately \$4.6 million, resulting in an overall increase of \$9.3 million in construction costs.

Mr. Yolitz shared a table (found in the supplement to the board packet, page 3) of the revenues by source to cover the construction. Trustee Vekich asked about the financial impact to Metropolitan State. Vice Chancellor King said that Metropolitan State will put a budget plan in place to restore their resources and the costs will not be passed onto students.

Mr. Yolitz said the system has never experienced occurrences of this magnitude in the capital program. In response, project planning and coordination with the community and environmental testing will be a special interest item in the predesign process. While there were several tests done prior to the construction, none of them uncovered the contamination of the property. Moving forward, project practice will be to assume contamination until disproved through extensive environmental evaluation, especially in urban sites.

Trustee Krinkie commented that the Metropolitan University site should never have been a site to accommodate a four year university because of the inability to expand out. Because of the current construction, the university's CFI has fallen to .04.

Mr. Yolitz reported that to date, MnSCU has been unable to secure the property at 393 Bates Avenue through a negotiated sale. A final appraisal offer is being prepared, and if not accepted, eminent domain action, approved by the board, will be initiated as soon as January 2015.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees finds construction of Metropolitan State University's parking ramp and student center necessary to the programs and mission of Metropolitan State University and authorizes new project budgets, specifically up to \$24.5 million to complete the parking ramp

and \$12.5 million for the student center and up to \$2M for the Maria calming project. The chancellor or his designee is authorized to execute contracting actions necessary to deliver on the project scope and intent.

8. Janitorial Supplies Contract Approval Exceeding \$3 Million

Vice Chancellor King said the purpose of this report is to seek board approval of a contract extension through June 30, 2016 with Hillyard Inc., not to exceed a new contract total of \$10.5 million, for the purchase of facilities janitorial and maintenance equipment and supplies. Forty-two campuses have chosen to use this contract thus far.

On June 17, 2009 the board approved entering into a contract with Hillyard Inc. for a total of five years, not exceeding \$3 million. This program was an early win in the collaborative purchasing effort to leverage system purchasing power in order to achieve best value, create efficiencies, and reduce duplication of effort in the MnSCU purchasing process. The campus purchases under the Hillyard contract has continued to grow and now are expected to exceed \$5 million, despite the Office Max janitorial contract negotiated by the Campus Service Cooperative (CSC).

Vice Chancellor King reported that upon the discovery of board policy violation, a three month extension was granted (November 1, 2014 – January 31, 2015) in order to provide campuses access to the services while board approval was sought.

Extending the Hillyard contract for 17 months to June 30, 2016, would align it with the OfficeMax contract and allow campuses the choice of both contracts until the CSC re-bids janitorial supplies in FY2014 – FY 2015.

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

RECOMMENDED COMMITTEE MOTION:

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

The Board of Trustees approves extending the contract with Hillyard Inc. for facilities maintenance equipment and supplies through June 30, 2016 for a total contract not to exceed \$10.5 million. The board directs the chancellor or his designee to execute all necessary documents.

9. Approval for Northland Community College Lease at Their River Falls Airport

Mr. Yolitz stated that the purpose of this presentation is to gain approval of a lease between the board and the Thief River Falls Airport Authority and satisfy the legislative conditions necessary to release funds for the 2014 Northland Community and Technical College aviation maintenance project.

The 2014 bonding bill provided \$5.864 million to design, demolish, construct and equip the current aviation maintenance facilities at the Thief River Falls airport. This appropriation is

not available until Minnesota Management and Budget has determined that the board and the college have entered into a long-term ground lease with the Thief River Falls Airport Authority for a term of not less than 37.5 years. The proposed basic terms of the lease include a 40 year lease at an average cost of \$51,909 per year for 257,230 square feet. The total cost of the lease would be \$2,076,360.

The improvement and related program are expected to generate additional FYE enrollment for Northland Community College and the college's strategic plan places showcase emphasis on aviation and related curriculum.

Trustee Cowles moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Otterson 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 with the Thief River Falls Airport Authority, its successor, or assigns for purposes of satisfying the legislative conditions necessary to release funds for the Northland Community and Technical College capital project.

10. Approval for Lake Superior College Lease at Duluth Airport

Mr. Yolitz reported that the purpose of this presentation is to gain approval of a lease between the board and the Duluth Airport Authority for Lake Superior College's aviation maintenance and pilot programs.

The growth of local employers, Cirrus and AAR, created demand for graduates in the aviation program. The college currently operates a pilot program in leased space at the airport and the lease would allow Lake Superior College to operate its aviation maintenance program and consolidate its pilot program in Hangar 103 at the airport.

The Duluth Airport Authority will provide up front build out costs the space, and which the campus will pay back through the rent cost.

The proposed basic terms of the lease include a 10 year lease, with a five year term and a five year option to renew. Cost per year for the first five years is \$362,101 and years 6 – 10 would be \$370,422. The total cost of the lease would be \$3,662,615 for the entire 10 years.

Mr. Yolitz noted that the college has enough flexibility in its budget to make the lease financially feasible and feels the program investment is warranted.

Trustee Cowles moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Otterson 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 Duluth Airport Authority, its successor and assigns to lease property at the Duluth airport for Lake Superior College.

The meeting was adjourned at 10:26 p.m.

Respectfully submitted,

Laury Anderson, Recorder

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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: Proposed Amendments to Policy 7.3 Financial Administration – Second Reading

Purpose (check one):

- | | | |
|--|---|---|
| <input checked="" 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 type="checkbox"/> Information | |

Brief Description:

Board Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.3 this fall and proposed some revisions. The revisions were reviewed by the Office of General Counsel and cabinet, then sent out for formal consultation and received support from the presidents, employee representative groups, student associations and campus leadership groups. All comments received from the consultation were taken into consideration.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor - CFO

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

Second Reading

BOARD ACTION

**Proposed Amendments to Board Policy 7.3 Financial Administration
(Second Reading)**

BACKGROUND

Board Policy 7.3, Financial Administration, was adopted by the Board of Trustees and became effective June 10, 2000. The policy was last reviewed on August 6, 2009 and no changes were made. Board Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.3 this fall. The first reading of amendments to Policy 7.3 to the board took place on November 18, 2014.

PROPOSED AMENDMENTS

The proposed amendments to Policy 7.3 are reflected in the track-change copy of the policy on the following page.

REVIEW PROCESS

The proposed board policy revision was circulated in accordance with procedures to all presidents, employee representative groups, student associations and campus leadership groups. The policy review was discussed with the Leadership Council. All comments received during the review process have been examined and responses sent.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees approves the changes to Board Policy 7.3 Financial Administration

RECOMMENDED BOARD MOTION:

The Board of Trustees approves the changes to Board Policy 7.3 Financial Administration

Date Presented to the Board of Trustees: January 28, 2015



Minnesota State Colleges and Universities Board Policies Chapter 7 General Finance Provisions

7.3 -Financial Administration

[Click here for a PDF copy of this policy](#)

Part 1. Policy Statement

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 and preserve long term financial viability of the colleges, universities and system as a whole. Effective financial administration will facilitate planning, forecasting, monitoring and improving managerial performance and evaluating the financial effects of management decisions.

Part 2. Responsibilities

The board is responsible for overall systemwide financial management assurance. The chancellor, in consultation with the board, is responsible for overall systemwide financial management. The president is responsible for assuring financial administration for a college or university in conformance with board policies and system procedures.

System procedures will provide for the assurance that:

- financial records are complete and safeguarded;
- financial information is accurate, reliable and useful for management reporting; and
- financial management methods support short term and longer term system and college and university strategic objectives.

The system's ~~Annual Budget~~ Accounting Guidelines will be based on the standards and guidelines of the Governmental Accounting Standards Board (GASB), the National Association of College and University Business Officers (NACUBO), Minnesota Statutes and board policy.

Records will be subject to internal, legislative and external audits as required by Minnesota Statutes, board policies, and as needed by universities and colleges in pursuit of their mission and goals.

The board delegates authority to the chancellor to develop guidelines for institutional scholarship and grant programs administered by the colleges and universities.

41 **Part 3. Accountability/Reporting**

42 The board will be periodically updated on the administration and financial management of the
43 system on an exception-based reporting basis and advised of any recommended policy changes.
44

45 **Related Documents:**

- 46 • Governmental Accounting Standards Board (GASB)
- 47 • National Association of College and University Business Officers (NACUBO)

48

49 **Policy History:**

50

51 *Date of Implementation: 06/21/00*

52 *Date of Adoption: 06/21/00*

53 *Date & Subject of Revisions:*

54 *08/06/09 - policy was reviewed by Laura King's office. No amendments were made.*

55 *06/18/03 – changes “MnSCU” to “system”, updates State Office of Technology’s website*
56 *address*

57

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

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: Proposed Amendments to Policy 7.5 Financial Institutions and Investments - Second Reading

Purpose (check one):

- | | | |
|--|---|---|
| <input checked="" 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 type="checkbox"/> Information | |

Brief Description:

Board Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.5 this fall and proposed some revisions. The revisions were reviewed by the Office of General Counsel, cabinet, then sent out for formal consultation and received support from the presidents, employee representative groups, student associations and campus leadership groups. All comments received from the consultation were taken into consideration.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor - CFO

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

Second Reading

BOARD ACTION

**Proposed Amendments to Board Policy 7.5 Financial Institutions and Investments
(Second Reading)**

BACKGROUND

Board Policy 7.5, Financial Institutions and Investments, was adopted by the Board of Trustees and became effective June 10, 2000. The policy was last reviewed on June 10, 2009 and no changes were made. Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.5 this fall. The first reading of the amendments to Policy 7.5 to the board took place on November 18, 2014.

PROPOSED AMENDMENTS

The proposed amendments to Policy 7.5 are reflected in the track-change copy of the policy on the following page.

REVIEW PROCESS

The proposed board policy revision was circulated in accordance with procedures to all presidents, employee representative groups, student associations and campus leadership groups. The policy review was discussed with the Leadership Council. All comments received during the review process have been examined and responses sent.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees approves the changes to Board Policy 7.5 Financial Institutions and Investments.

RECOMMENDED BOARD MOTION:

The Board of Trustees approves the changes to Board Policy 7.5 Financial Institutions and Investments.

Date Presented to the Board of Trustees: January 28, 2015



**Minnesota State Colleges and Universities
Board Policies
Chapter 7 General Finance Provisions**

7.5 Financial Institutions and Investments

[Click here for a PDF copy of this policy](#)

Part 1. Policy Authority Statement.

It is the policy of the Board of Trustees that each college, university, and college, and the system office president shall maintain an effective program of cash management, including and follow the legal requirements regarding depositories and collateral requirements, in compliance with applicable state and federal law, board policy, and system procedures.

Part 2. General Responsibilities

~~All financial institutions and investments shall be conducted in accordance with the provisions of Minnesota Statutes, Board policy, and system procedures. The Board of Trustees expects that community relationships will be balanced against efficient financial institution administration.~~

Subpart A. Financial Institution Practices.

Subpart A. Safekeeping of funds. All system office, college or university funds must be: _____

1. Deposited for safe keeping in financial institutions selected in accordance with provisions of Minnesota Statutes, efficient financial administration, and effective community relationships; and
2. Invested in accordance with applicable federal and state law, including as specified by Minnesota Statutes § 118A.03, and board policy and system procedures (see [related documents below](#)).

Subpart B. Official custodian. The board designates each college, university and the system office as an official custodian to the extent it meets the requirements of Federal Deposit Insurance Corporation regulations.

Subpart C. Authorized staff. Documentation ~~specifying staff authorizing specified staffed~~ to sign checks or initiate funds movements, or changes thereto, for all financial institution accounts, pooled investments accounts, or money market funds must ~~shall~~ be approved by the chancellor for the system office and by the president for a college or university.

39 **Subpart D. Collateral.** Agreements with depository financial institutions ~~selected~~
40 ~~must~~ shall ~~furnish~~ require the provision of adequate collateral to assure safety of these
41 funds in accordance with ~~provisions of~~ Minnesota Statutes § 118A.03 and other
42 applicable laws.

43 **Subpart E. Earned interest.** As permitted by statutes and system procedures, interest
44 received on local institutional funds may be credited to appropriate accounts.

45 ~~Subpart B. Investments~~

46 ~~Local institutional funds shall be invested in funds authorized by Minnesota Statutes and in a~~
47 ~~manner consistent with system procedures and guidelines.~~

48 ~~Subpart 3. C. Safekeeping~~ **Daily Deposits.**

49 All monies received by the system office, college or university shall be deposited daily, unless
50 such receipts are less than ~~\$250~~ 1,000 in which event deposits may be deferred until they total
51 such sum.

52 **Part 43. Accountability/Reporting.**

53 The board of Trustees ~~will~~ shall ~~be periodically~~ updated on financial institution relationships and
54 investment management on an exception reporting basis and advised of any recommended policy
55 changes.

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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: Minnesota State University, Mankato Approval for Guaranteed Energy Savings Program Contract Exceeding \$1 Million

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:

To obtain board approval of a contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions, and reduction in deferred maintenance at Minnesota State University, Mankato.

Scheduled Presenter(s):

Brian Yolitz, Vice Chancellor - CFO

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

BOARD ACTION

**Minnesota State University, Mankato Approval for Guaranteed Energy Savings
Program Contract Exceeding \$1 Million**

PURPOSE

To obtain the Board of Trustees approval of a contract in excess of \$1 million, consistent with Policy 5.14, *Contracts and Procurement*.

BACKGROUND

A Guaranteed Energy Savings Program (GESp) is a performance-based procurement and financing mechanism that uses the expected savings from the efficiencies of new equipment and operational savings to finance the cost of an energy-saving building system renovation or renewal. There is no net cost increase to the campus that uses such an arrangement. GESp represents an alternative to state capital bonding. **Attachment A** shows a simplified example of how the program works.

A Guaranteed Energy Savings project is designed to improve energy efficiency and maintenance costs for facilities, and must save enough money to be able to pay back the cost of the improvement and related return on investment for a selected Energy Services Company (ESCO). Under a GESp, a campus contracts with a prequalified Energy Services Company to design, finance, and install energy-saving improvements. After the improvements are completed, a separate firm is hired to track performance to verify it meets savings projections.

In exchange for the building system improvements and arranging financing, an ESCO and their financing source collect project fees and interest on top of the equipment and installation costs. Such costs are recouped over a set term, usually 15-20 years, through the lease-purchase agreement. During the term of the contract period, the projected savings covers the total cost of the capital investment, including all fees and interest costs. After the payback term ends, the campus retains ownership of the equipment and receive the direct benefit of the continued operational savings from the equipment.

An ESCO guarantees the project by projecting the estimated savings, designing, financing and constructing the project. An independent firm is hired after completion to verify accounting for the expected payback of the project. Expected savings will be adequate to cover or (preferably) exceed the cost of the project. The campus gets the benefit of the energy saving improvements, will operate the equipment as directed, and the risk of meeting the savings estimates is on the ESCO.

Guaranteed Energy Savings programs are not new, and Minnesota State Colleges and Universities have used these programs on a small, ad-hoc basis. At last count, the system's college and universities have completed approximately \$10-\$12 million worth of projects using the GESP or similar mechanisms since 1999.

STATEWIDE EFFORTS ON GUARANTEED ENERGY SAVINGS

In April 2011, Governor Dayton established the Office of Guaranteed Energy Savings Programs within the Department of Commerce to provide technical, contractual and financial assistance to state and local governments, including institutions of higher learning that elect to implement energy efficiency and renewable energy improvements through Guaranteed Energy Savings Contracts.

With the Governor's recent energy initiative and the system's challenges competing for Higher Education Asset Preservation and Replacement (HEAPR) funds during the legislative process, we have asked our colleges and universities to evaluate the state's Guaranteed Energy Savings Program as an alternative method to reduce backlog and energy consumption on campus for eligible projects. This program offers an alternative avenue to satisfy facilities backlog request that have not yet been met by HEAPR or capital bonding requests.

With the emergence of the Department of Commerce's program and support, MnSCU has approximately half a dozen campuses in various stages of evaluating the possible use of a the Guaranteed Energy Savings Program, including Minnesota State University, Mankato, the subject of today's proposed Board action.

CONSIDERATIONS

With support from the Minnesota Department of Commerce and the system office, Minnesota State University, Mankato issued a Site Specific Request for Proposal to engage one of the state's prequalified Energy Service Companies (ESCO) to investigate potential campus projects that would qualify for the program. The selected ESCO has since performed a preliminary investigative audit of the major energy consuming components of the Mankato campus over a three month period from July through September of 2014.

Analysis of data yielded a range of potential projects that meet the self-funding requirements of the Guaranteed Energy Savings program. An additional in-depth review and analysis is in progress to affirm viability and identify the most advantageous mix of projects. Opportunities range from nearly \$10 million worth of improvements within a 15 year payback period to over \$12 million possible in a 20 year payback scenario.

MSU, Mankato's utility costs currently exceed \$4 million annually. Participation in the Guaranteed Energy Savings program is expected to save up to 20%, or \$800,000 per year over current energy consumption costs, and yield a reduction to the campus' carbon footprint. The corresponding environmental impact of a 20% reduction in energy consumption will reduce the campus's carbon dioxide emissions by an estimated 25,000 metric tons annually. This reduction is equivalent to approximately 2,281 homes energy use in one year.

The project is entirely self-funding. There is no impact on tuition, fees or financial viability of campus, and will ultimately result in reduced operating costs for the university.

FINANCIAL STATEMENT IMPACT

The campus would book a liability for the amount financed for the project using a lease-purchase agreement. Such liability is reduced each year when payments are made based on the lease-purchase amortization schedule. The expenses will be capitalized. The depreciation period is matched to the length of the lease-purchase terms, which are disclosed as energy notes payables on the financial statements/notes.

MAJOR TERMS

A fifteen (15) year payback on identified projects is the base option with an estimated project cost of approximately \$9,850,700. Other options extending out to twenty years are being evaluated. Projects to be considered for the longer duration would be those that further or enhance campus infrastructure. Additional chillers or standby power generators are two candidates. The majority of project candidates would otherwise be on the HEAPR list for consideration during subsequent legislative sessions.

The university expects that work would be completed within 18 months after execution of the work order contract for the identified projects. No additional cash is required of the university or the system to participate in the program, although additional projects could be performed under this program if campus matching funds are available.

Annual measurement and verification inspections will occur annually to affirm the proper operation of the improvements and the continued guaranteed energy saving. Execution of the first work under this program is expected to occur during the summer of 2015 with final completion during summer of 2016.

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

RECOMMENDED COMMITTEE ACTION:

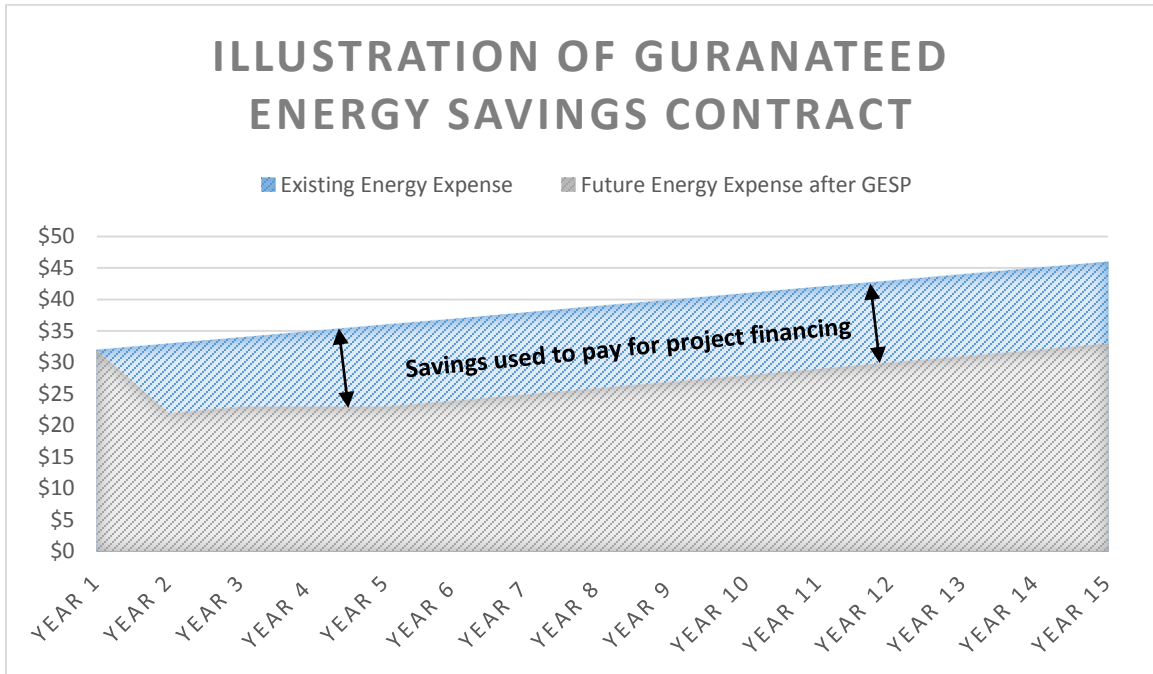
The Board authorizes the chancellor or his designee to enter into a Guaranteed Energy Savings contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions and reduction in deferred maintenance at Minnesota State University, Mankato.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board authorizes the chancellor or his designee to enter into a Guaranteed Energy Savings contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions and reduction in deferred maintenance at Minnesota State University, Mankato.

Date Presented to Board of Trustees: January 28, 2015

ATTACHMENT A



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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: St. Cloud Technical and Community College Approval for Building Renovation Contract Exceeding \$1 Million

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:

To obtain board approval of a construction contract not to exceed \$2 million for purposes of the Digital Commons renovation at St. Cloud Technical and Community College located at 1520 Whitney Court, St. Cloud, MN.

Scheduled Presenter(s):

Brian Yolitz – Associate Vice Chancellor - Facilities

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

BOARD ACTION

**st. Cloud Technical and Community College Approval for Building Renovation
Contract Exceeding \$1 Million**

PURPOSE

To obtain the Board of Trustees approval of a contract in excess of \$1 million, consistent with Policy 5.14, *Contracts and Procurement*.

BACKGROUND

The Board of Trustees is asked to approve a contract in excess of \$1 million for renovation of a recently acquired building to accommodate a Digital Commons located at 1520 Whitney Court, St. Cloud, Minnesota (see attached Attachment A for location of property). In 2012, the Board of Trustees approved the acquisition of 1520 Whitney Court for expansion opportunities. Approval of this request will allow the college to proceed with renovations on the main floor of the building for an expanded and innovative library incorporating technology and a variety of media to engage students in an active learning environment. The design provides for flexible and diverse space to accommodate a variety of learning activities and serves as the campus “living room” to welcome students to an inviting collegial setting.

- A. Funding.** St. Cloud Technical & Community College will use \$2 million in operating funds from campus reserves to renovate the property. The college expects that renovation costs will temporarily impact the Composite Financial Index (CFI) for FY15. The college has maintained a healthy CFI, has the fiscal resources necessary for this project, and planned for this investment when the property was acquired per the Master Facility Plan and initial Board approval. Tuition and fees will not be impacted by this project. The college anticipates that this space will enhance recruitment efforts and retention of students.
- B. Intended Purpose.** Design of the Digital Commons has been completed and involved a design committee made up of representatives from the student body, faculty, and staff. The architectural costs associated with the design were paid from college operating funds. Construction bids will be solicited pending Board approval in January 2015 with an anticipated renovation start date in early spring of 2015. The project renovation will be completed in late fall with a planned occupancy date of December 2015.
- C. Student Consultation.** St. Cloud Technical & Community College advised the Student Senate on several occasions regarding the acquisition of this building to

accommodate the Digital Commons. Student Senate representatives have served on the Master Facility Plan Committee and the Digital Commons Design Committee, have hosted tours of the building to gather input and suggestions for services to be provided, and provided feedback regarding design, technology, and furniture elements they would like to see incorporated.

- D. Due Diligence.** The existing college library, currently situated in the main campus building, is extremely small and does not meet Higher Learning Commission standards. While several potential sites have been evaluated for an expanded library, the Master Facility Plan Committee identified the building acquisition as the best site for the Digital Commons. The building is currently vacant and renovations can be completed in a timely manner with no phasing issues. Delaying the renovation will result in the building remaining vacant as it was acquired with the purpose of being the designated site of the expanded library.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees authorizes the chancellor or designee to execute a construction contract not to exceed \$2 million for purposes of the Digital Commons renovation located at 1520 Whitney Court, St. Cloud, MN.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board of Trustees authorizes the chancellor or designee to enter into a construction contract not to exceed \$2 million for purposes of the Digital Commons renovation located at 1520 Whitney Court, St. Cloud, MN.

Date Presented to Board of Trustees: January 28, 2015

*St. Cloud Technical and Community College Approval for Building Renovation
Contract Exceeding \$1 Million*

EXHIBIT A

Building location and snapshot of building



Keyplan



Exterior View

Larger view of campus



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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: Minnesota State College Moorhead Approval for Athletic Field Improvement Contract Exceeding \$1 Million

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:

To obtain board approval of a contract not to exceed \$2 million for purposes of replacing of Minnesota State University Moorhead's athletic field lighting and artificial turf on the newly renamed Scheel's Field.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor - Facilities

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

BOARD ACTION

**Minnesota State College Moorhead Approval for Athletic Field Improvement
Contract Exceeding \$1 Million**

PURPOSE

To obtain Board of Trustees approval of a contract in excess of \$1 million, consistent with Policy 5.14, *Contracts and Procurement*.

BACKGROUND

Minnesota State University Moorhead was the recipient of a \$1 million gift from Scheel's Sports for purposes of improving the athletic field on campus. See **Exhibit A** for a site map. Specifically, the project includes the installation of artificial turf and replacement of the 1958-vintage field lighting (which previously had been a replacement candidate on the university's Higher Education Asset Preservation and Replacement (HEAPR) list). The existing lighting is in extremely poor condition and the 13,000 volt power supplying it could only be turned on by an electrician wearing safety gear. The gift from Scheel's Sports was designated for artificial turf and was also contingent on the campus securing funding to replace the lighting. The university intends to name the field Scheel's Field in honor of the generous contribution.

The total project cost is approximately \$1.9 million, which includes a construction contract in excess of \$1 million. The university will be using a combination of the \$1 million gift and campus repair and replacement funds to cover the total cost of the project. The university anticipates greater use and revenue potential with the replacement of the lights and installation of artificial turf. The lighting is designed to meet the NCAA lighting standard of 100 footcandles (FC), which is appropriate for national television broadcast. The new lights can be turned on via a simple switch or a secure smartphone application. Artificial turf does not require rest, as does natural turf so it can be scheduled daily and for more intensive use than natural grass. The useful life of artificial turf installation is 8-12 years and a replacement cost is estimated at \$435,000. Current natural turf maintenance costs for mowing, irrigation (about 2 million gallons annually), herbicide, pesticide, fertilizer, soil conditioning, and labor is approximately \$17,000 annually.

If approved, the project would be bid in February with an award in March and construction commencing shortly after students leave at the end of the spring term. The construction work is expected to be complete before fall term starts this year.

This project is anticipated to expand access to students for activities outside of football and women's soccer. Various intramural and club sports have a shortage of green space for their

activities. Participation has been limited and a waiting list is in place when additional field time is available from this improvement project.

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

RECOMMENDED COMMITTEE ACTION:

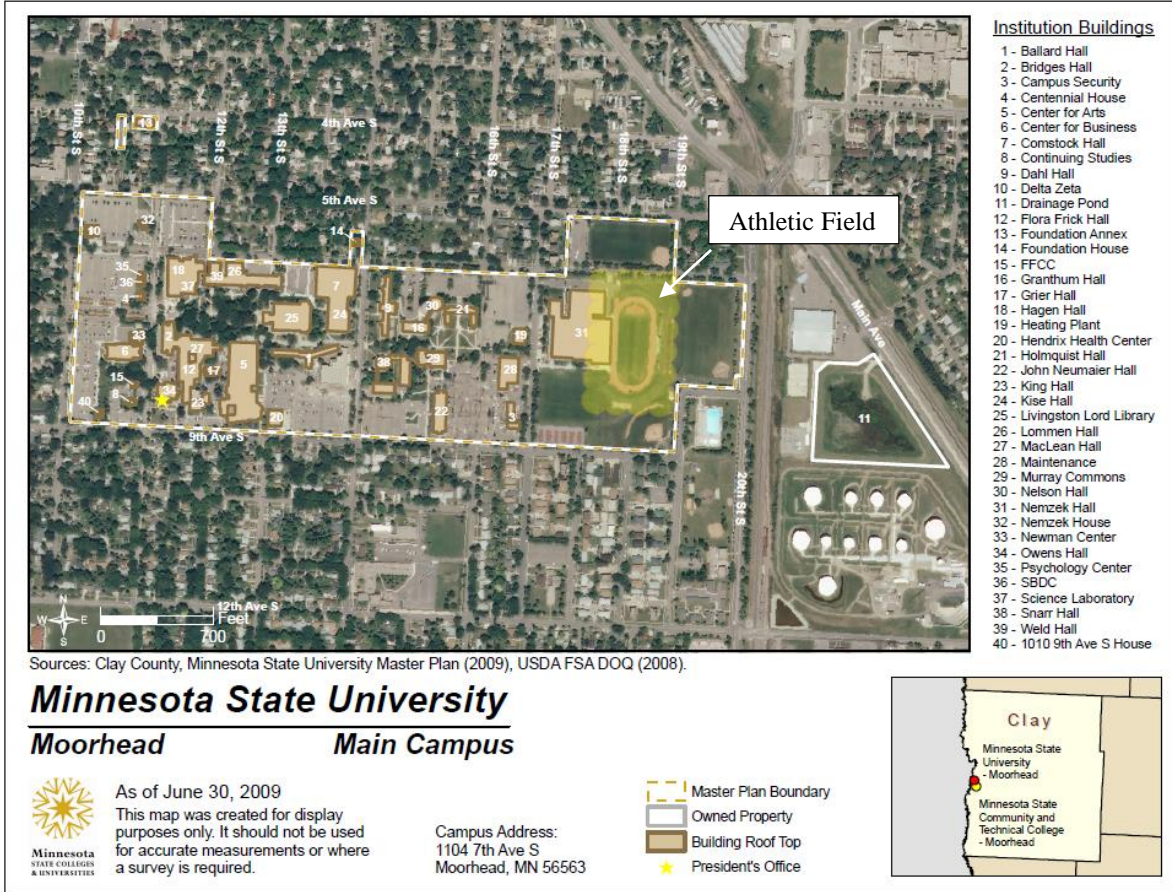
The Board authorizes the chancellor or his designee to enter into a construction contract not to exceed \$2 million for purposes of replacing of Minnesota State University Moorhead's athletic field lighting and artificial turf on the newly renamed Scheel's Field.

RECOMMENDED BOARD OF TRUSTEES MOTION:

The Board authorizes the chancellor or his designee to enter into a construction contract not to exceed \$2 million for purposes of replacing of Minnesota State University Moorhead's athletic field lighting and artificial turf on the newly renamed Scheel's Field.

Date Presented to Board of Trustees: January 28, 2015

EXHIBIT A



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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: Proposed Amendments to Policy 7.1 Finance and Administrative Authority – First Reading

Purpose (check one):

- | | | |
|--|---|---|
| <input checked="" 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 type="checkbox"/> Information | |

Brief Description:

Board Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.1 this fall and proposed some revisions. The revisions were reviewed by the Office of General Counsel, cabinet, then sent out for formal consultation and received support from the presidents, employee representative groups, student associations and campus leadership groups. All comments received from the consultation were taken into consideration.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor - CFO

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

First Reading

BOARD ACTION

**Proposed Amendments to Board Policy 7.1 Finance and Administrative Authority
(First Reading)**

BACKGROUND

Board Policy 7.1, Financial and Administrative Authority, was adopted by the Board of Trustees and became effective June 10, 2000. The policy was last reviewed on August 6, 2009 and no changes were made. Board Policy 1A.1, Part 6, Minnesota State Colleges and Universities Organization and Administration, requires periodic review of all board policies. Staff reviewed Policy 7.1 this fall.

PROPOSED AMENDMENTS

The proposed amendments to Policy 7.1 are reflected in the track-change copy of the policy on the following page.

REVIEW PROCESS

The proposed board policy revision was circulated in accordance with procedures to all presidents, employee representative groups, student associations and campus leadership groups. The policy review was discussed with the Leadership Council. All comments received during the review process have been examined and responses sent.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees approves the changes to Board Policy 7.1 Financial and Administrative Authority.

RECOMMENDED BOARD MOTION:

The Board of Trustees approves the changes to Board Policy 7.1 Financial and Administrative Authority.

Date Presented to the Board of Trustees: January 28, 2015



Minnesota State Colleges and Universities Board Policies Chapter 7 – General Finance Provisions

1 2 **7.1 Finance and Administrative Authority of Board, Chancellor and Presidents**

3 [Click here for a PDF copy of this policy](#)

4 **Part 1. Authority.** Pursuant to Minnesota Statutes § 136F.06, the Board of Trustees has
5 authority to govern state colleges and universities and all related property and to develop policies
6 to implement the board's authority. The referenced statute further states that to the extent
7 practicable in protecting statewide interests, the board is charged with providing autonomy to the
8 colleges and universities and holding the colleges and universities accountable for the decisions
9 made.

10

11 Minnesota Statutes §136F.05 charges the board with efficient use of facilities and staff so that
12 students benefit through improved and broader course offerings, ease of transfer among colleges
13 and universities schools and programs, integrated course credit, coordinated degree programs
14 and coordinated financial aid. Effective implementation of these objectives requires a high
15 degree of coordination and integration of administrative and student support systems at all
16 colleges and universities.

17

18 All financial and administrative policies are in support of the Minnesota State College and
19 University's Universities' educational mission. ~~The Board's Policy 1A3 part 4 of Trustees~~
20 delegates authority to the chancellor to develop procedures and guidelines which implement the
21 board's policies for the administrative and financial management of the system, including all
22 colleges and universities. There shall be a high degree of coordination and integration of
23 administrative and student support information systems, procedures and processes across all
24 colleges and universities for purposes of achieving uniform and efficient student services and in
25 demonstrating serious commitment to sound stewardship over state resources. Procedures and
26 guidelines shall support these objectives through consistent business and administrative practices
27 that assure the highest possible quality of administrative student services, data integrity and the
28 efficient use of the system's information technology resources.

29

30 Subject to the above stated objectives covering administrative and student support systems and
31 processes, the ~~Board's~~ board's policies and the system procedures shall allow the colleges and
32 universities ~~sufficient~~ sufficient autonomy to administer the resources under their control to achieve their
33 mission and the expectation of accountability for their decisions.

34

35 **Part 2. Responsibilities.** The chancellor shall periodically advise the ~~Board~~ board of the
36 administrative and financial management performance of the system, system office, colleges and

37 universities. The chancellor is responsible for periodic communications, reporting, and oversight
38 of the presidents.

39
40 Presidents shall have the authority, responsibility and accountability to administer their colleges
41 and universities in accordance with board policies, delegation from the chancellor, system
42 procedures, and federal, state and local laws and regulations. The president of each college and
43 university is responsible for developing and maintaining conforming and compliant
44 college/university-wide administrative, financial, and facilities management procedures in
45 consultation with students, faculty, staff and recognized organizations for faculty, students, and
46 staff.

47
48 **Part 3. Public Information.** All data will be handled in accordance with *Minnesota Statutes*
49 *Chapter 13*, the Minnesota Government Data practices Act, or other applicable law.

50
51 **Part 4. Accountability/Reporting.** The chancellor is accountable for administrative and
52 financial management of the colleges, universities and system office as delegated by the ~~Board~~
53 board and for oversight of the activities of all colleges and universities. The presidents are
54 accountable for administrative and financial management of the colleges and universities as
55 delegated by the chancellor. Internal and external audits (~~Office of the Legislative Auditor and~~
56 ~~private~~), will be conducted ~~to determine if the chancellor and presidents are maintaining~~
57 appropriate controls in accordance with the audit committee's direction. The board will be
58 advised of the financial status of the system through reports to the board and as the results of
59 audits.

61
62 *Date of Adoption:* 09/20/95,
63 *Date of Implementation:* 09/20/95,

64
65 *Date and Subject of Revision:*
66 11/16/11 - Effective 1/1/12, the Board of Trustees amends all board policies to change the
67 term "Office of the Chancellor" to "system office," and to make necessary related
68 grammatical changes.
69 06/21/06 - amended Part 1 to include Minnesota Statutes § 136F.05, and includes language
70 regarding the administrative and student support information systems. Amends Part 4
71 clarifying that the chancellor is accountable for the oversight of the activities of all
72 colleges and universities. And other technical changes.
73 06/18/03 - deletes reference to "MnSCU", changes "system office" to "office of the
74 chancellor", deletes approval of annual work plan
75 06/21/00 - Amends language in Part 1 and Part 2, Subpart A; Adds Parts 3 and 4.

76

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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: FY2014 and FY2013 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 report is to present to the Finance committee the audited, consolidated financial statements for the Minnesota State Colleges and Universities for the years ending June 30, 2014 and 2013. 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 first year of a three year contract with CliftonLarsonAllen, LLP as the system auditor. These statements were presented to the Audit committee by the Finance division and Clifton Larson Allen LLP, at the November 18, 2014 Audit committee meeting.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor – CFO
Denise Kirkeby, Director – Financial Reporting

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

INFORMATION ITEM

FY2014 and FY2013 Audited Financial Statements

BACKGROUND

The purpose of this report is to present to the Finance and Facilities committee of the Board of Trustees the audited, consolidated financial statements for the Minnesota State Colleges and Universities for the years ending June 30, 2014 and 2013. 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 first year of a three year contract with CliftonLarsonAllen, LLP as the system auditor. These statements were presented to the Audit committee by the Finance division and CliftonLarsonAllen LLP, at the November 18, 2014 Audit committee meeting.

AUDIT RESULTS

The MnSCU system audit, revenue fund audit, and the four college and university audits, received unmodified opinion letters from CliftonLarsonAllen LLP. In addition, there were no reported material weaknesses and no reported significant deficiencies in internal control. 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 external audit firm, CliftonLarsonAllen LLP, presented their results of the audits, including audit opinions, internal control matters and other required communications at the November 18, 2014 Audit committee meeting.

The revenue fund and the four individual college and university financial statements have been incorporated into the consolidated systemwide financial statements along with the financial statements of the unaudited colleges. The system's statements were, in turn, incorporated into the state of Minnesota Comprehensive Annual Financial Report and released to the public in December, 2014.

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

INFORMATION

The MnSCU system financial report for FY2014 and FY2013 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 still governed by the governmental fund based principles and continue to be accounted for in the general, special revenue, enterprise, agency, and revenue funds. Each college and university’s financial statements are included in a separate report (unaudited) titled “*Supplement to the Annual Financial Report for the year ended June 30, 2014.*”

All university foundations are separately included in the related institution’s 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

FY2014 operating results yielded a decline in financial position at June 30, 2014, with a \$43.7 million net operating revenue deficit, compared to a prior year net operating revenue deficit of \$2.0 million.

- Net position increased \$16.0 million or 0.8 percent; most of the increase was due to FY2014 capital appropriation revenue of \$54.7 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 deficit of \$2.0 million in FY2013 to a deficit of \$43.7 million in FY2014. This net operating revenue deficit is the net of \$1,892.3 million of operating and non-operating revenues less \$1,936.0 million of operating and non-operating expenses.
- Capital appropriation revenue of \$54.7 million plus other capital asset related revenue combined with the \$43.7 million net operating revenue deficit and generated a change in net position of \$16.0 million, a decrease from the \$91.1 million change in net position generated in FY2013.

Statements of Net Position

The primary driver of change within the Statements of Net Position between June 30, 2014 and 2013 is capital asset development and renewal activity related to the system’s 26 million plus square feet of academic and administrative buildings.

- New construction in progress of \$138.2 million was the primary factor increasing the capital assets balance, net of depreciation, by \$48.7 million.

- Capital asset financing came primarily from \$54.7 million of capital appropriation and \$28.3 million of new long-term debt.
- Net position (e.g., net worth) increased \$16.0 million, including a \$35.6 million increase in net position invested in capital assets, net of related debt.

Statements of Revenues, Expenses and Changes in Net Position

FY2014 operating expenses of \$1,902.4 million averaged \$5.2 million per day when divided by 365 days. Looking at the operating expense number in relation to liquid assets, the system's \$883.2 million of unrestricted cash and equivalents plus unrestricted investments would be adequate to cover approximately 5.9 months of expenses (excluding depreciation), a decline of 0.2 months from FY2013.

- Revenue sources funding operations included \$591.2 million of state appropriation; \$810.1 million of student payments, net of scholarship allowance; \$447.6 million of federal and state grants; and \$43.4 million of other revenue.
- Expenses supporting operations included \$1,296.9 million of compensation, \$234.0 million of purchased services (utilities, enterprise and other IT support, etc.), \$141.2 million of supplies, \$113.5 million of depreciation and other expenses of \$150.4 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 also 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 two current operating measures, return on net position and net operating revenue, demonstrate the level of return on net position and the extent to which operating revenues do or do not cover operating expenses, respectively. In FY2014 there was a revenue decrease as a result of sharper than forecast enrollment declines. At the same time, operating expenses increased due to the bargaining unit negotiated salary increases, the higher cost of insurance

premiums, and the lag in expense adjustments necessitated by the enrollment declines. The operating expense increases, coupled with the operating revenue decreases resulted in a reduction to both return on net position and net operating revenue ratios in FY2014.

The primary reserve and viability ratios measure an organization’s liquid net position that is available directly, or through additional borrowing, to cover emergency expenditures or finance investments in new innovations. Representing available liquidity or borrowing capacity, these measures are not dependent on current operating results in the short-term but rather reflect the long run financial strength of the organization. These measures are good indicators of financial health, and combined, are weighted 70 percent in the CFI calculation.

Although both ratios decreased slightly in FY2014 compared to FY2013, they remain at high enough levels, to help keep the system’s total CFI above 1.5 levels, demonstrating the system’s preparedness to deal with the current year’s operational challenges. However, multiple future years with similar operational results can erode those two ratios further, pushing the CFI below 1.5. Strategic long-term planning continues to be a critical process at all institutions to avoid such a result.

November’s Audit committee meeting included a high-level discussion of CFI, and the System’s Annual Financial Report for the Years Ended June 30, 2014 and 2013 included much of the CFI information that follows within the Management Discussion and Analysis section of the report.

Summary Ratios for FY2014 and FY2013

The systemwide 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. The FY2014 system CFI of 1.65 declined compared to the system’s 2013 CFI of 2.26.

The following table provides reference benchmarks for individual components of the CFI for achieving a total CFI score of 3.0, a sign of good financial position but with additional room for improvement. The table illustrates the weight assigned to each measure, benchmark score, the overall system score, and the score calculated separately for the colleges (2 year) and the universities (4 year).

	<u>Weight</u>	<u>Benchmark</u>	<u>System</u>	<u>2 Yr</u>	<u>4 Yr</u>
Primary Reserve	35%	1.05	0.86	0.84	0.76
Viability	35%	1.05	0.89	1.19	0.56
Net Operating Revenue	10%	0.30	(0.18)	(0.08)	(0.29)
Return on Net Position	<u>20%</u>	<u>0.60</u>	<u>0.08</u>	<u>0.33</u>	<u>(0.20)</u>
Composite Financial Index (CFI)	100%	3.00	1.65	2.28	0.83

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

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

The system FY2014 component performance reflects the operating stress felt by the colleges and universities. The material changes from FY2013 are in the Net Operating Revenue and Return on Net Position components declining from (0.01) and 0.46 respectively. The colleges performed better than the universities, reporting a small overall CFI decline of .10 from 2.38 to 2.28. The universities experienced a sharp decline from 1.93 to .83 with stable performance in the long-term measures and losses in the current operating measures.

Ratio Variability across Colleges and Universities

There is considerable variability in individual FY2014 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>	1.50	0.18	0.78
Viability – <i>debt coverage</i>	2.28	0.32	1.05
Net Operating Revenue – <i>surplus or deficit</i>	0.87	(0.40)	(0.16)
Return on Net Position – <i>asset stewardship</i>	<u>2.00</u>	<u>(0.80)</u>	<u>0.09</u>
Composite Financial Index (CFI)	4.49	(0.35)	2.07

Midpoint of Quartiles	<u>1st</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>
Primary Reserve – <i>resource availability</i>	1.26	0.89	0.66	0.34
Viability – <i>debt coverage</i>	2.04	1.42	0.88	0.50
Net Operating Revenue – <i>surplus or deficit</i>	0.44	(0.09)	(0.23)	(0.35)
Return on Net Position – <i>asset stewardship</i>	<u>1.24</u>	<u>0.20</u>	<u>(0.05)</u>	<u>(0.49)</u>
Composite Financial Index (CFI)	3.94	2.70	1.60	0.33

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 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 6 percent for FY2014 represents a reserve balance of \$108.7 million, a decrease of \$.9 million, from FY2013. The board policy has established a target range of 5-7 percent for the colleges and universities. All 31 colleges and universities reported budgetary reserves within the policy range.

In FY2014, 23 of the system’s 31 colleges and universities generated negative net operating revenues using a generally accepted accounting principles measurement; this compares to 20

colleges and universities in FY2013. Of the 23 colleges and universities with negative net operating revenue in FY2014, 7 also had negative net operating revenue in FY2013 and FY2012.

	<u>FY2014</u>		<u>FY2013</u>		<u>FY2012</u>	
	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>
Net operating revenue loss*	23	74%	20	65%	10	32%
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.”

It is recognized that the Net Operating Revenues measure includes the impact of the non-cash accruals incorporated in the financial statements. Colleges and universities have been strengthening their cash budgeting practices in order to provide for the impact of these accounting adjustments on their financial statements. Net operating revenues totaled \$69,782,000 before the inclusion of the depreciation expense, which was \$113,497,000 in FY2014. After several years of improvement in the alignment of the cash and accrual dimensions of college and university budget practices, 2014 represents a setback.

2015 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 2015 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, strong program development and continued cost controls are key to successful year. Midyear enrollment and financial reviews are scheduled to begin in January, 2015. College and university balance sheet and income statement modeling is underway with the assistance of tools developed by the Finance division.

CONCLUSION

Minnesota State Colleges and Universities maintained a sound financial position in 2014. The system continues to rely substantially 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 have experienced the impacts of a significant recession throughout FY2011. As on the occasion of past increases in the general unemployment rate, the system experienced corresponding increases in enrollment. The rebound in the state’s employment rate has led to corresponding decreases in system enrollment levels. Overall enrollment levels at the colleges and universities have decreased 3.6 percent, 2.3 percent, and increased 1.6 percent year over year in 2014, 2013 and 2012. Enrollment forecasts in 2015 and 2016 are slightly declining compared to 2014.

The system has in place a number of strategic initiatives for managing enrollment, including programs to increase the retention and success of existing students and programs to address the needs of diverse populations traditionally underserved by higher education. As student tuition becomes a bigger piece of Minnesota State Colleges and Universities' overall revenue totals, fluctuation in enrollment plays a bigger and more immediate impact; it will be critical to manage expenses at a rate that is less than the growth of revenue from state appropriations and tuition.

The system will also continue its management of costs to ensure efficient, effective operations on behalf of current and future students. Examples include developing a shared services platform for common business operations and strategic sourcing for the purchase of goods and services. In a comparison of similar institutions, MnSCU ranks 38 out of 51 states and the District of Columbia in overall administrative spending per student. The system is committed to realizing further efficiencies over the next biennium.

Date Presented to the Board of Trustees: January 28, 2015

FY2014 and FY2013 Audited Financial Statements

Financial Statements of the system and select universities



Finance and Facilities Committee
Board of Trustees
January 28, 2015

Minnesota State Colleges and Universities

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

Agenda

- FY2014 audited financial statements
- FY2014 financial performance
- Composite Financial Index (CFI)
- Financial monitoring protocols
- FY2015 outlook



Fiscal Year 2014 Audited Financial Statements Results

- System statements
- 4 university statements
- Revenue fund
- “Clean” opinions
- No material weaknesses
- No significant deficiencies



FY2014 System Financial Results are Stable

- Declining revenues with tight expense controls result in slightly negative college and university budgets
- System and college and university reserves stable but thinly funded
- College and university budget stress emerging in CFI calculations and operating losses
- System level and college/university level strategies to strengthen outlook



Changes in Net Operating Revenue

FY 2014 vs FY 2013

(includes colleges, universities and system office)

Revenue/(Expense) (In Thousands)	FY2014	Change	FY2013
Components and changes			
Revenue from students, net of financial aid	\$ 810,092	\$(27,061)	\$ 837,153
State appropriation revenue	591,242	37,996	553,246
Federal and state grant revenue	447,569	(11,958)	459,527
Compensation expense	(1,296,889)	(45,254)	(1,251,635)
All other revenues/(expenses), net	(595,729)	4,546	(600,275)
Net operating loss	\$ (43,715)	\$(41,731)	\$ (1,984)



Statement of Net Position

(includes colleges, universities and system office)

Assets, Liabilities and Net Position (\$ in Thousands)			
Fiscal Year	FY2014	FY2013	FY2012
Total Assets	\$3,142,907	\$3,125,332	\$2,955,024
Total Liabilities	1,044,196	1,042,654	963,414
Total Net Position	\$2,098,711	\$2,082,678	\$1,991,610

- Total assets increased each year due mainly to additional capital asset investments
- Total liabilities remained relatively unchanged



Statement of Revenues, Expenses and Changes in Net Position

(includes colleges, universities and system office)

Revenues, Expenses and Net Position (\$ in Thousands)			
Fiscal Year	FY2014	FY2013	FY2012
Total Revenues	\$1,952,094	\$1,982,854	\$1,937,771
Total Expenses	1,936,061	1,891,786	1,816,268
Change in Net Position	\$16,033	\$91,068	\$121,503

- Total revenue decreased by \$30.8 million due to the following decreases: \$33.8M in capital appropriation, \$27.2M operating revenue, \$9.4M in grants; with following offsetting increases: \$38M in state appropriation, and \$1.6M in interest and misc. income.
- Operating expenses increased by \$45.3 million due to an increase in compensation of \$45.3M and \$5.6M in depreciation, with offsetting decreases of \$5.6M in all other expenses.



System Composite Financial Index

(includes colleges, universities and system office results, excludes all foundation results)

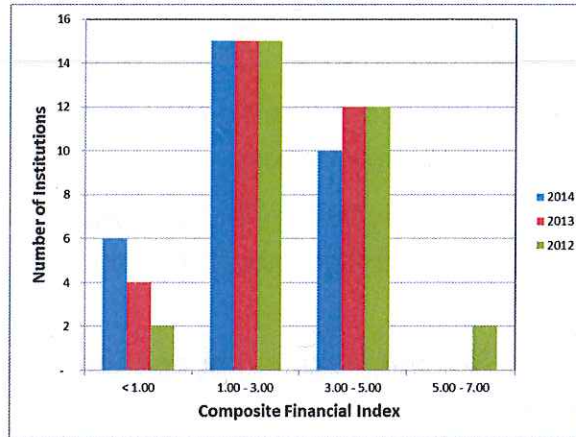
Components of CFI

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Return on Net Position	0.08	0.46	0.65
Net Operating Revenue	(0.18)	(0.01)	0.26
Primary Reserve	0.86	0.91	0.92
Viability	<u>0.89</u>	<u>0.90</u>	<u>0.95</u>
CFI	1.65	2.26	2.78



Composite Financial Index

Trends for College and Universities



Composite Financial Index

Variability in Colleges and Universities

	2014 Averages		2013 Averages		2012 Averages	
	Colleges	Universities	Colleges	Universities	Colleges	Universities
Primary Reserve	0.84	0.76	0.81	0.90	0.82	0.92
Viability	1.19	0.56	1.16	0.60	1.17	0.67
Net Operating Revenue	(0.08)	(0.29)	(0.07)	0.02	0.13	0.38
Return on Net Position	<u>0.33</u>	<u>(0.20)</u>	<u>0.48</u>	<u>0.41</u>	<u>0.60</u>	<u>0.68</u>
CFI	2.28	0.83	2.38	1.93	2.72	2.65



FY2014 Financial Summary

- CFI variability narrows amongst colleges & universities
- CFI trends have been declining the last two years, following enrollment declines
- System CFI relatively flat in the two long term measurements, with declines in the two short term measurements
- Campuses displaying focused budgeting, planning and analysis



FY2014 Monitoring Results

- 15 colleges and 5 universities reported negative accrual based operating revenue two years running
- 7 colleges and 4 universities reported CFI below 1.50 based on 2 year average or less than .5 in most recent year
- In total, eight colleges and three universities are under special review with management plan reporting to the Finance division



FY2015 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



Management Plan

- Financial management plan elements:
 - Peer review and assistance, enrollment strategies and tactics, revenue and expense forecast and monitoring
 - Margins improvement strategies
 - Instructional costs, administrative costs, reserve, facilities stewardship, cost study examination
 - Monthly, quarterly, biannual reporting to Vice Chancellor - CFO office



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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: January 28, 2015

Title: System Financial Resiliency Framework

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:

At its June 2014 meeting, the Board of Trustees asked the Vice Chancellor of Finance and Facilities to evaluate each college and university's financial condition and ability to withstand enrollment declines. System office staff consulted with a group of campus chief financial officers (CFOs), researched measures, evaluated methodology, and analyzed data to create the "College and University Financial Resiliency" measurement instrument.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor – CFO
Deb Bednarz, Director – Financial Planning and Analysis

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

INFORMATION ITEM
System Financial Resiliency Framework

BACKGROUND

At its June 2014 meeting, the Board of Trustees asked the Vice Chancellor of Finance and Facilities to evaluate each college and university’s financial condition and ability to withstand enrollment declines. System office staff consulted with a group of campus chief financial officers (CFOs), researched measures, evaluated methodology, and analyzed data to create the “College and University Financial Resiliency” measurement instrument.

The initial resiliency design methodology was shared with the Board of Trustees at their September 2014 retreat. The finance division sought additional input from the system’s CFOs, modified the framework and updated the effort with fiscal year 2014 financial and enrollment results. This report describes the revised Financial Resiliency Framework and methodology and summarizes the results of the resiliency analysis.

OVERVIEW

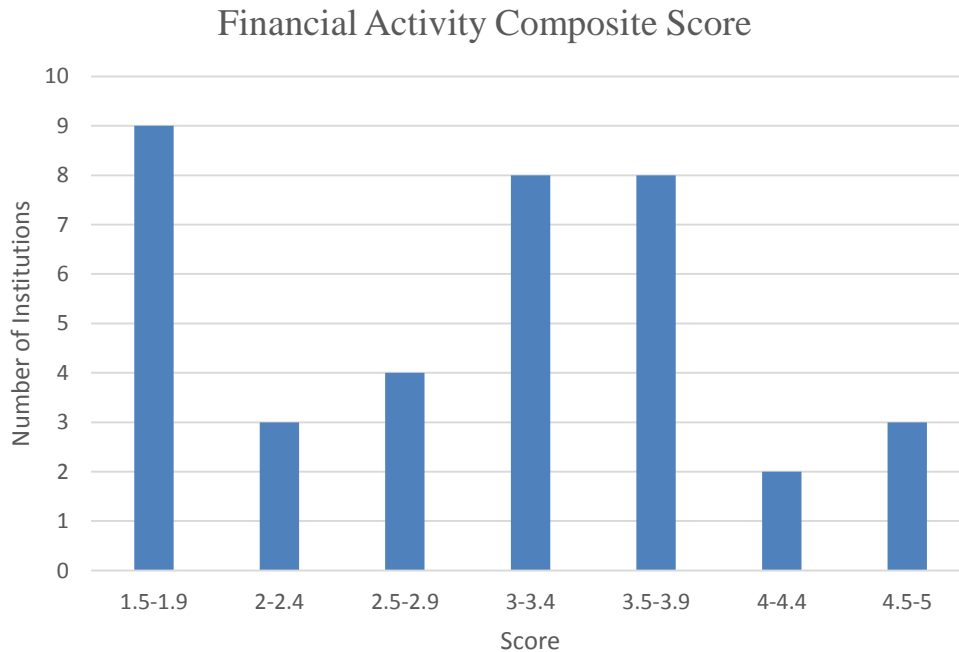
- Minnesota State Colleges and Universities experienced rapid enrollment growth between fiscal years 2006 and 2011. The record-setting college growth was driven in large part by the economic recession and high levels of unemployment that drove many adult learners to our colleges and universities to upgrade their skills or learn a new profession.
- Minnesota’s strong economy and improved employment outlook, along with declines in the number of high school graduates and other key demographic age groups, have reversed the enrollment trend. Colleges and universities are now experiencing rates of enrollment decline that reflect national trends.
- Enrollment loss translates into lower tuition and fee revenue; colleges and universities must reduce costs and/or find alternative revenue sources to maintain financial health.
- The financial resiliency framework was designed to measure the financial condition of colleges and universities and their capacity to withstand enrollment decline or other revenue or expense shocks.
- The framework incorporates both financial and enrollment measures. The financial measures address both balance sheet condition and income statement performance. The

objective of the financial measures is to reflect both longer term financial capacity and shorter term results. The enrollment measures illustrate both absolute enrollment change and the rate or velocity of that change.

- The four financial measures include CFI, net income/loss, cash position, and change in unrestricted net assets (CUNA). Colleges and universities were scored on a scale of one to five for each measure, with one being least resilient and five most resilient.
- The four financial measures were averaged to create the financial activity composite score. This composite score, with both balance sheet and income statement measures, smooths out the impacts of short term events, and will become more meaningful as years of results are compared.
- The two enrollment measures include enrollment volatility and enrollment momentum. The two enrollment scores were averaged to create the enrollment activity composite score.

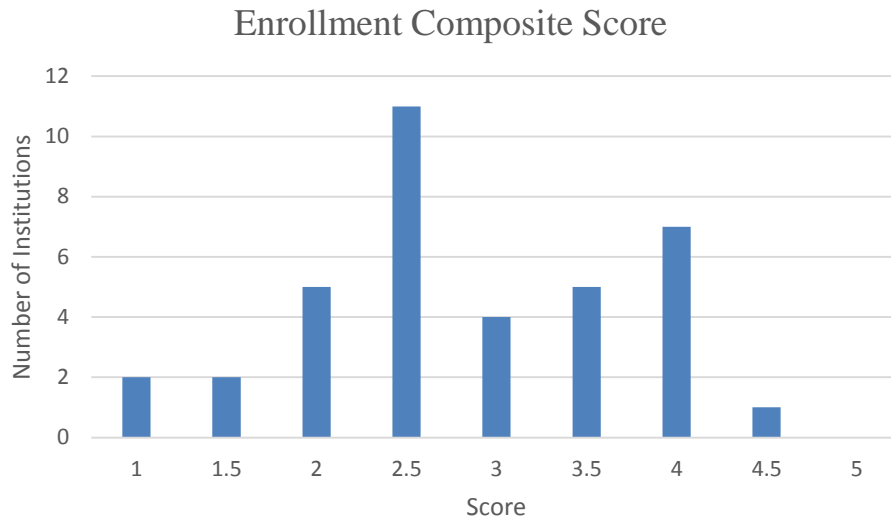
RESULTS

- The financial activity composite score is the average of the four financial measures: CFI, net income/loss, cash position, and change in unrestricted net assets.
- The average financial activity composite score was 2.9 systemwide; the median score was 3.0.
- The colleges averaged 3.0 and the universities averaged 2.4. This reflects the college’s stronger CFI and net income/loss performance compared to the universities.



Financial Activity Composite Summary Graph 1

- The enrollment composite score is the average of two measures: volatility and momentum.
- The average enrollment composite score was 2.8; the median score was 2.5.
- The colleges averaged 2.8 and the universities averaged 3.1.
- College enrollment was more volatile than university enrollment; colleges also scored slightly higher on the momentum measure. This aligns with observation; the colleges saw much greater enrollment increases and decreases than did the universities. However, only the universities have seen enrollment decline to 2008 levels while college enrollment remains slightly higher.



Enrollment Activity Composite Summary – Graph 2

CONCLUSIONS

- Twenty-one colleges and universities scored more than 2.9 on the financial activity composite score while sixteen colleges and universities scored 2.9 or less. The measure captures the wide variability in the 2014 performance and financial condition of our 37 colleges and universities.
- Enrollment experience is similarly divided around the 2.5 score with seventeen colleges and universities scoring above 2.5 and twenty scoring at or below 2.5. Colleges and universities with strong momentum also were more likely to experience strong volatility.
- Both colleges and universities scored higher on the cash and change in unrestricted net assets measures and lower on the CFI and net income/loss measures, an illustration of some financial capacity to absorb losses and the near term lack of structural solutions implemented.

- The financial resiliency framework has helped identify areas where the system was more resilient (cash position and net assets) and less resilient (net income/loss). It also highlighted areas where more work could be done to support resiliency (enrollment projections).
- The framework has substantially improved our ability to evaluate college and university financial condition in relation to one another. By normalizing financial data across widely divergent sized and resourced colleges and universities, we are able to identify the strengths and weaknesses in comparative terms.
- The individual measures provide clear evidence of financial condition and an opportunity for engagement and remediation actions.
- The resiliency scores correlate closely with other measures of financial health the system monitors, confirming the validity of those measures and the ability of the system to identify colleges and universities at financial risk.
- By validating our existing measures and processes, future efforts will be focused on working with colleges and universities identified as being at risk and improving their financial resiliency.
- Additional work is recommended on analyzing regional demographic projections and the resiliency results to help determine how the colleges and universities can best serve Minnesota.
- The analysis will be undertaken yearly and summary results provided to the committee and the Leadership Council.

APPENDIX

METHODOLOGY

The resiliency framework was created in consultation with the system's CFOs. It is intended to measure a college or university's financial resiliency, including its ability to withstand unexpected enrollment declines or other revenue or expense shocks. After researching and testing various measures, six measures were selected to include in the framework: four financial measures and two enrollment measures.

The financial activity composite score is a compilation of four measures designed to provide an overall measure of a college or university's financial resilience: Composite financial index (CFI), net income/loss, cash on hand, and change in unrestricted net assets.

The enrollment activity composite score is a compilation of two enrollment trend measures. Enrollment volatility and enrollment momentum which both compare enrollment changes between fiscal years 2008 and 2014. These measures are new measures and were designed to assess the enrollment characteristics of each institution that impact resiliency.

Each of the six measures are described in detail and illustrated in the next section. The reader will note that thirty-seven colleges and universities are displayed on the graphics. Each of the five colleges in the Northeast Higher Education District as well as Northwest Technical College – Bemidji are counted separately along with the thirty-one other colleges and universities.

MEASURES

CFI Two Year Average

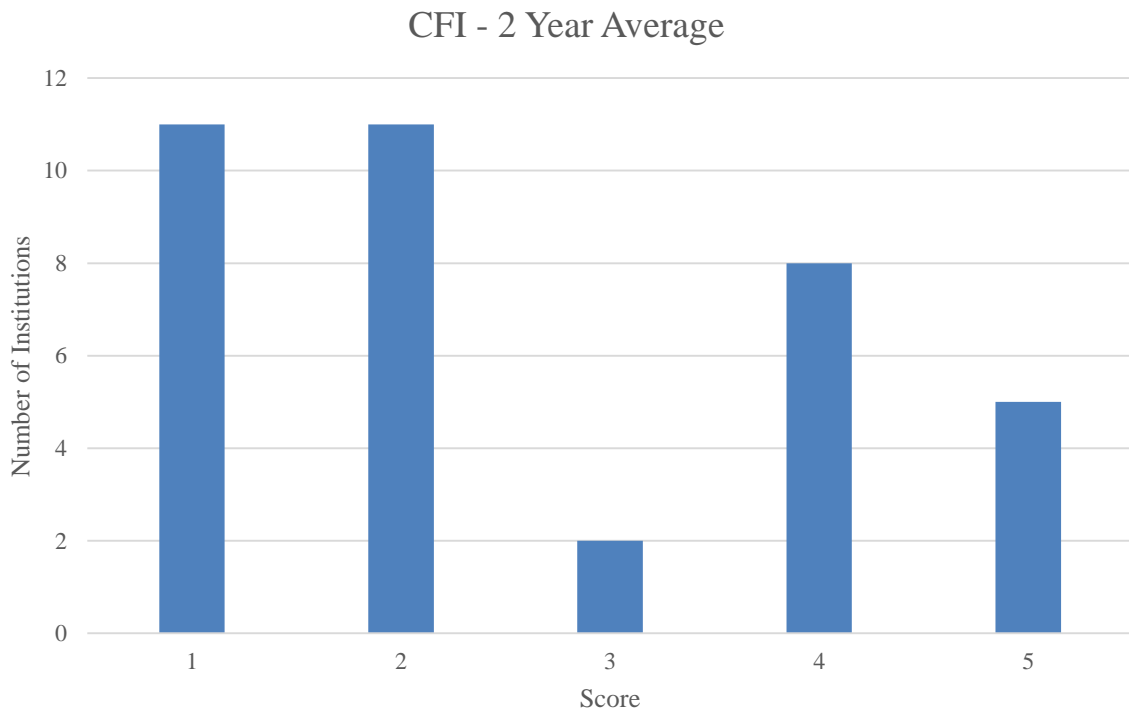
The Composite Financial Index (CFI) is a comprehensive measure of an institution’s financial health. It includes four ratios: primary reserve, viability, return on net assets and operating margin. The primary reserve and viability ratios measure an institution’s financial condition, the return on net asset and operating margin ratios measure an institution’s annual financial performance.

The *CFI Two Year Average* calculates the average CFI for each college and university for fiscal years 2013 and 2014, the most recent data available. A two-year average is used in order to smooth some of the volatility in year to year CFI calculations.

Colleges and universities with a CFI two-year average:

- Over 4.0 received a rating of five
- Between 3.0 and 3.99 received a rating of four
- Between 2.5 and 2.99 received a rating of three
- Between 1.5 and 2.49 received a rating of two
- Less than 1.5 received a rating of one

The system’s overall two-year average CFI score is 2.6; the median score was 2.0. The colleges alone averaged 2.9 and the universities averaged 1.4.



CFI Two Year Average - Graph 3

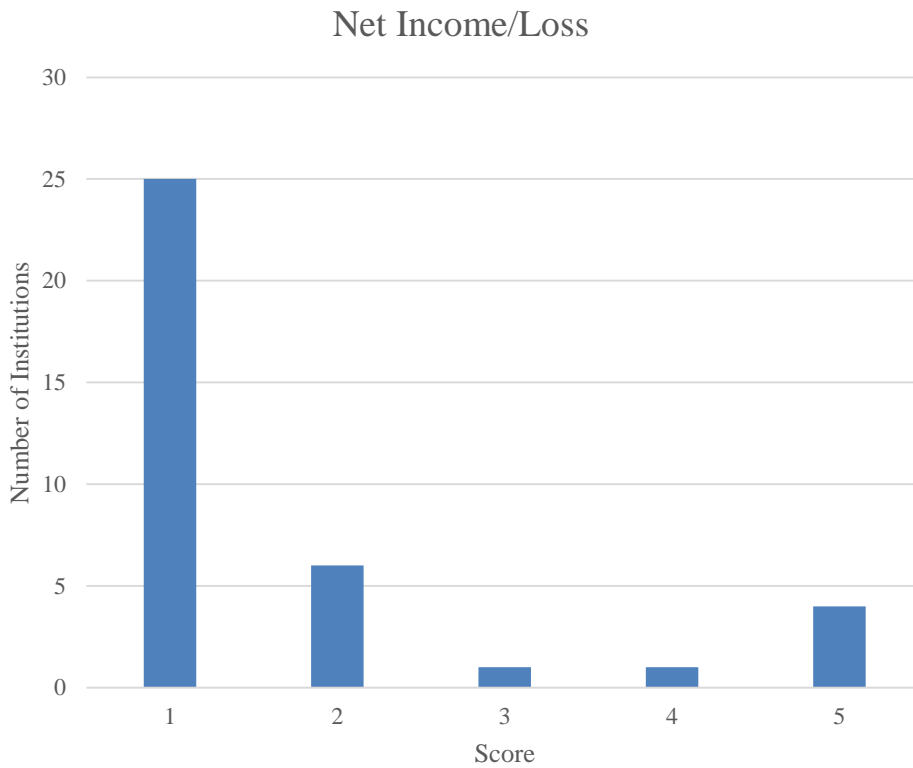
Net Income/Loss

The *Net Income/Loss* measure calculates net income/loss as a percentage of total revenue for fiscal year 2014. The measurement is calculated on the basis of full accrual accounting statements.

Colleges and universities with a net income:

- 3.0 percent or greater received a rating of five
- 2 to 2.9 percent received a rating of four
- 1 to 1.9 percent received a rating of three
- -0.9 to 0.9 percent received a rating of two
- Less than -1.0 percent received a rating of one

The system’s overall net/income loss as a percentage of fiscal year revenue received a score of 1.7; the median score was 1.0. The colleges alone scored 1.9 and the universities scored 1.0.



Net Income – Graph 4

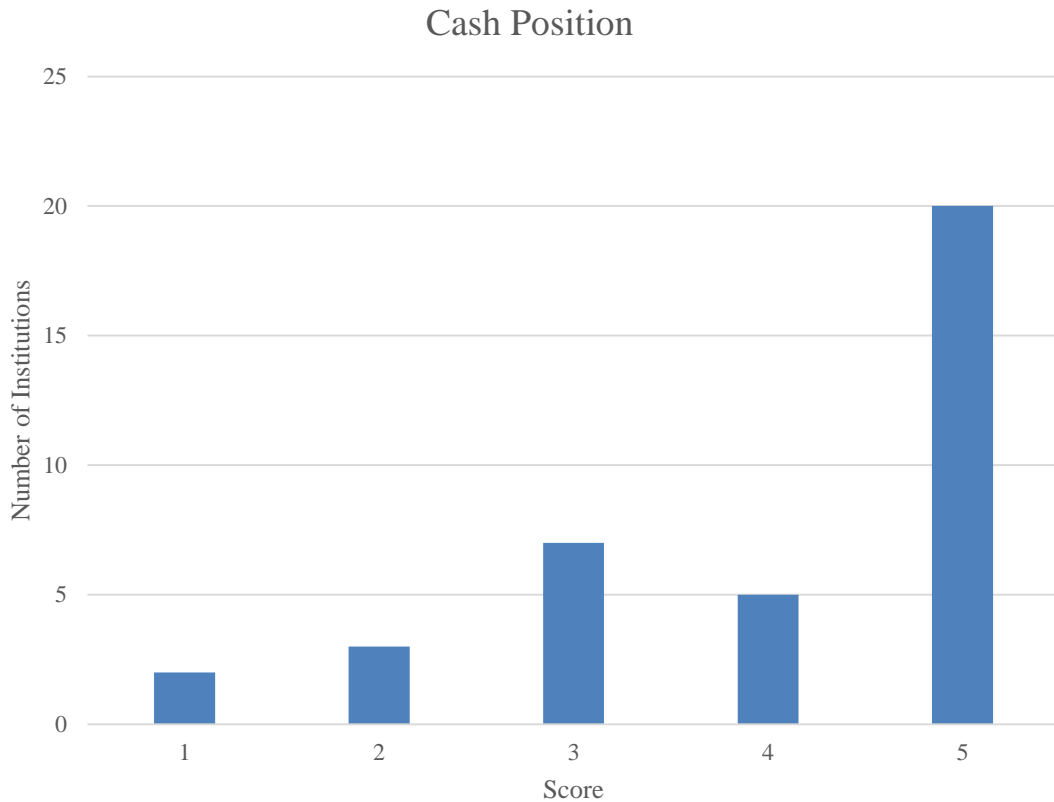
Cash Position

Strong cash balances provide colleges and universities with the resources needed to address unanticipated financial challenges, including larger than projected enrollment declines. The *Cash Position* measure calculates the general fund year-end cash balance as a percentage of new revenue, based on fiscal year 2014 data. The calculation is performed on cash basis results, not accrual basis.

Colleges and universities with a fund balance:

- Thirty percent or more of new revenue received a score of five
- Between twenty-five to twenty-nine percent received a score of four
- Between twenty to twenty-four percent received a score of three
- Between fifteen to nineteen percent received a score of two
- Less than fifteen percent received a score of one

The system’s overall cash position received a score of 4.0; the median score was 5.0. The colleges alone scored 4.1 and the universities scored 3.9.



Cash Position – Graph 5

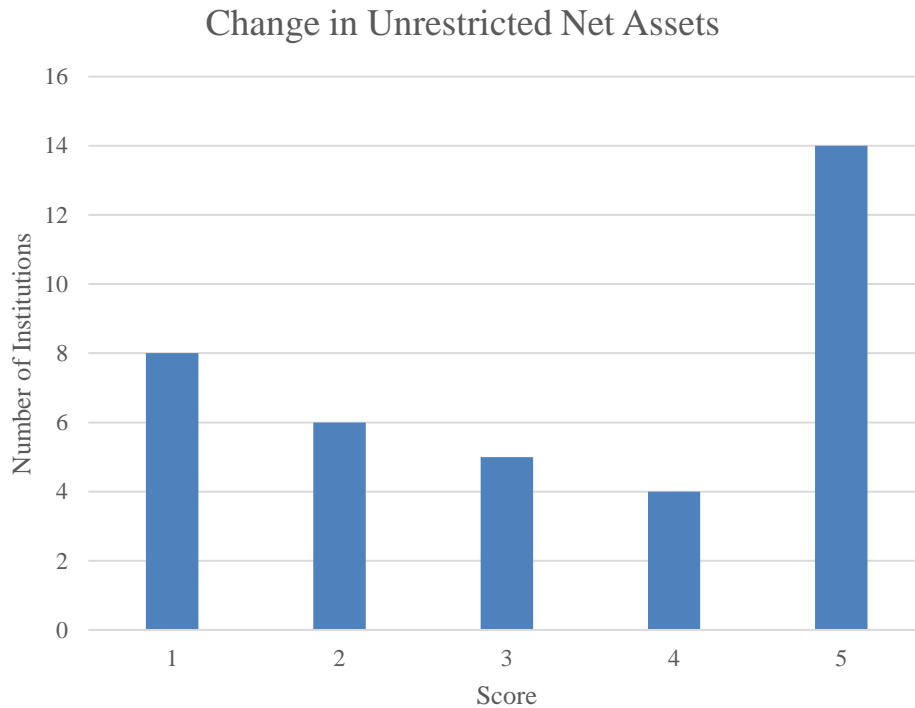
Change in Unrestricted Net Assets

Change in Unrestricted Net Assets (CUNA) is a measure of the percent change in unrestricted net assets between fiscal year 2011 and fiscal year 2014, as reported in the annual financial statements. Growth in unrestricted net assets illustrates additions to assets, rather than asset depletions and is a measure of financial health.

Unrestricted net assets with:

- Growth of more than thirty percent received a score of five
- Growth between eleven and twenty-nine percent received a score of four
- Growth between zero and ten percent received a score of three
- Decline of up to ten percent received a score of two
- Decline greater than ten percent received a score of one

The system’s overall change in unrestricted net assets received a score of 3.3; the median score was 3.0. The colleges alone scored 3.3 and the universities scored 3.3.



Change in Unrestricted Net Assets – Graph 6

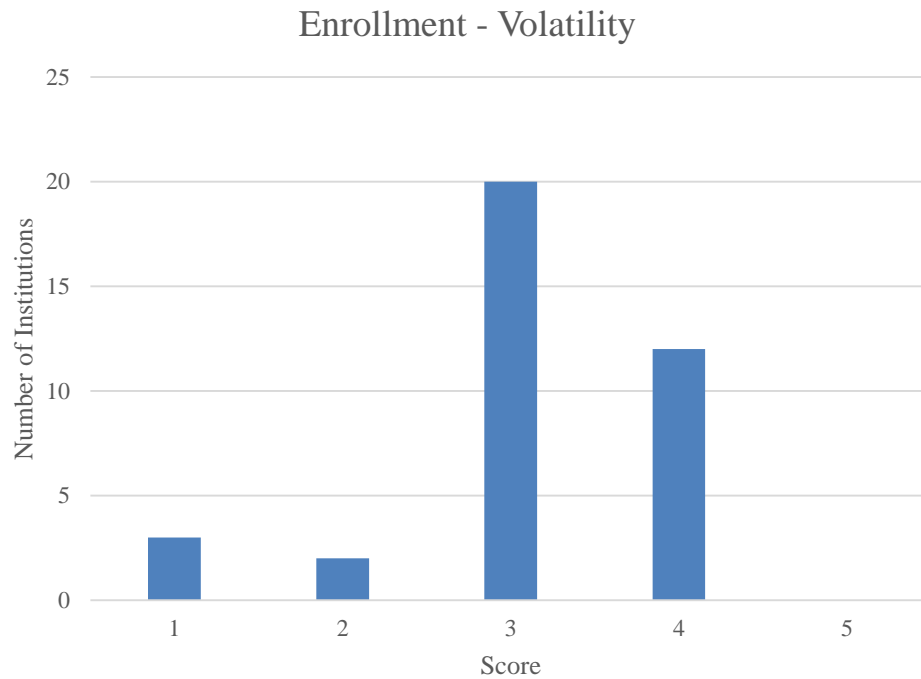
Enrollment Volatility

Enrollment Volatility measures the percent change in FYE enrollment from year-to-year for each college and university and calculates a standard deviation for a seven year period between fiscal years 2008 and 2014. The smaller the deviation over the seven year period the less volatile an institution’s enrollment.

Colleges or universities with a deviation:

- Of one percent or less received a score of five
- Between two and four percent received a score of two
- Between five and seven percent received a score of three
- Between eight and nine percent received a score of two
- Over ten percent received a score of one

The system’s overall enrollment volatility received a score of 3.1; the median score was 3.0. The colleges alone scored 2.9 and the universities scored 4.0.



Enrollment Volatility – Graph 7

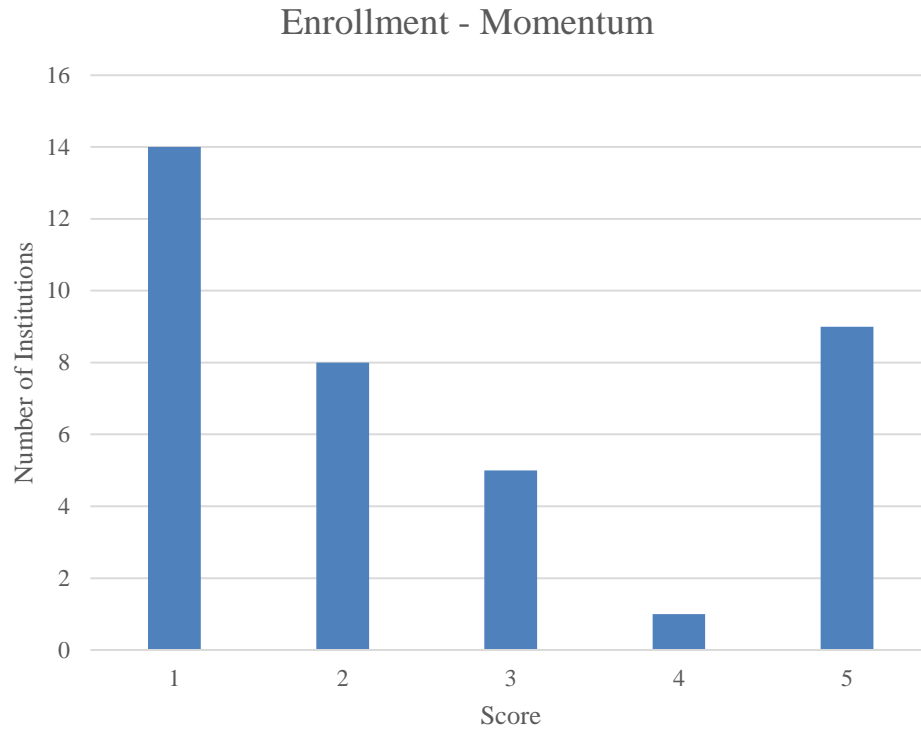
Enrollment Momentum

Enrollment Momentum measures the overall change in FYE enrollment, on a percentage basis, between fiscal years 2008 and 2014. The measure is designed to quantify how much enrollment has been recently gained or lost compared to the years of significant enrollment growth.

Colleges and universities with FYE enrollment increases:

- Ten percent or greater received a score of five
- Between eight and nine percent received a score of four
- Between five and seven percent received a score of three
- Between two and four percent received a score of two
- Less than one percent received a score of one

The system's overall enrollment momentum received a score of 2.5; the median score was 2.0. The colleges alone scored 2.6 and the universities scored 2.3.



Enrollment Momentum – Graph 8

Date Presented to the Board of Trustees: January 28, 2015