

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Finance and Facilities Committee

Date: March 19, 2014

Title: FY2016 - 2021 General Obligation, Capital Budget and FY2015 Revenue Fund Guidelines (Second Reading)

Purpose (check one):

- | | | |
|---|--|---|
| <input type="checkbox"/> Proposed
New Policy or
Amendment to
Existing Policy | <input checked="" type="checkbox"/> Approvals
Required by
Policy | <input type="checkbox"/> Other
Approvals |
| <input type="checkbox"/> Monitoring /
Compliance | <input type="checkbox"/> Information | |

Brief Description:

The second reading of the FY2016 - 2021 General Obligation, Capital Budget and FY2015 Revenue Fund Guidelines seeks Board of Trustees approval of the proposed capital program guidelines for the preparation of the FY2016 - 2021 capital budget and future revenue fund bond sales from FY2015 - FY2020. The proposed guidelines have been modified to reflect board feedback obtained at the joint Academic and Student Affairs and Finance and Facilities committee meeting on January 21, 2014.

Scheduled Presenter(s):

Brian Yolitz, Associate Vice Chancellor for Facilities
Laura M. King, Vice Chancellor – Chief Financial Officer

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

ACTION ITEM

**FY2016 - 2021 General Obligation, Capital Budget
and FY2015 Revenue Fund Guidelines
(Second Reading)**

PURPOSE

This second reading seeks Board of Trustees approval of the proposed capital program guidelines for the preparation of the FY2016-2021 capital budget and future revenue fund bond sales from FY2015-FY2020. The proposed guidelines have been modified to reflect board feedback obtained at the joint Academic and Student Affairs and Finance and Facilities committee meeting on January 21, 2014.

Board Policy 6.5, *Capital Program Planning*, provides:

“The Board of Trustees shall establish criteria for and approve capital program guidelines and a multi-year capital budget, including a prioritized capital project list.”

CAPITAL PLANNING

Minnesota State Colleges and Universities (MnSCU) relies on two major programs to buy, build, renovate and repair the majority of its buildings and infrastructure, primarily based on the type of use:

- 1) State issued general obligation bonds through the capital bonding program for academic and student support facilities, and
- 2) Minnesota State Colleges and Universities-issued revenue bonds for auxiliary-type facilities, such as residence halls, student unions, athletic and fitness facilities, parking ramps and other eligible revenue generating facilities

Academic and Student Support Facilities

The state’s capital bonding program addresses funding for academic and student support space. Such space represents approximately 78% of overall system facility square footage. To fund academic facility needs, the system participates in the biennial capital budget process, typically held during even-numbered year legislative sessions. During such sessions, the Board develops and puts forth a prioritized capital budget list to be considered by the legislature and governor, competing for state-issued general obligation bond financing with other state and local agencies. The state and system share in servicing the debt associated

with this work. The state carries the debt for all asset preservation work through Higher Education Asset Preservation and Renovation (HEAPR) and two-thirds of the debt associated with major line-item capital projects. The system bears the one-third debt associated with major line-item capital projects. The system as a whole services one half of the one-third debt service. The campus gaining the capital improvement is responsible for the other half of one-third. This campus portion is serviced through state appropriation, tuition and other fees.

Minn. Stat. §135A.034 directs the Board of Trustees to consider the following criteria in establishing priorities for requests for bond funds for capital projects:

- (1) maintenance and preservation of existing facilities;
- (2) completion of projects that have received funding;
- (3) updating facilities to meet contemporary needs;
- (4) providing geographic distribution of capital projects; and
- (5) maximizing the use of non-state contributions.

The Board, using those statutory provisions as guidance, establishes capital budget guidelines such as this document to set the system's priorities for its capital budget program. This approach to prioritizing capital investment in facilities is well regarded by the executive and legislative branches and internal constituencies.

Auxiliary-Type or Revenue Fund Facilities

The revenue fund is a program authorized in statute that addresses facilities traditionally considered "auxiliary" on a campus. Under this program, MnSCU issues revenue bonds to buy, build, renovate or repair residence halls, student unions, parking, dining and similar revenue-generating facilities. The Board has statutory authority to issue revenue bonds on behalf of the system to finance these needs, subject to consultation with the legislature. The full cost of the projects, including debt service, is paid for by student and user fees. No tuition or appropriation revenues are used to pay to build or renovate revenue fund facilities or for their operating costs.

The Board historically has not issued specific guidelines regarding revenue fund capital projects. This document and set of guidelines would bring the revenue fund planning process into the overall college and university capital planning program.

STRATEGIC FRAMEWORK GUIDANCE

The FY2016-2021 capital budget guidelines are designed to align with the principles established under the core commitments in the Strategic Framework as well as the

recommendations adopted by the Board in November, 2013 in *Charting the Future for a Prosperous Minnesota*.

The Strategic Framework provides that Minnesota State Colleges and Universities will:

- Ensure access to an extraordinary education for all Minnesotans
- Be the partner of choice to meet Minnesota's workforce and community needs
- Deliver to students, employers, communities and taxpayers the highest value/most affordable higher education option

The six recommendations articulated in *Charting the Future*, include:

1. Dramatically increase the success of all learners, especially those in diverse populations traditionally underserved by higher education.
2. Develop a collaborative and coordinated academic planning process that advances affordability, transferability, and access to our programs and services across the state.
3. Certify student competencies and capabilities, expand pathways to accelerate degree completion through credit for prior learning, and foster the award of competency-based credit and degrees.
4. Expand the innovative use of technology to deliver high quality online courses, strengthen classroom instruction and student services, and provide more individualized learning and advising.
5. Work together under new models to be the preferred provider of comprehensive workplace solutions through programs and services that build employee skills and solve real-world problems for communities and businesses across the state.
6. Redesign our financial and administrative models to reward collaboration, drive efficiencies, and strengthen our ability to provide access to an extraordinary education for all Minnesotans.

System Capital Investment Strategy

The proposed FY2016-2021 guidelines take a crucial step toward aligning facilities needs and priorities with the Strategic Framework and the recommendations identified in *Charting the Future*. The strategy is informed in part by college and university facility conditions and utilization. As of 2013, the estimated backlog in academic facility spaces is approximately \$715 million, an increase of nearly 13% since 2010. There is an estimated \$440 million in additional work expected to be required over the next 5 years. This is a potential expense to Minnesota taxpayers and current and future students of nearly \$1.2 billion.

Existing academic space is utilized, even on the most generous of measures, at an average rate of 70%. This means, on average, college and university academic space is used just over 22 hours a week during nine months of a year. There are many reasons spaces are underutilized including demand, scheduling, data collection, condition, configuration, preferences, and technology.

CAPITAL BUDGET GUIDELINES FY2016-2021

In an effort to better align the general obligation and revenue fund capital planning functions, the Board is asked to consider adopting capital budget guidelines for its academic and student support and auxiliary/revenue fund facilities.

The capital budget guidelines for FY2016-2021 are designed to establish the criteria to be used when developing the 2016 capital budget request, and serve as a framework when addressing any off-year capital budgets. The guidelines will also put forth the proposed criteria in anticipation of the revenue fund bonding request, currently scheduled for early 2015.

The guidelines reflect a strategy to address ongoing issues in the colleges and universities facilities, which include:

1. Fiscal viability and sustainability
2. Reducing deferred maintenance backlog and future renewal needs
3. Optimizing space use
4. Evolving delivery methods of higher education
5. Shifting demographics of student enrollment
6. Incorporating sustainable operating principles in facilities
7. Addressing long-term capital funding constraints
8. The rising need for informal learning spaces
9. The impact of technology on space needs
10. Rising need for faculty and student research space and partnership space with third parties
11. Maintaining “brand” competitiveness of our colleges and universities

Every dollar invested in new (additional) square footage reflects a dollar diverted from other college and university priorities. New space may be necessary to deliver the recommendations of the Strategic Framework and *Charting the Future* and meet the state’s access and demographic trends. The underlying assumption is that we should strive to deliver such space without adding new net square footage to the total footprint of our colleges and universities.

The capital guidelines proposed for FY2016-2021 will include the following four core considerations:

1. Strategic regional and statewide academic program focus

- Use campus facilities’ master plans to help identify regional or statewide program opportunities
- Target regional and state academic priorities and emerging academic needs
- Meet long-term space requirements on a regional and multi-regional basis
- Consider the long-term financial sustainability of the systems’ colleges and universities and ensure a long-term sustainable presence across the state

2. Take care of what we have

- With substantial deferred maintenance and renewal needs, repair and replacement will be given first priority in the capital budget request
- Prioritize projects that reduce major deferred maintenance backlog and future renewal as part of project renovation
- Prioritize renewable energy systems in all projects when considering repair, replacement and renewal
- Identify and, where appropriate, leverage alternative financing, such as the state's Guaranteed Energy Savings Program in addressing backlog and renewal needs in lieu of seeking capital bonding

3. Minimize new square footage

- In support of sustainable finance and building principles, colleges and universities are expected to optimize the use and reuse of existing facilities first, before seeking new square footage. Prioritize renovation and repurposed space to improve space utilization and align with projected enrollment and program expectations
- Prioritize projects that combine deconstruction with renovation and repurposing to result in a net reduction in square footage on a total capital program basis
- Consider the following criteria when new space is proposed:
 - Verifiable evidence of enrollment demands and workforce needs that support the need for new space
 - Consideration of space needs that can be satisfied through short- or long-term methods, such as leasing off-campus space, or sharing space with other colleges and universities within the system
 - Evidence of partner contributions that support a portion of the construction and operating costs of the project
 - Specialized program or student needs that require construction of new square footage
 - Impact on a college or university's long-term operating budget
 - Evidence that technology and flexible space use have been fully maximized before proposing the need for new space
 - Calculation of the cost to students attributable to estimated debt service and expected increase in operating expenses

4. Build for the future with flexible and adaptable space

Higher education teaching and learning methods are changing rapidly, and facilities should be able to change with them

- Prioritize projects that build in flexible and adaptable features, including room types, equipment and furnishings, that allow for cost effective adaptability of future programs
- Prioritize projects that include features that yield informal learning spaces and blur the line between traditional classroom learning and supportive collaborative, group learning methods
- Prioritize flexible space approaches that allow multiple disciplines the ability to use a facility

Overall Size of Capital Budget Request

Based on consultation with legislative and Minnesota Management and Budget staff, a reduction in the size of future bonding bills is expected. The MnSCU system makes up approximately one-third of the state's square footage, and traditionally, the system expects to receive its proportionate share of the overall bonding appropriation in a given year.

The chart below illustrates the bonding expectations.

State Bonding Target	MnSCU's Bonding (assuming 1/3 of bill)
\$1 billion	\$333 million
\$850 million	\$280 million
\$750 million	\$247.5 million
\$500 million	\$165 million

In an attempt to balance the state's bonding bill concerns with our colleges and universities' needs, the Board is asked to consider a 2016 capital budget target of between \$250-\$285 million for the total capital program.

Future Capital Investment Planning

Should opportunities arise for capital bonding in off-years, the Board has historically supported funding for those valid, approved, but unfunded priorities from the bonding session immediately prior to the off-year session . The Board may also be asked to support the 'tails' of valid projects approved and funded in prior bonding sessions. Examples would be a project approved in FY2016, but not funded, would be advanced for funding should there be an opportunity in FY2017, or a project funded for design in FY2016 could be advanced for construction funding in FY2017. The chancellor would consult with the Board on project integration and prioritization prior to the start of the legislative session.

In addition, to better understand and shape future capital investment planning, all colleges and universities are asked to indicate for Board consideration their major capital projects

anticipated for the FY2018 and FY2020 biennial periods. These projects are expected to emerge from college and university facility master plans and align with principles and guidelines outlined above.

During Board contemplation of the FY2016 capital budget recommendation, the Board will be asked to approve projects presented for priority funding as part of a bonding bill in 2016 and endorse (approve) those projects identified for 2018 and 2020 for further study and development. In 2018, projects will be reassessed and presented to the Board for formal approval to seek funding.

Finally, the chancellor will at least annually seek input from campuses on contemplated facility projects being contemplated or pursued through funding outside the capital bonding or revenue fund bonding process. Examples of these projects would be college or university capital campaigns, gifts and grants, foundation sponsored projects, projects substantially funded through partnerships with private or commercial entities or city or county governments or state agencies. Available information will be forwarded to the Board on an annual basis.

REVENUE FUND CAPITAL PROGRAM GUIDELINES

The revenue fund capital program operates on an odd-numbered year planning and funding cycle, which is designed to be countercyclical with the capital budget process. Revenue fund projects generally use the same capital planning methods as academic projects with a few key distinctions.

1. Students pay the full capital and operating cost of a revenue fund project through student fees
2. Revenue fund projects do not compete for bond funding at the state level
3. The Board issues revenue bonds based on the financial resources of the project and the college or university revenue fund program
4. The revenue fund does not use tuition or state appropriation revenues
5. Student consultation and support is critical, and without it, a project generally will not proceed

Background

Revenue fund capital projects face many of the same issues and challenges as academic facilities, although the issues generally have more to do with balancing affordability with building and maintaining competitive facilities that will attract students. The issues include:

1. Continued growth of deferred maintenance backlog and future renewal needs
2. Student affordability
3. Shifts in student enrollment, demographics and facility expectations
4. Student driven interest in sustainable operating principles in our facilities
5. Addressing long-term capital funding constraints
6. Rise of informal learning spaces and living learning communities

7. Expectations regarding technological amenities in student spaces
8. Maintaining a “brand” and competitiveness in our facilities

Capital Planning and Financing Principles for the Revenue Fund Program

The revenue fund staff will review individual projects to assess their design and financial feasibility on an individual project basis (i.e. renovating a residence hall) and program basis (i.e. health of entire residence hall program at a campus). The Board guidelines offer guidance to colleges and universities on preferred design and financial principles for revenue fund projects.

Capital Planning and Financing Principles for the Revenue Fund Program

The core considerations identified in the capital guidelines inform planning and financing principles of revenue fund facilities. During the planning and financial analysis for a revenue fund project, the following principles shall be emphasized:

1. Evidence of strong student involvement and support consistent with Board Policy 2.3, Student Involvement in Decision-Making and related system procedures
2. Reduction of deferred maintenance backlog
3. Balances student expectations with physical and financial realities
4. Takes into account enrollment and occupancy projections
5. Responds to competitive pressures
6. Leverages partnership or private industry to generate additional income

RECOMMENDED COMMITTEE ACTION:

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

The Board of Trustees approves the FY2016-2021 capital budget guidelines and FY2015-2020 revenue fund capital guidelines as presented.

RECOMMENDED MOTION:

The Board of Trustees approves the FY2016-2021 capital budget guidelines and FY2015-2020 revenue fund capital guidelines as presented.

Date Presented to the Board of Trustees: March 19, 2014