

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

Name: Finance and Facilities Committee

Date: June 17, 2015

Title: FY2016-FY2020 Capital Budget Proposal (Second Reading)

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:

The report seeks committee and Board of Trustees approval of the FY2016 – FY2020 priorities for capital bonding for submission to the governor and the Minnesota House of Representatives and Senate as a part of the 2016 legislative session, consistent with Policy 6.5, Capital Program Planning.

The report has been modified since the first reading to incorporate answers to trustee questions concerning construction cost management.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor for Facilities

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

BOARD ACTION

FY2016-FY2020 Capital Budget Proposal (Second Reading)

PURPOSE

To obtain the Board of Trustees approval of the priorities for capital bonding for submission to the governor and the Minnesota House of Representatives and Senate as a part of the 2016 legislative session, consistent with Policy 6.5, Capital Program Planning.

BACKGROUND

The system's 54 college and university campuses include about 28.0 million square feet of facility space. Of this total, 22.4 million square feet is academic space and eligible for general obligation bonding through the state of Minnesota's capital bonding process. The remaining 5.6 million square feet of facility space is attributable to the revenue fund and include residence halls, student unions, dining facilities and parking ramps. Revenue fund facilities are maintained, improved and constructed through user fees and the sale of revenue fund bonds.

All colleges and universities develop and maintain comprehensive facility plans that take into account academic programming, demographic and enrollment trends, facility condition, configuration, space utilization and energy consumption data. These plans identify and prioritize institutional investment needs for both the academic and revenue fund facility spaces along with any real estate matters.

In March, 2014, the board approved capital guidelines for both the 2016 capital budget and the 2015 revenue fund programs: <http://www.mnscu.edu/board/materials/2014/march19/fin-03-guidelines.pdf>. Taking into account the Strategic Framework and the six recommendations in Charting the Future, the board guidelines sought to focus on projects meeting the following priorities:

1. Strategic regional and statewide academic program focus
2. "Taking care of what we have"
3. Minimizing new square footage
4. Building for the future with flexible and adaptive space

The guidelines also established a total 2016 capital bonding target for the legislative request of between \$250-\$285 million.

Given this guidance, colleges and universities reviewed their comprehensive facility plans and forwarded their prioritized capital bonding requirements for their academic spaces. These

submittals included over \$350 million in asset preservation priorities to be included in the system's Higher Education Asset Preservation and Replacement (HEAPR) program, and nearly 40 capital projects totaling over \$250 million.

In early January 2015, more than 100 academic, finance, facilities and technology faculty and staff from our colleges and universities and the system office reviewed and scored proposed capital projects against the board guidelines. This scoring process included projects that were approved by the board as part of the 2014 process but not fully funded in the 2014 capital bonding bill. Results of that scoring informed the DRAFT recommended 2016 capital bonding priorities at **Attachment A**.

NOTE: In October 2014, the board approved a capital bonding recommendation for the 2015 legislative session, an 'off' bonding year, made up of those 1) projects approved by the board previously, but not funded during the 2014 legislative session, and 2) the construction phases of board approved projects that were funded for design in 2014. Final results of the 2015 legislative session and action on capital bonding are not known at the time of this report. **The DRAFT recommended 2016 capital bonding priorities at Attachment A assumes no capital bonding in 2015.** Final results of the 2015 session will impact the final 2016 recommendation and that impact will be provided to the board as soon fully understood and incorporated.

DRAFT RECOMMENDED 2016 CAPITAL BONDING PRIORITIES

The DRAFT recommendation totals \$286.8 million and would provide \$110 million for asset preservation through HEAPR and \$176.8 million for 22 capital projects at 21 college and university campuses as well as a provision for a potential capital investment in support of the metropolitan area baccalaureate plan.

Asset preservation through HEAPR is recommended as the highest priority and is in keeping with the stewardship charge in the board guidelines. This level of investment seeks to reduce the backlog of maintenance in our academic spaces is currently estimated to be \$740 million and future repair and renewal needs in the coming 5 years is estimated at \$450 million.

Of the recommended projects, eight (8) were board approved, but not funded in 2014/2015 (\$41.6M); five (5) were board approved and the first phases of work were funded in a 2014 bonding bill (\$89.6M); there are nine (9) new projects totaling \$35.6 million and \$10 million to support the metropolitan area baccalaureate plan as that matures in the coming months.

If fully funded the DRAFT recommended 2016 capital bonding program would reduce the system's total square footage by over 60,000 square feet.

CAPITAL BONDING AND DEBT

The system is responsible for one-third of the debt service for its capital bonding projects. This portion of debt is shared equally between the college/university receiving the improved facility and the system as a whole. The state covers the total debt service cost of HEAPR funding.

As of the 2014 financial statements, the total general obligation principal outstanding for system capital bonding projects was \$232 million and the total debt service payment in fiscal

year 2015 was \$31.7 million. If the DRAFT recommended 2016 program was fully funded, the system’s total general obligation bond obligation would increase by \$58.9 million and annual debt service payments would increase by \$3.5 million. For debt capacity and debt burden calculations over time, see **Attachment B**.

HISTORICAL PERSPECTIVE

Since 2006, on average, the board has approved a total capital bonding program of \$318.5 million in even or ‘on’ capital bonding years. In those same years, the system has received on average \$164.7 million, or just over 50% of the requested capital bonding program.

TABLE 1: Total Capital Program Requested and Funded

Year	Total Requested Program	Total Received Program	% Received
2006	\$280.4	\$191.4	68%
2007	\$33.8	\$0.0	0%
2008	\$350.2	\$234.2	67%
2009	\$117.1	\$40.0	34%
2010	\$396.8	\$106.2	27%
2011	\$279.8	\$131.6	47%
2012	\$278.7	\$132.1	47%
2013	\$151.4	\$0.0	0%
2014	\$286.5	\$159.8	56%
2015	\$198.5	TBD	TBD
2016	\$286.8		

In terms of asset preservation, the board has consistently sought \$110 million in HEAPR funding in traditional even numbered capital bonding years to address the backlog of maintenance and anticipated renewal needs as system facilities age. In these same years, the system has received on average \$41.9 million in HEAPR funding, or approximately 38% of the requested amount.

TABLE 2: HEAPR Requested and Received

Year	HEAPR Requested	HEAPR Received	% Received
2006	\$110.0	\$40.0	36%
2007	\$30.0	\$0.0	0%
2008	\$110.0	\$55.0	50%
2009	\$50.0	\$40.0	80%
2010	\$110.0	\$52.0	47%
2011	\$58.0	\$30.0	52%
2012	\$110.0	\$20.0	18%
2013	\$90.0	\$0.0	0%
2014	\$110.0	\$42.5	39%
2015	\$72.5	TBD	TBD
2016	\$110.0		

Funding for individual capital projects have fared better than asset preservation over time. On average, the board has approved \$208.5 million total for capital projects in traditional even numbered capital bonding years. In those same years, the system has received on average \$124.1 million, or 60% of the amount requested for projects.

TABLE 3: Capital Projects Requested and Funded

Year	Project Requested	Project Received	% Received
2006	\$170.4	\$151.4	89%
2007	\$.8	\$0.0	0%
2008	\$240.2	\$185.7	77%
2009	\$67.1	\$0.0	0%
2010	\$286.8	\$54.2	19%
2011	\$221.8	\$101.6	46%
2012	\$168.7	\$112.1	66%
2013	\$61.4	\$0.0	0%
2014	\$176.5	\$117.3	66%
2015	\$125.5	TBD	TBD
2016	\$176.8		

NEXT STEPS

All capital bonding requests are to be submitted to Minnesota Management and Budget (MMB) via the state’s electronic capital budget system no later than June 30, 2015, and preparations commence for a bonding book outlining the various capital projects. The legislature will use the state information and bonding book in preparation for site visits around the state this summer and fall to become familiar with proposed capital requests from all state entities.

Given the volatility in the construction market, specific project cost estimates on **Attachment A** may change over the coming months as some design work is completed on previously funded projects and MMB publishes additional guidance on project inflation rates. Final adjustments to the requested projects must occur no later than October, 2015 for preparation of the Governor’s capital budget recommendation for the 2016 legislative session.

CONSTRUCTION BUDGET ANALYSIS

During the May Finance Committee discussion of this request, the Committee asked for details on cost growth of prior year construction programs. In a review of both the major capital and revenue fund financed construction projects since 2010, only 6 of 75 projects in programs totaling \$555.4 million required additional funding. Four projects required funding to fully execute the original project scope and intent and two projects required additional funding to meet institutional project scope changes.

TABLE 4: Major Project Funding and Program Changes

Funding Year	Program	Original Funding/Projects	Program Funding Changes	Notes
2010	Capital	\$54.2M/9	(\$1.95M)	7 of 9 projects provided funds for conversion to HEAPR for campus use
2011	Capital	\$101.6M/7	(\$296K)	1 project provided funds for conversion to HEAPR
2011	Revenue Fund	\$104.0M/9	\$0	
2012	Capital	\$112.1M/17	(\$1.17M)	4 of 17 projects provided funds for conversion to HEAPR for campus use
2013	Revenue Fund	\$66.2M/7	\$7.4M	2 of 7 projects required additional funding (NOTE 1)
2014	Capital	\$117.3/26	\$637K	4 of 26 projects required additional funding through HEAPR and/or campus general funds (NOTE 2)
TOTAL		\$555.5/75	\$4.62M	

NOTE 1: Construction of two projects at Metropolitan State University (Parking Ramp and Student Union) encountered unforeseen contaminated soil requiring mitigation, costing a total of \$7.4M beyond the original project budget. This figure does not reflect modifications to Maria Avenue to meet City of St Paul traffic flow needs totaling \$1.9M

NOTE 2: Two projects required \$213K in HEAPR funding to address asbestos abatement and ADA restroom compliance requirements identified after original funding. Two projects required \$424K in additional funding to meet institutional scope changed after original project funding.

The system's construction programs are managed to be fully executed within the appropriated amounts. System office program managers and college and university leadership and project managers work diligently to bring projects in on budget. In the years 2010-2012, programs were somewhat favored by the soft construction market and actually returned project savings back to campuses for asset preservation. That trend appears to have disappeared and the state's construction market had heated up. The system has solved any cost increases internally and has never sought additional appropriations.

RECOMMENDED COMMITTEE ACTION:

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

The Board of Trustees approves the 2016 capital bonding request as presented in **Attachment A Revised**, specifically the projects and priorities for 2016. The Chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through Minnesota Management and Budget to the Governor for consideration in the state's 2016 capital budget.

The Chancellor shall advise the Board of any subsequent changes in the capital bonding request prior to the 2016 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the Governor, the Chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

RECOMMENDED BOARD OF TRUSTEES ACTION:

The Board of Trustees approves the 2016 capital bonding request as presented in **Attachment A Revised**, specifically the projects and priorities for 2016. The Chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through Minnesota Management and Budget to the Governor for consideration in the state's 2016 capital budget. The Chancellor shall advise the Board of any subsequent changes in the capital bonding request prior to the 2016 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the Governor, the Chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

Date Presented to the Board: June 17, 2015

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

FY2016-FY2020 Capital Budget Proposal (Second Reading)
Supplement

PURPOSE

To supplement and update documents provided earlier to obtain the Board of Trustees approval of priorities for capital bonding for submission to the governor and the Minnesota House of Representatives and Senate for funding as a part of the 2016 legislative session, consistent with Policy 6.5, *Capital Program Planning*.

BACKGROUND

While no bonding bill passed during the regular 2015 legislative session, a bonding bill was approved and funded during the June 12th special session. This bonding bill totaled \$373.4 million and included \$31.9 million for four projects at five campuses within the system. See Table 1, below. These projects were the Board’s top four priority projects for the 2015 session.

Institution - Project	Cost (\$1,000)
Minnesota West Community and Technical College – Power Line (Jackson) and Geothermal (Canby)	\$3,267
Dakota County Technical College – Transportation and Emerging Technology	\$7,733
Anoka Technical College – Manufacturing and Auto Lab	\$2,114
Saint Paul College – Health and Science Alliance Center	\$18,829
Total	\$31,943
General Obligation (GO)	\$21,295
System (User) Financed	\$10,648

Table 1: FY2015 Funded projects

In response, these four projects were removed from the proposed 2016 list presented to the Board as part of the First Reading in May. Two projects were added to create a revised 2016 recommendation totaling \$262.1 million. These projects were added as priorities 19 and 20 on the revised recommendation at **ATTACHMENT A – REVISED** (over).

The recommended 2016 program retains the \$110.0 million priority for HEAPR and now includes \$152.1 million for 19 projects and support for the Twin Cities baccalaureate plan. The net reduction in square footage should this program be fully executed has grown to 78,000 square feet.

ATTACHMENT A - REVISED

Draft 2016 Capital Bonding Recommendation – Proposed Priority List

	Institution	Project	Recommended
1	Systemwide	HEAPR – Asset preservation	\$110,000,000
2	South Central College – North Mankato	STEM and Healthcare	\$8,600,000
3	Minnesota State Community and Technical College – Fergus Falls	Center for Student and Workforce Success	\$1,635,000
4	Minnesota State Community and Technical College – Wadena	Library and Student Development Renovation	\$738,000
5	Northland Community and Technical College – East Grand Forks	Laboratory Renovations	\$826,000
6	Bemidji State University	Academic learning center and campus renovation (Hagg-Sauer)	\$18,097,000
7	Rochester Community and Technical College	Memorial and Plaza Halls Demolition Design and Renovation	\$20,385,500
8	Hibbing Community College	Campus Rightsizing	\$9,958,000
9	Winona State University	Education Village Phase II Renovation	\$22,630,000
10	St. Cloud State University	Student Health & Academic renovation	\$18,572,000
11	MSU, Mankato	Clinical Sciences Phase 2	\$6,525,000
12	Anoka Ramsey Community College – Coon Rapids	Nursing & Active Learning Center Design and Humanities Renovation	\$4,965,000
13	Century College	Applied Technology Center	\$5,500,000
14	Hennepin Technical College – Brooklyn Park	Advanced Manufacturing Integration and Revitalization, Ph 1	\$8,231,000
15	Normandale Community College	Classroom and student services renovation (Design)	\$1,100,000
16	MSU Moorhead	Weld Hall renovation (Design)	\$775,000
17	Inver Hills Community College	Technology and Business Center (Design)	\$1,000,000
18	Riverland Community College – Albert Lea	Transportation, Trade and Industrial Education Center	\$7,427,000
19	St Cloud Technical and Community College	Classroom Initiative	\$625,000
20	Minneapolis Community and Technical College	Hennepin Skyway Renovation	\$4,469,000
21	Twin Cities Metro Region	Twin Cities baccalaureate solution	\$10,000,000

PROGRAM TOTAL:	\$262,058,000
GO Funding	\$211,373,333
System (User) Funding	\$50,686,167