

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

May 21, 2014

Finance and Facilities Committee Members Present: Chair Michael Vekich, Trustees Duane Benson, Dawn Erlandson, Philip Krinkie, David Paskach, Thomas Renier, and Elise Ristau

Other Board Members Present: Ann Anaya, Margaret Anderson Kelliher, Alexander Cirillo, Cheryl Dickson, Clarence Hightower, Maria Peluso. Louise Sundin

Leadership Council Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor Laura King, President Phil Davis, and President Richard Hanson

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on May 21, 2014, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 9:50 a.m.

1. Minutes of April 23, 2014

The minutes of the April 23, 2014 Finance and Facilities Committee were approved as published.

2. Finance and Facilities Update

Vice Chancellor King reported that Minnesota Management and Budget's loan balance to Minnesota State Colleges and Universities (MnSCU) is currently \$400 million. The loan is scheduled to be paid back in full by June 30, 2014. It is unknown if this loan arrangement will be needed in the future.

There was a communication sent to the campuses reminding them of the new financial aid process. Fall and spring processing went very well and this will be MnSCU's first summer session with the new process.

Standard & Poor's conducted a mid-term analytical review with MnSCU. It is expected that the revenue fund will continue its stable credit rating of AA-. Standard & Poor's identified low debt levels, strong operating results and an overall diversified student population as positives. Risks included reliance on state support and high school enrollment declines.

Negotiations are currently underway with MSCF, IFO and MSUAASF. With supplemental funding secured, contracts are expected to settle quickly. Financial Planning and Analysis staff are supporting the collective bargaining negotiation process by costing various proposals from management and the unions and responding to data requests.

Chancellor Rosenstone has invited faculty, staff, unions, students and campuses to submit ideas that will help form MnSCU's 2016-2017 biennial budget request. Presidents have begun conversations on their campuses. The first reading of the 2016-2017 legislative request is scheduled for October 2014.

There was a ground breaking for Metropolitan State University's Student Union and Parking Ramp on May 2nd. The community is very excited for the project, especially since the new science building was funded by the legislature. Trustee Hightower asked if there was any resolution to the property acquisition on Bates Avenue. Vice Chancellor King replied that there has been no agreement reached with the seller, and MnSCU is now working with the Department of Transportation to acquire it under eminent domain. The work on the parking ramp at Metropolitan State has continued throughout this process and is still on track with the construction timeline. The project is expected to be completed in October, 2014.

Trustees will be hearing the second reading of the FY2015 operating budget in June, receiving the 2nd quarter CIP report in July or August, hearing the preliminary 2016-2017 biennial legislative request in October, and reviewing the 2014 financial statements in November.

3. FY2015 Operating Budget (First Reading)

Vice Chancellor Laura King introduced Leadership Council liaisons, President Hanson, President Davis, and Deb Bednarz, Director for Financial Planning and Analysis.

The FY2015 operating budget places a strong emphasis on protecting affordability, supporting the strategic framework's goal of offering the highest value/most affordable higher education option in Minnesota. In addition to offering low tuition, efforts to increase student scholarships help make post-secondary education an even more affordable option for MnSCU students.

At the time the FY2014 operating budget was approved by the Board, the legislature appropriated only enough on-going funding to support a 2.6 percent increase for salary and compensation increases. After the FY2014 system operating budget was approved last June, state-negotiated employee contracts for MnSCU classified employees settled in excess of the original 3 percent planning estimates. In response to this increased funding gap, the system requested supplemental funding in the 2014 legislative session. The legislature appropriated an additional \$17 million to the system in FY2015 for compensation costs. This appropriation is on-going and will be added the system's base funding in the 2016-2017 biennium.

Vice Chancellor King reported that at the time the operating budget report was prepared, the legislative outcome was unknown, so colleges and universities had not finalized their operating budgets. The budgets are being finalized now and will be presented to the Board at the June meeting.

At each Trustees' place were the FY2015 operating budget supplemental report and attachments. The individual revenue and expense outlooks for each college and university will be presented in June.

Vice Chancellor King showed a graph (previously named the "Benson" table) showing the estimated net cost of tuition by income level after state & Pell grants are applied. It will be updated in June for FY2015 with information on changes to the state grant program taken into account. The table illustrated that for very low income students and families, tuition at a MnSCU college or university is very affordable. For students receiving a state grant, the annual cost of tuition for a full-time student is \$1,421 at a state college and \$2,285 dollars at a state university. These costs are expected to be the same, if not lower in FY2015. Even for students receiving no financial grant aid, the average annual cost of tuition at a state college is \$4,816 and at a state university is \$6,782. With the tuition freeze remaining in effect, these costs will not change in FY2015.

A chart from the Chronicle of Higher Education illustrated that all MnSCU institutions offer the most affordable higher education options in the state. To keep tuition and fees affordable, the Chancellor instructed presidents to keep student fee increases at no more than three percent and graduate tuition increases also at three percent. After student fee increases are added to the 2015 flat tuition rates for undergraduates, the total average annual undergraduate tuition and fees are expected to increase by 0.2 percent at the colleges (or \$13) and 0.7 percent (or \$54) at the universities, with the overall system impact at 0.4 percent (or \$21). Vice Chancellor King noted that the student fees are for specific purposes such as parking and technology and have been supported, and many times, proposed by students at their campuses.

Tuition and fees at colleges have been essentially flat from 2011 to 2014, and increased less than one percent since 2005; University tuition and fees have increased less than one percent since 2009, unlike trends at private colleges and universities and the University of Minnesota.

MnSCU also promotes the most affordable pathways to attaining a baccalaureate degrees by continuing to work with K-12 partners on expanding and improving PSEO and concurrent enrollment options. Based on current tuition and fees, students who complete two years of college through PSEO and then transfer to a MnSCU university for the last two years, would pay approximately \$15,000 for tuition and fees; If students choose to attend a state university for all four years, the gross cost is approximately \$30,000, compared to spending over \$50,000 at the University of Minnesota and nearly \$140,000 at a private college in Minnesota.

Strong support was received from the governor and the legislature this session, for the operating budget and for the capital budget.

State support for the system has increased significantly during the 2014-2015 biennium. State funding for the 2014-2015 biennium now totals \$1.21 billion, almost \$119 million or

10.9 percent greater than the 2012-2013 biennium. State funding will increase from \$587.9 million in FY2014 to \$622.1 million in FY2015, an increase of \$34.2 million or 5.8 percent. The system will also see improvement in state support per MnSCU student FYE, when adjusted for inflation. Between FY2002 and FY2012, student support per student FYE decreased by over 40 percent (in constant dollars) to \$2,787 per student. During the 2014-2015 biennium, student support per student FYE (in constant dollars) is anticipated to improve to \$3,245, a 16 percent increase since FY2012. Even after the strong increase this biennium, per FYE funding remains 32 percent below 2002 funding levels in constant dollars.

In inflation-adjusted dollars, state support per student is projected to increase from \$3079 in FY2014 to \$3,245 in FY2015, a \$166 or 5.4 percent increase.

Vice Chancellor King pointed out that the majority of new state funds (\$78 million) was used to freeze tuition, essentially replacing tuition revenue with state funds.

After experiencing record enrollment growth from 2006 to 2011, enrollment has fallen in recent years. FY2014 enrollment is now projected to decline 3.5 percent over 2013 levels. College enrollment declines (4.4 percent) have been more significant than enrollment drops at the universities (2.0 percent). Current projections for FY2015 from MnSCU colleges and universities show a continued decline in enrollment of 1.6 percent, with colleges expecting larger declines (1.8 percent) than the universities (1.2 percent). An improving economy and underlying demographics are believed to be the primary factors influencing enrollment. A historical analysis of 20 years of enrollment data conducted by system office Research found that four factors explained much of the change in enrollment - number of high school graduates, the population of 25-34 year olds, the unemployment rate and, per capita income.

Trustee Krinkie said that some students will be midway in their education path when the tuition freeze goes away and asked if they would experience a significant jump in tuition. Vice Chancellor King responded that this is a risk management issue and Chancellor Rosenstone is attentive to it. Also, Charting the Future work addresses affordability. The Board would expect only limited increases in tuition and there is no tuition “catch-up” strategy once the freeze is lifted. Similarly, when ARRA money was received to subsidize tuition, MnSCU students did not see large increases when the funding ended. Trustee Benson commented that no one can predict the economy and it was the legislature that implemented the tuition freeze, not the Board. Trustee Renier added that enrollment does not keep up with a recession recovery. Chancellor Rosenstone acknowledged the Board’s commitment to affordability.

Revenue fund fees support auxiliary facilities, such as residence halls, student unions, parking, and other revenue generating facilities. Room and board fees will increase an average of 3.65 percent, and student union fees will increase by an average of 1.55 percent in fiscal year 2015.

New revenue fund projects that are in progress or nearing completion in fiscal year 2015 will be implementing their planned fees. The Board materials detail the fee changes in the supplemental materials.

Annual fees charged to all students except at Metropolitan State University and St. Paul College, are recommend to increase an average of \$3.50 per credit at the colleges and \$11 per credit at the universities.

Colleges and universities have been discussing the fiscal year 2015 budget with students for several months. Overall, students report they are satisfied that the consultation process went well and that their presidents and cabinets are working hard to include them in the budget review process. A summary of the consultation letters is found in the supplemental package and will be posted on the MnSCU website.

St. Cloud State University is requesting an exception to the maximum rates charged for student life/activity and health services fees. Due to recent enrollment declines and increasing health care costs, the university believes it is necessary to increase both fees; however, the university currently charges the Board approved maximum rate for both fees. At the request of St. Cloud State University's students and campus leadership, the Chancellor is recommending that the Board approve the request.

The Finance division staff is committed to working with Student Affairs and Finance staff on the campuses to undertake a study this year on the question of student health services and a long term plan for the delivery of services on and near our campuses.

In addition to finalizing budgets, staff is working to update the cost of attendance analysis. The Finance and Facilities committee and the Board of Trustees will be asked to approve fiscal year 2015 operating budget including the tuition and fee structure at the June meeting.

4. Legislative Results Including 2014 – 2019 Capital Budget

Brian Yolitz, Associate Vice Chancellor for Facilities, reported on the results of the 2014 capital bonding bill. In June 2013, the Board of Trustees approved their capital bonding recommendation for 2014. This recommendation was a \$286.5 million program including \$110 million for Higher Education Asset Preservation and Replacement (HEAPR), \$20.6 million for targeted demolition of obsolete space and \$155.9 million for 24 priority projects across the system.

On May 16, 2014, the legislature forwarded to the governor bills funding a \$1.1 billion statewide capital investment program. Higher education received roughly 25 percent of the approved construction funding.

The approved conference committee report provided MnSCU \$159.8 million for construction with \$42.5 million going towards HEAPR and \$117.3 million for funding 13 capital bonding priorities on 19 campuses. This funding represents 56 percent of the Board's original total program request, 38 percent of the requested HEAPR and 66 percent of the requested capital

projects. Mr. Yolitz noted that there was no funding for demolition, however, some demolition is embedded in the projects.

Mr. Yolitz thanked the House, Senate and Governor Dayton for their leadership and support and MnSCU faculty, staff, students, and campus leadership for being terrific ambassadors for the Board's 2014 capital program recommendation.

Mr. Yolitz noted that details on the Board's original request and actual program funding capital program funding history and the 2014 project execution timeline are included in the Board materials.

Staff is preparing authority delegation to the campuses to proceed with this work as the Board outlined in approval of the 2014 capital bonding request in June, 2013. Board members and the public will receive routine updates on project execution through the Capital Improvement Program (CIP) reporting posted quarterly to the MnSCU website and mailed directly to Trustees.

Mr. Yolitz said that if opportunities should arise for capital bonding in 2015, the Board may be asked to support funding those priorities approved for 2014, but not fully funded. The Board may also be asked to support funding of the 'tails' of projects approved and funded during the 2014 legislative session. The chancellor will consult with the Board on integrating and prioritizing a recommendation prior to the start of the legislative 2015 session.

Chancellor Rosenstone thanked Mr. Yolitz and his team for their work and noted there were 47 visits to campuses by Minnesota Management and Budget and legislators, yielding positive results for MnSCU students.

Trustee Renier asked if HEAPR funding prioritizes urgent needs or routine maintenance. Mr. Yolitz replied that HEAPR funds address priorities at the campuses. Now knowing the results of the funding, priorities will be reaffirmed along with the cost of the repair and maintenance. The Facilities Condition Index (FCI) of each campus is a factor.

Trustee Erlandson asked how MnSCU facilities compare to other states across the nation. Vice Chancellor King replied that MnSCU only carries 1/3 of the debt service on projects because of state funding, providing for a good balance sheet. On the FCI side, MnSCU is about average. Because universities have been around longer than the colleges, there is more need for repair at the universities. Trustee Dickson expressed appreciation for new projects with embedded demolition because stand-alone demolition is always a hard sell.

Melissa Fahning gave a summary of the 2014 legislative session. Ms. Fahning reported that lawmakers had a budget surplus of \$1.2 billion to work with during the 2014 legislative session. Current law requires any forecast balance to be used to repay the K-12 shift, so the first \$246 million of the balance was used to complete that payment. In addition, \$15 million was transferred to the state airports fund, restoring money originally borrowed in 2008, leaving a forecasted balance of \$825 million. Early in the session, Governor Dayton signed two tax relief bills into law, providing \$550 million in tax relief to Minnesota tax payers.

Governor Dayton called for the elimination of excessive laws, rules, and regulations, calling it the “unsession”. MnSCU, along with the University of Minnesota and the Office of Higher Education, submitted proposals, resulting in a higher education bill that streamlined the higher education statutes. It was signed into law early in the session.

Ms. Fahning reported on some of the policy provisions in the supplemental budget bill. There was language requiring study abroad programs at all colleges and universities to report on the safety and security of the programs to the Secretary of State. That information will be published on their website.

There is language requiring colleges and universities to provide resident tuition for veterans. MnSCU Board Policy 2.2 already provides for not only resident tuition for current and former members of the military, but also their spouses and dependent children.

The state authorization reciprocity agreement (SARA) is a national initiative to provide access to online programs while maintaining compliance standards with state regulatory agencies. SARA allows institutions to provide online courses outside of their own state borders by seeking and maintaining state approvals via a streamlined regional process. This legislative change will allow the Office of Higher Education to maintain high standards for institutions outside of Minnesota, while at the same time allowing Minnesota based colleges and universities to attract students from outside the state.

The bill includes language regarding student loan refinancing. The Office of Higher Education is to report back to the Legislature by Feb. 1, 2015 regarding its plans and proposed terms and conditions for operating a student loan refinancing program.

The bill addresses transfer, and requires the appropriate Charting the Future implementation team to develop a plan to implement multi-campus articulation agreements that lead to baccalaureate degree completion after transfer to a system university from a system college.

There was also a proposal this session to use the state grant surplus of \$20.5 million to increase the living and miscellaneous expense allowance, or LME, from \$7,900 to \$8,300; as well as increase the tuition cap in the state grant program from \$13,000 to \$13,620. Conferees did not adopt this recommendation in the final bill. Current law mandates any state grant surplus to be used to increase the LME, so by default, MnSCU students will be eligible for a higher LME allowance as will all participants in the state grant program. The Office of Higher Education is anticipating the LME for fiscal year 2015 to increase to \$8,490 on a one-year basis. The average increase for a state grant will be \$118.

The E-12 education policy bill that passed this session removes the prohibition that colleges and universities cannot advertise PSEO based on financial grounds, only on education or programmatic grounds. The E-12 education article in the supplemental budget bill amends the policy bill so that a college or university may only advertise a cost savings to PSEO students in a school district with 700 students or more in grades 10, 11 and 12. Information on PSEO enrollment must be posted on the school’s website.

Trustee Sundin stated that in the education policy bill there in is an emphasis on English Language Learners and it will require additional teacher preparation. Trustee Sundin said MnSCU should be mindful of this opportunity in terms of urgency.

The jobs and economic development article in the supplemental budget bill includes an increase of \$475,000 one-time funds in fiscal year 2015 for the Minnesota Jobs Skills Partnership program, a program through which many colleges and universities receive grants. This is great news for MnSCU institutions.

There is also one-time funding of \$250,000 and language in the bill for the Department of Labor and Industry (DOLI), in collaboration with DEED, to establish competency standards for programs in advanced manufacturing, health care services, information technology and agriculture.

Other bills relevant to MnSCU included a contract ratification bill that includes salary increases for certain state employees.

The omnibus pension bill includes an extension of the MnSCU early retirement incentive program, scheduled to expire on June 30, 2014. The bill extends the sunset date to June 30, 2019.

This property acquisition bill regulates the acquisition of land by state agencies, including MnSCU. Under this bill, an agency must not pay more than ten percent above the appraised value for property where valued in excess of \$100,000. Trustee Krinkie asked if this bill complicates the Bates property acquisition for Metropolitan State University. Vice Chancellor King replied that this would only apply if MnSCU were working with a willing seller. Under an eminent domain environment, this language does not apply.

Ms. Fahning said lawmakers are scheduled to return to St. Paul for the 2015 legislative session Tuesday, January 6, 2015. There were some announced retirements, and the House is up for re-election in the fall.

Ms. Fahning thanked the Board, Vice Chancellor King and her staff and the campuses for helping to make the 2014 legislative session a success.

The meeting was adjourned at 11:42 a.m.

Respectfully submitted,

Laury Anderson, Recorder