

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES
March 15, 2011**

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

Finance and Facilities Committee Members Absent: Christopher Frederick, Phil Krinkie

Other Board Members Present: Jacob Englund, Alfredo Oliveira, David Paskach, Thomas Renier, Louise Sundin, Scott Thiss

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

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on March 15, 2011, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:35 am.

1. MINUTES OF JANUARY 18, 2011

Trustee Van Houten moved to accept the minutes of January 18, 2011. Trustee McElroy seconded the motion which carried with no dissent. Trustee Van Houten questioned when the allocation formula discussion (page 8 of the minutes) would occur. Vice Chancellor King noted that a Board study session on college and university financial performance is scheduled for April. College and university financial conditions and trends will be included in that discussion.

2. MINUTES OF JOINT FINANCE AND FACILITIES AND ACADEMIC AND STUDENT AFFAIRS COMMITTEES OF JANUARY 19, 2011

The joint minutes from January 19, 2011 were approved as published.

3. NOTES OF FINANCE AND FACILITIES 2012-2017 CAPITAL BUDGET REQUEST HEARING ON FEBRUARY 15, 2011

The hearing notes from February 15, 2011 were approved as published.

4. FINANCE AND FACILITIES UPDATE (*Information*)

Vice Chancellor King updated the committee on the three goals that had been selected as the committee goals. The physical plant size and priorities for the system bonding proposal will be discussed at the April committee meeting. A Resources for Results discussion is also scheduled for the April meeting and consequently will be included in the FY2012 Operating Budget discussion in May and June.

As part of the realignment and reorganization effort there will be discussion today about the re-branded shared services pilot “Campus Service Cooperative”. Chair McElroy asked for further discussion of this goal commenting that he would like it to encompass more than the Campus Service Cooperative. In the subsequent discussion Chair McElroy noted that he would welcome shared senior management and department head assignments in a similar manner to the cooperative.

Vice Chancellor King reported that the system and college and university templates have been posted on the Government Relations website. Appreciation was extended to the college and university presidents and their staff for their well done responses to the request for the templates. Briefings have occurred in the House and Senate. System staff was well received and the briefings provided an opportunity for good conversation and educational opportunities. The Advancement Committee will keep you apprised.

Vice Chancellor King has met with presidents in small groups at financial trends and highlights meeting in February and March. These meetings provided an opportunity to review proposed budgets and operational plans for FY2012-2013. Ms. King was confident that presidents are planning, budgeting and leading with a clear eye on the likely FY2012-2013 forecast. There is tension on campus planning around tuition assumptions. The colleges and universities have been advised that the Board’s goal was at or below 5%, if the base forecast budget request is funded, which is not expected to happen. If there are large reductions there will be upward pressure on tuition. With a reduced appropriation, tuition becomes more important in college and university budget planning. Trustee Englund suggested that a clearer articulation of the net cost of attendance would be helpful to prospective students. Chair McElroy would like clearer information about the graduate program tuition rates versus undergraduate program rates.

Trustee Benson asked about making tuition depend upon income levels. Vice Chancellor King said that had been studied and that the analysis showed that the Minnesota State Colleges and University system does not traditionally have enough high income students to offset the lower income students. Trustee Van Houten felt that programs that benefit the state should receive more support.

Vice Chancellor King advised the committee that preparations are continuing for anticipated spring flooding. The President's Emergency Management Assistance Team (PEMAT) members are being trained to respond to spring flooding and other emergencies. The team includes approximately 30 members from more than 15 institutions. At least 9 campuses expect to be impacted in some fashion with flooding as part of the spring thaw.

5. MINNESOTA STATE COLLEGE - SOUTHEAST TECHNICAL PROPERTY DISPOSITION (*Action*)

Associate Vice Chancellor Brian Yolitz sought the Board’s approval for the sale of the Minnesota State College – Southeast Technical Aviation Training Center building for \$2.25 million. A local manufacturing firm, Plasticomp, is the prospective buyer.

The Board declared the Aviation Training Center as surplus property in January 2009. In that action, the Board authorized the college to explore selling the property, and made the sale subject to final Board review and approval. It has been a long slow road to the current recommendation with multiple layers of government/regulatory involvement. President Johnson and Chief Financial Officer Mike Kroening are to be commended for their persistent pursuit of the sale. Chair McElroy commented that the sale makes good economic sense for the region.

Ordinarily, proceeds from the sale or disposition of land or improvements are appropriated to the Board for use on capital projects at the institution that was responsible for management of the land or improvement, after paying all expenses incurred in selling or disposing of the land and paying any outstanding GO bond amounts due. As of 2011, there is approximately \$300,000 of total outstanding state debt remaining on the building. As this is the Minnesota State Colleges and Universities first instance of selling property with outstanding general obligation debt, clarifying legislation was obtained for this transaction during the 2009 legislative session that allowed the college to retain the sale proceeds after paying all expenses and the remaining debt service. The authorizing legislation required the Board to use the sale proceeds for capital project(s) at the Winona campus.

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

RECOMMENDED MOTION:

The Board of Trustees approves and authorizes the sale of the Aviation Training Facility operated by Minnesota State College – Southeast Technical at the Winona Municipal Airport for \$2.25 million, and directs the Chancellor or his designee to execute all necessary documents and fulfill the processes necessary to complete the conveyance in compliance with the above terms and conditions.

6. WINONA STATE UNIVERSITY REVENUE FUND PROJECTS APPROVAL
(Action)

Associate Vice Chancellor Brian Yolitz sought the Board's approval for the use of Revenue Fund bond proceeds remaining from the 2008 bond sale to perform \$3.5 million worth of deferred maintenance work to existing Winona State University residence halls. Additionally, Winona State requests approval to use approximately \$500,000 worth of bond proceeds remaining from the 2008 sale to design and renovate a residential theme house built around a student shared interest group.

Due to a highly favorable bid environment approximately \$4,087,045 is available from the Winona State University residence hall project. According to the Master Indenture governing the sale and use of revenue bonds, bond proceeds may be used for other purposes on campus with the Board of Trustees' approval.

The funds would be used to address deferred maintenance in the currently vacant Conway and Richards residence halls during the summer of 2011. For the fall 2011 academic term students from Morey and Shepard residence halls would occupy the newly renovated Conway/Richards hall while additional renovation work would take place in those two buildings. The scope of the renovations includes work on the HVAC, plumbing, fire detection, room and lounge improvements, card access, signage and updates to furniture, fixtures and related equipment in each of the residence halls and is sorely needed to make the residence halls attractive to new and continuing students.

The university owns a suitable residential property located immediately adjacent to campus, which it would like to design and remodel into a theme house focusing on environmental sustainability. The property contains six (6) bedrooms and three (3) bathrooms. Winona State is requesting to apply \$500,000 worth of 2008 excess revenue bond funds for the purpose of designing and renovating the property. The house would be a “working lab” for students studying environmental sustainability and engineering. President Ramaley assured the trustees that the house would be part of the residential life program with a resident life assistant living on the premises. Residents could be enrolled in any university academic program.

The university has consulted with the Student Senate and Residence Housing Association regarding the proposed use of revenue bond proceeds, and the organizations support both initiatives. There is no anticipated change in residence hall rates as a result of this work.

The motion was separated into two motions for approval. The first motion included approval of the renovation of Conway, Richards, Shepard and Morey Halls. The Finance and Facilities Committee approved recommending that motion for approval by the Board with no dissent.

REVISED RECOMMENDED MOTION PART 1:

The Board of Trustees approves the use of 2008 revenue bond proceeds sale attributable to Winona State University for use in renovating Conway, Richards, Shepherd and Morey Halls.

The Finance and Facilities Committee recommended Board approval to design and redevelop an existing house into theme housing. The motion passed with Trustee Van Houten voting no.

REVISED RECOMMENDED MOTION PART 2:

The Board of Trustees approves the use of 2008 revenue bond proceeds sale attributable to Winona State University for use to redevelop an existing house into theme housing.

- 7. PROPOSED AMENDMENT TO BOARD POLICY 5.9 BIENNIAL AND OPERATING BUDGET PLANNING AND ADMINISTRATION INCLUDING REVENUE FUND (First Reading)**

Associate Vice Chancellor Judy Borgen reviewed proposed amendments to Board Policy 5.9 which provide clear direction to the Chancellor and the colleges and universities regarding the roles and responsibilities of all those involved in proposing and approving biennial budgets and annual all funds operating budgets.

Through the course of this review, the statewide student groups met with staff several times to provide input and campus constituency groups were given multiple opportunities to comment and suggest changes. The changes are routine housekeeping changes which will organize the policy language in a clearer sequential order. The proposed changes do not remove the Board's approval of the biennial budget requests. This is the first reading of the proposed policy amendment. The second reading is scheduled for April.

8. **PROPOSED AMENDMENT TO BOARD POLICY 5.11 TUITION AND FEES**
(First Reading)

Associate Vice Chancellor Judy Borgen noted that during the routine periodic review of all policies it was found necessary to address a lack of language governing the assessment, collection and disbursement of Revenue Fund fees. The proposed reorganization of the policy also clearly differentiates the mandatory, optional, personal property charges and service charges and Revenue Fund fees. Chair McElroy suggested that tuition categories (line 15) also be listed in the same manner as the fees are listed. Vice Chancellor King agreed this was a clearer presentation. Procedure changes are also under review to accompany the updated policy if it is approved. A new Revenue Fund Management procedure is also being drafted.

Trustee Englund commented that parking fees are unnecessary when students are taking online courses. Parking fee options and rates are determined at the campus level and local administration can waive those fees for certain groups/conditions. Trustee Oliveira noted that at St Cloud Technical and Community College a refund will be issued if requested for parking fees assigned to online courses.

This is the first reading of the proposed policy amendment. The second reading is scheduled for April.

9. **CAMPUS SERVICE COOPERATIVE** *(Information)*

Colin Dougherty, Associate Vice Chancellor for Finance, updated the Committee on the progress that has been made on Shared Services now known as the Campus Service Cooperative. The Campus Service Cooperative is an initiative that will bring efficiencies to select campus and system office activities, allowing colleges and universities to focus on their core mission – serving and educating students. The Campus Service Cooperative approach is defined as “a focus on efficient and transformational delivery of services, while preserving the distinct educational mission of each college and university.”

The objective is to implement a shared services model across the Finance, Business Office, Human Resources, and Financial Aid business areas throughout the system. Cooperative members subscribe to its services through service level agreements,

metrics reporting, and the sharing of savings through efficient execution. Mr. Dougherty was pleased to report that there are two charter members of the Cooperative, Anoka Technical College and Pine Technical College.

Operations of the Campus Service Cooperative may be completed at various sites across the System. In addition to the college and university campuses, the Campus Service Cooperative also has access to 1312 Harmon Place where process design, best practice development, and documentation meetings can be conducted. However, the Campus Service Cooperative is not bound to a single location.

The Campus Service Cooperative will initially focus on three areas, Finance (accounts receivable, accounts payable, and procurement); Human Resources (payroll, retirement processing, and workers' compensation; and Financial Aid (loan processing and direct lending). The Cooperative will leverage existing technology systems and applications and not be dependent on new technology development. The colleges and universities would see economic savings by using the Cooperative instead of hiring for open positions; they could also use the services on an interim basis if there is a temporary employee vacancy. The Cooperative provides an opportunity to transform processes and best practices including improvement measurement and controls for compliance.

Anoka Technical College's Interim President Shari Olson spoke about using the Cooperative to process payroll after down-sizing the Business Office staff at the College. She noted that the payroll processing was up and running in a few short weeks and was efficient and effective. Pine Technical College's President Robert Musgrove spoke that the College is engaging the Cooperative for multiple services and was the original pilot for payroll processing and is a pilot for direct loan processing. He noted the Cooperative provides good quality services with no extra expense to the College.

Chair McElroy congratulated the early adopters and Committee members expressed excitement at the progress the Cooperative has made. The chair also expressed interest in continuing the system wide discussion regarding opportunities for administrative and service alignment.

10. **ENTERPRISE RISK MANAGEMENT STRATEGY** (*Information*)

Brian Yolitz described the system's continuing efforts to establish a more formalized risk management strategy. The work of the staff will be directed by the Compliance Oversight Committee. The committee was established several years ago by Chancellor McCormick and charged with the establishment and oversight of the risk management program.

Like all organizations, the Minnesota State Colleges and University system manages risks in its day-to-day operations. It has been doing so since its inception. Risk management occurs at all levels of leadership and management within the system, from the front line worker in student services or the finance office through the various

departments to the presidents at each of the colleges and universities. The Chancellor and staff manage risk as part of their leadership, as do various governance and oversight groups and committees within the system. The Board of Trustees incorporates risk management in their deliberations and decision-making processes. The goal of the outlined program is to improve the structure and systematic nature of risk assessment and management at all levels of the organization.

The Compliance Committee and Risk Management Working group are looking for gaps in the system's current efforts and gauging the system's tolerance of risk. As this work evolves and advances, policy and supporting procedure documents will need to be created to document the definitions, roles, responsibilities, and procedures of the framework and systematic practices of the Enterprise Risk Management methodology. The staff will periodically report to the Board on the effort and progress. This will be a systematic process which will need to balance risk management work with available resources and rewards.

11. MINNESOTA STATE COLLEGES AND UNIVERSITIES SYSTEM AND STATE ECONOMIC OUTLOOK FOR FY2012-2013 *(Information)*

Judy Borgen and Karen Kedrowski joined Vice Chancellor King in discussing biennial budget planning in light of the governor's recommendation and the state's February forecast. Governor Dayton released his proposed 2012-2013 budget on February 15, 2011 which recommended a total reduction of \$170.9 million to higher education. The recommendation would result in a \$75.6 million (6 percent) cut from the forecast base Minnesota State Colleges and Universities. The February forecast is showing more than a billion dollar improvement from a \$6.2 billion budget deficit to a \$5.028 billion deficit for the 2012-2013 biennium due to modest increases in income, sales, and corporate tax. More than half of the projected increase in revenues is attributed to individual income tax (most of which is growth in capital gains), and an increase in sales tax revenue accounts for another 30 percent of the growth. The legislature recently gave higher education a budget target of a 16% reduction although they did not release how it would be distributed between Minnesota State Colleges and Universities, the University of Minnesota and the Minnesota Officer of Higher Education.

The system has been planning for the 2012-2013 biennium for the past 18 months. The Finance and Facilities Committee has been periodically updated on the budget planning framework surrounding appropriation, tuition and inflation. Appropriation planning scenarios were developed during the spring of 2010 and provide the "bookends" to appropriation reduction. Vice Chancellor King noted presidents have generally been planning on a 14-15% reduction so budget planning does not need to be greatly re-adjusted.

Colleges and universities have incorporated into their budget planning process varying tuition rate increase scenarios, keeping in the forefront the expectation of reasonableness. The impact of an average annual tuition increase of five percent for a college student would be \$224 and for a university student \$310. When factoring in

the mitigated amount the impact would be \$307 (\$224 new increase plus \$83 mitigated amount) for a college student and \$420 (\$310 new increase plus \$110 mitigated amount) for a university student. Vice Chancellor King noted it would take an 11%/annual tuition increase to replace the estimated state support reduction and cover other cost pressures. If the system plans for a 5% increase then it would cover approximately 50% of the expected gap, leaving the balance for budget cuts and service contractions. There is also some concern that the enrollment rates will soften. President Davenport commented that at Minnesota State University Mankato, every 1% of tuition represents 6 faculty positions.

Colleges and universities have also built into their budget planning assumptions “fixed” compensation cost increases, fixed cost increases include projected employer health insurance rate increases of 7.7 percent in January 2012 and another 16.2 percent in January 2013, and an increase in employer retirement rate increases for TRA. Colleges and universities have also built into their budget planning assumptions for new inflationary cost increases at the CPI (projected at 1.7 percent for fiscal year 2012 and 1.8 percent for fiscal year 2013).

The Office of the Chancellor and the colleges and universities are continuing with their multi-year budget planning process, including consultation with campus communities, and leading toward making budget reduction decisions later this spring. Colleges and universities have taken strong budget actions over the past few years and are continuing to make decisions on staff reductions and closure of academic programs and offerings. To date, 27 colleges and universities have announced position reductions (approximately 680 positions), 17 have implemented early separation programs, 14 have announced planned closure of 81 programs, and 21 have preliminary fiscal year 2012 budget plans that utilize fund balance.

Action on the fiscal year 2012 operating budget is scheduled for the May and June 2011 meetings of the Board of Trustees, at the close of the legislative session.

Chair McElroy recessed the meeting at 11:06 a.m.

Respectfully submitted,
Nancy Lamden, Recorder