



**FINANCE AND FACILITIES COMMITTEE  
SEPTEMBER 14, 2010  
9:00 a.m.**

**BOARD ROOM  
WELLS FARGO PLACE  
30 7TH STREET EAST  
SAINT PAUL, MN**

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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.

Committee Chair Dan McElroy calls the meeting to order.

- (1) **Minutes of July 20, 2010** (pp 1-5)
- (2) Finance and Facilities Update
- (3) **Proposed Amendment to Board Policy 5.16 Risk Management and Insurance (Second Reading)** (pp 6-8)
- (4) **Online Student Support Center Intra-Agency Agreement** (pp 9-11)
- (5) Laws of 2010 – Local Bank Deposit Pilot (pp 12-15)
- (6) **Discuss and Select Committee Goals** (pp 16-19)
- (7) Minnesota State Colleges and Universities System and State Economic Outlook for FY2011-2013 (pp 20-32)
- (8) FY2012-2017 Capital Budget Update (pp 33-45)

Members

Dan McElroy, Chair  
Michael Vekich, Vice Chair  
Duane Benson  
Cheryl Dickson

Christopher Frederick  
Clarence Hightower  
Phil Krinkie  
James Van Houten

**Bolded** items indicate action required.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES  
FINANCE AND FACILITIES COMMITTEE  
MEETING MINUTES  
July 20, 2010**

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

*Finance and Facilities Committee Members Absent: Michael Vekich, Vice Chair*

*Other Board Members Present: Jacob Englund, Alfredo Oliveira, David Paskach, 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 July 20 2010, 4<sup>th</sup> Floor, Board Room, 30 East 7<sup>th</sup> Street in St. Paul. Vice Chair Hightower called the meeting to order at 1:05 pm.

**1. MINUTES OF June 16, 2010**

The minutes were approved as submitted.

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

Vice Chancellor King updated the committee on the OLA Report action items. The Finance Division's action items are either completed or right on schedule. A cost benefit analysis of the efficiency and effectiveness objective is being prepared. Vice Chancellor King is working with Vice Chancellor Huish on the items that will require ITS involvement. Chair McElroy clarified that although the efficiency and effectiveness goal may also apply to the academic area, the OLA report is referring to administrative efficiencies.

**3. DISCUSSION WITH COMMISSIONER TOM HANSON, MINNESOTA MANAGEMENT AND BUDGET**

Chair McElroy greeted Commissioner Tom Hanson and Executive Budget Coordinator Charlie Bieleck from Minnesota Management and Budget. Commissioner Hanson began his presentation by noting that the state's financial condition affects cash flow for Minnesota State Colleges and Universities. The state pays out more at the beginning of the biennium and receives most of its revenue at the end. The state maintains a cushion which allows it to absorb that imbalance. As the economy has tightened and the state's revenues have dropped in the last few years that cushion has dwindled. The state has the ability to draw from the general fund and a broader statutory general fund. Even in good economic years cash is moved back and forth between the funds.

Minnesota State Colleges and Universities funds equal one quarter of the state's entire statutory general fund and therefore are a big component of the cash flow story. The state borrowed \$250M from MnSCU in FY2009 and \$365M in FY2010 which has been repaid. An agreement with MMB and Vice Chancellor King guaranteed that a minimum balance of \$200M would be available to the system. In FY2011 the cash flow situation will require that the state delay K12 payments (about \$70M); delay UMN payments (\$89M), delay health plan payments (\$110M) as well as using the MnSCU funds. The state hopes to have an external line of credit set up with US Bank by September 1, 2010. The state's general fund will run with a balance of \$400M balance this fiscal year. They will allow the system to have a \$100M balance this year.

Commissioner Hanson will work very closely with Vice Chancellor King to manage the cash flow. He is confident that MnSCU will have the funds available to meet its obligations. If the state must resort to short term borrowing it will do so to allow MnSCU to have a \$100M balance and the funds its needs to meet its obligation.

Board Chair Thiss questioned whether tuition payments could be borrowed also. Vice Chancellor King confirmed that tuition payments also go into the general fund and will be used by the state. Commissioner Hanson emphasized that MnSCU would have the funds available to meet its obligations even if the state needed to borrow funds.

Chancellor McCormick suggested that another letter of agreement be drafted for the FY11 cash flow plan. Vice Chancellor King commented that the Commissioner has been entirely honorable and reliable concerning the promises and commitments made in FY10.

Chair McElroy noted that the statute allowing the borrowing situation is based on the state having a balanced budget. Commissioner Hanson did not have concerns about the coming election affecting the repayment of the funds.

Mr. Bieleck noted that in the later part of the 1980's and early 1990's there were large surpluses and additional cash was not needed by the state. In those years when cash flow problems arose there was inter-fund borrowing with repayment by the end of the fiscal year. He noted that although there has been borrowing in the past but never at the level seen this year.

Vice Chancellor King responded to Trustee Van Houten's question about vendors by noting that this loan agreement would not affect our payment schedules or relationships with vendors. Commissioner Hanson confirmed this.

Trustee Hightower questioned whether this loan would have an effect on MnSCU's bond rating. Vice Chancellor King did not think the system's rating would be affected. Commissioner Hanson did not know if the short term borrowing would even result in a change in the state's bond rating.

The committee thanked the Commissioner for his presence and expressed support for Vice Chancellor King's management of this topic.

4. **MINNESOTA STATE COMMUNITY AND TECHNICAL COLLEGE, WADENA CAMPUS RECONSTRUCTION CONTRACT** (*Action*)

Vice Chancellor King requested Board of Trustees approval of a contract for restoration work for the Minnesota State Community and Technical College -Wadena campus not to exceed \$5M. The State Risk Management Office, the Office of the Chancellor Director of Risk Management, and the insurance adjuster have assessed the damage sustained when the campus was hit by a tornado on Thursday June 17, 2010. The estimated cost for restoring the college to pre-tornado conditions is in the \$3 to \$5 million range.

Kent Dirks, Project Manager, noted that J.P. Structures, Inc., headquartered in Menasha Minnesota, has done prior work at the Wadena campus and elsewhere in the system. The restoration will include the utility buildings used by the linemen program as well as the main campus building and is anticipated to cost \$3.5M. The items noted as critical will be completed by August 15, 2010 with completion of less critical items by October 15, 2010. The scope of items and critical dates is included in the contract. Trustee Hightower commented that the design-building method of reconstruction is the right way to go in this situation.

Trustee Sundin inquired if the firm engaged any under-represented employees. Mr. Dirks responded that he get that information for the trustee. (Note: JP Structures, Inc. is not state certified as a Targeted Group (TG) or Economically Disadvantaged (ED) Vendor. However, as this project solicitation was over \$100,000.00, respondents were required to provide an Affirmative Action Certification of Compliance. JP Structures did provide this certification of compliance in their proposal.)

Chancellor McCormick commended President Valentine and her staff for the remarkable response to their students after the tornado.

Trustee Benson 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 authorizes the chancellor or his designee to execute a Design-Build contract with J P Structures, Inc. for restoration work at the Minnesota State Community and Technical College - Wadena campus for up to \$5M as described herein.

5. **PROPOSED AMENDMENT TO BOARD POLICY 6.5 CAPITAL PROGRAM PLANNING** (*Second Reading*)

Vice Chancellor King noted that Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure be reviewed at least once every five years.

The proposed change to Policy 6.5 makes it consistent with existing Board Policy 1A.1 Part 7. Colleges and universities shall not seek funding for any public capital project that has not been approved by the Board as provided in Part 1 of this policy or Board Policy 1A.1 Part 7.

Trustee Hightower moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Frederick seconded the motion which carried no dissent.

**RECOMMENDED MOTION:**

The Board of Trustees approves amending Policy 6.5 Capital Program Planning as shown in Attachment A.

**6. PROPOSED AMENDMENT TO BOARD POLICY 5.16 RISK MANAGEMENT AND INSURANCE** (*First Reading*)

Vice Chancellor King noted that as part of the scheduled board policy review it was determined that the policy should be amended to reflect 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.

Liability insurance coverage has always been purchased when appropriate. However this wasn't explicitly stated in board policy. The addition of the word "liability" specifically states that liability coverage should be purchased where appropriate. Trustee Van Houten concurred that the policy language is broad and inclusive and allows flexibility. The proposed amendment will have a second reading at the September Board of Trustees meeting.

**7. DISCUSSION OF COMMITTEE GOALS** (*Information*)

Vice Chancellor King referred to a colored matrix which was provided to the committee earlier which had the committee's goals.

Chair McElroy asked that technical college equipment purchases be added to the list of goals. Vice Chancellor King noted that pre-merger there was a line item in the appropriations bill for equipment. Over the years equipment purchases became a block grant with a separate line on the green sheet. That line item was removed over 6 years ago. Line items have been gradually eliminated over the years allow the Board to have discretion to appropriate funds. The allocation framework tries to offset the high costs of equipment to smooth out distortions in high cost programs. Discussion of this topic will continue when the allocation framework item is discussed. Chancellor McCormick noted this is a good opportunity to seek donated funds or equipment from the business community.

Trustee Van Houten suggested more consistent language be used. Some goals suggest reducing "unnecessary" spending and others use the term "wasteful".

Chair McElroy noted that the committee goals will be back on the agenda in September for further discussion. Vice Chancellor King commented that many of the items on the list are already scheduled for Board discussion throughout the year. She volunteered to do some strategic sorting and combining to make it easier for discussion purposes.

Trustee Benson requested more discussion about the size of the bonding bill and physical plant size. Chair McElroy suggested that the discussion occur before the capital budget request.

Chair McElroy recessed the meeting at 1:56 pm.

Respectfully submitted,  
Nancy Lamden, Recorder

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** Proposed Amendment to Board Policy 5.16 Risk Management and Insurance (Second Reading)

Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring

Information

**Cite policy requirement, or explain why item is on the Board agenda:** Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer

**Outline of Key Points/Policy Issues:**

Board policies and procedures are reviewed to:

1. assure contemporary and responsible business practices are maintained
2. assure the system's current financial and operating control mechanisms are sustained or strengthened
3. assure continuity of operations
4. clarify conflicting or misunderstood information
5. eliminate redundancy

**Background Information:** The Finance Division is responsible for reviewing and proposing amendments to most board policies in Chapters 5, 6, and 7.

BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES

*Second Reading*

**BOARD ACTION**

**Proposed Amendment to Board Policy 5.16 Risk Management and Insurance**

**BACKGROUND**

Board Policy 1A.1, Part 6, Subpart H, has established that each board policy and system procedure is to be reviewed at least once every five years. This purpose of this review is to:

1. assure contemporary and responsible business practices are maintained
2. assure the system's current financial and operating control mechanisms are sustained or strengthened
3. assure continuity of operations
4. clarify conflicting or misunderstood information
5. eliminate redundancy

**Policy 5.16 Risk Management and Insurance**

This is 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.

All of our campuses participate in the State's Risk Management Fund where they purchase the necessary insurance coverage to protect them against the perils of their daily activities. Campuses have always procured liability insurance coverage through the State's Risk Management Program and/or another applicable vendor when appropriate. However this wasn't explicitly stated in board policy. The addition of the word "liability" specifically states that campuses should be purchasing liability coverage where appropriate.

**RECOMMENDED COMMITTEE ACTION**

The Finance, Facilities and Technology Policy Committee recommends the Board of Trustees adopt the following motion:

The Board of Trustees approves amending Policy 6.5 Capital Program Planning as shown in Attachment A.

**RECOMMENDED BOARD ACTION**

The Board of Trustees approves amending Policy 6.5 Capital Program Planning as shown in Attachment A.

*Date Presented to the Board: September 15, 2010*



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

**BOARD POLICY****5.16**

Chapter 5      Chapter Name    Administration

Section 5.16      Policy Name      Risk Management and Insurance

1      **5.16 Risk Management and Insurance**

2

3      **Part 1. Policy Statement.** It is the policy of the Board of Trustees that the office of  
4 | the chancellor, colleges, and universities will obtain property-~~and~~, casualty and liability  
5 insurance as appropriate either through the State's Risk Management Program and/or  
6 other authorized and applicable programs.

7

8      **Part 2. Responsibilities.** The chancellor for the office of the chancellor and the  
9 presidents for the colleges and universities are responsible for effectively managing  
10 risks in order to conserve and manage the assets of the office of the chancellor, colleges  
11 and universities and minimize the adverse impacts of risks or losses.

12

13      **Part 3. Accountability/Reporting.** The Board of Trustees will be updated on an  
14 exception-based reporting system on the risk management and insurance coverage of  
15 the office of the chancellor, colleges, and universities.

16

17      *Date of Implementation: 6/21/00*18      *Date of Adoption: 06/21/00*

19      *Date and Subject of Revision: 06/18/03 - changes "system office" to "office of the*  
20 *chancellor", eliminated periodically updating to the Board to an exception-based*  
21 *reporting system; updated website for risk management.*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** Online Student Support Center Intra-Agency Agreement

- Proposed Policy Action       Approval Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:**

Board Policy 5.14, Procurement and Contracts, requires that contracts, including amendments, with values greater than \$3,000,000 must be approved in advance by the Board of Trustees.

The proposed action item is for Board approval to amend the intra-agency agreement with Minnesota State Community and Technical College (acting as fiscal agent for Distance Minnesota), estimated to total a cumulative \$3,378,081 through the end of June 2011.

**Scheduled Presenter(s):** Manuel López, Associate Vice Chancellor

**Outline of Key Points/Policy Issues:**

The Online Student Support Center is the core enterprise used in support of all Minnesota State Colleges and Universities online credit courses. Extension of the Intra-Agency Agreement with Minnesota State Community and Technical College is endorsed by the Minnesota Online Council, an advisory committee comprised of representative faculty, students, and administration.

**Background Information:**

Minnesota State Colleges and Universities entered into a five year intra-agency agreement with Minnesota State Community and Technical College beginning in 2006. The agreement included an option to renew for five additional one year terms. The proposed action item seeks Board approval to exercise the renewal option for a single additional one year term until June 30, 2011 because it exceeds the \$3,000,000 threshold.

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

**BOARD ACTION**

**Online Student Support Center Intra-Agency Agreement**

**BACKGROUND**

Board Policy 5.14, Procurement and Contracts, requires that contracts, including amendments, with values greater than \$3,000,000 must be approved in advance by the Board of Trustees.<sup>1</sup>

The proposed action item is for Board 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 threshold for approval through internal processes.

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.

Minnesota State Colleges and Universities entered into an intra-agency agreement with Minnesota State Community and Technical College beginning in fiscal year 2006 for a total not to exceed \$2,155,948. The original agreement has been amended (PO #31988) to renew fiscal management and oversight of the Online Student Support Center. The current amendment (PO # 40399) seeks to extend the agreement for an additional one year term. The proposed action item seeks Board approval to exercise the renewal option for an additional one year term until June 30, 2011.

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<sup>1</sup> Policy 5.14 identifies contracts to include inter-agency and intra-agency agreements, joint powers agreements that do not create a joint powers board, Minnesota Department of Administration master contracts, Office of Enterprise Technology master contracts or Minnesota State Colleges and Universities master contracts with values greater than \$3,000,000.

Renewal of the agreement is endorsed by the Minnesota Online Council, an advisory committee comprised of faculty, students, and administration. Users are satisfied with the work of the Online Student Support Center.

In anticipation of the agreement's expiration in June 2011, the staff of Minnesota Online and the Minnesota Online Council will begin a review and evaluation process of the Online Student Support Center.

The annual contract with Minnesota State Community and Technical College is estimated to be \$635,000.

**RECOMMENDED COMMITTEE ACTION**

The Finance and Facilities Policy Committee recommends that 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.

**RECOMMENDED BOARD OF TRUSTEES ACTION**

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.

*Date Presented to the Board: September 15, 2010*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** Laws of 2010 – Local Bank Deposit Pilot

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** The purpose of this report is to provide an update on the progress of the local bank deposit pilot established by the legislature during the 2010 session.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer

**Outline of Key Points/Policy Issues:** The system sought institutions interested in participating in the bank deposit pilot. Five colleges and two universities indicated interest in participating. A request for proposal (RFP) was conducted and four responses were received. Currently the following institutions are negotiating final details and pursuing agreements with local community financial institutions: Bemidji State University; Northwest Technical College-Bemidji; and Minnesota West Community and Technical College.

**Background Information:** Minnesota Laws of 2010, Chapter 364, Section 33 provides that the Minnesota State Colleges and Universities will conduct a 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.

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

**INFORMATION ITEM**

**Laws Of 2010 – Local Bank Deposit Pilot**

**BACKGROUND**

Minnesota Laws of 2010, Chapter 364, Section 33 provides that the Minnesota State Colleges and Universities will conduct a 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. A community financial institution means a federally insured bank or credit union, chartered as a bank or credit union by the state of Minnesota or the United States, that is headquartered in Minnesota and that has no more than \$2.5 billion in assets.

Unless there are not sufficient applicants, two-year and four-year institutions must be selected to participate in the pilot project and the majority of the selected institutions must be located in greater Minnesota.

The pilot project shall provide for the transfer of deposits for no more than the period January 2, 2011, to December 31, 2012.

**Evaluation and report as required by law:**

“The commissioner of management and budget and the board of trustees shall independently evaluate the effectiveness or harm of the local deposit pilot project in increasing the use of community financial institutions and providing wider distribution of the economic benefit of the deposit of postsecondary reserves. Each evaluation must include the participating colleges, universities, and community financial institutions. The commissioner of management and budget and the board shall report on the pilot project evaluation to the appropriate committees of the legislature by February 1, 2013, with recommendations on the future implementation of the pilot project.”

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 be in the pilot.

A Request for Proposal (RFP) was prepared by staff in the Office of the Chancellor with input from the participating institutions. The RFP required that the financial institutions response include:

- 1) Rate of return (terms and time frames).
- 2) Description of the evaluation and report that they would provide regarding the effectiveness of this local deposit pilot project.
- 3) Provide evidence of financial strength.
- 4) Provide all requirements set forth in the RFP.

### **REQUEST FOR PROPOSAL**

The following colleges and universities, and their respective campus locations, along with the amounts of budget reserve funds that could be deposited were included in the RFP issued on August 2, 2010 as listed below:

College: 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)

University: Winona State University \$2,200,000 (Winona)  
Bemidji State University \$1,600,000 (Bemidji)

The following selection and implementation timeline was included in the RFP:

### **Selection and Implementation Timeline**

Monday, August 2, 2010	Publish RFP notice in <i>State Register</i>
Wednesday, August 18, 2010, 8:00 a.m. CST	Deadline for RFP proposal submissions
Wednesday-Friday, August 18-20, 2010	Review RFP proposals
Monday-Wednesday, August 23-25, 2010	Meet with top responder(s), if needed
Friday, August 27, 2010	Complete selection process
Friday, November 19, 2010	Deadline for executing contract

Individuals representing the banking interests were notified that the RFP was posted. Also participating colleges and universities contacted their local financial institutions to let them know of the posting.

### **REQUEST FOR PROPOSAL RESPONSES AND SELECTION**

Four RFP responses were received proposing to serve three colleges and one university. Two responses were rejected. One because the rate of return offered was lower than what is currently earned. The second rejection was because they did not provide information as requested in the RFP. It appears the number of responses was limited due to the ability

of banks to borrow from the Federal Reserve at a very low interest rate. Also, currently there is not a high demand for loans in many communities.

Currently the following institutions are negotiating final details with these community financial institutions:

Bemidji State University - Response received from Security Bank

Northwest Technical College-Bemidji – Response received from Security Bank

Minnesota West Community and Technical College – Response received from First State Bank

Potentially this will move \$4.3 million from the state treasury to the two selected community financial institutions in greater Minnesota. Both colleges and universities will be involved as directed by the legislative language.

Vice Chancellor King will review and sign the formal agreements once finalized with the participating institutions and the banks.

#### **NEXT STEPS**

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.

*Date Presented to the Board: September 15, 2010*



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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** Discuss and Select Committee Goals

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** The report outlines potential goals for the ideas suggested by Board members for FY2011 consideration by the Finance and Facilities committee.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer

**Outline of Key Points/Policy Issues:** Trustees discussed the goals for the Finance and Facilities Committee briefly at their July meeting.

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

<b>ACTION ITEM</b>
<b>Discuss and Select Committee Goals</b>

The purpose of this report is to respond to the Board of Trustee’s request for further discussion of potential work plan topics in the coming fiscal year. The suggested topics have been illustrated in relation to the current division and committee work plan, the potential to address as an information item and part of a larger agenda item or as a “new project” topic for the year.

**Finance and Facilities Committee “Ideas”**

		<b>FY2011 Work Plan</b>	<b>New Project</b>	<b>Information Item</b>
1	Composite financial index (CFI); report annual CFI Progress	Annual Financial Statements (November)		
2	Monitor financial results, early issue identification			Policy now requires board notification of ‘material event’. Also have dashboard accessible to board.
3	Physical plant size of system – size/priorities of bonding bill	2012-2017 Capital Budget Request (Sept/May/June)		
4	Establish Office of the Chancellor strategic look	Report to Board (December) related to #5		
5	Establish FY2012-2013 colleges, universities and system office operating budgets	Report to Board (December)		
6	Resources for Results	Report/Discussion with Board (January)	New effort in 2011	

*Discuss and Select Committee Goals 2*

7	Purchasing systems – group buying power			Can schedule in spring 2011
8	Eliminate wasteful spending			Need discussion of activity sought
9	Centers of Excellence (goals, funding, effectiveness)			Need direction/coordination with ASA
10	Eliminate duplicate programs/campuses			Can schedule in spring 2011 as part of FY2012 budget presentation
11	Institutional rewards for performance			See item #6 (duplicate)
12	Financial sustainability		Suggest special project	Relates to #1, 3, 5, 6, 8, 10 and 11
13	Allocation Framework			Needs direction – not known what issue – could relate to “Resources for Results” in #6 and 10 and 11
14	Exploring Centers (academic and operational)			Pursue with #4, 6, 11 and 12
15	Realignment and reorganization	Shared Services initiative in the work plan	New effort in 2011	Relates to #14
16	How technical colleges pay for instructional equipment			Relates to #5, 12 and 13

It has been suggested that the following guidelines be taken into consideration when selecting goals for the committee:

- The goal must be in sync with the system's current strategic plan;
- The goal should be innovative, not just a continuance of what is already being done;
- The goal must be achievable in a relatively short time period (one to five years);
- The goal must have a measurable outcome where progress can be measured annually;
- The goal should be supported by the committee's system office and presidential representatives; and
- Affordability.

**RECOMMENDED COMMITTEE ACTION**

The Finance and Facilities Committee adopts \_\_\_\_\_ as its FY2011 committee goals.

*Date Presented to the Board: September 15, 2010*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** Minnesota State Colleges and Universities System and State Economic Outlook for FY2011-2013

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** The system is continuing budget planning for the 2012-2013 biennium. The budget planning is incorporating a set of assumptions about appropriation reductions, tuition rate increases, and inflationary cost increases.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor - Chief Financial Officer  
Judy Borgen, Associate Vice Chancellor Budget  
Karen Kedrowski, System Budget Director

**Outline of Key Points/Policy Issues:** The purpose of this report is to continue discussion regarding the budget planning framework and the 2012-2013 budget outlook as it relates to a biennial operating budget request.

**Background Information:** The system has taken a multi-year approach to budget planning, positioning the System for long-term financial viability. Budget planning for 2012-2013 is well underway. The Committee was presented a budget planning framework earlier this year that colleges and universities are using to model 2012-2013 operating budgets.

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

<b>INFORMATION ITEM</b>
<b>Minnesota State Colleges and Universities System and State Economic Outlook for FY2011-2013</b>

**BACKGROUND**

The purpose of this report is to continue a discussion with the Finance and Facilities Committee regarding the state and system outlook for the 2012-2013 biennium. The system and the colleges and universities have taken a multi-year approach to budget planning. The planning has been guided by three principles:

- The Chancellor and system leadership will seek to make decisions in a way that best serves students;
- Decisions will strive to take into account the system’s mission to serve the economic development needs of the state and its communities; and
- Planning will take a multi-year approach, positioning the system for long-term financial viability.

The Board approved the fiscal year 2011 operating budget and has provided a planning framework to colleges and universities in modeling 2012-2013 operating budgets. Discussion today will center on the system’s budget outlook for 2012-2013 as a result of applying assumptions for appropriation, tuition and inflationary cost increases.

**Fiscal year 2011 operating budget update**

The Board approved the fiscal year 2011 general operating fund budget of \$1.5 billion at its May 2010 meeting. The operating budget was built on a state appropriation level of \$605.5 million, modest tuition rate increases and enrollment growth (slightly less than 1 percent), modest compensation inflationary cost increases (insurance rate increase and steps for classified employees), and the continuation of one-time federal American Recovery and Reinvestment Act of 2009 (ARRA) funds. (Table 1) The system is projecting a positive budget balance of \$9.1 million.

**Table 1** **Minnesota State Colleges and Universities**  
**Summary – General Operating Fund**  
**Fiscal Year 2011 Approved Budget**

(\$ in millions)	Fiscal Year 2011 Approved Budget
<b>Revenues</b>	
State appropriation	\$605.5
Tuition	\$777.4
ARRA funds	\$39.6
Other revenues	<u>\$128.0</u>
<b>Total budgeted revenues</b>	<b>\$1,550.5</b>
<b>Expenses</b>	
Compensation	\$1,127.3
Other operating costs	<u>\$421.4</u>
<b>Total budgeted expenses</b>	<b>\$1,548.6</b>
<b>Gap</b>	<b>\$1.8</b>
Programmed fund balance	\$7.3
<b>Budget balance</b>	<b>\$9.1</b>

Although some colleges and universities have programmed the use of fund balance (\$7.3 million), the \$9.1 million budget balance means that the system in total is projecting an increase in its year-end fund balance. There is an expectation that each college and university as well as the Office of the Chancellor maintain a fund balance which is defined as budgetary cash balance at the close of a fiscal year. A portion of the fund balance is designated as reserves per Board Policy 5.10. A fund balance can increase/decrease year over year and affords the organization the ability to maintain operations for some period of time in spite of adverse financial conditions or to make large one-time investments such as instructional equipment or capital improvements. The Chancellor has directed colleges and universities and the Office of the Chancellor to reach structural balance by the end of this fiscal year.

As the academic year is just beginning, it is premature to presume that the fiscal year 2011 operating budget approved in May 2010 will hold. The enrollment increase built into the budget is an estimate. Key dates are the 30<sup>th</sup> day enrollment for fall term (available early October) and spring term (available early March 2011). The Board will be kept apprised of the enrollment outlook and the overall impact on the operating budget.

The legislature allocated to the system \$79.2 million in one-time federal ARRA funds. The system divided the funds evenly between fiscal years 2010 and 2011 - \$39.6 million each year. ARRA spending is on plan with \$36.4 million spent in fiscal year 2010 and the balance to be spent by September 30, 2011. The funds are used to support the general operations of the colleges and universities as if they were a tuition or state support dollar.

A portion of the ARRA funds were programmed to mitigate the fiscal year 2010 tuition rate increase so that the student was charged no more than a three percent increase over prior year. The cost was originally estimated at \$13 million but actual cost for fiscal year 2010 was \$12 million. The fiscal year 2010 mitigation would be paid for again in fiscal year 2011 for a total biennium cost estimated at \$24 million. With the cost of the tuition mitigation coming in under budget, the remainder of the ARRA funds is available for one-time operating costs. Table 2 provides a comparison of Board-approved annual average tuition rates to annual average tuition rates charged to students – showing the impact of the tuition mitigation. The \$83 tuition difference at the colleges and the \$110 tuition difference at the universities are the mitigated amounts. In fiscal year 2012, students will be responsible for the mitigated amount in addition to any new tuition rate increases approved by the Board.

**Table 2**

**Minnesota State Colleges and Universities  
Comparison Tuition Rates:  
Board-Approved and Charged to Students**

	Colleges		Universities	
	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2011
Average Annual Tuition (Board-Approved)	\$4,277	\$4,480	\$5,901	\$6,196
Average Annual Tuition (Charged to Students)	\$4,194	\$4,397	\$5,791	\$6,086
Mitigated amount	(\$83)	(\$83)	(\$110)	(\$110)

Preliminary budget decisions will be made later this fall by the colleges and universities and the Office of the Chancellor in preparation for the 2012-2013 biennium. The budget decisions will include faculty and staff layoff notifications and academic program closures. The impact of these preliminary decisions will be picked up by local media. The decisions being made are based on the best information available and on a set of assumptions (adjusted for local conditions) that the Vice Chancellor previously shared with the Committee. To date, only a few colleges and universities have publicly announced their preliminary budget decisions for the 2012-2013 biennium. By early to mid-October the remainder of the colleges and universities will release their preliminary budget decisions. Information related to preliminary budget decisions for 2012-2013 will be shared with the Committee later this fall.



**State economic outlook 2012-2013**

At the end of the 2010 legislative session, the state was projecting a budget balance of \$6 million and a cash flow account of \$266 million for the 2010-2011 biennium. The July 2010 Economic Outlook released by Minnesota Management and Budget stated that fiscal year 2010 general fund receipts are projected to be \$99 million less than the February 2010 forecast. Individual income tax receipts are \$188 million less than projected, offset by modest increases in corporate income and sales taxes. The revenue shortfall directly impacts the state’s budget balance, and its ability to respond to any further revenue shortfalls during fiscal year 2011.

Based on 2010 end-of-session legislative action, the projected deficit for the 2012-2013 biennium is \$5.766 billion. (Table 3) If general expense inflation was added to the planning estimates, the deficit would widen by an estimated \$1.2 billion (based on information provided in the February 2010 Economic Outlook). It is anticipated that the 2012-2013 budget deficit will more than likely increase when the November 2010 forecast is released. Two main drivers impacting the deficit are (1) the decrease in real GDP growth from a projected 3.5 percent to 2.9 percent, and (2) a decreasing income tax and sales tax revenue base. (Minnesota Management and Budget, July 2010 Economic Outlook)

**Table 3** **State of Minnesota**  
**FY2012-2013 Planning Estimates**

(\$ in millions)	End-of-Session May 2010
Revenues	\$33,179
Expenditures	<u>\$38,945</u>
<b>Difference</b>	<b>(\$5,766)</b>

*Planning estimates assume:*

- Complete repayment of the K-12 aid deferral. Delaying repayment would save \$1.173 billion.
- No repayment of the K-12 property tax recognition shift. Repayment would cost \$576 million.

Source: Minnesota Management and Budget, General Fund – Fund Balance Analysis, End of 2010 Legislative Sessions, June 11, 2010.

The state’s economist has stated numerous times that the state has a structural issue. Revenue growth will be slow, and spending pressures will be driven by issues of an aging population and health care services. State spending pressure will shift from K-12 and higher education and infrastructure to services for the aging. The state’s economic outlook has a significant influence on the system’s financial condition. Taking into consideration the spending pressures and the looming deficit, the Chancellor and Board have included in the framework for multi-year budget planning an assumption of appropriation reductions for the 2012-2013 biennium.

There are two more economic forecasts (November 2010 and February 2011) that will determine what action will need to be taken by the 2011 Legislature ultimately impacting the system's 2012-2013 funding level.

### **System outlook 2012-2013**

A budget planning framework for the 2012-2013 biennium was shared with the Finance and Facilities Committee and provided to presidents and the campus communities in January 2010. The planning framework included the following assumptions:

- Assume governor's supplemental budget recommendation of \$594.4 million (which is \$11 million below the system's fiscal year 2011 appropriation level of \$605.5 million);
- Model further reductions in state appropriation from the governor's budget recommendation;
- Recognize inflationary cost increases at the CPI referenced in the state's economic outlook, modified for local conditions. In the July 2010 Economic Outlook, the state revised the CPI downward to 1.5 percent for fiscal year 2012 and 1.4 percent for fiscal year 2013 (compared to 2.1 percent and 1.9 percent respectively);
- No cap on tuition rate increases but an expectation of reasonableness; and
- No federal stimulus funds.

**Appropriation.** With the state's projection of a significant budget deficit in the 2012-2013 biennium, modeling reductions in state resources seems more appropriate than planning for increased funding. The difficulty is in choosing which appropriation level to use when beginning to model further reductions in state resources. Early in the budget planning process there were a few options available that could serve as the base for further modeling. Those options were:

- Omnibus Higher Education Bill from the 2009 session: \$654.9 million (\$1,309.8 million biennium);
- Governor's supplemental budget recommendation released in January 2010: \$594.4 million (\$1,188.8 million biennium); or
- Fiscal year 2011 funding level: \$605.5 million (\$1,211 million biennium).

The Chancellor and Vice Chancellor-Chief Financial Officer sought input and advice from the Leadership Council early in the planning process to determine which appropriation level to use as the starting point for 2012-2013 budget modeling. In order to recognize the extreme uncertainty in the 2012-2013 forecast base outlook, it was determined that the system should take a more conservative approach and start from the governor's supplemental budget level of \$594.4 million recognizing that differences exist. To add further complexity to the appropriation outlook, 2010 legislative action in mid-May 2010 reduced the forecast appropriation base from \$1,309.8 million to \$1,260.7 million (\$630.4 million each year). As a point of reference, both the governor and legislature will begin the 2012-2013 operating budget planning process using the forecast base of \$1,260.7 million and any reductions in state resources for the system will be from that funding level.

Appropriation planning scenarios were provided to presidents this past spring. The planning scenarios provide the “bookends” to appropriation reductions. One assumption was that half of the state’s \$5.8 billion deficit would be solved with spending reductions and the other assumption was that the entire deficit would be solved with spending reductions. Currently, the system represents 3.9 percent of the state’s general operating budget. The system’s share of the reduction would be from \$105 million to \$210 million over the biennium and that reduction would be applied against the system’s planning estimate of \$594.5 million. Information was shared with presidents that compared the system’s planning estimates to the forecast base.

Table 4 below displays reduction scenarios against 2012-2013 forecast base. It also shows the system’s planning assumptions compared to current level funding as well as the forecast base. The system’s “bookend” planning assumptions seek to illustrate the degree of risk to the system depending upon the starting point for the discussions between the governor and the legislature.

**Table 4 Minnesota State Colleges and Universities  
2012-2013 System Planning Assumptions  
Compared to Forecast Base and Current Funding Level**

	Fiscal Year 2012	Fiscal Year 2013	Biennium Total	Change 2012	Change 2013	Biennium Total
Fiscal year 2011 funding level	\$605.5	\$605.5	\$1,211.0			
Supplemental Omnibus Higher Education Bill (2012-2013 forecast base)	\$630.4	\$630.4	\$1,260.7			
<i>change from fiscal year 2011</i>				\$24.9	\$24.9	\$49.7
If 50% of state deficit solved with reductions (\$105 million from forecast base)	\$595.4	\$560.4	\$1,155.7			
<i>change from forecast base</i>				(\$35.0)	(\$70.0)	(\$105.0)
If 100% of state deficit solved with reductions (\$210 million from forecast base)	\$560.4	\$490.4	\$1,050.7			
<i>change from forecast base</i>				(\$70.0)	(\$140.0)	(\$210.0)
<b>System planning assumption (bookend 1)</b>	<b>\$559.4</b>	<b>\$524.4</b>	<b>\$1,083.8</b>			
<i>change from fiscal year 2011</i>				(\$46.1)	(\$81.1)	(\$127.2)
				-7.6%	-13.4%	-10.5%
<i>change from forecast base</i>				(\$71.0)	(\$106.0)	(\$176.9)
				-11.3%	-16.8%	-14.0%
<b>System planning assumption (bookend 2)</b>	<b>\$524.4</b>	<b>\$454.4</b>	<b>\$978.8</b>			
<i>change from fiscal year 2011</i>				(\$81.1)	(\$151.1)	(\$232.2)
				-13.4%	-25.0%	-19.2%
<i>change from forecast base</i>				(\$106.0)	(\$176.0)	(\$281.9)
				-16.8%	-27.9%	-22.4%

Using the different appropriation planning scenarios, colleges and universities are estimating their share of the reduction and incorporating the results into their local budget planning process. There is variability around the estimates each college and university is developing. Factors that influence appropriation reduction scenarios at any one college or university are the level of appropriation being modeled, historical outcomes of base allocation framework, and funding levels for other Board priorities and systemwide expenses (i.e., debt service, serving the underserved, centers of excellence, etc.). Colleges and universities have highly variable enrollment estimates resulting in more/less elasticity in tuition revenue. Although the overall “system” annual appropriation reduction being modeled ranges from 7 to 13 percent, colleges and universities are more than likely modeling different percent reductions due to the factors noted above.

In addition to appropriation, there are other revenue and expense variability that colleges and universities are managing. Some of those include:

Revenue variability

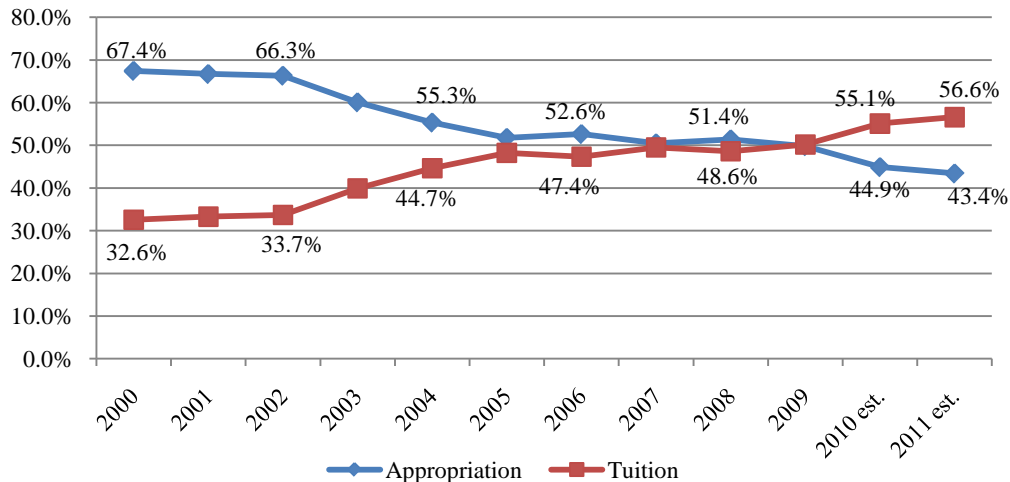
- Appropriation – balancing state outlook, legislative action, funding decisions of Board priorities, impact of allocation framework
- Tuition - rate increase and impact of enrollment volume increase/decrease

Expense variability

- Compensation costs – impact of fixed cost increases and potential impact of negotiated new costs
- Other operating costs – utilities, debt service obligation

**Tuition.** State appropriation has been a primary revenue source for the system. With diminishing support from the state, the system’s reliance on tuition to support basic education activities has increased dramatically. This has resulted in a trend where tuition currently is estimated to comprise 56.6 percent of total appropriation and tuition revenue. (Graph 1)

**Graph 1 Minnesota State Colleges and Universities  
Percent of Total State Appropriation and Tuition Revenue**



The planning framework provided to colleges and universities includes no cap on tuition rate increases for 2012-2013; however, there is an expectation of reasonableness. Tuition revenue for fiscal year 2011 is estimated at \$790.3 million. On average a one percent tuition rate increase would yield an estimated \$7.9 million. As a point of reference, a one percent increase in enrollment would yield about the same amount of revenue as a one percent rate increase – an estimated \$7.9 million. Table 5 shows the estimated tuition revenue realized with varying tuition rate increases.

**Table 5**

**Minnesota State Colleges and Universities  
2012-2013 Estimated Tuition Revenue Yielded  
From Varying Tuition Rate Increases**

(\$ in millions)	3% Rate Increase / Year	5% Rate Increase / Year	10% Rate Increase / Year
Fiscal year 2011 tuition revenue base = \$790.3 million			
Fiscal year 2012	\$23.7	\$39.5	\$79.0
Fiscal year 2013	\$24.4	\$41.5	\$87.0
<b>Biennial total</b>	<b>\$71.8</b>	<b>\$120.5</b>	<b>\$245.0</b>

\*Biennial total calculation: fiscal year 2012 (x2) + fiscal year 2013.

Colleges and universities have incorporated into their budget planning process varying tuition rate increase scenarios, keeping in the forefront the expectation of reasonableness. If the Board approved on average a five percent tuition rate increase, the rate charged to the student would be the five percent plus the two percent mitigated tuition from fiscal year 2010. On average, the rate charged to a student would be seven percent above the fiscal year 2011 level. The tuition mitigation was supported by the Legislature, Board and the student associations. The Board and Chancellor have been very transparent about the impact of the fiscal year 2010 tuition mitigation and that it will be the responsibility of the student to pay the mitigated amount in fiscal year 2012.

For illustrative purposes only, the results of a five percent tuition rate increase along with the impact of the tuition mitigation are shown in Table 6. A five percent rate increase at colleges would result in a \$224 annual increase. However, the impact to the student would be \$307 (\$224 new increase plus the \$83 mitigated amount). At the universities, a five percent increase would be \$420 (\$310 new increase plus the \$110 mitigated amount).

Table 6

**Minnesota State Colleges and Universities  
Illustration of Tuition Rate Increase and Mitigation Impact**

	Colleges				Universities			
	Fiscal Year 2011	Fiscal Year 2012	%	\$	Fiscal Year 2011	Fiscal Year 2012	%	\$
Average Annual Tuition (Board-Approved)	\$4,480	\$4,704	5%	\$224	\$6,196	\$6,506	5%	\$310
Average Annual Tuition (Charged to Students)	\$4,397	\$4,704	7%	\$307	\$6,086	\$6,506	7%	\$420
Difference	(\$83)	\$0		\$83	(\$110)			\$110

**Inflationary costs.** Inflationary cost increases will put pressure on the expense budgets of the colleges and universities and the Office of the Chancellor. The inflationary guidelines provided to the colleges and universities have been to recognize inflationary cost increases at the CPI referenced in the state’s February 2010 economic outlook (2.1 percent for fiscal year 2012 and 1.9 percent for fiscal year 2013), modified for local conditions. The state’s July 2010 economic outlook has revised the CPI downward to 1.5 percent for fiscal year 2012 and 1.4 percent for fiscal year 2013. Colleges and universities and the Office of the Chancellor are modeling various scenarios to determine impact on budgets.

As shown previously in table 1, the overall system’s fiscal year 2011 general operating fund budget of \$1.5 billion is comprised of 73 percent compensation expenses and 27 percent other operating expenses. The compensation reliance at colleges and universities ranges from the high 60 percents to the low 80 percents. The system is a service organization and heavily reliant on individuals to fulfill its mission. Under the current labor contracts, the system will experience compensation cost increases estimated at \$55 million (assuming current roster), if **nothing** is done in the next round of labor negotiations. The “fixed” compensation cost increases include the following:

- “Tails” from the fiscal year 2011 step increases for classified employees and mid-year health insurance rate increase of 6.7 percent that will occur January 2011.
- Under the current structure of the state health insurance program, the projected health insurance rate increases are 16.5 percent in January 2012 and 8 percent in January 2013. During the next round of collective bargaining, any shifts or changes made to the state health insurance program could raise or lower the costs to the employer and/or the employee.

Compensation costs will increase above the “fixed” amount if new employee salary increases (i.e., steps and/or across-the-board increases) are negotiated through the collective bargaining process.

**Budget gap.** The purpose of this report is to provide the Committee the 2012-2013 budget outlook when combining a set of “what if” revenue and expense assumptions. The following set of revenue assumptions were applied to the current fiscal year 2011 budget:

- Appropriation: \$559.4 million in fiscal year 2012; \$524.4 million in fiscal year 2013
- Tuition: 5 percent rate increase each year
- Enrollment: no volume change
- Other general fund revenue: no increase
- Compensation: 1.5 percent total each year (CPI estimate from state economic outlook)
- Other operating costs: 1.5 percent total each year (CPI estimate from state economic outlook)

As shown below in Table 7, applying the set of revenue assumptions noted above results in negative \$6.7 million revenue over the 2012-2013 biennium. With negative new revenue, the system would need to cover any increased expenses through reductions.

**Table 7**

**Minnesota State Colleges and Universities  
2012-2013 General Operating Fund “New” Revenue Simulation  
(Based on a set of assumptions)**

(\$ in millions)	Fiscal Year 2011 (base)	Fiscal Year 2012 Revenue Change	Fiscal Year 2013 Revenue Change	Biennium Total
State appropriation	\$605.5	(\$46.1)	(\$35.0)	(\$127.2)
Tuition (5 percent rate increase)	\$790.3	\$39.5	\$41.5	\$120.5
Other	\$128.0	\$0.0	\$0.0	\$0.0
<b>Simulated New Revenue</b>	<b>\$1,523.8</b>	<b>(\$6.6)</b>	<b>\$6.5</b>	<b>(\$6.7)</b>

The revenue outlook is based on a set of “what if” assumptions and does not represent the actual revenue change for 2012-2013.

As noted above, the system is projecting “fixed” compensation cost increases of \$55 million (assuming current roster). Negative revenue of \$6.7 million and “fixed” compensation cost increases of \$55 million produces a \$61.7 million budget gap before applying any new inflationary costs. Table 8 shows the budget impact when combining the revenue assumptions with the fixed compensation costs and inflationary cost assumptions that total \$123.5 million. The information below is provided to assist in framing for the Committee the severity of the 2012-2013 budget outlook.

**Table 8 Minnesota State Colleges and Universities  
2012-2013 Inflationary Cost Assumptions**

(\$ in millions)	Biennial Total
<b>Estimated New General Fund Revenue</b>	<b>(\$6.7)</b>
Plus “fixed” compensation costs	\$55.0
<b>Budget gap</b>	<b>(\$61.7)</b>
Plus compensation increases at 1.5% each year	\$49.9
<b>Budget gap</b>	<b>(\$111.6)</b>
Plus other operating inflation at 1.5% each year	\$18.6
<b>Budget gap</b>	<b>(\$130.2)</b>

The budget gap would widen significantly if the system were to experience an appropriation reduction at the level of \$210 million. The budget gap would narrow if tuition rate increases were above 5 percent and/or enrollment growth was greater than one percent. To the extent compensation cost increases were limited, the budget gap would also narrow.

### **Biennial operating budget development 2012-2013**

Every other year, as part of the state’s operating budget process, the system develops a biennial operating budget request. The operating budget request for the 2012-2013 biennium is due to the governor and legislature in late fall of this year. The Chancellor sought advice and input from the system’s constituent groups and the Leadership Council during the past few months regarding development of the biennial budget. There has been varying input from asking for no new resources (protecting current level of funding) to asking for funds for inflationary cost increases.

During the 2010-2011 biennium, the state was projecting a budget deficit of \$940 million. After consideration of the state’s economic outlook, the Board approved a 2010-2011 biennial operating budget request of \$71.7 million (a 5.3 percent increase). The system did not receive its request, but rather an appropriation reduction of \$92.7 million (a 6.8 percent decrease). Factoring in the governor’s unallotment and supplemental budget reductions of \$60.5 million for fiscal year 2011, the total appropriation reduction to the system in the current biennium will be \$153.2 million (11 percent below forecast base).

As mentioned earlier in this report, the system’s forecast base provided for under current law is \$1,260.7 million which is \$49.7 million above the current fiscal year 2011 base funding doubled of \$1,211.0 million. As shown in Table 9, the base appropriation increase coupled with tuition revenue at a five percent rate increase would provide the financial resources to cover the inflationary cost increases and to continue moving forward the Board’s strategic and action plans.



**Table 9 Minnesota State Colleges and Universities  
2012-2013 Biennial Budget Outlook**

(\$ in millions)	<b>2012-2013 biennium</b>
2012-2013 forecast base under current law	\$1,260.7
Fiscal year 2011 base funding doubled	<u>\$1,211.0</u>
<b>Increased appropriation under current law</b>	<b>\$49.7</b>
Tuition revenue (5 percent rate increase each year)	<u>\$120.5</u>
<b>New revenue</b>	<b>\$170.2</b>
Inflationary cost assumptions	\$123.5
<b>Balance of new revenue</b>	<b>\$46.7</b>

The Chancellor feels strongly that it is his responsibility to ensure that the system has adequate financial resources to cover inflationary cost increases. With the forecast base an additional \$49.7 million above current level funding, it would be the Chancellor's intent to bring forward a 2012-2013 biennial operating budget request totaling the forecast base of \$1,260.7 million. There would be no further request for additional resources above the forecast base. Staff will work tirelessly to promote the budget request and gain legislative support of the forecast base.

#### **Next steps**

The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning and with consultation with their campus communities. Decisions will be made that ensure the colleges and universities and the Office of the Chancellor reach structural balance by the end of fiscal year 2011 and that will create long-term sustainability and viability for the system. The planning assumptions for appropriation, tuition and inflationary cost increases will be modified as more information becomes available.

The state's economic outlook is grim and it causes the system's outlook to also be grim. Multi-year budget planning and identification of a set of budget assumptions better position colleges and universities and the Office of the Chancellor to handle the uncertainty of the 2012-2013 biennium. The assumptions are fluid and will be adjusted when more information becomes available. However, preliminary budget decisions are being made based upon the best set of assumptions to meet the faculty and staff notification period.

The Chancellor has directed staff to develop the 2012-2013 biennial operating budget request at the forecast base of \$1,260.7 million. The Chancellor's recommendation will be presented to the Board in November for action.

*Date Presented to the Board: September 15, 2010*

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

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** September 14, 2010

**Agenda Item:** FY2012-2017 Capital Budget Update

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring
- Information

**Cite policy requirement, or explain why item is on the Board agenda:** Board Policy 6.5.1, Capital Program Planning, requires the Board of Trustees to establish criteria for and approve a prioritized multi-year capital budget, approve capital project priorities and guidelines, and final capital projects lists.

**Scheduled Presenter(s):** Laura M. King, Vice Chancellor – Chief Financial Officer  
Brian Yolitz, Associate Vice Chancellor Facilities

**Outline of Key Points/Policy Issues:** This agenda item is to update the Board on the Capital Budget process currently underway in preparation for the 2012 legislative session.

**Background Information:** Capital budgets are presented to the legislature every two years in the even year of the biennium as part of a six-year capital plan. Typically, the budget has included major capital projects at a specific campus; major repair and replacement projects benefiting most campuses [known as “asset preservation” or “HEAPR” (Higher Education Asset Preservation and Replacement)]; and system-wide initiative projects that are bundled together for a common purpose benefitting multiple campuses.

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

<b>INFORMATION ITEM</b>
<b>FY2012 - 2017 Capital Budget Update</b>

**BACKGROUND**

This agenda item updates the Board on the Capital Budget process in preparation for the FY2012 legislative session. Capital Budgets are presented to the legislature every two years in the even year of the biennium as part of a six-year capital plan. Typically, the budget has included recommendations for 1) Higher Education Asset Preservation and Replacement (HEAPR) program funding providing major facility and infrastructure repair and replacement across the system; 2) line-item major capital projects for specific campuses, and 3) system-wide initiatives to focus investments on specific issues or areas of concern at campuses across the system.

The table below provides the history of past Capital Budgets and results. While requests have grown over time, they have only slightly kept up with construction inflation which has been running higher than the general rate of inflation. For example, the System request in 1998 of \$214.4 million would be equivalent to \$355.1 million in 2010.

<b>\$ in millions</b>	<b>1998</b>	<b>2000</b>	<b>2002/03</b>	<b>2004/5</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total Capital Budget Request	\$214.4	\$230.0	\$268.4	\$292.6	\$280.4	\$33.8	\$350.2	\$117.1	\$396.8
HEAPR	\$91.0	\$100.0	\$100.0	\$100.0	\$110.0	\$30.0	\$110.0	\$50.0	\$110.0
Line-item Projects - \$	\$123.4	\$130.0	\$151.0	\$175.0	\$169.4	\$3.8	\$240.2	67.1	\$286.8
Line-item Projects - #	19	22	23 / 19	25 / 25	23	0	32	8	27

Appropriation Enacted	\$143.1	\$131.1	\$218.6	\$213.6	\$191.4	\$0.0	\$234.2	\$40.0	\$106.2
% of Request	67%	57%	81%	73%	68%	0%	67%	34.2%	27%
HEAPR Received	\$43.0	\$30.0	\$60.0	\$41.5	\$40.0	\$0.0	\$55.0	\$40.0	\$52.0
% of HEAPR Request	47%	30%	60%	42%	36%	0%	50%	80%	47%
Line-item Projects - \$	\$101.1	\$101.1	\$158.6	\$172.1	\$151.4	\$0.0	\$179.2	\$0.0	\$54.2
Line-item Projects - #	22	16	7/16	0/25	23	0	28	0	8

The Capital Budget process begins with Board approval of the next biennium's Capital Budget Guidelines. The Board approved FY2012-2017 Capital Budget Guidelines in May 2010, providing detailed criteria for system capital projects and the schedule for project submission and evaluation. The guidelines focus on stewardship and improvement of existing physical space and are available at the Office of the Chancellor, Facilities website at:

[www.finance.mnscu.edu/facilities/capitalbudget/pdf/2010capitalbudgetguidelines2nd.pdf](http://www.finance.mnscu.edu/facilities/capitalbudget/pdf/2010capitalbudgetguidelines2nd.pdf)

Individual college and university Facilities Master Plans are the foundation of all facilities planning and address academic, demographic, and workforce development programs and future needs, coupled with the financial and physical conditions of the institution. Master plans are updated on a five-year cycle, and are approved after each update by the Chancellor or their designee. Guided by these master plans, pre-designs are developed identifying scope, cost, and schedule for individual facility projects at college and university campuses.

Preliminary pre-designs for individual projects for FY2012-2017 Capital Budget consideration have already been received and commented on by the Office of the Chancellor. Many proposed projects have overall reduced scope and requested funding. Final pre-design documents are due to the Office of the Chancellor on October 29, 2010.

In early January 2011, multi-disciplined evaluation teams made up of academic, finance, facilities and technology personnel from all regions and colleges, universities and the Office of the Chancellor will score the FY2010 carrying forward projects and new FY2012 candidate projects. Incorporating Office of the Legislative Audit (OLA) recommendation, more scoring teams will be used allowing more detailed analysis and review. Results of the scoring and a preliminary capital budget will be presented to the Leadership Council and Board in February 2011 in preparation for the Board's Capital Budget hearings and development of the final budget.

It is important to note that the amounts appropriated shown in the table above includes "user financing" equal to one-third of the project amount for individual line item projects. Beginning in 1991, the higher education systems now comprising the Minnesota State Colleges and Universities were required in session law to pay one-third of the debt service for projects funded by state general obligation bonds. Only the University of Minnesota and the Minnesota State Colleges and Universities have this requirement within the state bonding process. In 1996, the Board determined that half of the one-third would be passed on to the individual institutions that were receiving the benefit of the capital appropriation with the remaining half absorbed by the System. HEAPR projects do not incur debt for the system or campuses. In 2008, of the \$234.2 million authorized, there was debt payment by the System of \$56.9 million, with one-half of that amount charged to the gaining institution and one-half charged to the Office of the Chancellor's (OOC) General Fund account. In 2010, of the \$106.2 million authorized, \$18.1 million in total debt is to be paid by the system with the same split of campus to the OOC.

As Capital Budgets are prepared, each campus requesting a Capital Project must confirm their ability to pay their share of the debt obligation. Projections based on current and proposed debt on future capital budgets indicate that the system can absorb additional debt resulting from capital projects in the \$275 million range (excluding HEAPR), assuming a conservative 3% growth in revenue, and still be under the self-prescribed 3% limit of debt service to general operating revenue.

**FY2012 PROPOSED HIGHER EDUCATION ASSET PRESERVATION AND REPLACEMENT (HEAPR) PROGRAM**

An important component of capital budgets in the last six biennia has been the request for significant major repair and replacement funding under HEAPR Program. Projects with the HEAPR Programs focus heavily on roof repair and replacement; mechanical and electrical infrastructure repair and replacement; general asset preservation; and improvements for fire and life safety. Proposed projects for funding within the HEAPR Program will be submitted by campuses in February in relative priority order to the Office of the Chancellor for evaluation. In 2008, campuses requested over \$305 million of these projects and over \$370 million in 2010. The need for HEAPR, along with “HEAPR-like” capital investment repair projects is well documented and is estimated at \$148 million/cycle. The high priority within our Capital Budget Request reflects campus requirements as well as documented needs.

**FY2012 PROPOSED LINE-IME PROJECTS – FY2010 CARRY OVER REQUIREMENTS**

**Vetoed Projects:** In the 2010 session, of the \$282.311 million in Board approved projects and initiatives, \$179.458 million was approved by the legislature. Of that, \$125.289 million for design and construction of 13 projects (\$120.454 million) and the system-wide initiative request for STEM renovations (\$4.835 million) were vetoed, producing a \$54.169 million final line-item program. The vetoed projects and initiatives are all being evaluated as part of the FY2012-2017 Capital Budget process. The legislature may choose to bring these projects forward in the 2011 session. The 2010 vetoed projects are:

<b>Institution</b>	<b>Project</b>	<b>Vetoed Amount (in millions)</b>
Anoka Ramsey Community College, Coon Rapids	Fine Arts Building Renovation	5.357
Hennepin Technical College	Learning Resource Center and Student Service Center Renovation	10.566
Minneapolis Community and Technical College	Workforce Program Renovation	12.990
Ridgewater College	Technical Instruction Lab Construction and Renovation	14.300
South Central College, Faribault	Classroom Renovation and Addition	12.800
Anoka Ramsey Community		

College, Coon Rapids North Hennepin Community College	Bioscience and Allied Health Addition Bioscience & Health Careers Center Addition	16.484 26.581
Minnesota State University Moorhead	Livingston Lord Library and Information Technology Renovation	14.901
Southwest Minnesota State University	Science Lab Renovation	5.666
St. Cloud State University	Integrated Science and Engineering Laboratory Facility	42.334
Dakota County Technical College	Transportation and Emerging Technologies Lab Renovation	7.230
Rochester Community and Technical College	Workforce Center Co-location	3.238
Minnesota State University, Mankato	Clinical Science Building Design	<u>1.908</u>
		120.545

**Full Funding FY2010 Projects:** Design and construction was not supported in the final legislative conference committee report for eight FY2010 requested projects. Two of those, System-wide Library Renovation at five campuses - \$3.448 million and property acquisition for Bemidji State University and Minneapolis Community Technical College - \$7.300M, have been reviewed and will not be advanced as part of the FY2012 budget. The six remaining projects (\$39.133 million), are being proposed for the FY2012 request.

<b>Institution</b>	<b>Project</b>	<b>Requested Amount (in millions)</b>
Alexandria Technical College	Main Building Renovation	4.136
Minnesota West Community and Technical College, Worthington Fieldhouse Renovation and Addition		4.641
Normandale Community College	Academic Partnership Center and Student Services Building	22.500
Bemidji State University	Business Building Addition Design and Demolition	3.425
Metropolitan State University	Science Education Center Design and Property Acquisition	3.444
Rochester Community and Technical College	Classroom Renovation Design	<u>0.987</u>
		39.133

**Phased Projects - Approved FY2010 Projects:** In FY2010, \$12.098 million was approved for the Health Science Center Renovation at Lake Superior College. The FY2012 request will include a request for \$5.045 million for the next phase of this construction.

**Phased Projects – Iron Range Engineering Program:** Legislation in 2008 created a Joint Iron Range Task Force to examine the need for expanded baccalaureate and post-graduate degree programs on the Iron Range. Work to date indicates the potential to add new space as well as utilize existing space at Range campuses. Funding for the initial steps of this 4 –year program was a \$1.5 million dollar grant from IRRRB from 2008. Those funds were used to renovate existing space, segment staffing, etc. Local legislators brought forth a request for \$3.0 million that was not approved by the whole body. This project has been reworked and will be brought forth as a smaller, more compact \$1.5 million dollar request for FY2012.

**Legislature Approved in FY2010:** For FY2012, \$5.262 million will be requested for a Workforce Center at Rochester Community and Technical College as approved by the legislature above the Board’s approved Capital Budget Request, but ultimately vetoed in FY2010.

### **FY2012 PROPOSED LINE-ITEM PROJECTS – NEW REQUIREMENTS**

At this time, there are 11 new projects at an approximate proposed valued of \$54 million. This is far less than proposed in previous cycles (22 projects proposed in 2010 and 45 projects proposed in 2008). These proposed projects will be evaluated by the review teams on January 5 and 6, 2011. After additional review by the Office of the Chancellor, projects will be recommended for funding as part of a six-year plan for funding in 2012 and 2014. Colleges and universities may present their case for earlier funding at a Board public hearing planned for February.

It is likely that not all of these projects will be evaluated favorably. However, assuming that all of these projects are funded, the initial 2012 project with no 2011 bonding bill would be \$298 million for line-item projects and initiatives (excludes HEAPR). If there was a 2011 bonding bill satisfying all FY2010 vetoed projects, there would be a request of approximately \$170 million (excluding HEAPR).

### **FY2012 PROPOSED INITIATIVES**

In addition to HEAPR and the major line-item capital projects that create the bulk of the capital budget request, smaller, system-wide “initiative” project lines create opportunities to focus funds on areas of high priority or interest at campuses across the system. In the last four biennia, these initiatives have enabled campuses to successfully renovate science labs and classrooms with smaller, sometimes bundled projects. The success of these initiatives is notable. Often an update of one or two classrooms significantly improves educational program delivery and enlivens the campus atmosphere. Initiative funds from 2002 through 2010 have included 47 separate projects totaling more than \$25 million throughout the System. Based on need, candidate projects will be reviewed and scored by the teams in January for recommendation on the number of projects and priorities. Following are the proposed system-wide initiatives.

**STEM (Science, Technology, Engineering and Math) Renovations:** The past science initiative projects have been very successful and have increased science capacity and program offerings. The projects range from typical updates of forty year-old facilities to innovative industrial technology lab renovations that will update for heavy industry workforce programs. Over 26 STEM-related projects valued at \$13 million were funded in 2005, 2006 and 2008. As noted above, \$4.835 million for the 2010 STEM Initiative was vetoed and many of those projects are being resubmitted for analysis and approval in this cycle.

**Classroom Renovation:** This initiative is the most basic to core issues. It allows classrooms or labs that are obsolete and need major HVAC, electrical or other issues to be renovated to fit current program needs. Examples include: renovation of existing underused labs to combine programs at Thief River Falls ultimately enabling the decommission of leased spaces; updating the pharmacy lab to accessibility standards at Century College; and conversion of outdated lab spaces at Pine Technical and at Vermilion Community College. In past cycles, ten campuses have benefited from the Classroom Renovation Initiative.

**Energy Initiative:** Based on campus suggestions, this initiative is being added. Currently, there are some exciting project proposals including solar panel installation (locally made in Minnesota), geothermal, and energy inefficient window projects. Energy Initiative Projects will all be reviewed and scored by the teams in early January.

**Real Property Initiative:** Historically Real Property acquisition has not been funded unless an overwhelming emerging campus and program need was noted. There no such requests coming from the campuses this cycle. One new construction project for the Science Building at Metropolitan State University includes a minor property acquisition however, that is included as a part of their overall capital budget request.

**ATTACHMENT A** shows the current proposal for FY2012 including the HEAPR request for \$110 million, the vetoed projects and those projects that were funded for design or partial construction, anticipating follow-on funding for phases in 2010 and 2012. The budget would total \$ \$223.395 million. In the FY2010 - 2015 Capital Budget, this original 2010 plan extended to 2012 was expected to be about \$293 million. In addition to the vetoed projects, many projects did not receive the full amount of requested design funding in 2008. As a result, these projects need to have additional funding for design and construction in 2012 as well as inflation added.

At this writing, staff work continues on validating the project budgets for those projects proposed for phasing in 2010. From the strong comments made from the Board on limiting growth, it is expected that this number will decrease. If the \$ 125.3 million in vetoed projects was funded in 2011, the amount of phased projects would be reduced to approximately \$98 million in 2012.



## **FY2012 CAPITAL BUDGET ANALYSIS - RESPONDING TO GROWTH AND INCREASE 4-YEAR DELIVERY**

**Metropolitan Twin Cities area:** As highlighted in previous Board meetings, there is concern for adequate and appropriate space for student access in the metropolitan area. As the Capital Budget takes shape, approximately 45% of the value of carry forward projects is directed towards growth in the metropolitan area. Carry forward projects from 2008 and 2010, and the anticipated follow through of design to construction in 2010 represents over 370,000 new gross square feet added to the metropolitan area campuses, setting the stage for increased capacity in the metropolitan area for both two and four year students. The following projects constructing new space are proposed based on funded design or construction projects coming forward from the 2010 capital budget:

- Anoka Ramsey Community College: completion of the Fine Arts building at \$5.357 million; and proposed new bioscience and medical technologies classroom building addition at \$16.484 million (Schematic design completed and funded in 2008). Partners include St. Cloud State University and Metropolitan State University.
- Normandale Community College: This project was the only new project in 2010 funded for design of \$1 million and request is for \$22.5 million for 75,000 new square foot of classroom space.
- North Hennepin Community College: \$26.581 million is proposed for bioscience and health careers. Partners include MSU Moorhead, St. Cloud State University and Metropolitan State University (Schematic Design completed and funded in 2008).
- Hennepin Technical College: \$10.566 million will expand the Learning Resource Center plus provide a modest addition and renovation at both the Brooklyn Park and Eden Prairie campuses.
- Minneapolis Community Technical College: \$12.990 million will renovate workforce program areas.

### **Additional actions underway in response to metro-area growth include:**

- Normandale Community College is leasing 12,100 square feet of space in the southwest metro region on France Avenue at Interstate 494 in Edina.
- St Cloud State University is also leasing 12,000 sq feet near Maple Grove for graduate studies in the northwest region.
- Century College will be requesting a proposed project to increase classroom space and renovating classroom for the 2012 cycle.
- Saint Paul College will be requesting science addition and other classroom space.
- In addition, preliminary planning indicates the potential for a new academic building and related property acquisition on the campus of Metropolitan State University.

**Iron Range:** As noted above, \$1.5 million is being requested in FY2012 supporting Joint Iron Range Task Force efforts to expand baccalaureate and post-graduate degree programs on the Iron Range started by a \$1.5 million dollar grant from IRRRB in 2008.

## **CAPITAL BUDGET SCOPE**

As noted in the May 2010 Board of Trustees guidelines discussion, there is an overarching responsibility to maintain and update existing campus space. In general, only three funding sources are available: HEAPR, individual capital projects, and individual college and university operating budgets. Based on data from the Facilities Renewal and Reinvestment Model, described to the Board in January and June 2009, there is a recurring need of \$190 million per biennium as the minimum necessary to “keep up” with current facilities renewal requirements.

This \$190 million requirement can be met by budgeting \$148 million in HEAPR plus major repair and replacement by “HEAPR-like” capital projects, and continuing the spending of \$42 million per biennium on repair and replacement activities from campus operating funds. This is exclusive of new space construction and property acquisition.

The 2010 carry forward projects include approximately \$100 million (in repair and renovation work. Full funding of these projects plus a typical HEAPR appropriation of \$50 million would be sufficient to hold the backlog at par. Construction of new space represented in the carry forward projects (e.g. Normandale Community College; St. Cloud State University; Anoka-Ramsey Community College; North Hennepin Community College; Metropolitan State University) valued at \$122 million yields a minimum capital budget of \$273 million.

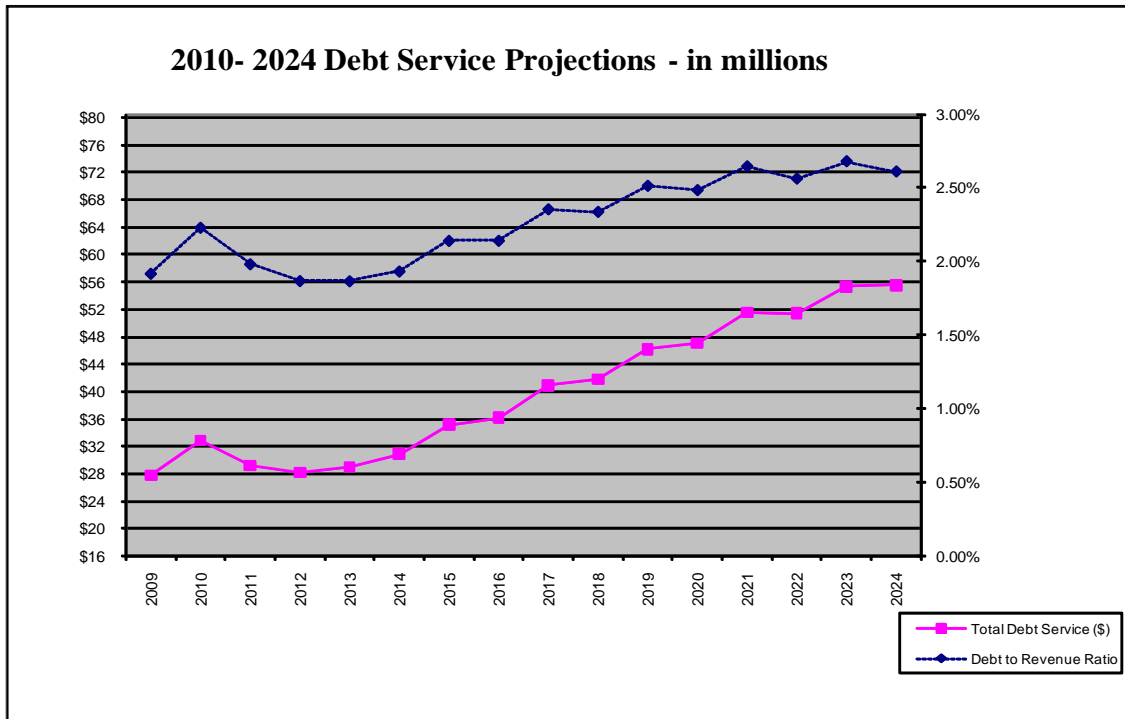
The current condition assessment of system facilities indicates a backlog of capital renewal of \$660 million. Any investment in addition to the \$273 million suggested above would help bring down the backlog. Allowing additional renovation projects at about \$17 million and raising the HEAPR budget request to \$110 million would yield a budget request of \$350 million. This level of HEAPR request is important given the overall limited capital funding received in 2010. This amount is also within the suggested 3% debt limit discussed below. Note, however, that it does not include additional projects for construction of new space in FY2012 beyond those already in the queue as carry forward from 2010.

## **CAPITAL BUDGET SCOPE – DEBT**

For the FY2012 – 2017 capital budget, each campus must confirm their ability to pay the debt obligation. For purposes of these capital budget guidelines, debt should not be greater than 3% of revenue for the requesting institution as well as the system. This 3% level was chosen as it has a modest and limited operating budget impact, and parallels the state’s historic guideline. (The state recently modified their guidelines to incorporate other types of state debt. The system has limited exposure to these other types of debt, but will be studying the state’s model in the year ahead.)

This 3% standard is tested over the 20-year bond life. Based on current debt, new debt from FY2010 approved projects, and potential debt on future capital budgets, the system can absorb additional debt resulting from new capital projects at the \$250 million level for 2012 and rising by \$10 million each biennium thereafter. Also, assuming a 1% growth in revenue in 2012 and 2013, and a conservative 3% growth thereafter, the system

will remain under the 3% ratio of debt service to general operating revenue. The chart below indicates a system average debt-to-revenue ratio of 2.3% through 2024 with the highest ratio of 2.68% over time. Currently, individual college and universities' average debt-to-revenue ratios range from 0.06% to 1.32%. Only six colleges are above 1.0%; all universities are below 1.0%. Fond du Lac Tribal and Community College's ratio is 2.52%, a reflection of a relatively short term build-out plan during a period of modest revenues.



### OUTLOOK TO 2014

The maximum if all of the proposed projects in 2012 and all of the carried forward from 2010 from design in 2012 are funded the total projected in 2014 would be \$233 million (or \$343 with HEAPR). However, this projection is still very unlikely due to potential for many of these projects not being brought forth by the scoring team or the Board, and the potential for vetoed projects funded in 2011.

### NEXT STEPS

Capital program project scopes and cost estimates will continue to be refined until November 24 at which time they must be finalized and submitted for formal evaluation and scoring in early January. Due to the number and value of the projects proposed for 2012, and the uncertainty of the 2010 vetoed projects in the 2011 legislative session, a slightly modified approach to the traditional Board of Trustees' public hearings on the capital budget is proposed. Following the scoring process, the Office of the Chancellor

will present a proposed capital project priority list and six-year capital plan to the Leadership Council and Board in February 2011. Based on their project placement on this list, colleges and universities may choose to present their case for funding at the Board hearing.

Following the Board hearing(s), the Chancellor will present a final recommendation to the Board in May 2011 for its consideration and action in June 2011.

More specifically, the current schedule is:

September 2010	Review of 80% of the predesign documentation and initial project narrative and sheets.
October 2010	Campuses develop specific projects with Office of Chancellor review comments.
November 2010	Projects submitted.
January 2011	Projects reviewed and evaluated by campus peer Review Teams and Office of the Chancellor.
February 2011	Proposed project priority list and 2012 – 2017 capital plan submitted to Leadership Council and Board; Board public hearing(s) on capital budget. All HEAPR requests from campuses in priority order due.
May 2011	Chancellor's recommended 2012 – 2017 capital budget presented to Board.
June 2011	Board action on 2012 – 2017 capital budget. Final 2012 – 2017 capital budget submitted to Minnesota Management and Budget.
July – December 2011	Legislative campus tours and evaluation by Minnesota Management and Budget.
February 2012	Governor's recommendations; Legislative session begins.

*Date Presented to the Board: September 15, 2010*

**Minnesota State Colleges and Universities  
Potential 2012 Capital Budget Development**

All numbers include user financing \* inflation to still be determined \*

Institution Name	Campus	Project Description	2010 Board Approved List	2010 Approved by Legislature	2010 Appropriated	2010 Vetted	2012 * Proposed - no escalation added	2014 Proposed *
All Campuses	all campuses	HEAPR	110,000	52,000	52,000		110,000	110,000
<b>Vetted Projects Carry Forward</b>								
North Hennepin Community College		Business & technology addition	14,782	14,782	14,782			
Systemwide Classroom		Classroom renovation	3,883	3,883	3,883			
Lake Superior College	Duluth	Health Science Center renovation	12,098	12,098	12,098		5,045	
Metropolitan State University		Classroom	5,860	5,860	5,860			
NHED Mesabi Comm Tech College	Virginia	Shop Space addition	5,477	5,477	5,477			
Alexandria Technical College	Alexandria	Main Building Renovation	4,363	0,200	0,200		4,163	
MSCTC Moorhead	Moorhead	Library and classroom	5,448	5,448	5,448			
Anoka Ramsey Community College	Coon Rapids	Fine Arts Building renovation	5,357	5,357	5,357	5,357	5,357	
Hennepin Technical College		Learning Resource Center & Student Service Center renovation	10,566	10,566	10,566	10,566	10,566	
Minneapolis Comm & Tech College	Minneapolis	Workforce program renovation	12,990	12,990	12,990	12,990	12,990	3,437
Ridgewater College		Technical instruction lab construction & renovation	14,300	14,300	14,300	14,300	14,300	
Minnesota West Comm & Tech College	Worthington	Fieldhouse Classroom renovation & addition	4,641				4,641	
South Central College	Fairbault	Classroom renovation & addition	13,360	13,360	13,360	13,360	12,800	
Anoka Ramsey Community College	Coon Rapids	Bioscience & Allied Health addition	16,484	0,400	0,400	0,400	16,484	
North Hennepin Community College	Brooklyn Park	Bioscience & Health Careers Center addition	26,581	0,600	0,600	0,600	26,581	
Minnesota State University Moorhead	Moorhead	Livingston Lord Library & Information Technology renovation	14,901	14,901	14,901	14,901	14,901	
Southwest Minnesota State University	Marshall	Science lab renovation	5,666	0,200	0,200	0,200	5,666	
St. Cloud State University	St. Cloud	Integrated Science & Engineering Laboratory Facility	42,334	42,334	42,334	42,334	42,334	
Dakota County Technical College	Rosemount	Transportation & emerging technologies lab renovation	7,230	0,300	0,300	0,300	7,230	6,900
St Cloud Technical College	St. Cloud	Allied Health	5,421	5,421	5,421	5,421		
Rochester Community & Tech College	Rochester	Workforce Center co-location	3,238	3,238	3,238	3,238	3,238	
Systemwide		Renovations for STEM - science, technology, engineering & math programs	4,835	4,835	4,835	4,835	4,835	10,000
Minnesota State University, Mankato	Mankato	Clinical Science Building design	1,908	1,908	1,908	1,908	1,908	29,851
Normandale Community College	Bloomington	Academic Partnership Center & Student Services Building	22,984	1,000	1,000	1,000	22,500	15,961
Bemidji State University	Bemidji	Business building addition design & demolition	3,425				3,425	17,947
Metropolitan State University	St. Paul	Science Education Center design & property acquisition	3,444				3,444	32,812
Rochester Community & Tech College	Rochester	Classroom renovation design	0,987				0,987	15,917
Systemwide		Library renovations	3,448				not to resubmit	
Bemidji SU & Minneapolis C&TC	Bemidji & Minneapolis	Property acquisition	7,300				not to resubmit	
*Inflation needs estimation from MMB		<b>Subtotal</b>	<b>283,311</b>	<b>179,458</b>	<b>54,169</b>	<b>125,289</b>	<b>223,395</b>	<b>132,825</b>

**Minnesota State Colleges and Universities  
Potential 2012 Capital Budget Development**

All numbers include user financing \* inflation to still be determined \*

Institution Name	Campus	Project Description	2010 Board Approved List	2010 Approved by Legislature	2010 Appropriated	2010 Vetoed	2012 * Proposed - no escalation added	2014 Proposed *
Projects presented from Legislature - potential carry forward:								
Mn West Comm Technical College	Canby	Wind Turbine		0.200				
NHED Mesabi Range C&T	Virginia	Iron Range Engineering Program - approved by Legislature at \$3 million - Arrowhead 4 year Engineering Program		3.000		3.000	1.500	
Rochester Community & Technical College	Rochester	Workforce Center (DEED Lease Funding) User Financing - approved by Legislature at 5.262 million		5.262		5.262	5.262	
Pine Technical College	Pine City	Business Incubator (Non Add to total - funded in 2010)		0.200	0.200			
		<b>Subtotal of Projects presented from Legislature -</b>	<b>0.000</b>	<b>8.662</b>		<b>8.262</b>	<b>6.762</b>	<b>0.000</b>
		<b>Subtotal of ALL projects</b>		<b>239.920</b>		<b>133.521</b>	<b>340.157</b>	
<b>Proposed new projects - very preliminary and with no review from Scoring Teams - listed</b>								
Century College	White Bear Lake	Academic Expansion and Renovation					5.025	22.900
Central Lakes College		Energy and Agricultural Center					1.500	
Metropolitan State University	St. Paul	Community University Partnership Addition					2.000	10.000
Minnesota State Comm & Tech College	Moorhead	Transportation Center					5.985	
NHED Itasca Community College	Grand Rapids	Academic Classrooms Expansion and Renovation					4.723	
St. Cloud Technical College	St. Cloud	Diesel Truck Addition and Autobody Renovation					4.355	
Saint Paul College	St. Paul	Laboratory Classroom Addition					3.000	25.000
South Central College	North Mankato	Student Services, Learning Commons Addition and Renovation					8.400	
Minnesota State College-SETC	Winona	Trade, Technology and Health Program Consolidation					2.000	24.000
Systemwide		Classroom Renovation Initiative					7.000	
Systemwide		Energy Initiative					7.000	
Riverland Comm & Tech College	Albert Lea	Rightizing, Demolition and Renovation					3.417	
Winona State University	Winona	College of Business, Art and Technology Renovation					13.800	9.000
<b>Proposed new projects total as of July 2010</b>				<b>239.920</b>			<b>68.205</b>	<b>90.900</b>
<b>Total</b>				<b>239.920</b>	<b>106.169</b>			
<b>HEAPR</b>				<b>52.000</b>	<b>52.000</b>			
<b>Projects</b>				<b>187.920</b>	<b>54.169</b>			
<b>User Financing</b>				<b>66.148</b>	<b>18.056</b>			
<b>GF</b>				<b>173.772</b>	<b>88.113</b>			