

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

June 19, 2013

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

Other Board Members Present: Margaret Anderson Kelliher, Duane Benson, Cheryl Dickson, Clarence Hightower, Maria Peluso, 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 meeting on June 19, 2013 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 9:22 a.m. and noted that Trustees Oliveira and Paskach were present by phone.

1. Minutes of May 22, 2013

The minutes of the May 22, 2013 Finance and Facilities Committee were approved as published.

2. Minutes of June 3, 2013

The minutes of the June 3, 2013 special Finance and Facilities Committee were approved as published.

3. Finance and Facilities Update

Vice Chancellor King reported that Minnesota Management and Budget (MMB) had repaid the \$575 million owed to Minnesota State Colleges and Universities on May 31, 2013. MMB has been consistent in repaying the loans on time.

The Office of the Legislative Auditor is reviewing the State of Minnesota's use of General Obligation bond proceeds from 2008-2010. The audit will include 5 capital projects and several Higher Education Asset Preservation and Replacement (HEAPR) projects and is scheduled for completion in August 2013. There were no substantial findings from the last audit in 2009. Auditors will be looking at compliance with statute and constitutional eligibility.

The Classroom, Event Management, Resource Scheduling (CEMRS) project, which replaces R25 room scheduling, is in its final wave of implementation at the campuses. Completion is scheduled for Sept. 30, 2013.

The current fiscal year ends on June 30, 2013. Work is on track to close FY2013 and open FY2014.

4. FY2014 Operating Budget (Second Reading)

Vice Chancellor King introduced Leadership Council Finance Liaisons Presidents Opatz and Hanson, Deb Bednarz and Susan Anderson of the Financial Planning & Analysis unit, and Craig Schoenecker, System Director of Research. With the close of the legislative session, colleges and universities have revised their budgets and tuition tables to reflect the legislatively-mandated tuition freeze and other legislative actions, and the revisions are included in today's materials. Also included in the supplemental packet (page 80) is a response to questions that arose during the May meeting. Overall, the budget reflects a modest increase in both revenue and expenses, and it is a good budget for students. Vice Chancellor King turned the presentation over to Ms. Bednarz.

Ms. Bednarz said that the meeting will focus on the results of the 2013 legislative session, an analysis of the net cost of education (known as the "Benson Table"), a review of the all-funds, general fund, and revenue fund budgets, and an overview of the attachments and supplemental materials provided.

Ms. Bednarz reported that Minnesota State Colleges and Universities (MnSCU) received a significant increase in state funding for the biennium. It was increased by \$102 million or 9.4 percent over base funding levels. \$78 million was dedicated to tuition relief, keeping undergraduate rates at the current levels, and will be distributed to the campuses to offset revenues that would have been generated from tuition increases; \$7.3 million was appropriated for leveraged equipment in FY2015; one-time funds of \$17 million were appropriated for retaining quality faculty and staff. The Chancellor and the Leadership Council will determine how these funds can best be spent, consistent with the legislative language. Reallocation of \$44 million will continue to be part of the system's operating budget strategy.

The system's 2014-2015 biennial budget request was designed to support the system's Strategic Framework. The enacted legislation in the higher education bill and in other bills will help advance the system's strategic framework. Ms. Bednarz referred to Table B on page 21 of the packet.

Advancing the competitiveness of MN's workforce is helped by several initiatives: leveraged equipment funding appropriated for FY2015, internships and apprenticeships (including Greater MN internship business tax credit & STEM internship opportunities), FastTRAC support, and a manufacturing and training pilot, and mental health counseling to farm business owners related to Farm Business Management.

The tuition freeze, adoption of features of the DREAM Act, and expansion of the state grant program to part-time students and other changes to the state grant program all help advance the system's priority of increasing access and affordability.

Retaining quality faculty and staff and the increase in the PSEO payment help support accelerated completion.

The legislature increased funding for the state grant program by \$75.4 million over the biennium. Part-time MnSCU students will benefit the most and it is estimated that an additional 8,300 students will now be eligible for the state grant program as a result of changes to the formula for part-time students. The primary changes that impact MnSCU students are increasing the assigned student responsibility (ASR). The net impact of this change will reduce the size of state grants for all recipients, however, the living and miscellaneous expense allowance increased from \$7,000 to \$7,900 netting an increase of the state grants for all recipients. The assigned family responsibility (AFR) for MnSCU students will be prorated with credit load in 2014 to treat part-time students more equitably, and in addition, federal Pell grants will increase by a \$95 cost of living adjustment.

Ms. Bednarz reported that the estimated change in student cost by credit load and also by income level will result in net decreases in FY2014, ranging from \$70 for recipients enrolled for 15 or more credits at the state universities to \$294 for recipients enrolled from 12 to 14 credits at the state colleges. Ms. Bednarz noted that state grant recipients in the lowest income category are projected to experience the smallest net decreases in student cost because most have no AFR, and consequently don't benefit from the proration of AFR. It is estimated that grant recipients at the colleges will pay an average of \$1,421 in tuition after subtracting their state and Pell grants. The estimated cost for university students is \$2,285. Trustee Benson thanked the Finance division for their work on the analysis and recommended the student debt be addressed at a future date. Vice Chancellor King referred the Board to page 26 of the packet, which shows a reduction in student cost for all state grant recipients, no matter what the level of enrollment. Chancellor Rosenstone commented that even if you come from a very modest household income of under \$20,000, with the aid of a Pell and state grant, you can attend a MnSCU college full-time (30 credits per year) for \$737 or a MnSCU university for \$989 and that is something the Board should be proud of.

Ms. Anderson reported that the proposed 2014 all-funds budget will grow by \$48.6 million (2.6 percent) and expenses are projected to increase by \$61.9 million (3.4 percent) over the prior year level. A slight increase to the all-funds budgetary fund balance of \$5.5 million for FY2014 is projected, representing three-tenths of one percent of revenue. In FY2014, colleges and universities are anticipating using \$13.2 million of fund balance, equivalent to less than one percent of total revenue and consistent with the FY2013 use of \$14.3 million in fund balance.

Ms. Bednarz noted that tuition and revenue fund fees are found in the attachment to the Board packet and the supplemental packet contains detailed information on college and university operating budgets, tuition and fees, allocation of state appropriation, enrollment, and reserve balances. Copies of student consultation letters are also included. Ms. Bednarz

presented the motion to adopt the all-funds budget, and approve the tuition structure, and revenue fund rates and fees.

Trustee Sundin inquired if detailed records were kept on the AFR. Vice Chancellor King assured that the information was kept.

Trustee Krinkie moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Anderson seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

Adopt the annual total operating budget for fiscal year 2014 in Table F. Pursuant to Board Policy 5.9, the Board of Trustees will be periodically provided systemwide budget updates for all funding sources on an exception reporting basis.

Approve the proposed tuition structure recommendations for fiscal year 2014 as detailed in Attachments 1A through 1E.

All tuition increases are effective Summer Term or Fall Term 2013 at the discretion of the president. The chancellor is authorized to approve tuition structures for new courses or programs proposed after this date, as well as any required technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2015 tuition recommendations are presented to the Board of Trustees.

The Board of Trustees continues the policy of market-driven tuition for closed enrollment courses, customized training, and non-credit instruction, continuing education, and contract postsecondary enrollment option programs.

Approve the Revenue Fund and related fiscal year 2014 fees for room and board, student union, wellness and recreation facilities, and parking ramps/surface lots as detailed in Attachments 2A through 2D, including any housing fees that the campuses may charge for occupancy outside the academic year. Approve the fiscal year 2014 fees structure for room and board for colleges who either own or manage student housing as detailed in Attachments 2E and 2F. The Chancellor is authorized to approve fee structures for any new revenue fund programs as well as any technical adjustments, and is requested to incorporate any approvals at the time fiscal year 2015 recommendations are presented to the Board of Trustees.

5. 2014 Capital Budget (Second Reading)

Vice Chancellor King indicated that there is strong support from campus presidents and CFOs for the 2014 Capital Budget and that the request had not changed since the first reading and asked Associate Vice Chancellor Brian Yolitz to lead the presentation.

Mr. Yolitz thanked campus leadership, campus staff and system office staff for their assistance with the capital budget request.

The recommended 2014 capital program prioritizes asset preservation through HEAPR. Line-item projects within the recommended program provide improvements to the educational capacity of existing space by making the space more efficient and effective in supporting students. Five projects provide expanded workforce training capacity at two universities (Metropolitan State and MSU, Mankato) and three colleges (MState, MSU Moorhead, Saint Paul College, and Century College). The program also replaces or eliminates obsolete space through line-item projects at seven campuses.

The recommended capital program for 2014 seeks \$227.7 million in state General Obligation bonding funds to be coupled with \$58.8 million in system financing to execute a total capital program of \$286.5 million; \$110 million for HEAPR; \$20.6 million for demolition of obsolete space (above what is embedded in line-item projects); and \$155.9 million for 24 priority line-item projects, reflecting work at 27 campuses.

Within the 24 priority line-item projects, eight have been funded for design or advance work in prior years, eight have been to the legislature twice, five represent smaller projects formerly bundled as systemwide initiatives, now bundled at intuitional priorities, and three are major new projects. If all projects were fully funded, there would be approximately \$59 million in 'tails' for future bonding.

The proposed recommendation will increase space by 278,285 square feet; however, demolition of 535,645 square feet will reduce the overall facilities footprint by 257,360 square feet. Chancellor Rosenstone noted that less than 20 percent of the recommendation is dedicated to new space.

Mr. Yolitz gave a recap of the capital development process. Each MnSCU institution has a Facilities Master Plan that takes into account academic plans, workforce and demographic trends, and facility age, condition and configuration. Plans are approved by the system office. In preparation for bonding years, the Board issues guidelines for capital investment and expectations on program size. Those guidelines are used in project review and scoring. As a result of the legislative session and Board discussion, the capital recommendation was then formed. Once approved by the Board, the recommendation will be submitted to MMB for inclusion in the state's overall capital bonding process in the run up to the 2014 legislative session.

HEAPR has been the Board's number one priority and is used for care of buildings and systems, code compliance, and energy improvements. MnSCU's strategy is to *Keep Up* with anticipated renewal needs (five years - \$414 million) and *Catch Up* by reducing the deferred maintenance backlog (\$705 million) by 50 percent over 10 years.

Mr. Yolitz said that the proposed capital recommendations provides a programmatic impact of \$155.9 million investment in STEM, Allied Health, technical programs, business and education, and student support services.

The demolition initiative will help provide fiscal and facility sustainability and help reduce HEAPR expenses by removal of mothballed and chronically underutilized space. The initiative will be managed similar to HEAPR. Staff suggests the pursuit of changes to statute to group demolition projects with HEAPR projects. Chancellor Rosenstone said, through demolition, there would be significant utilities costs savings. Mr. Yolitz noted that there would be \$30 million saved through avoidance of deferred maintenance backlog and approximately \$600,000 per year savings in utilities - \$36 million in ten years. Trustee Sundin asked if part of the demolition process includes recycling and reusing in the community. Mr. Yolitz responded that many of the construction materials are recycled and reusable items would be offered up to other campuses, either by donation or trade. Trustee Benson inquired who performs the demolition work and what happens to the material that is extracted that has resale value. Mr. Yolitz answered that it can be a combination – at times facilities will take what is reusable and turn the rest over to a contractor. It all depends on the project.

Trustee Krinkie asked what percent of courses are taken online and the impact that online courses have on academic space. Vice Chancellor John O'Brien, who was in the audience, responded that 22% of FYE is taken online. Vice Chancellor King noted that historically students are dual enrolled so MnSCU has not seen a decline for academic space, parking, and residence halls. This trend may be diverging. New buildings will address current needs and have the ability to respond to changing environments. Chancellor Rosenstone said that the strategic workgroups will make recommendations around campus' Master Plans. Trustee Krinkie expressed concern that there are projects in the proposal that require new construction when there is a demolition initiative to reduce the footprint. Trustee Anderson said that the bulk of the investment is for STEM, Allied Health, and technical programs which cannot be taught online. Chancellor Rosenstone added that less than 18% of the capital program is for new facilities in high demand areas that attract high enrollments.

Included in the Board packet is a debt service scenario that replicates the current capital project proposal over a period of twenty years. It assumes flat revenue and a four percent bond interest rate which is higher than current market rates. At the end of twenty years, MnSCU will still be within three percent of revenues assigned to debt costs, which demonstrates a very safe and conservative approach to capital investments and the debt service that goes along with it.

Mr. Yolitz responded to questions that arose from the first reading of the capital budget. On average, the system has sought \$295 million in total capital programming in even numbered bonding years since 2000. Over a biennium, the average request has been \$207 million for capital program investments. HEAPR requests have averaged \$106 million with average funding of approximately 50 percent and line item project requests have averaged \$189 million and have been historically funded at approximately 82 percent. In a comparison to the University of Minnesota (U of M), MnSCU funding has come in at 53% of what was requested, while the U of M received 61% of their request. While the U of M has had a greater portion of its GO request funded, MnSCU has received slightly more in dollars. This

conclusion does not take into account the U of M's TCF Stadium (\$51.3 million to date) or the ongoing U of M's bioscience initiative (\$20 million to date).

Mr. Yolitz asked Presidents Opatz and Hanson to comment. President Opatz said that there was disappointment by campus leadership that there was no bonding bill that emerged from the recent legislative session. President Opatz said the capital recommendation process is rational, detailed, and objective. President Hanson praised the systematic approach to the request and said that addressing renewal and renovation and the demolition of obsolete spaces will solve many problems.

Mr. Yolitz introduced the recommended motion. The motion contained three elements - approve the projects and priorities for 2014 (Attachment A), the Chancellor will work with MMB on the process and keep the Board informed of developments, and as projects are authorized and funded, execute those projects and deliver on the project scope and intent. Mr. Yolitz asked the Board for comments and questions.

Trustee Hightower referred to page 89, project #4 – Bemidji State University (BSU) and asked why that project was listed as both design and construction but also shows a prior appropriation. Mr. Yolitz said that BSU funded the design of a demolition element of the existing hall and is seeking design funding for the Haag Sauer building.

Trustee Krinkie referred to the table on page 87 and stated that on average, since 2006, only 38% of MnSCU's capital bonding requests were funded. Trustee Krinkie said that if MnSCU asked for more, perhaps, MnSCU would get more in terms of dollars. Mr. Yolitz said that whatever gets funded will be executed. The remaining projects are still valid requirements and MnSCU leadership must do a good job of setting up legislative visits to the campuses and make a case for support of the recommendation. Trustee Krinkie asked how the legislature would differentiate between what is a wish list and what is a necessity. Chancellor Rosenstone replied that the list that was submitted is not a wish list – it is a must do list and low priority items are not included. Trustee Krinkie responded that based on prior funding, not all projects will be approved. Chancellor Rosenstone said that he is counting on the Board to help relay to the legislature, the importance of HEAPR and the capital program that has been developed, and help change historic funding percentages. Trustee Hightower noted that the recommendation is consistent with the Board's priorities.

Trustee Erlandson moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Renier seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends that the Board of Trustees adopt the following motion:

The Board of Trustees approves the 2014 capital bonding request as presented in Attachment A, specifically the projects and priorities for 2014. The Chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through

Minnesota Management and Budget to the Governor for consideration in the state's 2014 capital budget. The Chancellor shall advise the Board of any subsequent changes in the capital bonding request prior to the 2014 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the Governor, the Chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

6. Campus Service Cooperative Results and Contract Governance Including Approval of Several Contracts Exceeding \$3 Million

Vice Chancellor King said that the Campus Service Cooperative (CSC) initiative began three years ago and is led by an advisory committee which includes vice chancellors and campus presidents. The CSC's return on investment (ROI) has been very positive. Campus leadership has been supportive and the CSC's success depends on participation by the campuses. The strategy of bundling purchased activities through the CSC is expected to yield \$4-5 million in savings annually and shared services is expected to yield an additional \$4 million, resulting in a ROI of 3:1 and is expected to grow to 4:1 by the end of next year. Vice Chancellor King asked Colin Dougherty, CSC Managing Director to give the presentation.

Mr. Dougherty thanked Trustees Cirillo and Vekich for their participation with the CSC. The CSC is in its fourth month of a six month cycle and is asking permission from the Board to move ahead. The three main components of the CSC are sourcing, common practices and change management.

Mr. Dougherty reported the CSC held its first ever online reverse auction to get the best pricing to procure paper products systemwide. Four suppliers participated and 45 bids were submitted. The initial steps delivered 17 – 23% savings over current prices. Another tangible example of cost savings was the contract negotiated with Sherwin Williams for paint. There is over 26 million square feet of space throughout MnSCU and campuses were paying anywhere from \$20 to \$35 for a gallon of paint. A contract negotiated by the CSC with Sherwin Williams produced a 10.7% savings per gallon of paint. Cell phone usage has been identified as another way to create savings. Currently there are over 1,500 system-owned cellphones and only 1/3 of the minutes are being used. Negotiations are underway to produce a contract that will allow MnSCU to operate as one large "family plan". Mr. Dougherty called on some of the advisory team members for comment.

President Collins said the Northeast Higher Education District (NHED), being a multi-location college, fully supports the efforts of the CSC. NHED has been sharing services within the district since its inception. There has also been collaboration with the Northeast Leadership Council in shared staffing. NHED brings experience in sharing staff and services to the CSC. President Collins applauded the work of the CSC and the partnership with IBM. It is driving positive change and the result is savings for the benefit of students, faculty and staff.

Chris Halling, System Director for Financial Aid, addressed the student affairs perspective. The work of the CSC will provide simplification and standardization of processes. This is an

opportunity for campuses to work together and identify optimal practices. Standardizing processes systemwide will result in better speed, accuracy and compliance. This will free up resources so staff can better serve the students with placement, loan counseling, financial literacy, etc.

Sue Appelquist, Associate Vice Chancellor for Human Resources said that Human Resources is partnering with the CSC and IBM to streamline processes such as onboarding, faculty transactions, payroll, and retirement processes – all labor intensive areas. By automating processes, more time can be spent on workforce development, talent acquisition, employee engagement and professional development. Front line staff have been assisting with this work. A student internship program will be developed through the CSC. Components of the internship might be project management, communications, change management and business process redesign.

Chair Vekich asked Mr. Dougherty to define the two actions that are on the agenda. Mr. Dougherty said that one item is regarding the contract work that is going on now in Cycle One. The CSC is negotiating contracts for items such as paint, print management, IT software and accessories, and janitorial supplies. It is expected that the total value of the contracts will exceed \$3 million, therefore requiring Board approval for the contract work. The second item is a request for funding that will move the CSC into Cycle Two.

Jason Cavallo, Lead Project Manager, said that the Cycle One work has involved nine different spending categories in strategic sourcing. The Cycle One investment was \$2.5 million, but has delivered \$4 - \$5 million in annual savings by addressing the \$25 million in annual spending. The goal is to deliver over \$15 million in savings over the next three years. The CSC has also tackled 11 different administrative processes that will result in \$16 million in savings. Through the Itasca Project, there has been outreach to private business leaders who have given input on negotiation strategies and best practices.

Trustee Cirillo said that he attended the reverse auction and it is a good process. Trustee Cirillo commended the work of IBM with the CSC. Chancellor Rosenstone said that he appreciated the participation of the Trustees. One aspect that was not mentioned is partnerships that extend beyond MnSCU. Contracts do not have to be MnSCU contracts – it could be any existing state contract that brings value to MnSCU. There is an open invitation to anyone who can bring the best value to the system.

Trustee Erlandson said because of the good work of the CSC, it should be in the news and it is a good example of better leveraging of taxpayer dollars. Trustee Renier added that the underlying story is the savings to the students. Chancellor Rosenstone said what makes this exciting is the leadership and direction by the colleges and universities. There has been a lot of work done in a short amount of time and there has been buy in from the campuses.

Trustee Anderson moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Krinkie seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends the Board of Trustees adopt the following motion:

The Board of Trustees authorizes execution of the following contracts in amounts not to exceed those listed for janitorial supplies, office supplies, managed print, and IT software and accessories, to provide supplies and services to colleges, universities, and the system office, each for a term not to exceed three years.

Janitorial supplies – not to exceed \$5.9 million

Office supplies – not to exceed \$6.5 million

Managed print – not to exceed \$23.1 million

IT software and accessories – not to exceed \$23.4 million

The Board directs the Chancellor or his designee to execute all necessary documents.

7. Campus Service Cooperative Contract Approval Exceeding \$3 Million for Cycle Two (IBM)

Cycle Two work will require an additional investment of \$4.5 million. The CSC is forecasting \$5 - \$7 million in savings based on \$35 million in annual spending. Purchasing cards, computer hardware and software, dining facilities and travel will all be targeted. Cycle Two will also include rolling out the common processes identified in Cycle One, resulting in systemwide efficiency.

Trustee Renier moved that the Finance and Facilities Committee recommend adoption of the following motion. Trustee Anderson seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Finance and Facilities Committee recommends the Board of Trustees adopts the following motion:

The Board of Trustees authorizes execution of an amendment to the contract with IBM for the Cycle Two of the shared services and strategic sourcing not to exceed \$4.5 million (FY14). The Board directs the Chancellor or his designee to execute all necessary documents.

The meeting was adjourned at 11:22 a.m.

Respectfully submitted,

Laury Anderson, Recorder