

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 predesign 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