



**FINANCE AND FACILITIES COMMITTEE
OCTOBER 20, 2015
9:30 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.

- Finance and Facilities Committee, Jay Cowles, Chair
- 1. Minutes of June 17, 2015 (pp. 1-12)**
 - 2. Surplus Real Property Approval – Central Lakes College Boundary Line Correction (pp. 13-16)**
 - 3. Approval of Contracts Exceeding \$1M for: (pp. 17-22)**
 - Lake Superior College Customized Training**
 - Grant for Thief River Falls Housing Development**
 - Microsoft Premier**
 - Hobson’s Contract Extension**
 - Inver Hills Community College Construction Project**
 - Bemidji State University Bookstore Contract**
 - St. Cloud State University Plumbing Replacement, Mitchell Hall Foundation Management Software –Blackbaud, Inc. contract**
 4. College and University Operating Budget and Financial Recovery Plans Update (pp. 23-30)

Committee Members

Jay Cowles, Chair
Thomas Renier, Vice Chair
Ann Anaya
Philip Krinkie
Maleah Otterson
Erma Vizenor

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

June 17, 2015

Finance and Facilities Committee Members Present: Chair Michael Vekich, and Trustees 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, Elise Ristau and Louise Sundin

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on June 17, 2015, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 9:10 a.m.

1. Minutes of May 20, 2015

The minutes of the May 20, 2015 Finance and Facilities Committee were approved as written.

Chair Vekich referenced Item #9 *Proposed Amendment to Policy 7.5 Financial Institutions and Investments (First Reading)* on the agenda asking for fast action and approval. There is a change that has to do with armor car service and the staff is asking consideration for suspension of the rules and adoption at today's meeting. This would enable the system to avoid waiting until October and get the service in place yet this summer.

Finance and Facilities Update

Vice Chancellor King offered the committee several updates. Lots of construction going on at our campuses, take a look around as you are about the state this summer. The Capital Improvement Program (CIP) report is due out around mid-July and will provide more details on the major projects; look for the report in your e-mail in about a month. The report also will be mailed to trustees and posted on the Finance website.

Associate Vice Chancellor Brian Yolitz and the facilities team have developed a relationship with the Minnesota Department of Labor and Industry (the Occupational Safety and Health Division). An agreement was entered to provide a training and development opportunity for the campuses. There is a hold harmless review of the campus program including shops and workspaces to keep them current with OSHA standards. It is a new program and tremendously useful.

2. Proposed Amendment to Policy 7.7 Gifts and Grants Acceptance (Second Reading)

Vice Chancellor King stated that the first reading was presented in May and presented to the board for approval. There were no questions or comments. The motion was made by Trustee Cowles and seconded by Trustee Krinkie. The motion was adopted.

3. Approval of Contracts Exceeding \$1M for:

Systemwide:

Vice Chancellor King explained that systemwide refers to contracts that benefit all the colleges and universities.

CollegeSource Vendor

CollegeSource is the vendor providing software for two websites that the students use: u.select and u.Achieve. Referenced on page 16 of the board packet. This vendor is named in board policy which is something that may need to be reviewed.

The recommendation is for authorization to approve a continuation of the agreement up to July 31, 2018, with an average annual cost of \$110,000 and not to exceed cumulative total of \$1,900,000. The total cost of services provided by CollegeSource will continue to be shared with the University of Minnesota. The motion was made by Trustee Krinkie and seconded by Trustee Cowles. The motion was adopted.

PALS Agreement and Oracle Contract

Vice Chancellor King explained that the PALS agreement is with the staff group at Minnesota State University, Mankato to support a digital library service that is used by system colleges and universities, school districts and private colleges in Minnesota. Oracle is the product software that is used to support the help desk and service tickets. These relationships have been in place since 2003 with MSU, Mankato and since 2012 with Oracle. The motion on page 17 of the board packet authorizes the chancellor or his designee to execute amendments to both agreements extending the term for both MSU, Mankato and Oracle to June 30, 2018.

Chair Vekich asked whether these were standard contracts of things that have been done on a regular basis. Vice Chancellor King responded that they were and these particular items are presented because of the new \$1 million board policy threshold.

Trustee Krinkie questioned whether there are risk assessments for outside vendors and whether contractual assessments are being made in case the vendor is unable to perform under the contract or if there is a backup plan. Vice Chancellor King invited Kim Lynch, System Director for Educational Technology in the Academic Affairs division, to speak. Kim stated that there are assessments in place and a review will be included in the upcoming RFP.

The motion is for authorization to execute amendments to the PALS and Oracle contracts as described in the board report.

The motion was made by Trustee Benson and seconded by Trustee Krinkie. The motion was adopted.

Insight Public Sector – Microsoft and Related Microsoft Support

Vice Chancellor King presented the contract for the vendor that is the provider for Microsoft products to the system. This is a three-year contract beginning July 1, 2015 and ending June 30, 2018 and provides the suite of Microsoft products to the colleges and universities. The cost is paid by the campuses based on the number of licenses they use. A master contract was executed in order to get pricing discounts and product control. The motion is for a three-year agreement ending June 30, 2018 with total consideration for the contract not to exceed \$7.5 million.

The motion was made by Trustee Benson and seconded by Trustee Cowles. The motion was adopted.

Extension of License Agreement with Augusoft, Inc.

Vice Chancellor King presented the recommendation for an extension with Augusoft, Inc. for a license for Lumens software, which is the product that our system uses for customized training and non-credit enrollment. The relationship has been in place since June 2010. Staff desires to extend the agreement an additional year in order to allow time for an RFP process and come to a recommendation for beyond 2016. At that time, it is expected that a new license agreement will be brought to the Board. The motion is to extend the agreement until June 30, 2016 at a cost of \$414,000 for a total contract value not to exceed \$2,600,000.

Chair Vekich asked for more information about the contract and in reference to the RFP, whether a change is anticipated. Vice Chancellor King responded that it is practice to re-issue RFPs every five years. The RFP will answer questions about any changes. Chair Vekich commented that it would be helpful to know if there are a number of RFPs that will be sent off at a certain time and to have some reporting of what's coming up to provide the board with what's in the queue. Vice Chancellor King responded that there are a number of them in the works and a list will be compiled and explained that it is desired to understand the workflow from a committee standpoint so that the RFP process is synchronized with the board committee process.

The motion was made by Trustee Krinkie and seconded by Trustee Otterson. The motion was adopted.

Mankato Hockey Center Lease

Vice Chancellor King explained that recommendation if for the execution of a lease agreement between Minnesota State University, Mankato and the City of Mankato. This would provide the university continued access to the ice and facilities known as the Verizon Civic Center. The relationship has been in place since 1995-1996. With the expansion and refurbishment of

the center, there's been a change in distribution of the facility and access which led to the negotiation of a new agreement. Vice Chancellor King noted that there is a mix of facilities solutions for the athletic programs across the universities. St. Cloud has ice on campus, Bemidji and Mankato rent ice in the community. The motion on page 18 of the board packet is to execute a lease agreement for up to an eight years at a value not to exceed \$5.5 million over the term. It is not known if the lease will actually be for eight years but this motion will give the university capacity to manage negotiations.

Trustee Hoffman asked whether Mankato locally funded the improvements versus the City of Bemidji funding approach. Vice Chancellor King responded that the City of Mankato receives State General Obligation Bonds for the expansion, as did the City of Bemidji for the civic center expansion that the university now leases.

The motion was made by Trustee Cowles and seconded by Trustee Krinkie. The motion was adopted.

IT Network Equipment Purchase

Vice Chancellor King explained that this recommendation is for Minnesota State University, Mankato and involves a large IT purchase of equipment. It is part of the refreshment and replacement strategy that has been fully consulted and planned with the student leadership and is part of a multi-year budget plan. The motion is to authorize the purchase of replacement network equipment at a cost not to exceed \$1.7 million.

The motion was made by Trustee Krinkie and seconded by Trustee Otterson. The motion was adopted.

Inver Hills Community College Construction Contract

Vice Chancellor King explained that this recommendation is for authorization for a construction contract at Inver Hills Community College. As the project moved towards bidding and after the board's April 2015 approval, the building inspector conveyed an expectation about elevator installation which challenged the project budget. The college is asking for authorization to increase the authorized amount. The college has the funds and has made some program reductions to minimize the impact to the bottom line. The motion authorizes the chancellor or his designee to execute a construction contract not to exceed \$1,750,000 for improvements to the Activities Building and related space.

The motion was made by Trustee Benson and seconded by Trustee Krinkie. The motion was adopted.

Statewide Student Association Fee Collection Agreement

Vice Chancellor King presented a request to execute two agreements; between the system and the Minnesota State College Student Association and between the system and the Minnesota State University Student Association. Both are separate, external legal entities. The contracts serve as a vehicle for disbursement of the fee income that is collected on the campuses. This is the second 5-years agreement. The first one did not meet the Board Policy threshold and was not presented to the board. Each of these agreements will support the processing of

approximately \$800,000/ per year. The agreements are negotiated between the respective student associations and system on behalf of the colleges and universities. Colleges and universities locally collect and pay the fees to the associations, with the system office providing the necessary credit hour reporting. The motion seeks authorization to execute a 5-year agreement with each association from July 1, 2015 to June 30, 2020.

Chair Vekich asked if the contracts are fully negotiated and if a larger number is anticipated. Vice Chancellor King answered that the negotiations are on-going and that the revenue that passes through each contract is a product of enrollment estimates and fee rate per student association. What is under negotiation is the timing of the transactions and how students are counted, provisions for bad debt and other technical administrative dimensions.

Trustee Charpentier-Berg asked what additional costs are associated with collecting the student fee, over and above what is normal fee collection. Vice Chancellor King responded that there are costs on campuses for this transaction.

The motion on page 22 of the board packet was made by Trustee Otterson and seconded by Trustee Cowles. The motion was adopted.

FY2016 Operating Budget (Second Reading)

Chancellor Rosenstone made an opening comment stating the context of this discussion is due to the remarkable work of the legislature and remarkable support received from Governor Dayton. Chancellor Rosenstone expressed gratitude for the \$101 million in new money and the support of Senator Bonoff, Representative Nornes, house and senate leadership, both political parties, the Board of Trustees, presidents and students. During the previous month's meeting gratitude was expressed to all who were supportive during the legislative session. Chancellor Rosenstone personally thanked and acknowledged David Kornecki, Senate Committee Administrator, who was in attendance at the board meeting.

Vice Chancellor King introduced President Hanson, finance liaison from Leadership Council, and Deborah Bednarz, senior system director financial planning and analysis, and provided an overview of the board packet which includes the operating budget report, detailed tuition and revenue fund rate tables, and the supplemental packet which contains detailed information about the operating budget, including individual budgets for each college and university and a summary of student association letters. The material provides observations about the outlook for our colleges and universities over the next two years, an analysis of the net cost of education, proposed all-funds and general fund budgets, and revenue fund outlook. In addition, the presentation includes a status update on the colleges and universities operating under financial recovery plans.

Vice Chancellor King mentioned that this is the fourth budget presented to the board designed to support the System's strategic framework. The 2016-2017 financial plan goals were presented to the executive and legislative leaders over the past 8 months. College and university budgets include ongoing efforts to deal with risks associated with enrollment, inflation, and budget structure. Despite the risks, colleges and universities continue to find ways to innovate and improve their services. Examples include investing in enrollment

management, marketing, and student services strategies to slow and reverse enrollment declines; exploring new markets, such as Metropolitan State University's efforts in China and India and Southwest Minnesota State University's Taiwan MBA program; finding ways to be more efficient through collaborations and partnerships, such as Southeast Technical College and Winona State University partnering together to provide HR services.

This is a very strong budget for students and reflects the board's commitment to affordability. In fiscal year 2016, 69 percent of students will see no tuition increase. College tuition will remain flat for the sixth year as a percentage of median household income. University students will see an increase for the first time since the 2012-2013 academic year. In fiscal year 2017, 100 percent of students will see no tuition increase per legislative directive and 69 percent students will see a tuition decrease.

The 2016-2017 budget proposal included an invitation to the governor and legislature to begin reinvestment in MnSCU and put the system on a 50-50 funding path. The budget proposal would result in a 48/52 split for the biennium (48 percent appropriation, 52 percent tuition). The colleges and universities have ridden a strong wave of enrollment change over the past ten years. There was a nearly 19 percent increase in enrollment between 2003 and 2011 and a 14 percent decline between 2011 and 2016. The fiscal year 2016 outlook is projected to be 2 percent above fiscal year 2003, with all of the enrollment gain in the colleges.

The proposed fiscal year 2016 all-funds operating budget totals \$1.93 million and the general fund budget totals \$1.56 million. The all-funds budget includes auxiliary enterprises, special revenue accounts, gifts and grants, financial aid accounts and enterprise funds. The general fund is the accounting convention that collects the state appropriation and tuition. Eighty-one percent of operations are in the general fund.

The operating budget includes \$672.9 million in state appropriation, \$50.8 million more than in fiscal year 2015, an 8.2 percent increase. The all-funds budget increased 1 percent and the general fund budget 1.7 percent. College tuition rates will remain flat at the rates charged during 2012-2013 academic year. University tuition rates are recommended to increase modestly by an average of \$233 per full year equivalent. As campuses were putting together their budget, the CFOs worked with the presidents and their cabinet to assess the risks to the budgets. Risks identified were enrollment, compensation costs, and structural balance.

Chair Vekich commented that this is a significant enterprise risk to MnSCU and asked if Vice Chancellor King and President Hanson could provide overall plans on an enterprise basis and specifically how President Hanson will deal with this on campus.

Vice Chancellor King explained that the state appropriation is the only reliable fixed budget number and the other information provided to the board is a forecast. Enrollment and labor negotiations will alter the budgets. Managing these assumptions will improve the results.

Chancellor Rosenstone commented that as it relates to enterprise risk management, the greatest risk that the presidents are managing is enrollments and the budget. There is aggressive work being done. The board should keep in mind that \$36 million is built into the fiscal year 2016 budget for reallocation at the campus level. Some of the planned reallocations are to cover costs, invest in new initiatives for growth and eliminating things that no longer make sense on top of \$43.4 million allocation that occurred in fiscal year 2015. Reallocation is a tool for getting the right balance at the campuses.

President Hanson commented that at his university fiscal year 2016 looks fine and fiscal year 2017 generates significant deficit. There are a number of things in place to deal with that. There will be position and hiring freezes and program examination will continue. His team also has aggressive enrollment expansion projects underway. There is concern around the compensation package so there will be some allocations involved for this area. Retention improvement is a daily focus.

Chair Vekich stated that the board understands the challenge and asked when moves will be made on campuses to mitigate contracts and notifications in order to help the process. President Hanson responded that steps and reductions require a long timeline, perhaps a year or two in order to alter situations. Strategies will begin on campus July 1st. The university is focusing on ways to make budget margins acceptable and still preserve quality for the students.

Trustee Erlandson asked for more clarification on the 3 percent compensation assumption and other operating costs. Vice Chancellor King responded that going back to the board's biennial request, \$142 million was requested to support assumed inflation rates. At this time, it is unknown what the actual inflation rates will be. There has been a low rate of wage inflation nationally compared to some other national trends. The State of Minnesota communicated their expectation that state agencies use 2 percent compensation assumption. Total compensation for the system's 17,000 employees is composed of wages (approximately 75 percent) and fringe benefits (approximately 25 percent).

Trustee Krinkie asked for additional details on the numbers provided in the board packet presentation for fiscal year 2016 Operating Budget. Vice Chancellor King offered to present the information after the board meeting. Chair Vekich asked for an explanation of alternatives if something unforeseeable happens with budgeting in 2016.

Chancellor Rosenstone commented that there are constraints over tuition rates but not the number of students. The degree of freedom on the revenue side is serving and retaining students. On the cost side, compensation is a large piece which will affect other cuts that need to be made to balance the budget. In looking over a two-year period, based upon current assumptions, there is a \$21 million problem to be solved on a \$4 billion, two-year budget.

Trustee Hoffman commented that with compensation comprising 75 percent of the budget and of that 37-40 percent not controlled by the board, there can still be an impactful surprise. Fiscal year 2017 is still a major concern.

Trustee Benson questioned the consumer side of the budgeted proposal as it relates to 100 percent of the students will not see a tuition increase in 2017 and 69 percent will see a 1 percent decrease, whether anything changes around Pell Grants.

Vice Chancellor King pointed out the information in the board report that details the benefits flowing to students in fiscal year 2016 from increases in the federal Pell Grant and state grant programs. It is expected that college grant recipients will see a decrease in tuition cost of \$233. University student grant recipients will see a decrease of \$58. Enrollment efforts from recruitment to retention and student success, the transfer initiative and the baccalaureate programs in the metro area are all targeted towards expanding service.

Chair Vekich commented on the importance of stress testing, the need to be diligent and recommended some work around this during the summer and possibly scheduling a meeting to discuss. Chair Vekich recommend that there be an analysis by institution of reserves. Vice Chancellor King pointed out that there is information in the board packet that shows reserves and that this item will be presented at the October board meeting.

Chancellor Rosenstone commented that this is a structural problem and campuses have been working to preserve reserves as they have absorbed enrollment declines. Drawing on reserves is not a permanent solution. Structural solutions have to be made on either the cost side or the revenue side, or both. Chair Vekich commented that reserves should not be used for structural deficit.

In the interest of time, Vice Chancellor King moved the agenda to general fund budget and gave details about the \$1.5 billion fiscal year 2016 general fund operating budget. The updated fiscal year 2015 budget produces an expected slight contribution to the operating margin. This budget is \$10 million less than the budget approved by the board a year ago. The most significant difference is the nearly \$30 million reduction in tuition revenue that the campuses absorbed through budget reductions. Since the board approved the fiscal year 2015 budget a year ago, there has been some movement as enrollments trended up and down, and presidents balanced their budgets to finish the fiscal year.

Through the student fees program, there are fees that support residential life activities, student unions, parking ramps, and wellness programs. Fee recommendations were provided in the board packet. Other operating budget highlights provided in the board packet include evidence of strong student consultation at both colleges and universities.

Trustee Charpentier-Berg questioned whether the \$2 increase in student life fees at Metropolitan State University is already in place and asked why the student life fee doubled. Vice Chancellor King responded that this situation is complicated for various reason and noted there was strong student consultation and support on the fee recommendations. Two revenue fund projects will begin charging fees in fiscal year 2016--parking and student union. At the time the two revenue fund projects were approved for construction, these fees were discussed

with students. Typically, revenue fund fees are charged at the time the bonds are sold. However, in consultation with students, Metro State University delayed charging the fees until the projects came into service. In the interim, the students agreed to reduce the student life fees by \$2 per credit and begin charging \$2 per credit for the revenue fund projects, with the understanding that student life would be restored to \$4 per credit when the projects were completed and the new revenue fund fees were instituted. Vice Chancellor King expressed her view that the fees would have been turned on two years ago if the decision was hers.

Trustee Charpentier-Berg asked about Metro State University's health services fee. Vice Chancellor King responded that the university is working with students to design a health services program similar to Minneapolis Community and Technical College's (MCTC) model of contracting with a service provider. MCTC contracts with Boynton Health Services through the University of Minnesota.

Trustee Charpentier-Berg asked what a green fee is and where in policy does it say it can be charged. Ms. Bednarz answered that a green fee was first instituted at Bemidji State University and is funded as part of student life budget to comply with board policy. Board policy does not allow students to be charged a separate green fee. Students are consulted on the student life/activity fee per board policy.

President Hanson explained how green fees are assessed at his institution. An environmental course is the only required course for all students. A sustainability coordinator was hired. President Hanson will be hosting a national conference on Campus Sustainability at Bemidji State University. Trustee Charpentier-Berg suggested that in future consultation that the students list the green fee under student life fee.

Trustee Otterson asked if it would be survivable if fees were frozen for the institutions that have rising tuition costs over the next two years. Vice Chancellor King responded that the board policy around fees is very specific and that the fees are dedicated to certain purposes. There are statutory constraints on tuition and fees cannot be raised to substitute tuition dollars or tuition dollars used to subsidize activities paid for with fees. It is not a recommendation that the board considers freezing fees. The fee increases have come to the Board through a very robust student consultation process.

President Hanson made the following closing comments: The next biennium will create financial challenges; there will be positions cut, programs modified, pressure placed on internal systems on campus and attention given to the structural gap for fiscal year 2017. There is an exciting transfer protocol system ready to be enacted and a little legislative funding to get it done. There is an increased collaboration between campuses. The goals of the fiscal years 2016- fiscal year 2017 budgets will be met; however, it will be a challenge. The right talent is being hired. From the prospective of the presidents, having been able to preserve access and affordability and provide a good share of the students a tuition decrease is real progress. President Hanson thanked the committee for their help, direction and questions.

Vice Chancellor King introduced the motion found on page 42, noted it is similar to past years, and referenced the attachments.

The motion was made by Trustee Benson and seconded by Trustee Coles. The motion was adopted.

FY2016-FY2020 Capital Budget Proposal (Second Reading)

Vice Chancellor King introduced the agenda topic.

Associate Vice Chancellor Brian Yolitz gave an overview of the 2016 Capital bonding recommendation to the committee by noting there were some updates to the recommendation from the first reading referenced in a handout entitled *FY2016-FY2020 Capital Budget Proposal (Second Reading) Supplement, revised* pages 88/89.

The special session provided \$31.9 million for the system and funded the board's top four priorities, specifically, priorities at Minnesota West Community and Technical College at their Jackson and Canby campuses, Dakota County Technical College, Anoka Technical College and Saint Paul College each were recipients of funding through the special session appropriation.

Adjustments were made to the recommendation presented at the first reading. With these priorities funded, they were removed from the 2016 recommendation from the first reading and the next most compelling projects in alignment with Board Guidelines were added to create a revised recommendation. The added projects were for St Cloud Technical and Community College and Minneapolis Community and Technical College. They were pointed out as lines 19 and 20 on the back of the hand out.

The action brings the total recommended program for 2016 to \$262.1 million. The overall program would be funded through \$221.4 million in state issued general obligation bonds and \$50.7 million in system funding. Mr. Yolitz provided a slightly revised motion for the committee to consider as ATTACHMENT A – REVISED and striking reference to the 2015 special session. The remaining content was the same including provisions for the Chancellor to make any needed project scope or cost adjustments and submit the program into State of Minnesota's Capital Budget System, and charging the Chancellor with updates as we progress to and through the 2016 legislative session, and once work is approved and funded, with taking contracting actions required to deliver on the work. Further, the motion provides the board with an update on the contracts that are awarded in excess of \$1.0 million and provides to members, as an addendum to the semi-annual Capital Investment Program report an accounting of all contracts associated with the programs awarded over the 6 month reporting period.

The motion was made by Trustee Benson and seconded by Trustee Cowles. The motion was adopted.

Trustee Otterson asked for clarification on the Twin Cities baccalaureate solution. Mr. Yolitz responded that it was to provide for the facility needs associated with delivering on the Metro Area Baccalaureate Plan. This item is intended to provide a place holder in the event the academic planning process yields capital requirements in the coming months.

Minnesota State Colleges Student Association (MSCSA) Consideration of Fee Increase (Second Reading)

Chair Vekich explained that Vice Chancellor King would present this topic and mentioned that the association requested to meet and review the proposed fee increase in detail. Vice Chancellor King introduced the MSCSA recommendation that the board accept the fee increase as approved by their organization. This is a separate entity that is authorized in board policy to represent the two-year students. The MSCSA is a separate non-profit, with their board, by-laws, articles and governance.

The motion found on pages 103 and 104 was made by Trustee Otterson and seconded by Trustee Cowles. The motion was adopted.

Surplus Acton for Real Property at Mesabi Range College

Vice Chancellor King presented the topic for recommendation; Mr. Yolitz gave details and explained the revised motion. Mr. Yolitz explained that the motion is to obtain surplus designation and approval for the sale of real estate consistent with Board Policy 6.7, *Real Estate Transactions* and that the property description details were included in the board packet on pages 103-106.

The motion is on page 104 and the revision adds language from the last sentence which states, 'The Board of Trustees designates the strip as shown on Attachment A as surplus and authorizes the chancellor or his designee to pursue a sale of the property to the school district **for not less than** (revision in bold) its appraised value and related costs.'

Trustee Krinkie questioned if ownership of all MnSCU property is known. Mr. Yolitz responded that our colleges and universities are aware of where the property boundaries are located. Chair Vekich commented that years ago there was inventory of what the state owns but questioned if there is realistically a way to know where the lines are and suggested that there is some prudence to walk the lines a set number of years to denote the properties. Mr. Yolitz responded that such a practice will be initiated.

The motion was entertained with the revision by Trustee Benson and seconded by Trustee Krinkie. The motion was adopted.

Proposed Amendment to Policy 7.5 Financial Institutions and Investments (First Reading)

Vice Chancellor King presented this agenda item and asked for the board to consider suspension of the rules and adoption. This technical change to board policy would enable the

execution of an RFP process to get an armored car service under contract for different parts of the state to handle daily deposits. Earlier in the year a vendor could not be found that would guarantee the pickup of cash at the campuses and deposit to the banks the same day. The state subsequently approved a waiver of their expectations that daily deposits be made. This change would allow for armored cars to pick up cash and assure delivery by no later than the next day.

The first action was a motion to suspend the rules relating to a first reading in order to adopt. The 2/3 vote was adopted. The main motion to adopt was made by Trustee Benson and seconded by Trustee Krinkie. The motion was adopted.

Campus Service Cooperative Status Report

Chair Vekich informed the committee that this agenda item will be held over until the next Board of Trustees meeting.

Adjournment

Chair Vekich adjourned the meeting at 11:10 a.m.

Respectfully submitted,
Maureen Braswell, recorder

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

Agenda Item Summary Sheet

Name: Finance and Facilities Committee

Date: October 20, 2015

Title: Surplus Real Property Approval – Central Lakes College Boundary Line Correction

Purpose (check one):

Proposed
New Policy or
Amendment to
Existing Policy

Approvals
Required by
Policy

Other
Approvals

Monitoring /
Compliance

Information

Brief Description:

The Board of Trustees is asked to approve the surplus and sale of a small strip of land adjacent to the Central Lakes College, Brainerd campus, to resolve a property line dispute. In lieu of a court directed title action, the parties split the cost of a survey to reestablish the boundary line between college property and a residential homeowner.

Scheduled Presenter(s):

Laura M. King, Vice Chancellor - CFO
Greg Ewig, Director, Capital Development

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

BOARD ACTION

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

1 **BACKGROUND**

2
3 The Board of Trustees is asked to approve the surplus and sale of a small strip of land adjacent to
4 the Central Lakes College, Brainerd campus, to resolve a property line dispute (Attachment A). In
5 lieu of a court directed title action, the parties split the cost of a survey to reestablish the boundary
6 line between college property and a residential homeowner. The total area is about 1/10th of an
7 acre on the fringe of the campus athletic field. The college proposes conveying a quit claim deed
8 to the owners for \$1 to resolve the dispute. The appraised value is estimated to be less than \$10,000,
9 and the cost of a court action to solve the title issues would exceed any appraised value.

10
11 Board Policy 6.7 Real Estate Transactions, obligates the Board to declare real property surplus and
12 approve the sale of such property in excess of \$250,000. Notably, there is no specific Board policy
13 governing resolution of property disputes, but as title holder of all college and university real
14 estate, we recommend this Board action to fully resolve the dispute.

15
16
17 **RECOMMENDED COMMITTEE MOTION:**

18 The Finance and Facilities Committee recommends that the Board of Trustees adopts the following
19 motion:

20
21 The Board of Trustees designates the strip as shown on **Attachment A** as surplus and authorizes
22 the chancellor or his designee to pursue a sale of the property. The Board directs the chancellor or
23 his designee to execute all necessary documents.

24
25 **RECOMMENDED BOARD OF TRUSTEES ACTION:**

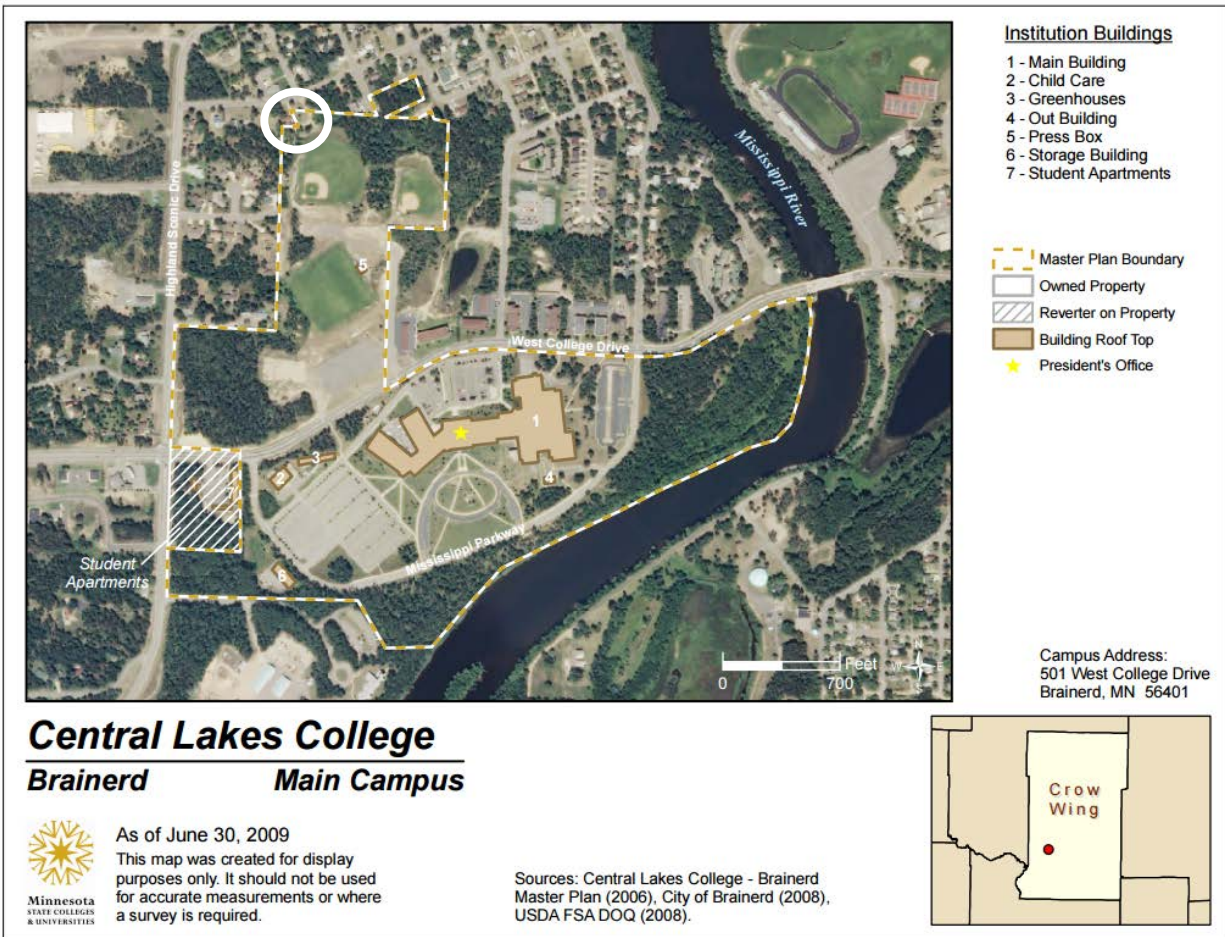
26
27 The Board of Trustees designates the strip as shown on **Attachment A** as surplus and authorizes
28 the chancellor or his designee to pursue a sale of the property. The Board directs the chancellor or
29 his designee to execute all necessary documents.

30
31
32
33 *Date of Adoption:* 10/21/15

34 *Date of Implementation:* 10/21/15

35

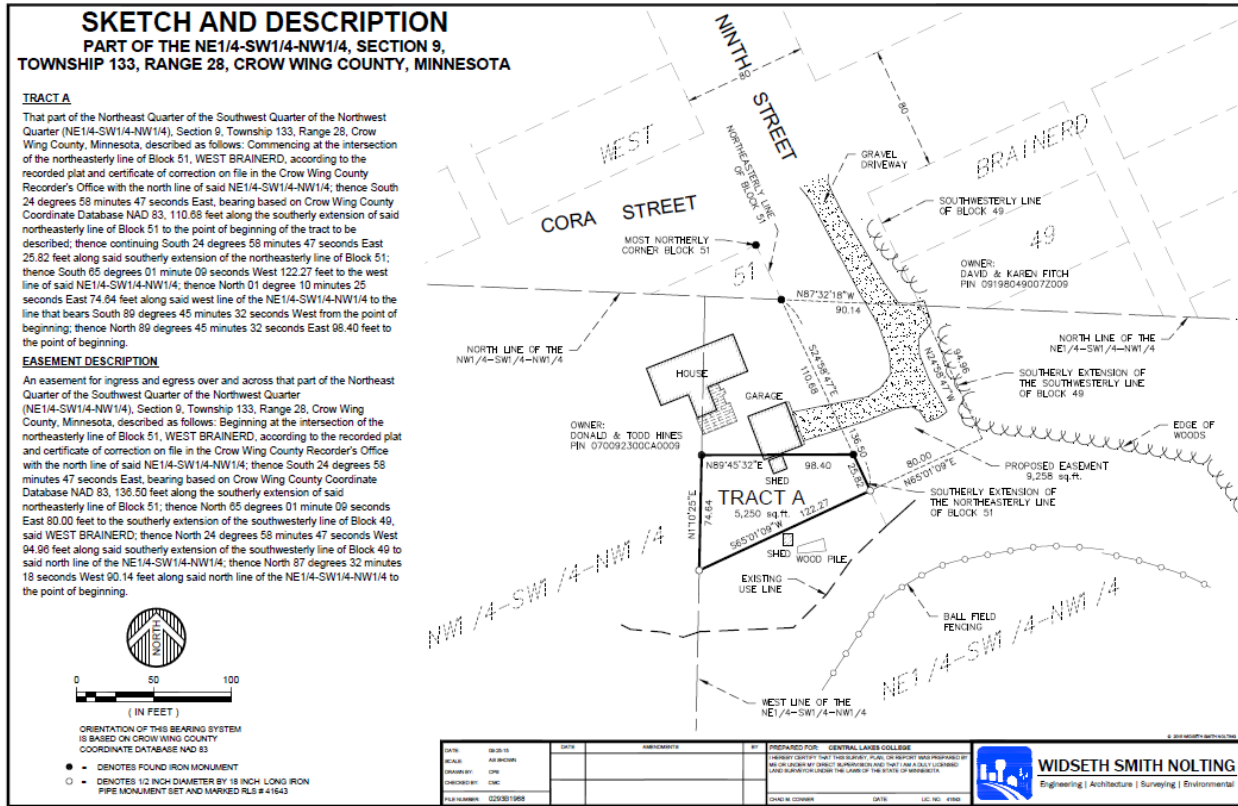
1 **Attachment A – 1 of 2**
 2 **(Subject area in circle)**
 3



4
 5
 6
 7
 8
 9
 10
 11
 12
 13
 14
 15
 16
 17
 18
 19
 20
 21
 22

1
2
3
4

Attachment A – 2 of 2
Detail - Tract A – Subject Area



5

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

Name: Finance and Facilities Committee

Date: October 20, 2015

Title: Approval of contracts Exceeding \$1M for:

- a. Lake Superior College Customized Training
- b. Grant for Thief River Falls Housing Development
- c. Microsoft Premier
- d. Hobson’s Contract Extension
- e. Inver Hills Community College Construction Project
- f. Bemidji State University Bookstore Contract
- g. St Cloud State University Plumbing Replacement, Mitchell Hall
- h. Foundation Management Software –Blackbaud, Inc. Contract

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:

Board Policy 5.14, Procurement and Contracts, requires that contracts, including amendments, with values greater than \$1,000,000, must be approved in advance by the Board of Trustees.

Lake Superior College Customized Training, the contract is for payment of vendor services for a maximum amount of \$4,000,000, **Grant for Thief River Falls Housing Development**, The developer, Orb Management, Inc will deliver updated student apartments using the \$1.1 million grant and bank financing, and the college foundation will take on the ownership and operational risk of the project, **Microsoft Premier** provides for a master contract for campus and system office use, **Hobson’s Contract Extension** would allow for a new maximum total compensation \$7,000,000, **Inver Hills Community College Construction Project**, the board is request to approve a construction contract amount not to exceed \$1,400,000 for interior renovation, **Bemidji State University Bookstore Contract** would enable the university to award a final contract and complete negotiations. **St. Cloud State University Plumbing Replacement, Mitchell Hall**, the university will use revenue fund operational funds to pay for the work, which had been set aside for this purpose **Foundation Management Software –Blackbaud, Inc. Contract**. The master contract will be available for use by all colleges/universities to purchase software, services and support.

Scheduled Presenter(s):

Laura M. King Vice Chancellor - CFO

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

BOARD ACTION

Approval of contracts Exceeding \$1M for:

- a. Lake Superior College Customized Training**
- b. Grant for Thief River Falls Housing Development**
- c. Microsoft Premier**
- d. Hobson’s Contract Extension**
- e. Inver Hills Community College Construction Project**
- f. Bemidji State University Bookstore Contract**
- g. St Cloud State University Plumbing Replacement, Mitchell Hall**
- h. Foundation Management Software –Blackbaud, Inc. Contract**

BACKGROUND

Board Policy 5.14, Procurement and Contracts, requires that contracts, including amendments, with values greater than \$1,000,000, must be approved in advance by the Board of Trustees. This report presents system wide and college and university contracts for consideration and approval by the Board.

Systemwide Contracts Exceeding \$1M for:

- a. Lake Superior College Customized Training:** The Board is asked to approve a 1 year renewable contract for up to 5 years total between Lake Superior College (LSC) and Aggregate and Ready Mix (ARM). LSC provides customized training to contractors working on Minnesota Department of Transportation (MnDOT) construction contracts. As part of this contract, the vendor, ARM provides technical training to MnDOT contractors as well as administrative services for the customized training program with MnDOT. The contract is for payment of those services ARM provides for a maximum amount of \$4,000,000 if renewed for the full term.
- b. Grant for Thief River Falls Housing Development:** The Board is asked 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 Northland Community and Technical College campus in Thief River Falls. In January 2014, the Board approved a ground lease and development proposal from Orb to build a new, 150-bed student housing complex on the Thief River Falls campus. Orb was unable to obtain the necessary financing needed to build a new development on campus, and the deal went on hiatus.

1 During the 2014 legislative session, the Minnesota Housing Finance Agency (MHFA) received
2 grant funds to be used for very specific community-targeted student housing that align with
3 our interests in Thief River Falls and Ely. As a result, MnSCU and MHFA entered into an
4 interagency agreement to allow MnSCU to manage and award the grant funds. The Board
5 approved the first of the two student housing grants to supply part of the funding for the
6 revenue fund apartment project at Vermilion Community College. The action at Thief River
7 Falls would award the second grant to support the Thief River Falls student apartment plan.
8 Orb will deliver updated student apartments using the \$1.1 million grant and bank financing,
9 and the foundation will take on the ownership and operational risk of the project.

10
11 **c. Microsoft Premier:** The Board is asked to approve a contract not to exceed \$2,000,000 for a
12 term ending July 2020 with Microsoft, Inc for software support. The system office would
13 procure a pre-paid pool of hours that can be used for either reactive or proactive work for/by
14 the campuses and the system office. The contract allows for the campuses to pool premier
15 support hours and reimburse the system office for only for the support hours they utilize.

16
17 **d. Hobson's Contract Extension:** The Board is asked to approve extension of the contract
18 agreement with Hobsons through June 2017. The current contract has a cumulative total of
19 \$5,000,000 through December 23, 2015. The extension would allow for a new maximum total
20 compensation \$7,000,000. Hobsons enrollment management technology assists admissions
21 and enrollment officers with managing the recruitment, retention and completion process by
22 providing automated tracking, communications, interventions and reporting for prospective
23 and current students.

24
25 The system office issued a request for proposal in 2008 and entered into a master contract with
26 Hobsons with a 3 year term. The contract was approved for renewal in October 2011, extending
27 the contract term to December 23, 2015. The Request for Proposal process is underway. It is
28 anticipated that, given the scope of the current vendor relationship and complexity of the
29 application, the RFP process and possible transition to a different contractor will take up to 18
30 months beyond the current contract term to complete.

31
32 **e. Inver Hills Community College Construction Project:** The Board is asked to approve a
33 construction project totaling \$1,136,000 in order to build an addition to the existing Activities
34 Building. This project will provide academic space for the Physical Education
35 department. Typical classes will include law enforcement training, yoga, and cardio condition
36 training. At the June 2015 meeting, the Board approved an increased construction contract
37 amount not to exceed \$1,750,000 for interior renovations. This project adds back the needed
38 functions with an addition of approximately 3,290 sq. ft. The scope of the interior renovations
39 includes reconfigured support spaces, a new wood gymnasium floor, bleachers, and elevator,
40 as well as upgraded HVAC, light, and sound systems. The college will use local resources to
41 complete the work. The recommended motion provides for a maximum authority of
42 \$1,400,000 in order to provide for changes orders or unknown conditions.

43
44 **f. Bemidji State University Bookstore Contract:** The Board is asked to approve a contract for
45 up to ten years for bookstore vendor services estimated not to exceed \$5,000,000. The
46 university is currently working on the Bookstore RFP on behalf of Bemidji State University,

1 Northwest Technical College and the Distance MN services associated with Northland
2 Community and Technical College and Alexandria Technical Colleges. Approval of this
3 request would enable the university to award a final contract and complete negotiations.
4

5 **g. St. Cloud State University Plumbing Replacement, Mitchell Hall:** The Board is asked to
6 approve a contract not to exceed \$1,350,000 to enable the university to engage a contractor to
7 replace the plumbing in the Mitchell residence hall. Mitchell Hall currently has approximately
8 \$7.8 million in backlog, and plumbing makes up a substantial portion. The university will use
9 revenue fund operational funds to pay for the work, which had been set aside for this purpose.
10 The work is expected to occur after the spring term ends.
11

12 **h. Foundation Management Software –Blackbaud, Inc. Contract:** The Board is asked to
13 approve a five year master contract not to exceed \$3,500,000 with Blackbaud, Inc. for
14 foundation management software for use by some or all colleges and universities. Minnesota
15 State Colleges and Universities have collaborated to create software requirements to assist in
16 donor, alumni and institutional development activities with the goal of awarding one or more
17 master contracts for institution use. A Request for Proposal (RFP) was conducted and
18 Blackbaud Inc. was selected for a master contract. The master contract will be available for
19 use by all institutions (replacing individual contracts currently done by each) to purchase
20 software, services and support with each college/university paying for the services it requests.
21 This will save time and resources, and provide consistent and aligned terms.
22
23
24

25 **RECOMMENDED COMMITTEE MOTION**

26
27 The Finance and Facilities committee recommends the Board of Trustees adopt the following
28 motions:
29

30 a. The Board of Trustees authorizes the chancellor or his designee to execute a contract with
31 Aggregate and Ready Mix (ARM) for up to five years term for a total amount not to exceed
32 \$4,000,000. The Board directs the chancellor or his designee to execute all necessary
33 documents.
34

35 b. The Board of Trustees authorizes the chancellor or his designee to execute a grant
36 agreement with Orb Management and the Northland Technical and Community College
37 Foundation – Thief River Falls for \$1,100,000 in order to finance, renovate and operate
38 student housing adjacent to the Northland Community and Technical College campus in
39 Thief River Falls. The board directs the chancellor or his designee to execute all necessary
40 documents.
41

42 c. The Board of Trustees authorizes the chancellor or his designee to execute a master contract
43 agreement with Microsoft, Inc. for support and related professional technical expenditures
44 beginning August 1, 2015 and ending July 31, 2020 for a total amount not exceed
45 \$2,000,000. The board directs the chancellor or his designee to execute all necessary
46 documents.

- 1
2 d. The Board of Trustees authorizes the chancellor or his designee to execute an extension of
3 the software licensing and professional/technical services master contract with Hobsons
4 for an additional 18 months until June 30, 2017 up to a total amount not to exceed
5 \$7,000,000. The board directs the chancellor or his designee to execute all necessary
6 documents.
7
8 e. The Board of Trustees authorizes the chancellor or his designee to execute a construction
9 contract not to exceed \$1,400,000 for purposes of building an addition to the Activities
10 Center at the Inver Hills Community College campus. The board directs the chancellor or
11 his designee to execute all necessary documents.
12
13 f. The Board of Trustees authorizes the chancellor or his designee to execute a contract with
14 the designated Bemidji State University bookstore vendor for a term up to 10 years for a
15 maximum amount not to exceed \$5,000,000. The board directs the chancellor or his
16 designee to execute all necessary documents.
17
18 g. The Board of Trustees authorizes the chancellor or his designee to execute a construction
19 contract not to exceed \$1,350,000 for purposes of building repairs and renewals- plumbing
20 replacement at St Cloud State University, Mitchell Hall. The board directs the chancellor
21 or his designee to execute all necessary documents.
22
23 h. The Board of Trustees authorizes the chancellor or his designee to execute a master contract
24 agreement with Blackbaud, Inc. for 5 years at an amount not to exceed \$3,500,000. The
25 board directs the chancellor or his designee to execute all necessary documents.
26
27

28 **RECOMMENDED BOARD MOTION:**
29

- 30 a. The Board of Trustees authorizes the chancellor or his designee to execute a contract
31 with Aggregate and Ready Mix (ARM) for up to five years for a total amount not to
32 exceed \$4,000,000. The Board directs the chancellor or his designee to execute all
33 necessary documents.
34
35 b. The Board of Trustees authorizes the chancellor or his designee to execute a grant
36 agreement with Orb Management and the Northland Technical and Community
37 College Foundation – Thief River Falls for \$1,100,000 in order to finance, renovate
38 and operate student housing adjacent to the Northland Community and Technical
39 College campus in Thief River Falls. The board directs the chancellor or his designee
40 to execute all necessary documents.
41
42 c. The Board of Trustees authorizes the chancellor or his designee to execute a master
43 contract agreement with Microsoft, Inc. for support and related professional technical
44 expenditures beginning August 1, 2015 and ending July 31, 2020 for a total amount not
45 exceed \$2,000,000. The board directs the chancellor or his designee to execute all
46 necessary documents.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39

- d. The Board of Trustees authorizes the chancellor or his designee to execute an extension of the software licensing and professional/technical services master contract with Hobsons for an additional 18 months until June 30, 2017 up to a total amount not to exceed \$7,000,000. The board directs the chancellor or his designee to execute all necessary documents.
- e. The Board of Trustees authorizes the chancellor or his designee to execute a construction contract not to exceed \$1,400,000 for purposes of building an addition to the Activities Center at the Inver Hills Community College campus. The board directs the chancellor or his designee to execute all necessary documents.
- f. The Board of Trustees authorizes the chancellor or his designee to execute a contract with the designated Bemidji State University bookstore vendor for a term up to 10 years for a maximum amount not to exceed \$5,000,000. The board directs the chancellor or his designee to execute all necessary documents.
- g. The Board of Trustees authorizes the chancellor or his designee to execute a construction contract not to exceed \$1,350,000 for purposes of building repairs and renewals- plumbing replacement at St Cloud State University, Mitchell Hall. The board directs the chancellor or his designee to execute all necessary documents.
- h. The Board of Trustees authorizes the chancellor or his designee to execute a master contract agreement with Blackbaud, Inc. for 5 years at an amount not to exceed \$3,500,000. The board directs the chancellor or his designee to execute all necessary documents.

Date of Adoption: 10/21/15
Date of Implementation: 10/21/15

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

Name: Finance and Facilities Committee

Date: October 20, 2015

Title: College and University Operating Budgets and Financial Recovery Plans (FRP) Update

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 checked="" type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

At its June meeting, the Board of Trustees requested an update on the system's fiscal year 2016 operating budget and a status report on the colleges and universities operating under financial recovery plans (FRP).

Scheduled Presenter(s):

Laura M. King Vice Chancellor - CFO

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

INFORMATION ITEM
College and University Operating Budgets and Financial Recovery Plans (FRP) Update

BACKGROUND

At its June meeting, the Board of Trustees requested an update on the system’s fiscal year 2016 operating budget and a status report on the colleges and universities operating under financial recovery plans (FRP).

The operating budget update addresses three areas: 1) how the system level operating budget is performing compared to plan; 2) how the operating budget’s enrollment, compensation, and tuition assumptions have changed since the budget was approved; 3) the projected impact of those changes, including the possible effect on fund balance.

The FRP update summarizes the progress colleges and universities are making in implementing their plans, based on information gathered from the college and university chief financial officers. In addition, detailed enrollment and fund balance information is presented for each college and university operating under a FRP.

EXECUTIVE SUMMARY

The fiscal year 2016 system operating budget was built on enrollment, compensation and tuition assumptions that were based on the best information available at the time. Three months into the fiscal year, college and universities budgets are being adjusted to incorporate revised information.

Enrollment is trending slightly lower than the enrollment levels projected in June.

- Both university and college fall enrollments are performing slightly below (0.8 percent) forecasted levels.
- The budgetary impact of lower than expected enrollment is a revision of expected revenue downward of \$7.8 million compared to the budgets approved by the Board in June 2015.

Compensation increases are expected to exceed planning estimates.

- MMB-negotiated contracts have been ratified and the system labor negotiators have reached tentative agreements with two of the three faculty units.
- The overall increase in total compensation costs (salary plus fringe benefits) is expected to be 3.4 percent compared with the 3.0 percent planning estimate.
- The estimated budget impact of this increase on the system is an upward adjustment of \$4.9 million.

Colleges and universities operating under a financial recovery plan continue to make process, but risks remain.

- While six colleges added to their fund balance in fiscal year 2015, two universities spent over one-third of their fund balance during the same period.
- Enrollment dipped in fiscal year 2016 but not as sharply as in the recent past. However, three colleges continue to experience significant enrollment loss this year beyond their spring 2015 forecast.
- More complete financial information, including updated Composite Financial Index (CFI) calculations for each college and university will be available after the system and individual financial statements are completed in November.

Additional monitoring and follow-up.

- *Enrollment monitoring:* Enrollment continues to be tracked on a weekly basis.
- *Revised operating budgets:* Colleges and universities where fall enrollment is one percent or more below projected and all colleges and universities operating under a financial recovery plan have been asked to submit updated operating budgets in November.
- *Fund balance analysis:* An analysis showing the effect of enrollment, tuition and compensation changes on fund balance was performed. Colleges and universities with limited fund balance capacity will be monitored for adherence to their budget plans and, if applicable, their Financial Recovery Plans.

FISCAL YEAR 2015 ACTUAL FYE ENROLLMENT AND YEAR-END FUND BALANCE

Fiscal year 2015 enrollment totaled 138,973 full-year equivalent (FYE) students; 53,564 FYE at the universities and 85,410 FYE at the colleges. Total credit headcount enrollment 259,549.

- Fiscal year 2015 actual FYE enrollment was 3.8 percent (5,551 FYE) lower than fiscal year 2014 FYE enrollment; university enrollment was down 2.6 percent (1,419 FYE) and college enrollment was down 4.6 percent (4,132 FYE).
- Fiscal year 2015 actual FYE enrollment was marginally higher (67 FYE) than projected in May. College enrollment was up slightly (0.1 percent or 96 FYE) and university enrollment was slightly lower (28 FYE or 0.1 percent).
- Overall, fiscal year 2015 enrollment declined to 2008 levels as the unemployment rate has declined.

The preliminary combined fiscal year 2015 year-end general fund balances of the colleges and universities is estimated to total \$459.5 million, down \$3.1 million or 0.7 percent from fiscal year 2014 year-end balances. Final cash balances for all funds will be available in November 2015 as a part of the system's financial statements. Twenty colleges and universities added \$25.6 million to their fund balances in aggregate and 17 reduced their balances by \$ 29.2 million in aggregate. Sixty percent of the \$29.2 million in fund balance losses were accounted for by losses at two universities.

FISCAL YEAR 2016 BUDGET UPDATE

The fiscal year 2016 operating budget the Board approved in June was based on a number of critical assumptions about enrollment, compensation, and tuition. The financial performance of the system for fiscal year 2016 will depend both on the precision of those assumptions and on the ability of each college and university to adjust their budgets in a timely manner to changes in those assumptions.

With more than one-quarter of the fiscal year complete, the purpose of this section is to review the key assumptions and provide updates on those assumptions against plan.

Enrollment

The fiscal year 2016 operating budget assumed a 1.8 percent drop in system FYE enrollment from projected fiscal year 2015 enrollment levels. College budgets were based on a 2.5 percent decline in FYE enrollment (2,103 FYE); university budgets assumed a 0.7 percent decline in FYE enrollment (364 FYE). Year-to-date FYE enrollment shows that college enrollment continues to decline at a faster rate than university enrollment. Undergraduate enrollment at both colleges and universities is trending lower than prior year levels and lower than forecast for fiscal year 2016 in May 2015. Graduate enrollment is up compared to last year.

Year-to-date FYE enrollment trends:

- Summer FYE enrollment for the system was 2.7 percent lower than prior-year levels:
 - University FYE enrollment for summer term was up 0.7 percent over prior-year levels, with a 1.1 percent decline of undergraduate enrollment offset by a strong 7.6 percent increase in graduate enrollment.
 - College summer FYE enrollment was down 5.0 percent compared to prior-year levels.
- As of September 27, 2015, fall FYE enrollment for the system was 2.6 percent lower than prior-year levels:
 - University FYE enrollment is down 1.5 percent from prior-year levels. University undergraduate FYE is 2.0 percent below prior-year levels, while graduate enrollment is up 4.0 percent.
 - College FYE enrollment was down 3.3 percent compared to prior year levels.

Tuition Revenue

Lower than projected enrollment is expected to reduce tuition revenue. The fiscal year operating budget assumed \$778 million in tuition revenue based on a 1.8 percent enrollment decline.

- Assuming current fall and summer enrollment patterns continue throughout the fiscal year, FYE enrollment will likely fall 0.8 to 1.0 percent below the level projected in the operating budget.
- If FYE enrollment declines as projected, tuition revenue will fall an estimated \$6.2 million to \$7.8 million compared to the estimate contained in the spring 2015 college and university operating budgets approved by the Board.

Compensation

When the Board approved the operating budget in June, contracts with the system's employee bargaining units were not yet settled. Consistent with the biennial budget request, the college and university operating budgets assumed a three percent total compensation increase each year.

Since that time, Minnesota Management and Budget (MMB) reached tentative agreements with the state's classified units (primarily AFSCME, MAPE, and MMA), and those tentative agreements have been ratified. Tentative agreements have also been reached with two of the three faculty units, and ratification votes are underway.

Based on the outcome of these negotiations and revised employer-paid insurance estimates from MMB, the estimated compensation increase has grown from 3.0 to 3.4 percent. The fiscal impact of this increase on the operating budget is estimated to be \$4.9 million.

Estimated Overall Operating Budget Impact

- The combined impact of declining tuition revenue (\$6.2 - \$7.8 million) and compensation increases (\$4.9 million) is approximately \$11.1 to \$12.7 million, or 0.8 percent of the system's general fund budget.
- If the entire shortfall was absorbed through fund balance, rather than budget adjustments, the estimated impact to cash would be a 2.2 to 2.4 percent decline in general fund balances.
- An analysis of enrollment changes and compensation increases on individual colleges and universities operating budgets found that the fund balance of eight colleges and one university would decline by ten percent or more if the enrollment shortfalls were addressed entirely through the use of fund balances. Under this scenario, the general fund balances of four colleges and two universities would fall below 20 percent of general fund revenue.

FINANCIAL RECOVERY PLAN UPDATES

Seven colleges and four universities are currently operating under financial recovery plans (FRP) due to low CFI scores. As part of an on-going monitoring process, key financial indicators for these colleges and universities are closely monitored and analyzed. Status updates to plans are submitted to the system office on a regular basis.

Fund Balance Analysis

The analysis below examines the change in general fund balances for each of the eleven institutions operating under a FRP. The table shows the preliminary dollar change in fiscal year 2015 year-end fund balance, the percent change in year-end fund balance, and the fund balance as percent of fiscal year 2015 general fund revenue.

Fund Balance Analysis
Colleges and Universities Operating under Financial Recovery Plan

College/University Operating under FRP	Preliminary Change in Year-end Fund Balance FY2015 v FY2014	% Change in Fund Balance	FY2015 GEN Fund Balance as % of Revenue
Century College	1,646,226	12%	27%
Hennepin Technical College	1,185,068	14%	22%
Minneapolis Community and Technical College	4,039,772	24%	38%
Minnesota State College - Southeast Technical	212,402	17%	9%
Minnesota State Community and Technical College	105,805	1%	23%
Hibbing Community College	436,389	16%	22%
Mesabi Range College	(108,004)	-5%	23%
Metropolitan State University	(7,739,569)	-33%	22%
Minnesota State University, Mankato	(68,191)	0%	30%
Southwest Minnesota State University	(576,618)	-6%	25%
St. Cloud State University	(9,829,673)	-37%	11%

Fund Balance Findings:

- Six colleges operating under a FRP added a total of \$7.6 million to their fund balance in fiscal year 2015. Fund balances for these colleges grew between one and 24 percent over the previous year, enhancing the ability of these six colleges to respond to risk and improve their financial resiliency. Restoration of fund balance is a critical component of financial recovery and a necessary action for long term financial health.
- Two colleges and three universities operating under a FRP used \$18.3 million in fund balance in fiscal year 2015. Fund balance use ranged from zero (essentially unchanged) to a decline of 37 percent. Two universities used over one-third of their fund balance in fiscal year 2015, eroding their capacity to respond to financial risks and budget shortfalls.
- A healthy fund balance is a key indicator of financial strength and resiliency. Fund balances less than 20 percent of revenues limit an institution’s ability to respond to financial stresses, such as a decline in enrollment, and restrict the possibilities for investment in new programs and other growth opportunities. One university and one college reported fund balances less than 20 percent of revenue and warrant continued close monitoring until fund balances are re-built.

Enrollment Analysis

Enrollment activity is closely watched at all the system’s colleges and universities, not just those operating under an FRP. The system office monitors two statistics on a weekly basis: year-to-date FYE enrollment compared to projected FYE enrollment, and year-to-date FYE enrollment compared to prior-year enrollment. The first measure provides a useful tool for budget monitoring (year-to-date enrollment compared to the enrollment assumptions in the budget plan), and the second measure provides useful trend data (enrollment trends compared to prior-year levels). The table below shows both measures for colleges and universities operating under FRPs.

Enrollment Analysis – Fall 2016

Colleges and Universities Operating under Financial Recovery Plan

College/University Operating under FRP	Fall YTD FYE Enrollment Compared to FY2016 Projected Enrollment	YTD Fall FYE Enrollment Compared to Prior Year*
Century College	+3.9%	-2.3%
Hennepin Technical College	+1.1%	-3.8%
Minneapolis Community and Technical College	-7.1%	-7.1%
Minnesota State College – Southeast Technical	-6.2%	-6.5%
Minnesota State Community and Technical College	-1.0%	-1.3%
Hibbing Community College	+2.8%	+0.2%
Mesabi Range College	-9.1%	-11.5%
Metropolitan State University	+1.0%	+1.0%
Minnesota State University, Mankato	-1.0%	-1.6%
Southwest Minnesota State University	+1.4%	-0.1%
St. Cloud State University	-0.5%	-0.5%

* Year-to-date fall enrollment as of September 27, 2015.

Enrollment Analysis Findings:

- Based on year-to-date fall enrollment data as of September 27, 2015, one university and four colleges are reporting fall term enrollment activity at rates better than projected in May. Conversely, four colleges and two universities are reporting fall term enrollment activity at rates lower than those projected in May.
- With the exception of one university, all colleges and universities operating under financial recovery plans are reporting fall enrollment rates below prior year levels.

Updates to Financial Recovery Plans

Colleges and universities report continued progress in implementing their plans. However, the following risks have been identified:

- Significant deterioration of fund balance at St. Cloud State University and Metropolitan State University, placing both institutions at risk in the event of unexpected budget stresses. The system office is in regular discussions with both universities as they undertake budget management actions.
- Continued unplanned enrollment declines at Minnesota State College - Southeast Technical, Mesabi Range College, and Minneapolis Community and Technical College, requiring budget adjustments in fiscal year 2016 operating budgets.
- All colleges and universities reported concerns about the fiscal year 2017 outlook and are taking steps now to plan for no increase in state appropriation and frozen/reduced tuition rates.

NEXT STEPS

As part of the on-going standard budget monitoring practices and based on the changes in operating budget assumptions over the past three months, the following steps will be taken for all Minnesota state colleges and universities:

- Continued weekly monitoring of enrollment activity for both the fall and spring terms.
- Updated operating budgets requested from all colleges and universities operating under a FRP and those whose FYE enrollment projections are one percent or more below the projections used in their operating budget. Revised budgets are due to the system office November 16. The system office and the colleges and universities are committed to actions necessary to stabilize and strengthen the college or university.
- Regularly scheduled meeting with the most at-risk colleges and universities to ensure compliance with financial recovery plans and/or budget plans.