

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**

**BOARD OF TRUSTEES**

**FINANCE AND FACILITIES COMMITTEE**

**SPECIAL MEETING**

**MEETING MINUTES**

**June 3, 2013**

*Finance and Facilities Committee Members Present: Chair Michael Vekich, Trustees Brett Anderson, Duane Benson, Dawn Erlandson, Philip Krinkie, Alfredo Oliveira and Thomas Renier*

*Other Board Members Present: Duane Benson, Cheryl Dickson, Clarence Hightower, Louise Sundin*

*Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, President Joe Opatz, President Richard Hanson*

The Minnesota State Colleges and Universities Finance and Facilities Committee held its special meeting on June 3, 2013 4<sup>th</sup> Floor, McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Vekich called the meeting to order at 8:00 a.m. and noted that Trustees Benson, Oliveira, and Paskach were present by phone.

**1. FY2014 Capital Budget Request (First Reading)**

Vice Chancellor Laura King thanked the Board for their flexibility in participating in the first reading of the capital budget request and introduced President Hanson and President Opatz, Leadership Council liaisons for the Finance Committee, Associate Vice Chancellor Brian Yolitz, and Greg Ewig, Director of Capital Planning, present in the audience. The purpose of the presentation is to introduce the recommended capital budget request for FY2014 including the recommendation, background, program elements and the recommended motion. Vice Chancellor King noted that there was great competition for capital projects totaling more than \$280M, and \$110M for Higher Education Asset Preservation and Restoration (HEAPR). The recommendation totals are less than half of the proposals. Minnesota State Colleges and Universities (MnSCU) has begun looking at facilities differently. Every square foot represents a cost to programs and operating expenses and addressing surplus of space has become a priority.

Mr. Yolitz said that the total recommended capital program is \$286.5M and the list of projects is found on page 11 of the Board packet. The funding for the program comes from two avenues – the system is responsible for 1/3 of the debt service on capital projects (shared 50/50 between the system as a whole and the gaining institution) and 2/3 is covered by the State. The State covers 100 percent of HEAPR projects. The key program components include \$110M for HEAPR, which has historically been the Board's number one priority, \$20.6M for demolition of obsolete space, and \$155.9M for 24 capital investment priorities. Eight of those have been funded for design or advance work in prior years (\$112M), and

eight have been to the legislature two times (\$27M). Five are smaller projects previously bundled as systemwide initiatives and are now repackaged as institutional priorities (\$5.9M). Three are new construction projects, two of which have been seen before (\$1.9M) and one stand-alone design and construction project (\$7.9M). If all of these were to be funded, there would be an anticipated “tail” in 2016 of \$59M. Fourteen projects did not make the list.

There would be no change in square footage coming from renovation and renewal projects, an increase of 278,285 sq. ft. for new facilities, and a reduction of 535,645 sq. ft. through demolition. The net result would be a reduction of 257,360 sq. ft. of academic space. Trustee Krinkie asked for the definition of academic space. Mr. Yolitz replied that there is 28M sq. ft. within the system and 21.7M of that is associated with academic space including classrooms, labs, and student support areas.

Mr. Yolitz said that campus planning is an ongoing process and walked the Board through the timeline that leads to the presentation of the capital budget request to the legislature. The process includes Board guidelines, project submission and scoring, Board scope and sizing, and Board review and approval. Mr. Yolitz gave a review of the overarching principles which include taking care of existing facilities, making existing space more efficient and flexible, mothballing or demolishing what is not longer viable and consider new square footage only if the requirements meet the priorities of the Strategic Framework.

Project scoring is built on Board guidelines – access to an extraordinary education (30 percent), partner of choice (20 percent), high value/most affordable option (50 percent) and there was an additional bonus for prior approval and institutional priority (10 percent). Mr. Yolitz said that there were over 100 scorers from throughout the system and it took two days to score the projects that were submitted. Mr. Yolitz thanked President Opatz for hosting the scoring event at Normandale. Mr. Yolitz said that MnSCU’s “keep up/catch up” strategy for HEAPR includes addressing anticipated needs and reducing the backlog by 50 percent over the next ten years. The “keep up” funding requirement is \$414M over the next five years, which breaks down to \$83M annually. The “catch up” funding to reduce the backlog is \$35M annually. Combined, the “keep up/catch up” needs equal \$118M in annual HEAPR investment. The total backlog is \$705M. There are three streams of revenue – campus operating funds, capital investment for major renovation and repair projects, and capital investment for HEAPR.

The Board directs campuses to spend \$1 per square foot annually in facilities’ renewal and renovation (R&R) equating to \$21.7M annually. The campuses have done better than that with an average investment of \$29.5M annually. For modeling purposes, the assumption is a \$25.5M investment.

Based on capital project funding, from 2000 – 2012 MnSCU has received \$154.3M in major projects, or \$77M annually. The assumption is that the HEAPR funding will be at 50 percent or \$37.5M. With the “keep up/catch up” at \$118M, less the \$25.5M, and \$37.5M, the net result is \$55M annually, equating to a HEAPR request of \$110M over the biennium. Mr. Yolitz said that HEAPR projects for the 2014 request are bundled into capital projects and gave the example that a campus may want to include a new roof (which falls under the

HEAPR category) if a new computer lab was funded through the capital program . Given the current trend of funding streams, there is not enough money to do large stand-alone HEAPR projects.

Trustee Anderson said if HEAPR has been historically funded at 50 percent of the request, and MnSCU's HEAPR request is \$110M, it may not look like a priority at the legislature. Vice Chancellor King replied that there is a debt service dimension as campuses don't pay debt service on HEAPR projects, but the legislature has been friendlier to capital projects. HEAPR needs are more likely to get done if they are packaged with the capital projects and as a result, debt service will be assumed. MnSCU has a great relationship with the State on debt service.

Trustee Erlandson asked about energy incentives. Mr. Yolitz said that Winona State University (WSU) has a new guaranteed energy contract that just completed its first year. WSU is working with consultants to validate energy savings. The Department of Commerce put together a team that partnered with industry and state agencies (including MnSCU) to develop a template for contracts and validation for energy savings. Currently, St. Cloud State University has one of the largest energy contracts in the state. The savings in energy costs should exceed the cost of the contract. Systemwide, \$32M is spent on electric and gas each year.

Trustee Sundin suggested documenting other sources of funds that are invested for the recommended projects. Mr. Yolitz said that the some of the project scoring captures that however, none of these projects have large investments from other sources. Chancellor Rosenstone and the Leadership Council have had conversations about being more aggressive in finding outside sources for MnSCU's funding needs. Trustee Sundin said that HEAPR projects don't receive the same kind of reactions that capital projects get, and recommended celebrating the start and completion of HEAPR projects. Trustee Dickson supported Trustee Sundin's suggestion and said that in order to influence legislators, MnSCU should showcase the importance of the HEAPR projects and the jobs that HEAPR projects create. Trustee Sundin added that the Board should be invited to the HEAPR celebrations in a show of support for the projects.

Trustee Sundin commented that "if you don't ask, you don't get" and inquired why MnSCU's HEAPR request is considerably lower than in the last few years. Trustee Sundin added that MnSCU shouldn't miss out on the low interest rates. Mr. Yolitz replied that initially \$200 - \$250M was presented to the Board and the Board agreed that the request should be a comparatively modest one. After conversations with the Finance committee in May, the request was increased to \$286M. Mr. Yolitz responded that the request is a good balance of system needs and taxpayer dollars. Trustee Renier added that many of the projects are renovation and a few are demolition, and it sends a good message that MnSCU is taking care of the facilities.

Trustee Krinkie asked what percentage of the current request was supported by Governor Dayton and if projects have ever been approved and then vetoed by a Governor. Vice

Chancellor King said that she will provide that data and noted there was strong support by Governor Dayton this legislative session.

Trustee Erlandson said that she likes that job numbers are attached to the request. Mr. Yolitz noted that templates are available to the campuses for HEAPR projects to highlight contractors, sub-contractors and funding sources.

Mr. Yolitz presented a map of Minnesota illustrating where the recommended projects are located throughout the state. There are 24 priority capital projects involving 27 campuses – 6 of which are in the metro area and 21 are out state. The programmatic impact of the request is \$155.9M and impacts many academic areas including STEM, Allied Health, technical programs, business and education, and student support services. Chair Vekich asked Chancellor Rosenstone how the projects are coordinated with academic requirements. Chancellor Rosenstone replied that the request emerged from academic priorities at the individual campuses and academic leadership was part of the scoring process. The process will be strengthened by greater involvement from the Vice Chancellor of Academic and Students Affairs.

Trustee Sundin asked about the impact of Mayo Hospital's announcement that they will no longer hire applicants with AA degrees in health services and if this has been taken into consideration. Vice Chancellor King said that Rochester has a robust relationship with Winona and conversations are already taking place between their nursing programs to respond to the announcement.

Mr. Yolitz concluded the presentation by saying that the rightsizing initiative promotes sustainability and eliminates backlog that will reduce operating expenses and HEAPR needs. Obsolete space is targeted for demolition and this would include space that is mothballed, or chronically underutilized. These spaces are identified in the campus master plans. The request for rightsizing is \$20.6M.

Mr. Yolitz presented the recommended motion listed in the Board report and asked for questions.

Trustee Anderson said that in the future there should be a realism factor to the request and document debt service that is taken on for HEAPR or HEAPR-like projects. Trustee Renier agreed. Vice Chancellor King replied that the legislature has invested over \$1B in the last 10 years. Facility care is the only place in Board policy where there is an explicit expected monetary investment (\$1/sq. ft.) and MnSCU institutions have done an outstanding job of caring for their campuses. Direction from Academic and Student Affairs and input from the strategic workgroups will bring added value to capital planning. Vice Chancellor King agreed with Trustee Sundin's comment that good stewardship needs to come from within the system in fundraising efforts.

Trustee Hightower said that in the past, the design and construction has been presented as two separate phases, but now there are 19 projects on the list where the components are combined. Mr. Yolitz said currently there are only three projects that are design only. For

the remainder, new funding would finish design work that began in prior years and take them into the construction phase. Vice Chancellor King said the table could be relabeled for clarity on the design and construction costs. Trustee Hightower was concerned about the bundling of projects resulting in a large dollar request. Mr. Yolitz said that projects have not changed in size, but there is more than one project bundled in some of the requests. Vice Chancellor King said that when the projects were bundled as program initiatives, there was not much traction, so bundling the projects geographically is an attempt for a higher success path for funding.

Trustee Krinkie said that it seems as though no matter how the request is framed, the legislature repeats its funding pattern and attention needs to be drawn to the fact that there are over 50 campuses out there that need attention. Trustee Krinkie commended the Finance team for making good use of limited funds.

Trustee Hightower asked if data could be provided to reflect the amount of HEAPR funding received versus what was requested. Vice Chancellor King said she could provide that information. Trustee Dickson thanked the Finance team for providing such detailed information that allows the Board to become better decision-makers.

Vice Chancellor King asked Presidents Hanson and Opatz to comment. President Opatz said that the Leadership Council supported the proposal and were disappointed that there was no investment in 2013, which puts pressure on 2014. President Hanson said that two words come to mind – commitment and excitement. There is a commitment to remain competitive and Shared Governance will help find solutions to promote student success. There is excitement for the renewal and removal of facilities which will further promote competitiveness.

Chancellor Rosenstone thanked the committee for giving direction on the recommendation and recognized the tough work and decisions made by the campuses. It has been a disciplined process, which has yielded a disciplined request that was driven by academic priorities and data. The recommendations that will be presented to the legislature is a “must do” list, not a wish list. There has been a 20 percent gain in facility usage over the last ten years. The recommendation to the legislature includes removal of unneeded square footage which will result in additional cost savings through demolition and HEAPR – an aggressive and prudent strategy. The program aligns academic programs with fiscal sustainability. Trustee Sundin asked if there was a list of the demolition projects. Vice Chancellor King said that if funding were received it would be treated as a block grant. Demolition projects would not require Board approval; however, a list of demolition projects would be circulated.

Trustee Vekich asked the committee if there is any concern for the overarching principles. Trustee Krinkie said there is overall change in the system of fewer needs at the rural campuses and greater needs for some of the metro area campuses.

Trustee Vekich asked “what would be good to know if we knew it”. Vice Chancellor King replied the system level debt service forecast would be provided. The numbers are being fine-tuned and will be included in the June 19<sup>th</sup> Board packet.

Trustee Krinkie commented that higher education funding is split 50/50 between the University of Minnesota (U of M) and MnSCU. The U of M has had more resources on a historical basis, and MnSCU has ten times as many locations with over 50 campuses and this should be addressed at the legislative level.

The meeting was adjourned at 10:12 a.m.

Respectfully submitted,

Laury Anderson, Recorder