

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

January 17, 2012

Finance and Facilities Committee Members Present: Dan McElroy, Chair, Trustees Jacob Englund, Clarence Hightower, Phil Krinkie, Tom Renier, James Van Houten and Michael Vekich

Other Board Members Present: Trustees Brett Anderson, Duane Benson, Cheryl Dickson, Alfredo Oliveira, Louise Sundin, and Scott Thiss

Leadership Council Representatives Present: Vice Chancellor Laura King, President Joe Opatz, and President Richard Hanson

The Minnesota State Colleges and Universities Finance and Facilities Policy Committee held its meeting on January 17, 2012, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair McElroy called the meeting to order at 1:08 p.m.

1. MINUTES OF November 16, 2011

The minutes of the November 16, 2011 meeting were approved as published.

2. FINANCE AND FACILITIES UPDATE

Vice Chancellor King reported that the Finance division hosted its annual meeting of the CFOs in mid-November at the system office with all campuses sending representation. There was great feedback on the format and the agenda. The Facilities officers and related leadership will be meeting April 11-13, 2012 at the system office covering topics in facilities, construction, public safety and compliance.

The Campus Service Cooperative (CSC) is using the tagline *One Team, Many Campuses* to tackle work in the “cloud” through virtual common work queues across member campuses. The payroll service is now live at Normandale, Anoka Technical College, Pine Technical College, Ridgewater College, and the system office, with five more schools showing interest. The system office will be the first to go live in January with Payroll 2.0, an expanded offering of reconciliations, audits, and leave accrual services. Direct lending has expanded to include an automated end of the month reconciliation at the request of members with pricing to come. Three schools are looking at joining this service offering. South Central and Mesabi Range have enrolled in account reconciliation, joining Normandale, Anoka Tech and Mesabi Range as clients and two more schools indicated interest. Dakota County Technical College, with the help of US Bank and M/State, are now in the pilot phase of purchase cards and electronic purchase requests, with a school-wide roll out February 9th. The system office is preparing to pilot this program and two other schools are considering being part of this pilot as well. The

January 17, 2012

launching of the Higher One Card (typically to load financial aid disbursements) will be determined by each campus. An estimated \$1 million in volume discounts/group purchasing savings are estimated for the print management service. A new Master Contract with Xerox is coming next week and other vendor contracts are likely.

The development of Project 2022, an Excel-based financial analysis and planning tool, is well underway. The Project 2022 financial model will be presented at the Board of Trustees' March meeting.

Minnesota Management and Budget (MMB) released its budget forecast in December, projecting a budget surplus of \$876 million at the end of the FY2012-2013 biennium. The additional revenues will be used to replenish the state's cash flow account to \$350 million and to build the budget reserve to \$648 million. The improved budget picture reduces, but does not eliminate, the likelihood that the state appropriation for Minnesota State Colleges and Universities (MnSCU) will be reduced in the current biennium. Because the budget solution relied heavily on the use of one-time funds to balance the FY2012-13 biennial budget, a \$1.3 billion structural deficit is still projected for the FY2014-15 biennium.

Fiscal year 2013 budget planning is underway. The instructional cost study is being finalized for use in the FY2013 allocation framework.

As reported at the November Board meeting, MMB drew down \$550 million in cash from MnSCU's account in October to help meet the state's cash flow requirements. In November, MMB repaid \$100 million leaving \$450 million outstanding. The improved economic outlook and the restoration of the state's cash flow account should lessen the state's dependency on MnSCU to meet its cash flow needs.

Communication with MMB continues regarding the state's new SWIFT payroll and accounting system. There has been communication with the commissioner and steady improvement in operations but it remains burdensome to campuses and incomplete in its utility. Teams are in place to assist campuses with continuing problems. The problems are raising the risk profile for closing the books in June.

All financial reports are back from the printer and posted to the web. Single audit work with the auditors is wrapping up.

With the startup of the legislative session, a proposed statutory amendment will be included which would clarify MnSCU's authority to access its own receipts in the event of a state shutdown. The amendment is expected to be well received. There is no indication of any supplemental budget expectation from the executive branch.

Governor Dayton released his bonding recommendation totaling \$775 million at a press conference today. Of MnSCU's \$278.7 million request, the governor is recommending \$111.9 million (40%). The most disappointing news of the recommendation is of the

January 17, 2012

\$110 million requested for Higher Education Asset Preservation and Replacement (HEAPR) projects, only \$20 million (18%) was approved. This was the lowest percentage since 1996, but Vice Chancellor King noted that this is the first step in a long process. Capital projects were approved at \$91 million (50%) and Vice Chancellor King said that to the Governor's credit, they were approved in the priority order that they were submitted with the exception of Rochester. By following the list, a compliment was paid to the Board for their work. Local projects are the system's competition for capital bonding and Vice Chancellor King is hopeful that we can end in a stronger position than what is outlined here. Trustee Van Houten inquired about the "catch up" and "keep up" amounts for HEAPR projects. Vice Chancellor King replied each is at \$60 million per year for a total of \$120 million and it was the "catch up" projects where the governor did not give much support. The Board's work over the past fifteen years, with support from the governor and the legislature, has stopped the increase in deferred maintenance.

3. **FY2011 AND FY2010 AUDITED FINANCIAL STATEMENTS**

Vice Chancellor King introduced Associate Vice Chancellor Colin Dougherty who presented an expanded version of what was presented to the Board in November, including more detailed information concerning the financial conditions of the individual MnSCU institutions.

Mr. Dougherty reported that 13 colleges and universities were audited and for the second year running, MnSCU received "clean opinions", no material weaknesses and no significant deficiencies.

FY2011 saw a 2% FYE and 1% headcount growth, whereas, it had been flat in FY2010. Total assets equal approximately \$2.9 billion. Taking into account liabilities, net assets were approximately \$1.9 billion, with a good portion of that being facilities. Operating fund reserves grew by \$9.2 million ending FY2011 at 6% of revenue and within the Board recommendation of 5 – 7%. The system's Composite Financial Index (CFI) is 2.91, which was flat from FY2010. Primary reserve and viability are two factors that are keeping the system below the desired benchmark of 3.0 CFI. Mr. Dougherty noted that MnSCU is above the range in operating revenue and return on assets. Mr. Dougherty went on to say that of the institutions that are currently at or above a 3.0 CFI, all are colleges (13 total) and that colleges carry a lower amount of debt than universities.

The income statement reflects net operating revenue of \$75.6 million in FY2011. For every \$100 in revenue, there was a \$3.67 surplus. Change in net assets totals \$146.4 million, a decrease of \$33.3 million from FY2010.

Trustee Hightower questioned if it was a good idea to increase reserves considering the climbing tuition rates. Mr. Dougherty replied that is a balancing act to reach long-term equilibrium. It is desirable to be in a surplus mode and back in FY2009 the system was in a deficit position.

Chancellor Rosenstone responded that the numbers have to be looked at over a period of time. A year from now there will be a realization that the surplus was essential to balance

January 17, 2012

the books. If the surplus allows us to stay within our current CFI and provides a cushion, then it would be prudent in the long-run. It is not the desire to build an excessive reserve. Vice Chancellor King added that enrollment projections indicate a slight decline due to students finishing 18-24 month programs, those that have exhausted their benefits and resources, and those entering the labor force. It would be a poor strategy to not look at this picture over a number of years and take into account the right numbers to balance the books.

Trustee McElroy questioned if there should be a different CFI measurement for universities. Vice Chancellor King replied that the Higher Learning Commission already assesses universities individually – they are not measured in terms of being part of a system. Additionally, the CFI numbers are sensitive to activity in the capital program year to year, so that volatility could be a false predictor on the financial health of the universities.

Mr. Dougherty reported FY2011 experienced an 11% growth in financial aid revenue and 4% more students received that aid. Overall, 62% of credit-taking students received some sort of financial aid including loans, grants, scholarships and work study. Craig Shoenecker, System Director for Research, clarified that in terms of federal and state grants, the two of them count as one type of assistance. Grants and loans saw an increase of 11% and 12%, where scholarships saw a decline of 8%. A noteworthy trend from 2003 to 2011 is that financial aid recipients grew 48% while enrollment grew 17%. The average award of all types of aid grew by 64%.

Trustee Van Houten commented that providing aid increases accessibility and perhaps there should be an analysis of cost of living compared to the amount of borrowing and also look at the tuition rates compared to the amount of borrowing, particularly with the continued rise in tuition rates. There is also a shift with more students attending two-year colleges (which have a lower cost) and also, the number of students taking college courses while in high school. Trustee McElroy added that grants cover more than tuition, they cover living expenses too. Mr. Schoenecker was asked to follow up. Chair This reminded the committee that the Board was going to be mindful of additional assignments to system employees and the impact it has on their regular workload. Trustee McElroy responded that Vice Chancellor King will moderate if what was requested is reasonable and if so, how much, how soon and how fast.

FY2012 enrollment is projected to decrease by 2.4% and that will be taken into account for FY2013 planning. The Trends and Highlights campus meetings will include a discussion of audit performance and how Project 2022 will factor in.

4. FY2012 CAPITAL PROGRAM UPDATE

Associate Vice Chancellor Brian Yolitz thanked Sally Grans and Jana Carr–Weertz for their work on the capital program. He reported on the proposed basic framework for developing capital budget guidelines for the system's FY2014-2019 capital bonding

January 17, 2012

request. The framework was developed with guidance from Chancellor Rosenstone and input from campus leadership.

Mr. Yolitz reported that capital requirements emerge from approved facility master plans, which are on a 5 year cycle. Capital bonding scoring is based on the guidelines. Capital bonding requests can include HEAPR projects, major projects and/or initiatives such as Science, Technology, Engineering and Math (STEM) or energy.

The capital program ties to the strategic framework by providing access to baccalaureate programs, supporting STEM programs, achieving efficient use of existing space, net reduction of total space, cooperation among campuses, sharing opportunities, sustainability, preservation of facilities and infrastructure and the reduction of operating costs.

Other components will be refined and included as part of the final guidelines and ultimate scoring process. These can include objective data or documentation, accounting for additional funds a campus can bring forth to reduce general obligation supported capital project costs, taking special consideration for FY2012 projects that aren't funded in the legislative session, accommodation for emergencies or late emerging opportunities, and acknowledging new square footage due to program needs that can't be accommodated in renovated or leased spaces.

For FY2012-2017, the total capital request is \$278.7 million; \$168.7 million for major and initiative projects, and \$110 million for HEAPR. Based on the Board's feedback today, staff will prepare specific guidelines for a first reading in March 2012 and a final approval in April 2012.

Trustee Hightower asked if there is any impact from on-line learning on capital projects. Mr. Yolitz replied that there has been no need to decrease campus footage, largely because students still come to campus to attend other classes, study, use the internet, and attend activities. Blended classes still require access to physical space. Trustee Dickson inquired if there was any progress in catching up on science classrooms. Mr. Yolitz responded that many campuses have projects underway, including Metro State, Anoka Ramsey, and Hennepin Tech and assured the Board that there is still focus on liberal arts courses as well as STEM. Trustee Hightower felt there should be some examination of how students are learning now, relative to capital projects and build on how we think students will learn in the future. Mr. Yolitz commented that there is flexibility in project designs such as pods, table reconfigurations, connecting with other resources, and collapsible walls. Trustee Renier asked if "HEAPR-like projects" have the same effect as HEAPR projects. Mr. Yolitz responded yes, because they impact the Facilities Condition Index (FCI) and reduce the backlog of deferred maintenance. The same is true of demolition.

Vice Chancellor King remarked that universities carry the majority of the Revenue Fund related outstanding debt. In terms of the capital program, MnSCU has 100% of the asset value and 1/3 of the debt and it shows as a capital contribution on the balance sheet; none

January 17, 2012

of the debt is taken on in HEAPR projects. On occasion, various Board members have inquired if it would be wise to submit an all HEAPR bonding request, including backlogs. Vice Chancellor King sought input and said if the Board wants to move in that direction, the staff would be redirected from their work on the capital program. It was disappointing that the governor came in with such a low number in support of HEAPR. Trustee McElroy added that capital projects are politically attractive because they come with glamor in ribbon cuttings and ground breakings, whereas HEAPR projects are largely behind the scenes. Vice Chancellor King stated that unfunded HEAPR projects for FY2012 will be brought forward again in FY2014.

Vice Chancellor King said the guidelines will come before the Board again in March and what is outlined today can go forward.

5. REVENUE FUND UPDATE

Associate Vice Chancellor Brian Yolitz thanked Greg Ewig and Heather Anderson for their work on the Revenue Fund. The purpose of the presentation is to provide the Board of Trustees a sense of the scope of the Revenue Fund program in terms of physical assets and to advise the Board of the staff's intention to seek a legislative increase in Revenue Fund bond authority. The authority allows campuses to proceed with new projects through the design phase before they come to the Board for approval.

Revenue Fund programs include student unions, residence halls, dining facilities, parking, health and wellness centers. Mr. Yolitz provided a comparison of GO Funds and Revenue Fund processes, including the Board's role of approving and prioritizing the GO Fund list and approving projects for financing through the Revenue Fund bond sale.

Most square footage for the Revenue Fund program is in residence halls, but wellness centers are an emerging market. Universities far outweigh colleges both in Revenue Fund square footage and outstanding debt. Trustee Thiss asked if technology could be included in the fund since technology fees are collected from students. Trustee Dickson responded that the lifetime of technology is too short and the investment would wear out before the debt is paid off.

The FY2013 candidate projects, developed by the campuses, amount to \$116 million in new debt. Current bonding authority is at \$300 million. Outstanding bonds after 2012 payments are at \$254 million, leaving availability of \$46 million and resulting in a \$70 million shortfall. The planning estimate for 2015 is \$60 million, resulting in a request to increase the authority by \$130 million for a total of \$430 million, which is within the system's debt capacity.

Vice Chancellor King spoke about viability ratios. As projects come to the Board individually, each will have their own cash flow profile meeting debt service criteria.

She added that deferred maintenance and changing student expectations factor in. President Hanson noted that students have certain expectations for their college or university and it is important for facilities to look good to attract them.

January 17, 2012

Mr. Yolitz said there are a number of reasons why campuses wish to take on Revenue Fund projects including aging facilities, marketing venues, a shift to places that offer a sense of community and emerging popularity of health and wellness centers.

Chancellor Rosenstone confirmed that upon Board approval, the authority for the increase comes from the legislature. By gaining the authority, the option to move ahead with projects is preserved. Vice Chancellor King added that the additional authority will keep planning on track. Most of the projects on the list are renovations and the Board will decide which projects will move forward.

Trustee Krinkie asked what would happen if the legislature doesn't increase the authority. Mr. Yolitz responded that the list would need to be prioritized and whittled down which is something we have not had to do in the past. It would also mean there would be an increase in the backlog of projects that are on the list.

Trustee Englund proposed giving local businesses the opportunity to offer services such as fitness centers and coffee shops at a discounted rate. Mr. Yolitz said that some campuses are already partnering with businesses due to space issues. Chancellor Rosenstone remarked that there is student consultation on each of these projects and it is up to the students if projects will be approved.

Vice Chancellor King added with limited capital investment dollars, projects historically funded under the GO program have been funded through the Revenue Fund. Additionally, substantial underinvestments in maintenance prior to the merger and changing student expectations have all contributed to the increase in the Revenue Fund.

Trustee McElroy stated that there is no expiration on debt authority and just because we have the capacity does not mean that all of it will be used. He added that the entire request may not be approved by the legislature.

Trustee Dickson commended the Facilities staff and campus leaders for continually looking for partners and also managing limited funds in a frugal way.

6. ACQUISITION OF REAL PROPERTY – BERGWALL ARENA, MINNESOTA STATE COLLEGE – SOUTHEAST TECHNICAL

Associate Vice Chancellor Brian Yolitz sought approval from the Board of Trustees to acquire the Bergwall Hockey Arena, which is physically connected to the Red Wing Campus building at Minnesota State College – Southeast Technical College. The Red Wing school district has retained and managed the arena since 1995 and the local hockey association is the primary user. The acquisition of the property has been a priority for the campus for many years with plans for demolition.

The Red Wing school district is planning a capital campaign to replace the arena elsewhere in the community. The college will lease back the arena to the school district for up to three years or when a new arena is constructed. If there are any repairs needed

January 17, 2012

in excess of the stipulated amount during the lease term (still in negotiations) the college has the right to terminate the lease and proceed with demolition.

The purchase price is \$900,000 and the appraised value is \$1.7 million. The college will provide \$300,000 from operating funds and their Foundation will provide \$600,000. The demolition cost is estimated to be \$200,000 which will be covered under the college's operating budget. Southeast Technical College has advised the Student Senate throughout the process, although President James Johnson noted that the contact has not been a formal process because there has been interaction and community discussion regarding this acquisition since 2006.

Trustee Van Houten was concerned that there was not use for the property and considering its current condition, it is a liability until it is destroyed. President Johnson replied that this is an opportunity that may not be there in the future. He also stated that there is planning for a capital project in 2016 to build the Allied Health Wing. Nursing is one of the largest programs at Southeast Technical. Trustee Van Houten stated that he didn't think the purchase should be approved until the capital project was part of the list. Trustee McElroy said that even if the project didn't get approved, at least there would be a green space on campus instead of a facility that has come to the end of its useful life.

RECOMMENDED MOTION:

The Finance and Facilities Committee recommend adoption of the following motion:

The Board of Trustees approves the acquisition of Bergwall Arena and all related rights located at Southeast Technical College at Red Wing from the school district, subject to final approval of the terms and conditions by the Chancellor or his designee.

Trustee Renier moved that the Finance and Facilities Committee recommend adoption of an amended motion to be prepared by General Counsel that included the college reserves \$200,000 in their operating budget to fund the demolition within the next three years. Trustee Vekich seconded the motion which carried with Trustee Krinkie voting in dissent.

At the Board meeting on January 18, 2012, the following motion was adopted:

The Board of Trustees approved the acquisition of Bergwall Arena and all related rights located at Minnesota State College-Southeast Technical at Red Wing from the school district, subject to final approval of the terms and conditions by the Chancellor or his designee. Upon purchase of the facility, the college shall set aside and maintain \$200,000 from its operating reserve to fund the demolition of the building within three years.

Chair McElroy adjourned the meeting at 3:33 p.m.

Respectfully submitted,

Laury Anderson, Recorder