

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES
September 14, 2010**

Finance and Facilities Committee Members Present: Dan McElroy, Chair; Michael Vekich, Vice Chair, Trustees Duane Benson, Cheryl Dickson, Clarence Hightower, Phil Krinkie, and James Van Houten

Finance and Facilities Committee Members Absent: Christopher Frederick

Other Board Members Present: Jacob Englund, Alfredo Oliveira, Thomas Renier, Louise Sundin and Board Chair C. Scott Thiss

Leadership Council Representatives Present: Vice Chancellor Laura King, President Richard Davenport

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on September 14 2010, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 9:05 am.

1. MINUTES OF July 20, 2010

The minutes were approved as published.

2. FINANCE, FACILITIES AND TECHNOLOGY UPDATE (*Information*)

Vice Chancellor King introduced Brian Yolitz, the new associate vice chancellor for facilities. Mr. Yolitz recently retired from the US Air Force and comes to Minnesota State Colleges and Universities with tremendous construction project management experience.

Vice Chancellor King reported that improvements to the capital projects process and the professional and technical contracting process have been made in response to the OLA report on the system office. Ms. King has every confidence that the items requiring action will be completed as indicated in the Chancellor's response when the report was released.

Vice Chancellor King updated the committee on the reconstruction at Minnesota State Community and Technical College in Wadena following this summer's tornado damage. The college was operational for fall term and also has entered into a two year agreement with the local high school to host classes. Trustee Sundin noted this is a great opportunity to expand PSEO courses for high school students. Vice Chancellor King will ask Vice Chancellor Olson to update the committee on the discussions that are underway. Repairs are estimated to cost \$3.8M and are covered by insurance. Ms. King complimented President Valentine, Matt Sheppard, Director

of College Facilities, and Kent Dirks of the Office of the Chancellor Facilities unit on their great team effort in getting the facilities repaired and functional by fall term.

Vice Chancellor King advised the Board that she had received a letter from Minnesota Management and Budget Commissioner Tom Hanson outlining the commitment he made to the Board of Trustees at the July meeting. Currently the state has borrowed \$475M of Minnesota State Colleges and Universities' general fund. The Commissioner confirmed that transfers of appropriation will continue monthly as scheduled, interest earnings would continue as if the funds were in the system accounts, that the system fund accounts would not go below \$100M, and that all outstanding loans will be repaid by June 27, 2011.

Later in the meeting Vice Chancellor King updated the committee on the proposed Office of the Chancellor budget reductions. She noted that five positions were being eliminated in the Finance Division which should not affect campus services. The affect of cross divisional bumping is not yet know. President Davenport noted that the Leadership Council held healthy discussions about the impacts of reductions at the campus level and the presidents are supportive of the reduction plan.

7. MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM AND STATE ECONOMIC OUTLOOK FOR FY2011-2013 (*Information*)

Note: This item was presented out of the agenda order to enable the Chancellor to be present at the discussion.

Vice Chancellor King began the presentation about the economic outlook for the system and state for FY2011-2013 by asking the committee for an engaged discussion that will result in greater understanding and clarity about the financial environment in which the system exists. Vice Chancellor King asked for committee feedback about biennial budget planning in order to shape the upcoming legislative and gubernatorial request. Associate Vice Chancellor Judy Borgen and Karen Kedrowski made the presentation.

The state is still estimating a \$5.766B deficit. General expense inflation estimates are not included in the state's estimate which would increase the deficit by \$1.2B.

In May the Board of Trustees approved the FY2011 operating budget and tuition rate. In January a framework was provided to the colleges and universities which guided their budget planning for FY2012-2013. The budget planning framework included a conservative starting point regarding appropriation. There were multiple appropriation numbers that could have been chosen but the governor's supplemental budget recommendation of \$594.4M was selected. The financial planning assumptions include no cap on tuition rate increases but an expectation of reasonableness. Expense inflation was modeled at the current CPI estimate of 1.2% for FY2012 and 1.4% for FY2013. No federal stimulus funds are expected to be available for the 2012-2013 biennium.

It is important to remember that the governor's fiscal year 2012-2013 recommendation is actually \$50M less than what the legislature authorized for the system (in current law). The current law forecast base of \$1,260.7M will be the starting point for the legislature and governor when making budget decisions. The system identified "bookend" appropriation targets based on its share of the state budget and possible solutions the governor and legislature could use to close the budget deficit (i.e., solved with combination of revenue increase and expense reductions or solved entirely with expense reductions).

Using the assumption that half of the budget deficit will be solved with expense reductions, the system appropriation target is \$ 1.084B or \$127M less than what the system currently has in fiscal year 2011 (doubled). It was pointed out that the \$127M reduction would translate to a \$177M reduction when compared against the forecast base that is \$50M higher. .

The other part of budget planning for the colleges and universities was to include new revenue from an assumed five percent tuition rate increase in FY2012 and FY2013. The tuition rate increase is estimated to provide \$120.5M of new revenue. The numbers will change throughout the year as enrollment changes. Vice Chancellor King commented that for many years high financial aid enabled tuition to remain low for low-income students. Minnesota is now a high financial aid/high tuition state. Trustee Dickson noted that the percentage of state financial aid that goes to MnSCU institutions is not as high as the percentage of state aid that goes to private colleges because the costs to attend private colleges are higher.

Fixed compensation costs are estimated to increase \$55M. The fixed costs are "tails" from FY2011 step increases for classified employees and mid-year employer health insurance rate increase of 6.7 percent. The fixed compensation increase also includes projected employer health insurance rate increases of 16.5 percent in January 2012 and 8 percent in January 2013 under the current state health insurance program.

Inflationary cost increases were modeled using the CPI at 1.5 percent each year which included compensation inflation of \$49.9M and other operating cost inflation of \$18.6M.

The use of the preceding assumptions results in a system budget gap of \$130M.

Every other year the system submits a biennial operating budget request. The 2011 legislature will act on the budget request during the upcoming legislative session. Current law has the system's base as \$1,260.7M which is an increase of \$49.7M over the biennium above the current fiscal year 2011 funding level. One suggested operating budget request would be to simply ask for the forecast base that is in current law. If the system was to receive the amount in current law and the other assumptions (tuition revenue, fixed compensation costs, and inflationary costs) were as estimated above, the system would have new revenue of \$46.7M over the biennium.

Trustee Hightower commented that current law does not reflect reality. Vice Chancellor King responded that the Board has a difficult decision. A decision should be made to determine what the biennial budget request should be at the November Board meeting. Should the system ask for what is required to do what the system needs to do knowing the state's economic situation? Trustee Sundin expressed that funding for higher education is needed to crawl out of the recession so the budget request should be for what is needed. Trustee Benson commented that a "categorical" request for additional funds with some type of guarantee might be received in a better light.

The FY2012-2013 Biennial Operating Budget request will be presented at the November Committee meeting.

3. PROPOSED AMENDMENT TO BOARD POLICY 5.16 RISK MANAGEMENT AND INSURANCE (*Second Reading*)

Vice Chancellor King presented the second reading of the proposed amendment to Policy 5.16 which clarifies that the Office of the Chancellor, colleges and universities will obtain liability insurance in addition to property and casualty insurance as appropriate either through the State's Risk Management Program and/or other authorized and applicable programs. Chair McElroy noted this amendment conforms policy to practice.

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

RECOMMENDED MOTION:

The Board of Trustees approves amending Policy 5.16 Risk Management and Insurance as shown in Attachment A.

4. ONLINE STUDENT SUPPORT CENTER INTRA-AGENCY AGREEMENT (*Action*)

Associate Vice Chancellor Manuel Lopez requested approval to amend the Intra-Agency Agreement between the Office of the Chancellor and Minnesota State Community and Technical College as fiscal agent for Distance Minnesota. The amended intra-agency agreement with Minnesota State Community and Technical College, estimated to total \$635,000 in fiscal year 2011 will have the cumulative effect of taking the value of the contract beyond the \$3,000,000 which requires Board approval.

The agreement covers the costs of staffing for student and learner support, marketing and student relationship management, data and technical support, and administration; equipment maintenance and updates; license maintenance and updates, marketing costs, and memberships (in relevant distance education organizations). The programs and services are developed by the partner colleges of Distance Minnesota, a regional

collaborative of system colleges which offers online learning experiences and related support services. Member colleges include Alexandria Technical College, Minnesota State Community and Technical College, Northland Community and Technical College and Northwest Technical College. The annual contract with Minnesota State Community and Technical College is estimated to be \$635,000.

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

RECOMMENDED MOTION:

The Board of Trustees approve extending the current intra-agency agreement until June 30, 2011 between Minnesota State Colleges and Universities and Minnesota State Community and Technical College acting as fiscal agent for Distance Minnesota for estimated total expenditures not to exceed \$3,200,000. The Board directs the Chancellor or his designee to execute all necessary documents.

5. LAWS OF 2010 – LOCAL BANK DEPOSIT PILOT (*Information*)

Vice Chancellor King reported on the pilot for up to eight institutions for the deposit of reserve funds with community financial institutions to increase the distribution of potential economic benefits throughout the state. The system sought institutions interested in participating in the pilot. Five colleges and two universities indicated interest in participating. As this was less than the maximum of eight stated in law all interested institutions were allowed to participate in the pilot.

The following colleges and universities and associated reserve funds were included in the RFP issued on August 2, 2010: Minnesota West Community and Technical College \$2,100,000 (Canby, Granite Falls, Pipestone, Worthington, and Jackson); Hibbing Community College \$1,000,000 (Hibbing); Ridgewater College \$2,100,000 (Willmar and Hutchinson); Northwest Technical College - Bemidji \$600,000 (Bemidji) South Central College \$500,000 (Faribault and North Mankato) and Winona State University \$2,200,000 (Winona) and Bemidji State University \$1,600,000 (Bemidji).

Vice Chancellor King reported that the responses were very disappointing as there was very modest interest within the banking community for the pilot. Federal Reserve funds are currently available to the banking industry at very low rates. Chair McElroy noted also that the legislation did not exempt the FDIC insurance limit on the deposits which also increased the banks costs.

Currently work is underway to draft legal agreements with each bank. Once that is completed, by December 1, 2010, the commissioner of Minnesota Management and Budget will be notified of the participating colleges and universities, the deposit amount for each institution, and the associated community financial institutions. The transfer of funds will be done on January 2, 2011.

6. DISCUSS AND SELECT COMMITTEE GOALS (*Committee Action*)

Chair McElroy introduced this item by noting that Chair Thiss asked each committee to adopt two or three committee goals/issues to work on in the coming year. The goals were to be in alignment with the system's current strategic plan, innovative not just a continuum of what is already being done, achievable in one to five years, have measurable outcomes, be supported by the committee's system office and presidential representatives and be affordable.

Sixteen proposed goals were advanced. Committee members had thoughtful and extended discussion on the issues. Vice Chancellor King noted that work on some items is included in the Finance Division's work plan and is already scheduled for presentation to the committee. The committee was polled and it was decided that three goals would be adopted. The goals the committee chose to focus on were (1) physical plant size of system – size/priorities of bonding bill, (2) resources for results, and (3) realignment and reorganization. Vice Chancellor King will present a goal work plan to the committee at the November meeting with outcome measures and targeted completion dates.

7. FY2012-2017 CAPITAL BUDGET UPDATE (*Information*)

Brian Yolitz, Associate Vice Chancellor for Facilities, and Sally Grans-Korsh, System Director for Facilities Planning and Programming, updated the committee on the capital budget process in preparation for the FY2012 legislative session.

Mr. Yolitz reviewed that the 2010 capitol bonding bill resulted in HEAPR (\$52M) and line item projects (\$54.2M). Vice Chancellor King commented that this was not a very successful outcome. There is the possibility that the legislature may act on a bonding bill in the 2011 session which may take some of the pressure off the 2012 request. The remaining projects on the FY2010 request would be the basis for a request if a 2011 bonding bill is considered by the legislature.

The amount of funds needed to “keep up” with campus renewal requirements is \$95M annually. The goal to “catch up” or reduce the system backlog by 50% over 10 years would require \$35M annually. The total capital biennial requirement to “keep up” and “catch up” with the current system facilities would then be \$260M which could come in the form of HEAPR funding or funding for line item projects which address renewal of existing facilities.

The capital budget process for the coming biennium emphasizes renovation and improving conditions, including projects which would reduce energy operating costs, through stronger guidelines. All projects in this cycle be scored (or re-scored if the project was approved in the previous cycle). Campuses were given a longer time frame to develop their projects. They also received more feedback on their projects from the Office of the Chancellor staff. The priorities may or may not follow the past priority order. In January scoring teams from campuses and staff from the Office of

the Chancellor will review the submitted projects. Vice Chancellor King noted that there is a comparatively modest list of new project requests.

The list of proposed projects will be discussed in February at public hearings. The public hearings will focus on placement on the proposed list, cost, scope and phasing of new projects, as well as the vetoed projects. The Chancellor will submit a capital budget recommendation at the May 2011 Board of Trustees meeting. In June, after approval of the request by the Board, the request will be submitted to Minnesota Management and Budget and the Governor. Legislative visits to campuses will be scheduled between July and December. The legislature will act on the request during its session which begins in February 2012.

Chair McElroy recessed the meeting at 11:15 am.

Respectfully submitted,
Nancy Lamden, Recorder