

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES
November 16, 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

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

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

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on November 16, 2010, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:03 am.

1. MINUTES OF SEPTEMBER 14, 2010

The minutes were amended to note that Chair McElroy convened the meeting on September 14, 2010. The amended minutes were approved.

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

Vice Chancellor King noted that the facilities staff is reviewing over 60 capital projects in preparation for the FY2012-2017 Capital Budget Bonding Request. The projects include the 21 Board approved projects from the FY2010 cycle which were not funded, 11 new capital projects and 30 initiative projects. All projects will be scored using the approved Capital Budget Guidelines in early January. A committee hearing is scheduled for February 15, 2011 for presentation of the projects. The first reading on the bonding request is scheduled for May 2011.

The capital projects which were not funded in 2010 were forwarded to the legislature for consideration if bonding legislation is introduced during the upcoming session. This has been the system's practice in prior non-bonding years. Vice Chancellor King will update the committee on those projects which are "shovel ready".

Facilities' staff is also reviewing the latest energy cost and consumption data for the system as part of the State's Buildings, Benchmarks, and Beyond (B3) initiative. Currently over half of the campuses are taking advantage of the Public Buildings Enhanced Energy Efficiency Program (PBEEEP). Participation is expected to be at 100% within the next few months. The PBEEEP program is offered through the Department Of Administration, Real Estate & Construction Services and addresses

energy efficiency through targeted re-commissioning, retro commissioning and retrofitting.

Vice Chancellor King also updated the committee on the system's wind turbine energy projects. Currently Minnesota West Community and Technical College at Canby has a 35 kilowatt (KW) wind turbine supporting their Wind program; Minnesota State Community and Technical has plans for a turbine on their Fergus Falls campus, and Metropolitan State University recently gained approval from the FAA and MnDOT for XCEL Energy to build a 35KW turbine just south of their library. Wind turbine financing by conventional methods (absent production credits) is not a prudent capital investments for MnSCU at this time but opportunities are still being reviewed as they arise. The recent plant closure announcements by Suzlon only add uncertainty to the equation.

Vice Chancellor King reported that All Hazard Compliance Site visits by technical experts from the Office of the Chancellor are ongoing (a visit to Southwest Minnesota State University was recently completed). The visits focus on occupational, environmental, health and safety, all hazards planning, and security compliance.

A formal structure to provide overall emergency management expertise and to assist presidents responding to emergency situations is being formed. The Presidents' Emergency Management Assistance Team (PEMAT) will consist of experienced staff that will augment and assist local campus personnel and fill critical response management roles a campus is unable to fill in case of a major emergency. Volunteers from the colleges and universities will receive training.

A letter is being prepared in response to a request from Commissioner Hanson, Minnesota Management and Budget, concerning FY2012-2013 budget planning. All state participants in the executive budget were asked to articulate reduction options. The response for Minnesota State Colleges and Universities will provide illustrative impacts but not specific campus level responses. The letter was similar to the system's response in previous years. It is recognized that the Governor's budget planning process has historically been much more general in its direction to higher education than to line agencies of the executive branch.

Committee Chair McElroy inquired about Green Sheet alterations now under design. This tracking sheet was re-engineered last spring to allow colleges and universities greater flexibility in the allocation of declining state resources. It has been recommended that the special priority allocations for Centers of Excellence and for Serving the Underserved be maintained as a separate line items. The Customized Training funds and systemwide set asides for specific programs would be incorporated with the framework – this change does not indicate a change in support but simplifies the allocation method. President Davenport reported that presidents are supportive of the new design.

Vice Chancellor King noted that the Audit Committee will hear presentations this month from the auditors and the Finance Division regarding the FY2010 financial

statement audit effort. The FY2010 results were very positive (the best audit outcome ever received by MnSCU). This topic will be discussed at the January Finance and Facilities committee meeting.

3. **REVENUE FUND BOND SALE** (*First Reading*)

Brian Yolitz, Associate Vice Chancellor for Facilities, reviewed that Revenue Fund projects must “pay their own way” and generate their own construction, maintenance, operations and repair funding through room, board and other related facility fees or gifts. The revenue generated by each project pays for the debt service and operations of each project. These projects typically include residence halls, dining facilities, student unions, recreational facilities, wellness centers, bookstores, and parking facilities and do not include academic facilities. Originally the Revenue Fund was only available to universities but colleges were given authority to participate in the fund through legislation in 2008.

The Board of Trustees has fiduciary responsibility for the Revenue Fund. The Chancellor has management and compliance oversight responsibility and presidents are delegated to manage programs, operations, maintenance and repair of Revenue Fund facilities at each institution. A Revenue Fund bond is a type of industrial revenue bond and the Minnesota State Colleges and Universities has received a rating of Aa3 from Moody’s and AA- from Standard and Poors. The ratings are based on the system’s assets and not the State’s. Debt authority is legislatively mandated and the current debt ceiling is \$300M. The current outstanding Revenue Fund debt from all past projects is approximately \$175M.

Campuses have proposed using approximately \$88M worth of Revenue Fund bond financing for the proposed projects. The bond sale is tentatively scheduled for February 2011. All campuses have completed predesigns and proformas for their projects and have submitted student consultation letters. Trustee Frederick expressed concern about the student cost of these projects. President Davenport responded that there are many different price levels for residence halls and students can choose the level of amenities they wish to pay for. He commented that there is waiting list at MSU, Mankato for the newer facilities and that the residence halls are at capacity. Vice Chancellor King said that some projects have not gone forward because the cost would be too high to generate student support. Trustee Hightower noted that the student consultation letters are supportive of the Revenue Fund projects but express concern about tuition costs.

Trustee Van Houten expressed concern about Revenue Fund projects that have cash flow problems. Trustee Krinkie noted that Southwest Minnesota State University showed a net loss for their Revenue Fund project. Vice Chancellor King responded that Southwest Minnesota State University is using reserves to support the program and that FY2010 should be the last year with a loss. She noted that each project is required to maintain reserves and this is the only program with a problem. SMSU has not requested any new projects in the proposed sale. President Davenport confirmed that before requesting any Revenue Fund project the university must do extensive research on the projected cash flow of the project. Chair McElroy asked for

information on the number of rooms in each project (not just the number of beds) and also the estimate of revenue when the projects are completed.

The proposed projects for the 2011 revenue bond sale include: a health/wellness center and field house at Anoka Ramsey Community College (estimated cost \$9.89M); renovation of Birch Hall at Bemidji State University (estimated cost \$7.53M); construction of a health/wellness addition at Minnesota State Community and Technical College in Moorhead ((estimated cost \$1.46M); construction of a new residence hall at Minnesota State University in Moorhead (estimated cost \$29.9M); renovation of the Centennial Student Union Ballroom at Minnesota State University in Mankato (estimated cost \$4.5M); renovation of Dahl Hall at Minnesota State University in Moorhead (estimated cost \$8.6M); renovation of two residence halls at St. Cloud State University (estimated cost \$16.7M); and construction of a new parking ramp at Saint Paul College (estimated cost \$10.4M). An additional \$3M is being requests to offset any projects that may have uses that impact ordinary tax exempt bond financing and to use for design of future projects.

At the second reading of this request in January 2011 the committee will be asked to approve a Revenue Bond sale for not more than \$90,000,000 subject to the sale parameters as presented in Attachment A and the Series Resolution as described in Attachment B of the Board report.

4. FINANCE AND FACILITIES COMMITTEE GOALS WORK PLAN *(Information)*

The Finance and Facilities Committee adopted three goals for attention in 2011. The first goal to study physical plant size and incorporate policy guidance in the 2012 capital budget proposal has been completed. Trustees' concerns about right sizing of the system's physical plant will be incorporated in the scoring mechanism used for determining the 2012-2017 capital budget request. An update on the capital budget request will be presented at the January Committee meeting.

Work continues on "Resources for Results" in conjunction with the Academic and Student Affairs Division. This may impact college and university allocations. A report will be presented at a joint committee meeting in January.

Vice Chancellor King was excited to report that good progress is being made on fundamental technology enhancements for initial shared services efforts (state payroll interface and student loan automation). Pilots and demonstration projects are underway to help define best practices and processes.

5. FOLLOW-UP TO OLA EVALUATION OF THE SYSTEM OFFICE *(Information)*

Vice Chancellor King reported that recommendations from the OLA study are either complete or are progressing toward completion by June 2011 as noted below:

The Shared Services project has been launched with the formation of a steering committee led by President Musgrove of Pine Technical College. A comprehensive

strategy, work plan and cost-benefit analysis are being developed while pilots and demonstration projects are underway.

Work is underway as part of the annual budget process which will address the issue of institutional charges outside of the regular allocation process. A more formal discussion process and documentation methodology will be installed prior the Board of Trustees FY2012 operating budget deliberations.

6. **FY2012-2013 BIENNIAL OPERATING BUDGET REQUEST** (*Action*)

Judy Borgen, Associate Vice Chancellor - Budget, presented the operating budget request for FY2012-2013. Every other year as part of the state's operating budget process, the Minnesota State Colleges and Universities develops a biennial operating budget request. The Board approved request for the 2012-2013 biennium will be submitted to Minnesota Management and Budget and the Governor.

The Board is asked to consider a budget request recommended by the Chancellor in the amount of \$630.35 million each year of the 2012-2013 biennium for a total of \$1,260.7 million. The \$1,260.7 million is the funding level the Legislature set at the close of the 2010 session and is in current law. This request would represent an increase of \$49.7 million (\$24.85 million each year) above the current fiscal year 2011 base funding.

The additional \$49.7 million in additional funding will be used to preserve quality in instruction and student support services, invest in instructional equipment to meet the needs of employers and the changing workforce, develop innovation programs in high wage, high skilled industries; and invest in an ongoing commitment to efficient and effective delivery of services. The biennial operating budget request is built on the assumption that inflationary cost increases for both compensation and other operating costs will be covered through college and university reallocations and tuition revenue generated by a rate increase. Vice Chancellor King commented that the economic outlook for the state and the system was used in modeling the budget request.

Andrew Spaeth, Chair of the Minnesota State University Student Association (MSUSA), suggested that the system request no new funding above the FY2011 appropriation level of \$605.5 million and that tuition be frozen at the current board approved rate. If the legislature would cut the base appropriation then tuition increases could be considered in the future. He also asked the committee to consider a systemwide transformational fund to increase the quality of education. Trustee Renier reminded the committee that the federal stimulus funds (ARRA) were used to buy down 2% of the tuition increase for students in 2010 and 2011. This buy down was widely discussed with students at the time. Students will see that increase now that the ARRA funds are not available for FY2012.

Don Larsson, President of the Inter Faculty Organization, testified in support of the request. He urged trustees not to place a hard cap on tuition at this point, noting that it seemed premature to lock in a tuition rate at this time. He noted that 85% of faculty

have received no pay raises in the last two years and are sharing the sacrifice that the system is faced with. Several dozen faculty positions have been eliminated.

Travis Johnson, President of the Minnesota State College Student Association, asked that the committee commit to a flat tuition rate although he did not state what the hard tuition cap should be. He suggested that a 5% tuition rate increase was not reasonable considering how high tuition and fees are now for college students. He also expressed support for a systemwide transformational fund to be used toward measureable and broad reforms that are not part of the current operating budget request.

Trustee Frederick commented that the standard of “reasonableness” for tuition increases was not the same at each campus and urged a hard cap on tuition in the motion. Vice Chancellor King is concerned because salary negotiations are still underway which could leave a \$130M gap in operating cost inflation. Even with a proposed 5% increase in tuition there will be reductions at the college and university level. President Davenport agreed that most institutions used the 5% tuition increase in their budget planning and the budget reduction impact on students is incredible even with this increase. Trustee Oliveras noted that no student wants to pay more tuition but students want to have the programs and courses they need available. Trustee Hightower wondered how a cap could be set without knowing what the legislature would do to solve the state’s deficit. Trustee Van Houten commented that institutions should endeavor to protect their reserves and that the math shows a tuition increase is needed. Trustee Englund suggested setting a bottom line with the legislature and was in favor of a 0% tuition increase.

Trustee Frederick moved to amend the recommended motion contained in the Board report to include a cap on tuition increases of no more than 5% per year above the FY2011 tuition rates. The amendment failed as no committee member seconded the motion.

Trustee Van Houten moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Hightower seconded the motion which carried with Trustee Frederick dissenting.

RECOMMENDED MOTION:

The Board of Trustees is committed to providing quality and competitive education to the learners of today. The Board of Trustees approves the 2012-2013 biennial operating budget request in the amount of \$1,260.7 million. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities 2012-2013 biennial operating budget request.

Chair McElroy recessed the meeting at 10:38 am.

Respectfully submitted,
Nancy Lamden, Recorder