

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES
January 18, 2011**

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

Other Board Members Present: Louise Sundin, Christine Rice and Board Chair Scott Thiss. Trustee Englund join by phone.

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 January 18, 2011, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 8:30 am.

1. MINUTES OF NOVEMBER 16, 2010

Trustee Vekich moved to accept the minutes of November 16, 2010. Trustee Benson seconded the motion which carried with no dissent.

2. FINANCE AND FACILITIES UPDATE (*Information*)

Laura King, Vice Chancellor – Chief Financial Officer, reported that steady progress has been made on the three goals adopted by the Finance and Facilities Committee as part of the 2011 work plan. The first goal to study physical plant size and incorporate policy guidance in the 2012 capital budget proposal was accomplished by using new criteria during the scoring of the 2012 capital program. The result of the effort will be known later in the spring. Progress has also been made in the realignment and reorganization effort. The project has been re-branded as the “Campus Service Cooperative” to reflect more accurately the spirit of the initiative and the work that is going on with the colleges and universities. An expanded pilot project was successfully completed in December at Fergus Falls.

The Office of the Chancellor Human Resource division has developed a refresher course on both Minnesota and Minnesota State Colleges and Universities’ privacy law and policy, which now is part of the kickoff package for every pilot project. Quality and compliance are core values of the initiative. A systemwide survey of Business Office, Human Resources and Financial Aid Directors is being conducted to seek more information on the labor force, work distribution, and time allotment of processes. The result will help to identify the next opportunity for the Cooperative. A pilot of financial aid direct lending is also being developed and will likely take place in Perham in February.

The Cooperative will utilize the space built at 1312 Harmon Place which is the garden level of the building north of the main Minneapolis Community and Technical College facility. The Cooperative will document best practices and identify innovative approaches to processes. An overview of this effort was presented to the Leadership Council in January. As a result, several charter members have indicated interest in being a part of the Cooperative. Presently, the Office of the Chancellor and five campuses are putting together a team which will initially focus on payroll and business expense processing. The result will be discussed in the spring.

Trustee Van Houten asked if the employment arrangement is similar to K-12; which the cooperative goes into contract with MnSCU to manage the cooperative's activities; the employees would remain employees of MnSCU rather than become employees of a new corporation cooperative. Vice Chancellor King replied that MnSCU's labor structure consists of 33 employers; the Office of the Chancellor is an employer and each of the campus is also an employer. She stated that from a business view the object is the same as the K-12. The employees of the cooperative will be employees of their base campus or employed by the Office of the Chancellor.

Vice Chancellor King reported that the committee has seen the FY2012-2013 budget framework at least twice including the state appropriation outlook, tuition planning, assumptions on expenditure and inflation, possible labor cost impact and enrollment outlook. The campuses are using this framework to create their budgets. Presidents have been holding budget meetings and announcing layoffs and program closures. The presidents are very focused on preparing for FY2012 and struggling to do it in a very uncertain environment. The update that is scheduled for the March committee meeting may have some governor and legislative insight.

Vice Chancellor King announced that she is traveling to campuses and holding meetings on financial Trends and Highlights. She meets with groups of presidents and their cabinets to review their financial results and any challenges they may be experiencing. The result will also give assurance that the presidents are on track with FY2012 planning efforts. As part of this effort, the exception reporting process has been changed (focusing on the CFI, net operating income and cash flow) to better indicate those campuses which may need extra help.

Trustee Hightower commented that early indications show it will be difficult to plan for FY2012. Vice Chancellor King replied that each campus models using four strong forces: state appropriation outlook, tuition planning, enrollment, and labor costs. The presidents, their chief financial officers and cabinets have built models using these variables. The result is very local - an institution that has strong enrollment and low state appropriation reliance is less at risk than an institution that has low enrollment growth with high state appropriation reliance. In general, the total gap ranges from about 7% per year to about 15% per year depending upon how the assumptions are moved around.

Vice Chancellor King stated that campus leadership faces a dilemma because they are trying to maintain services, access and growing enrollment at a time where resources

are really contracting. Trustee Hightower commented that providing access and increasing enrollment might be in conflict. Vice Chancellor King responded that access and growing enrollment are absolutely in conflict with constricting resources. That's the challenge that the presidents and the Chancellor are struggling with.

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

Brian Yolitz, Associate Vice Chancellor for Facilities, stated that the Revenue Fund is used to finance construction, maintenance, and operation of non-academic buildings. These projects typically include residence halls, dining facilities, student unions, recreational facilities, wellness centers, bookstores, and parking facilities. It does not include academic facilities. There are 67 buildings, and about 5 million square feet of revenue fund facilities, which is 19% of total square feet in the system.

Revenue fund operating expenses and debt service are paid by user fees, such as, student fees from room and board, student union fees, user fee from parking and fitness centers; plus other fees such as commissions and space rentals from the campuses. Student fees are user generated revenue which pays for operations and debt services. Although presidents are delegated responsibility to manage the Revenue Fund programs at their own institution, the Board is required by statute and the Fund's Master Indenture to annually approve fees and long term financial commitments. Annual financial plans for each institution's portion of the Revenue Fund, including fees to support these plans, are submitted to the Office of the Chancellor staff for review and approval by the Board. Student consultation is required for revenue fund fees and projects.

Mr. Yolitz gave an overview of the 2011 bond sale; which included approximately \$90 million in total projects. The bond sale will fund eight projects at four universities and three colleges plus planning and design funds to help prepare for the next revenue bond sale. These projects include renovating four residence halls containing about 1,000 beds, one new 300-bed residence hall at Minnesota State University, Mankato, which is part of their ongoing residence life master plan. The bond sale also includes renovation of a ballroom in the Minnesota State University, Mankato Student Union; wellness centers at two colleges, and a parking ramp at Saint Paul College.

The specific 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 Mankato (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

requested to offset any projects that may have a taxable component or to use for design of future projects.

Trustee Frederick wants to know if 50% of the funding for the ballroom was taken from a different funding source other than revenue fund. A portion comes from revenue fund reserve and the other portion would come from revenue bond proceeds. President Davenport answered that student fees are generated for project like this, since the ballroom is over 30 years old, and a portion will be funded by Revenue Fund reserves. Trustee Van Houten asked if there is no separate fund set aside for a project like the Ballroom, is the \$200,000 part of the school's reserve? Vice Chancellor King stated that student union and residence hall programs are required to maintain a dedicated revenue fund that does not mixed with the general fund and maintains higher reserve standards because of the bond covenant. The \$200,000 comes from the university's revenue fund reserve.

Trustee Hightower asked how the \$3 million design and planning funds are to be covered. Mr. Yolitz replied that the funds are held centrally until an individual campus requests the money. Then the funds are distributed and the debt service is assigned to the campus. Vice Chancellor King added that there are no projects indentified for the \$3 million, but when one is identified, a portion will be awarded to the campus for their planning work, at which time the campus pays the debt service portion of the \$3 million they used. Until that time, the central revenue fund pays the debt service.

Mr. Yolitz reported that \$300 million in bonding authority is currently approved in law. Current outstanding bond authority is \$175 million, leaving MnSCU with \$125 million of remaining authority. Assuming a \$90 million bond sale, MnSCU will have about \$35 million of authority available for new projects. The current annual debt service paid by campuses is \$15 million a year. If approved, the new bond sale would add approximately \$7 million, creating \$22 million of annual debt service.

Trustee Hightower asked if the revenue fund can be used for demolition. Vice Chancellor King answered that demolition is an allowed use of revenue fund cash or bond proceeds. The trouble is that there is no revenue generated when something gets demolished so it becomes another cost burden for that school's revenue fund program. This board supported a recommendation in 2006 to seek GO funding for revenue fund demolition and received some legislative support. In the 2012 program, Minnesota State University, Mankato proposed a \$6 million GO project to demolish Gage. President Davenport stated that planning was included in their master plan more than five years ago to look at the cost of demolishing Gage, which was about \$2 million then. Now the cost has escalated and the university needs to bring it down as soon as it can be done.

Travis Johnson, President of the Minnesota State College Student Association observed that Revenue Fund activity is being paid for almost entirely from student fees; therefore, it is important that students are fully informed about the project on the

campuses both during the long and short term planning phases and for the duration of the project.

Mr. Johnson remarked that when planning revenue fund facilities, it is important to determine the long-term needs of the campus, and ask whether the proposed project will solve the problem at hand. Currently, college campuses don't have adequate funding to appropriately plan and design the revenue fund project before the bond sales is approved and this limits students' ability to determine whether the proposed project is well suited to the campus. It is important for the Board to assess the overall cost of each project and to assure that they are financially viable and the fees assessed to the students are reasonable.

Trustee Hightower commented that the \$3 million was estimated for planning. How do we deal with front-end costs that prepare a project for presentation? Vice Chancellor King stated that it's been customary to include funds in each sale which finance the planning for the next sale.

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

RECOMMENDED MOTION:

The Board of Trustees authorizes a Revenue bond sale for not more than \$90,000,000 subject to the sale parameters as presented on Attachment A. The Board of Trustees approves the Series Resolution as described in Attachment B.

4. **MINNESOTA STATE UNIVERSITY MOORHEAD HENDRIX HEALTH CENTER LEASE** (*Action*)

Brian Yolitz, Associate Vice Chancellor for Facilities, stated that the purpose of this report is to amend an action approved by the Board in 2002 which allowed Minnesota State University Moorhead (MSUM) to leased land to the MSUM Alumni Foundation for 10 years. In return the Foundation would demolish the building at the end of the lease term of July 2012. Now MSUM seeks approval to continue utilizing the building and remove the demolition requirement as originally approved by the board. In the future the University will use their own operating budget to fund any updates to the building as needed.

The current Hendrix Student Health Center building contains approximately 7,411 square feet, and cost approximately \$525,000 to construct. The University pays the Foundation a rental rate of approximately \$10.00 per square foot or \$74,000 per year, to cover the debt service, and sets aside funds for operations and routine maintenance. The building is typical for a commercial-grade medical office building, which included concrete block with a stone finish and standard interior framing. The goal of the request is to release the demolition requirement from the original board approved arrangement thereby allowing the title to transfer and the building to remain in service.

Trustee Frederick is concerned that the building does not meet the MnSCU standard building code or policy. Associated Vice Chancellor Yolitz responded that the building does not fully meet MnSCU's design standards; it was built by the Foundation with input from staff, but was not adherent to all the requirements. Trustee McElroy worried about keeping a building that was built to last only ten years or was the building designed to last longer than the 10 years. Associate Vice Chancellor Yolitz replied that it was designed using the traditional commercial standards at the time and he is satisfied that the building is in very good condition.

Vice Chancellor King asked the Board to approve the recommended motion contained in the Board report.

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

RECOMMENDED MOTION:

The Board of Trustees approves accepting the Hendrix Student Health Center building from the Minnesota State University Moorhead Alumni Foundation at the end of the lease term without requiring the building's demolition. All documents shall be reviewed and approved by the Office of the Chancellor and the Attorney General's Office prior to execution.

5. FY2012 CAPITAL BUDGET UPDATE (*Information*)

Brian Yolitz, Associate Vice Chancellor for Facilities, gave an update on the development of the FY2012-2017 Capital Budget request. While there has been positive feedback from legislative committee members that a capital bonding bill will take place in FY2011, there remains question on the size and scope of the bonding bill.

The strategy of Office of the Chancellor is to advance these unmet, Board approved requirements from the FY2010 Capital Budget Request. These requirements included \$58 million for HEAPR and \$225.8 million for 19 projects at 18 campuses. It is expected that the result of any FY2011 bonding bill will be not be known before late April or May. Any projects that are then still on the unmet list from FY 2010 would be rolled into the FY2012 planning process.

FY2012-2017 Capital Budget planning involves assessing current and emerging requirements against guidelines establish by the Board in May 2010. All current unmet, Board approved projects from the FY2010 session will be reviewed. The emerging requirements of 13 projects at 13 campuses totaling \$61.8 million will also be reviewed. There will be a Public Hearing on February 15, 2011 to allow for some institutions to present their projects to the Board of Trustees. The plan is to have a first reading of the FY2012 presented to the Board in May and the second reading for approval in June.

Trustee Sundin commented there's been concern expressed that MnSCU received a large bonding bill in FY2010 and the projects have not broken ground. She questioned why there should be another bonding bill. Mr. Yolitz affirmed that all projects are currently under construction.

Vice Chancellor King and Chancellor McCormick encouraged all Board Members to attend the February 15 Public Hearing.

6. **FY2010 AND FY2009 AUDITED FINANCIAL STATEMENTS** (*Information*)

Collin Dougherty, Associate Vice Chancellor of Finance, gave an update on the FY2010 and FY2009 Audited Financial Statements. The system wide audit, revenue fund audit, and the thirteen individual college and university audits, received unqualified opinion letters from the respective audit firms. In addition, there were no reported material weaknesses or significant deficiencies in internal control. Also, two prior year internal control deficiencies were addressed and resolved. These prior year issues were related to system-wide technology data security and the timely reconciliation of local bank accounts for several colleges. It is a commendable achievement that no significant deficiencies were identified throughout the fiscal year 2010 audit process.

Mr. Dougherty reported that in FY2010, student FYE enrollment grew by 11,700 students and headcount by 17,700 students. Revenue was up by 7.4% at \$2.0 billion and net assets grew 11.6% to \$1.7 billion. The operating fund reserve increased by \$9.9 million resulted in a systemwide total of \$82 million which is right on the Board requirement range of 5-7%. The composite Financial Index (CFI) grew dramatically in FY 2010 to 3.21. MnSCU's total net asset or residual ownership is \$1.7 billion, which grew by nearly 12%.

The FY2010 operating results yielded significant improvement in financial position, with a \$57.1 million net operating revenue surplus. This was a rebound from the 2009 net operating revenue loss of \$9.3 million. For every \$100 of operating revenue, \$2.88 is retained as surplus. This is an improvement over the deficit of 2009. In 2009 every \$100 of revenue that came in had a loss of \$0.50.

Trustee This question the \$9.3 million deficit referring to Chancellor McCormick's statement that campuses cannot operate at a deficit; what does the statement mean. Vice Chancellor King replied that the Chancellor's direction to the president is to plan for intentional managing their budget; so the statement referred to presidents who don't plan ahead and are surprised by their operating result. It's absolutely allowable for colleges and universities to spend fund balance from one year to the next so long as they have both a short and long term plan.

Chancellor McCormick commented that the system has never come close to a deficit; any particularly troubled institution either went into its reserves or received a loan from the central reserve.

Trustee Hightower asked if there is a global statement that can be use to describe the difference between 2009 and 2010 respective to what caused the \$9.3 million deficit in one year. Vice Chancellor King responded that the Board direction to the campuses to build up reserves for 2012 and 2013 and the preservation of resources at the campuses resulting from very low labor cost inflation in 2009 were the two most powerful forces.

Associate Vice Chancellor Dougherty explained that the Composite Financial Index (CFI) calculation uses four financial ratios and assigns a specific weighting to each factor in computing a single, composite measure of financial health. Primary reserve is resource availability. It looks at how much cash is on hand and other expendable net assets comparing that as a ratio to total expenses. How long will it take to be able to operate in the extreme condition where inflow of cash is not available? Currently, the system CFI is at 3.21 which is considered a midline benchmark. The system's metric has improved by two weeks from the prior year. It does show the importance of having adequate reserve to meet unforeseen circumstances or decline in the inflow of cashes.

How does the system compare to the 220 peer institutions? The system CFI score of 3.21 for FY2010 is right in between the highest Moody's rating of AAA or AA1. Looking at ratio variability across the 32 colleges and universities comparing the higher (1.0) score and the low (-0.1) score, the high was at 6.66 and the low is at 1.0. The Higher Learning Commission conducts inquiry when a college/university falls between 0 and 1.

Chancellor McCormick commented that the CFI is an important number since the Higher Learning Commission has adopted it as a part of their assessment. This assessment is how the government decides who will receive student financial aid. Vice Chancellor King added that the Higher Learning Commission has memorialized this measure in the accreditation review process and when the campuses go through an accreditation review they will need to produce work paper and provide this number. The Higher Learning Commission has created a watch list process that generates a letter to the institution that shows their threshold so it becomes part of the institutional review process at the Higher Learning Commission level.

Trustee Van Houten commented on the standard deviation of the ratio variability across the Colleges and Universities on page 84 of the board report. He inquired whether it would be appropriate for this Board to look and see if there's some pattern or insight that will help determine if there is something that might be taken into consideration in the allocation formula or policy. For example, are the more troubled CFI institutions located in places where student growth is reducing or maybe the more rural areas where population in general is not changing much? It might imply that there's a need for a different allocation formula, taking into consideration slow rural growth campuses versus the metro area where student tuition revenue growth could be used to fund the campus.

Associate Vice Chancellor Dougherty reported there are additional financial metrics which are used to measure, monitor, and improve the financial condition of each college and university. A new system procedure, "Financial Health and Compliance Indicators" defines the purpose and process for performing important, on-going analysis of financial conditions. The procedure also includes required action if certain performance levels are not achieved.

In FY2010 there was significant growth in financial aid awards to Minnesota State Colleges and Universities students. Total dollars of financial aid reached \$1.2 billion, an increase of \$238 million or 25 percent, compared to fiscal year 2009. The number of financial aid recipients grew by 22,000, or 15 percent, to more than 166,000 students. Sixty percent of all credit taking students received financial aid, up from 56% in 2009. Grants were received by 40% of student in 2010. The average award for all types and sources of aid increased by 8 percent; from \$6,752 in 2009 to \$7,274 in 2010. Compared to 2003, total financial aid awards increased 127 percent, from \$533 million to \$1.2 billion, in 2010. This growth came from both loans and grants, with approximately 2/3 coming in the form of loans and 1/3 coming in the form of grants.

Vice Chancellor King added that in 2003 of the \$172 million that was received as financial aid, \$140 million of it was paid to the student's account to pay their tuition bill, room and board, books. The remaining \$32 million was given to the student for living expenses. By 2010 \$65 million went to the students directly and the balance of the \$350 million went to pay their accounts. About 20% of the total financial aid disbursements went directly to the students in 2003 and that relation stayed the same in 2010.

Trustee McElroy asked if the shift to direct federal lending, which shifted the program from loans from federal insured lender to a direct lending model, increased the risk to the system. These loans were made directly through the institutions, 100% guaranteed by the government. If there are defaults, will there be some recourse or risk to the system?

Chris Halling, System Director for Financial Aid, replied that there is really no difference from the campuses' risk in this situation. The US Department of Education still measures default rates for institutions just like the prior program. The Dept. of Education has always measured what they call the cohort default rate for institutions; a look back for a number of years and measure of how many students borrow and perform during those years. One change that is on the horizon in 2012 is expanding the cohort from 2 years to 3 years which will have a negative impact on the default rate of every institution across the country. The benchmark has been changed.

Trustee Hightower asked if financial aid is part of the tuition number. Vice Chancellor King stated for budgeting, financial aid is another source of revenue and is recorded as such. For example, in the budget document that will be presented in the spring, there will be a line for tuition for \$100 and under it will be line for \$25; this

means that tuition is \$100 and \$25 dollars is paid by financial aid. In the financial statements, the tuition revenue line shows total net tuition revenue and does not show financial aid as a separate portion.

Associate Vice Chancellor Dougherty stated that the FY2011 budget seems to be reasonable with an enrollment forecast increase of 1.6% FYE and a small growth of 0.7% for FY2012 for planning. Within the next few weeks there will be five sessions where peer groups will be brought together for those colleges that are not part of the vigorous externally audited process. The colleges will go through the very same discussion about financial performance and CFI trends.

Chair McElroy recessed the meet at 11:38 a.m.

Respectfully submitted,
Mailor Moua, Recorder