

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**

**BOARD OF TRUSTEES**

**FINANCE AND FACILITIES COMMITTEE**

**MEETING MINUTES**

**October 20, 2015**

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

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

*Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King,*

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on October 20, 2015, 4<sup>th</sup> Floor, McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Cowles called the meeting to order at 9:30 a.m.

Chair Cowles welcomed returning and new committee members. There were two members absent but a quorum was reached. The Board of Trustees retreat surfaced a couple of questions related to the Finance and Facilities Committee topics for the upcoming year. Chair Cowles and Vice Chancellor King have been working together to incorporate members' interest in the year's work.

**1. Minutes of June 17, 2015**

The minutes of the June 17, 2015 Finance and Facilities Committee were approved as written.

**Finance and Facilities Update**

Vice Chancellor King welcomed all members and provided some updates. Items of note: the Leadership Council has designated new liaisons to the Finance Committee. They are President Anne Blackhurst (MSU Moorhead) and President Barbara McDonald (North Hennepin Community College).

Next month the FY2015 financial statements will be presented to the Audit Committee. No surprises thus far, none anticipated. In January, there will be an extended conversation in the Finance Committee about FY15 performance.

Finance and Facilities staff have been busy with legislative and executive branch bonding tours. The House has completed their tours. The chancellor presented the board's 2016 capital improvement request to the Commissioner of Minnesota Management and Budget and the governor's staff. The Senate continues tours into October and November. Vice Chancellor King again thanked the campus staff for a terrific job hosting tours on the campuses.

Chair Cowles commented from the standpoint of the board and committee that there has been an impressive show of participation and engagement on the part of the students, staff, and faculty. It has made a big difference, the reports have been positive. Vice Chancellor King acknowledged the elected officials and stated that it makes a difference for elected officials to get on campus and talk to the students.

Vice Chancellor King mentioned a recent memo to the board regarding a potential federal government shutdown and federal budget conditions; the risk has moved out to mid-December. The staff is part of the state's Emergency Management Planning Risk Assessment Process and will keep the board informed of any risks to operation.

The federal Perkins loan program has been shut down. The staff is working with higher education colleagues to get that program reinstated as part of the federal budget, but for now the colleges and universities have stopped issuing Perkins loans. This past year there were approximately 2,600 MnSCU students who received Perkins loans totaling about \$5M.

The Long Term Financial Stability work group has launched after a terrific discussion at the board retreat. Trustee Cowles is the board's representative on that group. The first meeting was October 9<sup>th</sup>; staff will provide an update in March and hopefully a final report by June. Chair Cowles commented that at the first meeting the energy and commitment on the part of the participants seemed very strong, and they welcomed the opportunity to be a part of the work.

Chair Cowles asked members for any comments.

Chair Cowles explained that the items listed on page 13 will be presented as a single item and will follow with individual approvals. Although presented as a single agenda item, members are welcome to raise questions and discuss individual components.

## **2. Surplus Real Property Approval – Central Lakes College Boundary Line Correction**

Vice Chancellor King reported this is a request for the committee to recommend to the board the surplus of a fractional piece of land on the edge of the Central Lakes College, Brainerd campus. The requirement emerged after a survey was undertaken between the college and adjacent property owner and identified a disputed notch of land.

The committee recommendation is that the board authorize the execution of a quit claim deed with the land owner for \$1 and clear the boundary dispute. Page 15 and 16 contain an illustration of the property.

Chair Cowles asked if committee members had questions. He also wondered if the board needed to consider adopting a policy that specifically addressed this type of situation. Vice Chancellor King responded that the board policy addressing approval of acquisitions and dispositions can be read to include this type of transaction.

Chair Cowles directed the committee's attention to the proposed motion on page 14 of the board packet. Trustee Renier made the motion and Trustee Otterson seconded. The motion was adopted.

Chair Cowles presented the items on page 17, a number of items exceeding \$1 million and proposed that they be considered for approval as a group.

Vice Chancellor presented the eight items in the packet:

### **3. Approval of Contracts Exceeding \$1M**

#### **Lake Superior College Customized Training**

This is a customized training contract between Lake Superior College (LSC) and Aggregate and Ready Mix (ARM), a vendor in the Duluth area that is a partner with the college. The board is asked approve a one year contract that is renewable for up to five years with a maximum payout of up to \$4 million.

#### **Grant for Thief River Falls Housing Development**

Returning members will recall that this item has been before the board in a couple of iterations as the community and the college have struggled to bring student housing to the campus. The recommendation is to approve the award of a \$1.1 million grant to Orb Management, a third party developer, and the college foundation to finance, renovate and operate student housing adjacent to the college in Thief River Falls. This is a transaction that spins out of legislative assistance in the 2014 session and funds provided to the Minnesota Housing Finance Agency that are now passed to the college and then on to the foundation. This would bring a 144-bed student housing complex into service. The college's role is limited to marketing and recruitment efforts.

#### **Microsoft Premier**

The Board of Trustees is asked to approve a master contract with Microsoft Premier Support not to exceed \$2 million, with an end date of July 2020. This is a contract that the campuses buy from directly and it provides them with bulk purchasing and master negotiation benefits.

#### **Hobson's Contract Extension**

This is a request to the board to extend a contract agreement with Hobsons, a third party vendor, through June 2017. There is now underway an RFP process that is expected to result in a new recommendation that will come before the board next year. The current contract has a cumulative total of \$5 million through December 2015. The committee is asked to approve an extension to June 2017 for no more than \$7 million. This will be a master contract for enrollment and recruitment services the colleges and universities.

#### **Inver Hills Community College Construction Project**

This is a request to the board to approve a construction contract totaling \$1.36 million using local resources to do interior work to the physical education building on campus. The

recommendation provides for a slightly higher authority to anticipate change orders or bid differences.

**Bemidji State University Bookstore Contract**

This is a request to the board to approve a contract with a term up to 10 years and not to exceed \$5M on behalf of the university and Distance Minnesota services associated with Northland Community Technical College and Alexandria Technical and College. This is a group buying effort to select a single vendor to bring price and service advantage to the students. Approval of this request will enable the university to finalize their RFP selection process and complete negotiations.

**St. Cloud State University Plumbing Replacement, Mitchell Hall Foundation**

This is a request to the board to approve a contract not to exceed \$1.35 million to enable St. Cloud State University to engage a contractor for some plumbing work in one of their residence halls. This would be financed with university revenue fund reserves that they have been saving for this work. They would like to begin the work as soon as the spring term ends.

**Management Software –Blackbaud, Inc. contract**

This is a request to the board to approve a master contract not to exceed \$3.5 million with Blackbaud, Inc. for foundation management software. We would negotiate on behalf of interested colleges and universities and they would buy from the master contract. The term length is proposed at five years, from November 2015 to October 2020.

Vice Chancellor King stated that the board motions follow on page 20.

Chair Cowles thanked Vice Chancellor King for the summary and asked if there are notable changes imbedded and how the mix of the projects are characterized in terms of business as usual or offering new examples. The Bemidji State bookstore seems like an effort to develop shared services, the foundation management software represents a centralized, standardized resource of greater value at a better price.

Vice Chancellor King responded that of the eight items, the Microsoft Premier Contract, Hobson's Contract, Bemidji Contract and Foundation Contract all present efforts to combine purchasing power and simplify negotiating on behalf of the colleges and universities. These are all established as optional uses by the campuses. The contracts are put in place and the campuses choose whether or not to use them. The Lake Superior College customized training contract is a customized training activity that campuses are encouraged to undertake and is presented because of the threshold in board policy for contract approval. The Thief River Falls transaction is unusual, it brings a service and benefit to the students without costing the system anything or putting risk on the college balance sheet. The Inver Hills and St. Cloud transaction are typical construction requests.

Trustee Renier asked how many of our colleges and universities currently use Blackbaud independently. Vice Chancellor King estimated 19, but will confirm.

Trustee Anderson-Kelliher asked why the BSU contract has a 10 year term, and does this happen often. Vice Chancellor King responded that the Bemidji contract action would provide an “up to” 10 year authority. It is not unusual in a contract negotiation process to try and get terms and conditions that are advantageous to the colleges and universities. By negotiating at an up to 10-year term, pricing can be negotiated. This is structured to be a 5+5 term length. Board policy provides for the board to approve contracts longer than 5 years under certain conditions. The university will be expected to make a business decision as they are approaching the 3<sup>rd</sup> or 4<sup>th</sup> year. This term is also typical when there are capital investments being made by the vendor. The food service contract for the state universities will be presented in the spring and will have a similar term.

Trustee Krinkie asked for an explanation of how arrangements with student housing will work at Thief River Falls-- who is financing, what is the total cost and who will manage the facility? Vice Chancellor King responded that this will be a \$3.7M development. The mortgage will be held by the foundation; the developer will act as such and then exit from an operating standpoint. The foundation will make sure that the occupancy rates are sufficient to cover their mortgage obligation. The college’s role will be to market the option to students. Many of the 2 year colleges have relationships with off campus housing providers. The financial obligations rest with the foundation.

Trustee Krinkie followed up with two questions: How this situation is similar or dissimilar to SMSU and SCSU? And of the full \$3.7M investment, where is the non-grant \$2.6M coming from and who bears the risk? Vice Chancellor King explained that unlike SMSU and SCSU, the college does not have any college-owned or operated housing that this would compete with for tenants. Most of the colleges with housing arrangements are similarly established.

Vice Chancellor King invited President Dennis Bona, Northland Community and Technical College and Interim Executive Director of Northland Foundation Sheila Bruhn to the table. President Bona explained that the risk belongs to the foundation, and because of the extreme housing shortage in Thief River Falls, they anticipate no problem in filling the beds. Even if filled at 60 percent, the mortgage will be covered. If it cannot be filled completely by students, the contract allows it be opened to the general public. Ms. Bruhn explained that the foundation has secured a bank partnership in the form of a loan that will cover the funding.

Trustee Otterson inquired what the benefit is to the college. President Bona explained that increasing available housing will aid in recruiting students from outside of the area to fill seats. For example, athletes are recruited from outside the area, as are students for some of the premier programs like the UAS program which are not fully enrolled because of the lack of housing. This project will provide sustainability and growth options for the college.

Trustee Anderson-Kelliher asked for more information about non-student tenants, how common it is in the system and since the foundation is taking on the risk, how is it handled. Vice Chancellor King responded that it is very typical and from a risk management standpoint, it is best to rent to the largest population possible. This would need scenario planning and the language would support it. The priority order would be student tenants, then staff and faculty, then general public.

Chair Cowles expressed appreciation for the great work that went into this housing project plan and thanked committee members for their questions and pointed out that this effort shows creativity and collaboration with the community.

Chancellor Rosenstone supported these observations and remarked that this housing collaboration would make it possible to build and grow the college's nationally unique UAS program. This will have a huge economic impact on the state and industries from agriculture to realtors to manufacturing. The availability of housing will allow this program to reach its full potential.

Trustee Krinkie asked about the SCSU plumbing replacement project—he noticed that SCSU has a \$7.8M backlog, and wondered what the other projects were on the backlog list. Vice Chancellor King promised to research and will provide a follow up. She noted that St. Cloud is in the midst of a comprehensive master planning process which includes a residence life master plan.

Chair Cowles asked the committee to make a motion to accept all of the items for approval on page 20. Trustees Renier moved and Trustee Krinkie seconded. The motion was adopted.

### **College and University Operating Budget and Financial Recovery Plans Update (pp. 23-30)**

Vice Chancellor King introduced System Director for Financial Planning and Analysis Deb Bednarz and presented updates to the FY2016 Operating Budget and the Financial Recovery Plans (FRPs).

#### Operating Budget:

Work has been done on the FY16 operating budget and the general conclusion is that the budget is expected to perform within one percent of the forecast approved by the board as part of the June operating budget.

Enrollment and compensation assumptions have been updated. The board approved a budget in June that assumed a 1.8 year-over-year decline in enrollment; fall enrollment is tracking slightly lower with a decline of 2.6 percent. A notable observation is that there is a very strong uptick in graduate enrollment. Compensation cost increase estimates are slightly higher than projected at the time of the board approval in June. Minnesota Management and Budget (MMB) has settled all contracts with the classified units and have revised their health insurance outlook; the system has reached agreements with the Inter-Faculty Organization and the Minnesota State University Administrative Faculty.

Trustee Renier asked for clarification on enrollment projection. Vice Chancellor King explained that the board approved a budget in June that included a college and university forecasted enrollment decline of 1.8 percent for FY16 as compared to FY15—fall enrollment is down 2.6 percent, which is .8 percent more than colleges and universities anticipated.

Trustee Benson asked what that loss amounts to in dollars and cents. Vice Chancellor King explained that the enrollment, tuition revenue and compensation changes combined creates a \$13M swing for the college and university budgets. It is not yet known how campuses are balancing their budgets to address the change.

Trustee Benson followed up asking if increased enrollment and retention would help come up with a dollar amount. Vice Chancellor King responded that colleges and universities are improving retention. On the revenue side, there is never a diminishing return on increased enrollment and retention of students. On the expense side, it is 'lumpy' and resembles and inverted bell curve. As enrollment rises, the expense of adding courses steps in large increments—until a course section is filled, there is no material cost, but as soon as a new section must open, there is a large cost.

Trustee Erlandson asked for additional information about insurance costs; whether the employees are paying a greater percentage out of their pockets. Vice Chancellor King responded that the increases shown in the board report are the increases the employer pays. There was a change in deductibles and co-pays depending on the providers and that all state agencies experience the same level of increases. It is a coalition bargaining environment. Additional detailed information will be provided to the committee.

Trustee Krinkie asked for insight on what happened since MMB was said to be projecting zero increase in health insurance cost why the number comes back closer to 7 percent. Vice Chancellor King responded that she and Vice Chancellor Carlson have been in regular conversations with the executive branch and there is a statewide coalition bargaining process that results in tremendous volatility in the campus planning environment. From a campus perspective health, dental and life insurance represent 13 percent of their total compensation forecast.

Trustee Benson thanked Finance for including diverse enrollment statistics as part of their reporting. This is helpful information.

*Fund Balance Analysis:*

The FY15 final college and university fund balances will be released with the FY2015 audited financial statements. The system tracks and reports general fund balance as a measure of the system's financial resiliency and capacity. College and university contributions are viewed as a tool that's used to strengthen their financial position. At the end of FY2015, fund balances are expected to decline by \$3M, which is less than 1 percent of the total. This is a systemwide average and there is variability between individual colleges and universities

*Financial Recovery Plan (FRP) Update:*

We are carefully monitoring the colleges and universities that have submitted FRPs to determine actual compared to plan:

- 1 college and 4 universities spent down fund balance
- 2 universities showed significant deterioration in fund balance; system office staff are meeting regularly with staff from the universities to monitor and guide improvement

Trustee Anderson Kelliher asked what conditions must exist for a college or university to use fund balance. Vice Chancellor King explained that board policy calls for campuses to hold 5-7 percent of operating revenues as reserves (which means truly unobligated) to be used under certain conditions. We have seen them used for fire or tornado damage and transition after loss of a large operating grant.

Trustee Cowles asked about use of fund balance as a strategy to aggregate campus resources for future needs like capital projects. Vice Chancellor King indicated that this is a common practice that enables colleges and universities to make provisions for extraordinary one-time expenses, for example program development, equipment or land purchase, etc. But it is money that can only be used once-- Vice Chancellor King encourages colleges and universities to maintain approximately a 20 percent overall fund balance, which is low compared to private industry.

Chancellor Rosenstone emphasized that current fund balance levels would cover only 2.5 payroll cycles, which puts us at a higher risk. Fund balance is, as noted earlier, a single use resource—it cannot be used to cover recurring expense.

Trustee Renier asked if there was a clear distinction between reserves and other fund balance. Vice Chancellor King explained that we do not distinguish in the accounting system, but that we do have clear reporting requirements that necessitate colleges and universities to separate and distinctly report each type of fund balance.

Trustee Erlandson asked about enrollment at our competitors. How do we compare? Vice Chancellor King will obtain information and send it as follow up. However, we do know that some of our colleges and universities have a direct competition with neighboring states.

Chancellor Rosenstone informed the committee that we are tracking within tenths of a percent nationally with our peers.

Trustee Krinkie noted the materials show significant deterioration in fund balance at Metropolitan State University and at St. Cloud State University and acknowledged that Vice Chancellor King and staff are carefully monitoring the situation but questioned what happens if this trend continues. Vice Chancellor King drew the committee's attention to the oversight and monitoring information provided. We are tracking enrollment, have asked for revised budgets from all FRP colleges and universities as well as anyone with a variance greater than 1 percent, and are meeting regularly with the most at risk FRP colleges and universities.

Trustee Krinkie questioned the emergency plan and when would the button be hit. Vice Chancellor King reiterated that it is our expectation that presidents will manage so that we do not ever have to hit the emergency button.

Chair Cowles assured the committee that the chancellor, vice chancellor and he discuss and monitor the situation regularly and closely, and to expect to hear more at the next meeting.



Chancellor Rosenstone emphasized that the urgency of the situation is not lost on anyone involved, and that the System's goal is to maintain service to students and communities.

Discussion questions:

Trustee Cirillo noted that materials are all averages and would like to see data that shows the highs and lows in order to maintain perspective on individual colleges and universities. Vice Chancellor King reminded the committee that there will be an update in January on the resiliency testing and this would be a good place to show these things. Trustee Otterson mentioned that the numbers were frightening, but acknowledged that this is a snapshot and questioned whether there was a way to widen the snapshot to show more trends. Trustee Anderson-Kelliher reminded the committee that there are only two 'levers' to pull on the machine—enrollment and state appropriation. There needs to be some thought about diversification of the tools we have to use and how we can use them better. Trustee Krinkie suggested that trustees think about visiting high schools to promote MnSCU instead of always visiting the colleges and universities.

The meeting adjourned at 11:00 a.m.

Respectfully submitted,

Maureen Braswell, Recorder