

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
July 15, 2008**

Finance/Facilities Policy Committee Members Present: Clarence Hightower, Chair; Tom Renier, Vice Chair; Trustees Duane Benson, Ruth Grendahl, Dan McElroy, Scott Thiss, and James Van Houten

Other Board Members Present: Cheryl Dickson, Jacob Englund, Allyson Lueneburg, and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on July 15, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Hightower called the meeting to order at 9:05am.

1. MINUTES OF MAY 20, 2008

The Finance/Facilities Policy Committee meeting minutes of May 20, 2008 were approved as presented.

2. MINUTES OF WORK GROUP ON TECHNOLOGY MEETING OF APRIL 24, 2008

The Work Group on Technology meeting minutes of April 24, 2008 were approved as presented.

3. FINANCE, FACILITIES, AND TECHNOLOGY UPDATE (*Information Item*)

Vice Chancellor King updated the Committee on the recent Revenue Fund bond sale which closed on June 27, 2008. The System achieved favorable results on the sale as compared to national indices. The bonds will provide funding for two projects at Winona State University.

As of July 1, four capital projects funded from the 2008 bonding bill were bid and awarded in the amount of \$48M. Five additional capital projects are scheduled for award by the end of the year. In addition, 14 HEAPR projects have been bid for \$11M and 25 additional projects are planned for bid and award through the remainder of the calendar year.

The Finance Division priority effort on the price of attendance and the cost to educate students has been incorporated into a larger study concerning tuition policies. Further discussion of the effort is on the agenda for today with the final report scheduled for the September Board meeting. Recommendations from the study will be incorporated into the FY2010-2012 biennial operating budget planning this fall.

4. ACQUISITION OF STUDENT HOUSING: HIBBING COMMUNITY COLLEGE *(Action)*

Associate Vice Chancellor Allan Johnson presented the Committee with a request to acquire the 34-unit student apartment housing complex located at 1601 East 25th Street, adjacent to the Hibbing Community College (HCC). The acquisition price is a maximum of \$780,000, subject to confirmation by appraisal.

The 132-bed student housing building is important to HCC's student enrollment, particularly as a rural college attracting students from outside the immediate area. HCC's ownership of the building will guarantee the building remains student housing, give the college flexibility in use, rental agreements and single control and expediency of maintenance and general building upkeep. As current managers of the onsite housing complex, HCC already has the majority of the responsibility for the facility.

Discussion of the purchase ensued with committee members who wanted assurance that a business plan was in place and that the housing could support itself. Mr. Johnson confirmed that the buildings were in good shape but in need of some cosmetic repairs such as carpeting, furniture or appliances. He acknowledged that HVAC, roof and window repairs may be needed several years down the road.

Trustee Renier moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Thiss seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the acquisition of the Hibbing student housing complex from the Hibbing Economic Development Authority for a maximum price of \$780,000 subject to the satisfactory completion of all necessary due diligence consistent with the terms and conditions as described in this report, including receipt and review of a current appraisal; and approval by the Vice Chancellor – Chief Financial Officer of a 20-year business and program plan for the facility.

5. CENTURY COLLEGE PROPERTY LEASE *(Action)*

Associate Vice Chancellor Allan Johnson presented a request for Board approval for Century College to 1) lease-out a 9.17 acre tract, known as the Truck Driver Training and Motorcycle Course, to Scannell Properties, an agent and developer on behalf of Federal Express Ground, for up to 20 years; and 2) simultaneously lease-in a parcel of approximately 20 acres from Scannell Properties along Interstate 94 for a replacement truck driver training facility to be constructed by Scannell for Century College.

Mr. Johnson and Mr. Gregory Ewig, System Director for Real Estate, reassured the Committee that the lease covers environmental issues and provides for alternative use of the Scannell property if the truck driving program is discontinued.

Trustee Van Houten moved that the Finance, Facilities, and Technology Committee recommend adoption of the following motion. Trustee Grendahl seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the lease of Century College property to Scannell Properties and a sublease to Federal Express Ground, and a lease from Scannell Properties for a replacement truck driver training facility in Afton/West Lakeland Township, subject to final approval of lease terms as outlined in **Exhibit D** by the Chancellor or his designee.

6. TRANSFER OF PROPERTY: ANOKA TECHNICAL COLLEGE HORTICULTURE CENTER (*Action*)

Anoka Technical College has operated a remote site in Anoka known as the Horticulture Center. During the past few years, the college has consolidated and moved all programs from the Horticulture Center to the Main Campus. The Horticulture Center includes approximately three (3) acres of land and approximately 24,500 square feet of buildings, including a classroom building, an attached green house and various storage facilities. The building conditions range from fair to poor. Anoka Technical College has no further need for the property.

A provision in this year's bonding bill directed the Board of Trustees to convey the Anoka Technical College's Horticultural Center property to the Anoka-Hennepin School District by July 31, 2008 for \$1.00. The intent of the conveyance is for the school district to establish a new and expanded joint Secondary Technical Education Program (STEP) with the college.

Trustee Benson moved that the Committee recommend adoption of the following motion. Trustee Thiss seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees affirms and approves the conveyance of the Anoka Technical College Horticulture Center property to the Anoka Hennepin School District, and directs the Chancellor or his designee to execute all necessary documents to complete the conveyance in compliance with 2008 session law.

7. FY2009 OFFICE OF THE CHANCELLOR AND ENTERPRISE TECHNOLOGY BUDGET REDUCTIONS (*Information*)

Vice Chancellor King reported that the Office of the Chancellor has completed operating budget planning for the fiscal year which incorporates the reductions directed by actions of the 2008 legislature. The legislation directed reductions in three areas; \$1,000,000 in a one-time reduction to system reserves in FY2008; \$5,000,000 in a FY2009 base reduction to planned spending for the information technology enterprise investment program; and \$2,600,000 in a FY2009 base reduction to the Office of the Chancellor operating budget.

The reserve reduction was directed by the legislature to occur in FY2008 and the state appropriation was reduced accordingly. After the reduction, the FY2008 System

reserve of \$6.9M is approximately 4.9% of the System's resources. System reserves were already low by every available national and peer comparison. The system's auditors have annually cautioned the Board about low reserve levels and urged action to add to reserves. The Chancellor will take steps beginning with the FY2010 budget to re-build reserve levels and advise the Board of progress.

The reduction of \$5M planned FY2009 spending for the information technology enterprise investment program will result in slight delays in project roll outs, smaller pilot efforts, the delay of a portion of a project to 2010 and savings through strategic hardware purchasing strategies. There will be no reduction to the campus allocation. It is important to recognize that the specific project impacts were reduced by the action last spring that held back \$2.35 million from new commitments. The overall reduction of \$5M in the base in 2009 and every year thereafter will put a permanent slow down on the progress toward the ITS strategic plan approved by the Board in 2006.

The final component of the 2009 reductions concerns a base cut to the budget of the Office of the Chancellor. A reduction of \$1.6 million will occur in the amount of funds available for special initiatives. The reduction results in \$4.5M available for new efforts in FY2009, a decline of \$4.5M from the amount available in FY2008. An additional \$1M will be reduced from the operating budgets of the three largest divisions (Academic and Student Affairs, Finance and Information Technology Services) with smaller reductions in other cabinet offices. The overall impact will translate into delays in campus assistance, reduction in the funds available for on-line development, a decline in the use of outside advisory services and some cost avoidance strategies. Colleges and universities can expect to feel the impact of the service level reductions.

As a result of the discussion about the reduction of services provided to the campuses it was suggested that the Committee should be more aware of what work is done at the Office of the Chancellor. Vice Chancellor King will schedule a presentation for the September meeting to that end.

8. FY2008 FINANCIAL STATEMENT ISSUE DISCUSSION (*Information*)

GASB 45, a financial accounting standard effective FY2008, establishes reporting requirements for other post employment benefits (not pension benefits), primarily for retiree health benefits (OPEB). GASB 45 applies implicit rate subsidies to retirees participating in the state health plan until they reach the age of 65. The standard does not require that the System switch from pay-as-you-go to an advanced funding approach, but relates only to how obligations are reported on the financial statements.

The liability calculations were made by Deloitte Consulting LLP under contract with the Minnesota Department of Employee Relations (DOER), based on early retiree health plan provisions, participant data, and input on actuarial assumptions provided by the System, DOER and Minnesota Department of Finance (DOF) staff.

The key question is "Should the System establish segregated assets for OPEB liabilities?" For financial reporting purposes the System could record a liability (or

asset) for a FY2008 amount (\$6 million for the System), and could also include required footnote disclosure, including unfunded liability (\$94 million for the System). The other option would be to establish an irrevocable trust.

The recommendation of the Vice Chancellor – Chief Financial Officer is to defer establishment of a trust due to uncertainties regarding assumptions, drawbacks of a GASB defined funding vehicle (i.e., irrevocable trust), and low materiality. Associate Vice Chancellor Tim Stoddard noted that other states have struggled with this also as in the future the standard may change. The wait and see attitude would allow the System to study the issue and get a two year update. The liability may be overstated as workers continue in the workforce instead of retiring due to personal or economic issues.

Chair Hightower and other committee members agreed with the staff recommendation.

9. TUITION STUDY INCLUDING THE PRICE OF ATTENDANCE (Information):

Vice Chancellor King reported that the Finance Division is in the process of completing the tuition study and will share the results in draft form with the Board of Trustees in September, 2008. The purpose of this report is to solicit comments from trustees concerning several central policy and philosophical issues in order to best inform the final report's drafting. The policy issues were centered on mission-market conflict; tuition dispersion-internal rate equity; methods for charging tuition; affordability; and financial aid.

Karen Kedrowski, System Budget Director, facilitated a discussion with Committee members on the difference in cost basis (per credit, banded or contracted post-secondary enrollment option) or market basis tuition. Market basis tuition could either be a "cost recovery" or "profit generating" tuition. Trustees questioned which tuition rate was best for increasing accessibility and maximizing participation.

Discussion among the Trustees focused on their concern with tuition and fees being high at the colleges compared to nationwide averages; the importance of knowing the impact of financial aid on cost of attendance; what it costs an institution to offer technical programs; and the need for flexibility in tuition pricing.

The System's colleges and universities have different cost structures due to program mix (technical/liberal arts, lab/lecture) and services offered to the students resulting in a need for differing level of financial resources. The different cost structures enables sensitivity to local market conditions – some of the colleges and universities are in very competitive local markets. The ability to tailor tuition rates to the local market is very important to the competitive posture of these schools. However more uniform sticker price would bring greater internal rate equity. This would change how the state appropriation is distributed to colleges and universities and perhaps freeze tuition at the highest priced institutions while allowing the lower priced institutions to catch up.

Central to the issue of tuition is the question of affordability. The federal and state governments play important roles in promoting access through their financial aid programs. There are a number of forms of financial aid available to students such as federal (Pell)/state grants, private/institutional scholarships, work study, and loans. The Board supports a state financial aid program that provides access to affordable, high quality public higher education for all Minnesotans that reduces the financial burden for lower-income and part-time students.

The tuition study will be shared with the Board of Trustees at the September meeting.

The meeting adjourned at 12:00 noon.

Respectfully submitted,
Nancy Lamden, Recorder