

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

March 17, 2015

Finance and Facilities Committee Members Present: Chair Michael Vekich, and Trustees Jay Cowles, Duane Benson, Philip Krinkie, Maleah Otterson, Erma Vizenor

Other Board Members Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, Alexander Cirillo, Dawn Erlandson, Robert Hoffman, Elise Ristau and Louise Sundin

Leadership Council Representatives Present: Chancellor Steven Rosenstone, and Vice Chancellor Laura King

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on March 17, 2015, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 12:30 p.m.

1. Minutes of January 28, 2015

The minutes of the January 28, 2015 Finance and Facilities Committee meeting were approved as written.

Finance and Facilities Update

Vice Chancellor King provided the committee with updates on several items.

Governor Dayton's 2016-2017 Supplemental Operating Budget Recommendations are expected any day. Staff has briefed the Governor's staff and MMB leadership and staff and await the public release of his recommendations. Once his recommendations are public the legislative process will move toward establishment of committee targets, expected shortly after the legislative spring break March 28- April 7, 2015.

The Affordable Care Act coverage for student workers went into effect on Jan 1, 2015. There were around 20-25 students deemed eligible as of Jan 1st due to their campus employment circumstances. This issue requires continuing on-going analysis and oversight by the campuses.

The Single Audit report for MnSCU was completed by CliftonLarsonAllen with no material events. The results were forwarded to MMB for inclusion in the state's overall single audit. OLA expects release March 31 of the state's Single Audit report. MnSCU is not part of the state's production schedule at this point but recall this is what triggered the change in our federal financial aid program several years ago when the state kept missing its deadlines. So hopefully they are back on track.

The Finance division has started the annual trends and highlights meetings. These are meetings that are hosted with Human Resources, Academic and Student Affairs and small groups of all the college and university leadership teams. About eight (8) meetings are held over the course of 60-90 days and this year the focus is enrollment management and collaboration both current and planned. So far we have had terrific conversations and we get feedback that the campuses really look forward to these meetings.

The division has its system wide facilities conference coming up next month. We expect about 150 systems facilities, safety and security and environmental compliance folks to gather and have a great opportunity for conversations concerning planning, design, construction, and environmental health and safety topics.

We are watching for the appearance of a 2015 bonding bill. There has not been one sighted yet and as participants in the legislative session know, it may be May 1st before one appears. We stand ready and able to forward the board's recommendation should we be invited to do so before the end of the term.

Finally you'll notice sitting on the table, an award that Winona State University was recently given by Xcel Energy Company for achieving the largest savings in their gas program amongst commercial customers. It's a great accomplishment for the university and a great representation of the work that campuses across the state are doing to improve energy efficiency and energy consumption. We want to congratulate them.

2. Proposed Amendments to Policy 7.1 Financial Administration (second reading)

Chair Vekich stated that the proposed amendment is only a cleanup, there is nothing substantive to it. There were no comments or suggestions prior to the second reading. The Chair recommended the motion on page 9. The motion was moved by Trustee Hoffman and seconded by Trustee Cowles and adopted.

Chair Vekich suggested that agenda items number 3,5,6,7 and 9 be taken in the form of one motion. Vice Chancellor King said that the committee will be asked to approve execution of contracts exceeding \$1 million and she gave an overview of each item.

3. Metropolitan State University WebWOC Contract Exceeding \$1 Million

This contract delivers curriculum in an online forum through a vendor that has been in a contracting relationship with the university for some years now. The work was recently put out for a new RFP that prompts the university to come before the board with a request for a contract for, not to exceed \$7.1 Million, with an initial term of 35 months and the option for two 1 year extensions.

4. Online Support Center Contract Exceeding \$1 Million

This is a service that is ministered on behalf of a collection of MnSCU colleges and universities and distance Minnesota. The board action requests a five-year contract ending June 2020 and a total value not to exceed \$3.75 Million. Trustee Hoffman asked, "Has this been successful?" Vice Chancellor King responded that it has been very successful. It is a collaboration and

smoothed out practices, created standard scripts for all the participants and smoothed out the pricing approaches.

5. Smartthinking Contract Exceeding \$1 Million

This vendor provides the colleges and universities with live on-line, on-demand live tutoring. The board action authorizes the establishment of a master contract for schools to pull down from on the basis of their consumption rates.

6. ITS Management Contract Exceeding \$1 Million

This request authorizes a contract with a vendor who will provide ITS operating system support to colleges and universities. This is also a master contract that campuses will pull down from on the basis of their selection of services. It's a seven year term at a cost not to exceed \$6 Million. This was a product of a RFP process with broad campus participation and represents good movement towards some of what you've heard Vice Chancellor Padilla talked about smoothing out practices and policies and uniform environmental management amongst the different ITS shops.

7. Bemidji State University Property Management Contract Exceeding \$1 Million

Bemidji State University is requesting authorization to execute a property management agreement in excess of \$1 Million. This would enable a 5 year contact for the university to provide property management services to an adjacent rental property owner. Approximate value is about \$6 Million because under the terms of the agreement, the rental income would flow through the university's books on its way to the owner. There is no risk to the university and no revenue guarantee by the university. They are simply acting as a leasing and program agent.

8. Winona State University Building Gift

The chair introduced this item with the observation that he and Trustee Cowles had a chance to visit Winona and tour the building. Chair Vekich thanked President Olson and his staff and Mayor Peterson for hosting the tour.

Mr. Brian Yolitz, Associate Vice Chancellor was introduced and presented the item. Mr. Yolitz introduced Winona State University President, Scott Olson, CFO Scott Ellinghuysen, Gary Evans, Vice President for Advancement and Mayor Mark Peterson who hosted staff and trustees during their recent visit.

The item concerns the proposed gift to Winona State University of the Laird Norton building located 125 West 5th Street, Winona about 2 ½ blocks from President Olson's office. This is a two-story building with a basement totaling over 30,000 sq. ft. built in 1917. The building served as the headquarters for the Laird Norton Lumber Company after its completion in 1918. It was prominent in the early development of the City of Winona. The building was recently listed on the US Department of Interior registry of historic places and has a recent appraise value of \$700,000. The Laird Norton Company no longer needs the building having moved their operations west to Washington State. They wish to donate the building for educational purposes and to retain public access to the historic feature within the city of Winona. Included in the donation is a gift of \$165,000 in recognition of the asbestos mitigation needs. The seller

is also requesting that the university retain the building's name as Laird Norton as it's used by the university. Before bring the proposal to the board the donor and university completed several studies and investigations related to the physical aspects of the building as well as environmental considerations like including hazardous material and storage tank assessment,

The University intends in the near future to name the building Laird Norton Center for Arts and Design reflecting the immediate use of the building to house office and studio for the Department of Art and Graphic Design, and galleries for the exhibition of student and faculty art and art owned by the university foundation. Long range, the university expects to use this as a showcase for art exhibits in service of the Southeastern part of the State of Minnesota.

The building evaluations from the consultant identified about \$1.3 Million worth of work to bring the facility up to code standard and mitigate any hazardous materials. The initial work to bring the facility into compliance would be asbestos abatement, replacement of the boiler system, installation of an elevator and access ramp for accessibility purposes, an additional fire suppression capability and some IT infrastructure to wire the building. Estimated annual operating expense to include custodial maintenance, utilities, annual R&R and service contracts is about \$150,000.

The university has \$2.2 Million in general fund resources set aside for this work. In addition, the Winona State Foundation has committed to providing \$1 Million to defray the future costs of maintenance and operation of the building and future capital needs to support special initiatives associated with the building and its program. There is a memo to that affect in the packet. There was strong support from the Winona State University community for this action. Both the student senate providing a memo (page 38) and the foundation committing to raising \$1 Million directly. In addition, the city of Winona is committed to this gift as evidence by the Mayor Peterson being present. As a result, staff is recommending that the Finance and Facilities Committee adopt the motion on page 31 formerly accepting the Laird Norton property under the terms outlined and directing the Chancellor or his designee to execute the appropriate documents to accomplish the transfer on behalf of Winona State University.

Chair Vekich stated that he accompanied Mr. Yolitz on the visit and any time you get a building that is of this age you do wonder whether or not it is in good condition. It is in outstanding condition. Although excitement of this building is high, there still is the business part of it. The kind of things that are looked at on a business basis is there and the programming that will be there will additionally support what's going on.

Trustee Cowles stated that was a very good report and underscored the comments that Chair Vekich made relative to the quality of the building. That is the main concern and to make sure that this is not in some fashion a liability as a building structure and its functional adaptability. He found it to be remarkable intact and clearly cared for.

Following up on one other question on the business side of it, Mr. Yolitz was asked if the building has been reviewed by an engineer and it was confirmed that that had occurred. Trustee Krinkie asked Mr. Yolitz if there are any of our others campuses that has a building on a historic register. Vice Chancellor King commented that the only one that comes to mind is

the Wells Mansion at Minneapolis Community and Technical College. The so called Wells Mansion which is a standalone structure to the southeast of the main campus. It was a gift to the college. Mr. Yolitz commented that there is also a facility house on St. Cloud State University.

The chair asked what does this mean to the campus from a management perspective, and asked for a little background on what sites are on the historic registry, what's the process for renovations, improvements and the likes so that the committee have an understanding of that. Mr. Yolitz responded that was one of the first things that got his attention when staff first started deliberating this. It goes through a very rigorous process in terms of documentation, history and the contribution to the region or historical nature of the area. The rules associated with that requires state historic preservation office coordination when federal funds are used for renovations/repair to the facility itself. The owner can do what they chose to do with their own funds. They can coordinate liaison with the state historical preservation office but there are no limits when using their own internal funding. Depending on the sources of funds, there are some constraints on what can and can't be at the facility.

Trustee Krinkie raised a question concerning the building's distance from the main campus; will it impede activities, program usage and the like? President Olson responded stating the main part of the Winona State Campus that you see on the map is relative compact compared to what you see on our other state universities. Some of you remember the St. Theresa's campus that existed in Winona. That's about a mile west of the main campus and that is where all first year students are housed now. The university has owned there residence houses for 20 years now. Students are used to walking two blocks, and/or catching a shuttle bus, that's how we are because we are right in the middle of the town.

Trustee Hoffman asked to hear the president speak to and about this proposed gift of real property. President Olson stated that the university community is really excited about this opportunity. It a beautiful building. The university has benefited from many pieces of art that it cannot display much of it is in storage and he believes the university is on the cusp of some fantastic gifts of art; some 20th century masterpieces by artists well-known to all of us and the university has no place to put them. In response to the point that Trustee Cowles was making, the university does have a little bit of an immediate issue in that when the education village, the project that you've been supportive of gets going, there are art studios and classroom that are in that facility that have to go somewhere and this building is perfect for them. So we're really excited about the opportunity.

Winona State's strategic future is linked to the City of Winona's future and this idea of Winona as a destination for arts and culture and Winona State as a destination that supports arts and culture and trains teachers who can teach it, we think it's critical to our own strategic vision of who we are going to become in the future and how we will continue to attract students. So this is not some add-on, this is core to our own strategic planning.

Trustee Otterson asked two questions: 1) if the board does approve this, how soon is it in our care 2) if the board does not approve this where does the building go? Are there other people that they are planning on giving it to?

Vice Chancellor King responded that there is a contingent purchase agreement in place that's already been signed and were the board to go forward and approve this transaction, staff would move forward to transfer title within seven days to two weeks. It's all legally lined up, pending the board approval. If the board chooses not to go forward with this then staff would have to convey it to the owners and they would have to have a new conversation on hand. Chair Vekich stated that there is nothing active on the second question that he is aware.

Chancellor Rosenstone commented that he too shares the excitement that's in the room for this facility. He thanked Trustee Vekich, Trustee Cowles, Vice Chancellor King and Mr. Yolitz for their due diligence on this project. But underneath it, there are a lot of hard questions that the president has asked, that the Vice Chancellor and Associate Chancellor have asked to make sure that in the long term, MnSCU can be good stewards of this facility. I am really impressed with the due diligence that was done, not just the exciting vision, I want to applaud both the board and staff work that's been done along with the university to make sure that in the long run this vision can be realized.

Chair entertained the motion on page 31. Trustee Benson moved and Trustee Otterson seconded that the Finance and Facilities Committee recommends that the Board of Trustees formally accepts the Laird Norton Building and related land, located at 125 West Fifth Street, Winona, under the terms as documented in this report. The board further directs the chancellor or the chancellor's designee to execute any necessary documentation to accomplish the transfer to the system on behalf of Winona State University. The motion was adopted.

9. Rental Agreement with University of Minnesota Exceeding \$1 Million

The item requests board approval to execute a leasing agreement with the University of Minnesota for space in their computer center through October 2019 with an estimated cost of \$1.5 Million. Trustee Hoffman inquired if MnSCU does anything else in addition where we've shared services in IT with the University of Minnesota?

Vice Chancellor King responded since the ITS staff was not in the room. One thing that comes to mind is the rich relationship that the ITS department has with the State of Minnesota and the wide area network sharing that goes on. That has been a very fruitful collaboration to the benefit of our campuses and the state. Ramon Padilla, Vice Chancellor and CIO outlined efforts to leverage partnerships with the University of Minnesota and all our partners as much as possible; in the case of the shared data center. ITS does not own its own data centers. The goal is to try to move as much to the cloud as possible so it wouldn't make sense to invest in a data center so using both the state data center and Minnesota is a practical move on MnSCU's part.

Chair Vekich entertained a motion to adopt items 3-7 and number 9 in one motion. The motion was made by Trustee Benson, seconded by Trustee Otterson and adopted.

10. System Financial Resiliency Framework

Chair Vekich stated that we have been working on this project for some time and have (3) three of the colleges or universities present to be working on this.

Vice Chancellor King referred members to page 42 of the materials. Staff was last in front of the committee in January with the first discussion on Financial Resiliency Framework. There was an outstanding conversation raising issues that are related to financial sustainability and financial capacity and larger strategic issues.

The chancellor has worked with the chair to frame the issues raised in January in a series of board discussions over the coming months. This committee will focus on the question of financial sustainability and that's what brings us back today is to talk about the futures of our colleges and universities from the prospective of their financial health.

Members saw in the January discussion of the financial statements that MnSCU colleges and universities had a pretty tough financial year at the system level for FY 2014. Staff is working with the colleges and universities with a variety of tools to help them in their 2015 and 2016 planning with modeling and forecasting and some predictive analytics.

Presidents have exercised a variety of short and longer term strategies around program redesign and investment in student success initiatives. The Higher Learning Commission views each of our institutions as if they were a standalone single entity and undertake financial reviews for each accredited college/university. As a part of that review, the HLC has developed an index called "the composite financial index". The CFI has been useful to Finance staff as a way to compare and contrast our colleges and universities in a normalized way across very different platforms. With Mankato state at \$160 million year in budget compared to Pine Technical College at \$5 million year in budget, it is quite a diverse array.

As part of our work on resiliency, the finance division has developed the activity score that you see on page 44 which uses elements of the CFI as a part of its analytical design. This activity score takes a variety of short and long term measures and presents a distribution of the financial condition of each of the individual schools. What you'll see is that like any large number set, our colleges and universities have settled toward the mean and are evenly distributed above and below 2 ½ on a score of 0 to 5. The average overall score is 2.9 the median is 3. The colleges scored a little higher than the universities primarily a result of the difficulties the universities had reporting positive net operating income in FY 2014.

This work was the next generation of work that the chair mentioned. We have had for some time now financial health indicators that are in board policies and procedure and those indicators have as a consequence a requirement that colleges and universities prepare financial recovery plans if their financial performance lags indicators. We have shaped today's report to focus on the colleges and universities that triggered the flags and are required to submit workout plans. MnSCU had 11 colleges and universities that did not meet the CFI threshold and 9 colleges and universities required to submit a plan because of their low scores. Today at the Chair's request, we have a couple of presidents and their teams that have been asked to spend a little time with you to talk about what their circumstances, the explanation for their FY 2014 and 2015 outlook, and their strategic and tactical plans for improving their performance.

Trustee Hoffman asked how this impacts the allocation model for the individual colleges and universities. Vice Chancellor King explained that the impact goes the other way, to the extent

that colleges and universities have seen a loss in state appropriation share because of enrollment declines or inefficient costs. That loss comes through the allocation framework and hits their financial performance. The state appropriation is a feature of their revenue which is in their financial performance for FY2014. The way the appropriation comes to them through the framework is substantially influenced by what's going on with their enrollment. Tuition revenue falls off fast and that has an impact, state appropriation falls off more slowly if they have an enrollment loss. Trustee Hoffman questioned the length of impact, Vice Chancellor King stated that it is a two-year lag.

Trustee Anderson - Kelliher congratulated Vice Chancellor King on a very good governor's recommendation and stated that she is curious about the recommendation's relationship to MnSCU's full budget request of \$142 Million. The board has talked a lot about how it would affect students with the tuition freeze which is very important, but how does our budget request also play into making sure that there is more of a pathway to college and university financial stability and making sure that the system is financially stable and can get to these sort of results as campuses are working towards these plans.

Vice Chancellor King responded that it is critical if you think about how the Board constructed its budget request; the \$142 Million represents the amount of revenue that the system needs in order to cover salary increases and operating costs which are likely to occur whether there's new revenue or not. Were the governor's support not as strong, our colleges and universities would be cutting budgets in an environment that has been cutting budgets for the last ten years. Much of what we hear from presidents and CFOs is that they are up against a wall. They are strongly committed to the strategic plan that's rolled out, they are strongly committed to helping students be successful, to expanding program services and the quality of the services and they've been cutting budgets year after year. In particular the case of the colleges and universities that are in a workout environment it's just critical. In the larger case of the overall system, it's likewise important that they have the resources they need to protect the students that they are serving today and expand services.

Returning to the presentation on financial resiliency, Vice Chancellor King introduced the senior leadership from St. Cloud University, Metropolitan State University and Minnesota State College Southeast Technical.

St. Cloud State University

The Chair welcomed President Earl Potter. Accompanying him is Chief Financial Officer, Tammy McGhee. President Earl Potter appreciated the opportunity to talk about their approach to a sustainable financial and academic future for the institution. He shared the actions they have taken to proactively manage their fiscal 2015 deficit.

- The indicators that are measuring the quality of the institution while addressing the fiscal realities.
- An analysis of the external/internal forces that collided to create the current financial stress
- The strategies to building a sustainable institution going forward

He acknowledged the work of the faculty, student workers and leaders of the university. They have truly been partners and it has been a challenging year. Their partnership and active engagement has been critical as the university positions itself for the future.

President Earl Potter reported that SCSU is taking a number of steps to strategically manage its resources this year. Last fall as leadership identified the depth of this year's financial shortfall, the president instituted a number of short term actions intended to reduce deficit spending. At the beginning of FY2015, the university projected a \$9.5 million general fund budget deficit. Through cost cutting measures, increasing revenues and enhanced productivity, it is projecting that it will end FY2015 with a general fund budget deficit of \$5.5 million.

The remaining deficit will be addressed through additional revenue growth and strategic resource allocation in FY2016. The president indicated that SCSU has sufficient reserves to cover the operating deficit for this year and has taken steps to align employee numbers with enrollment. The university is taking immediate steps to increase productivity by more closely matching course offerings with student demand. At the same time it has redesigned its approach to admissions and enrollment management to reverse a five year trend in enrollment declines. The president indicated that he is optimistic that the data driven approaches to student recruitment and successes are paying off. The university is seeing an increase in new student admissions after five years of decline.

While he is focused on cost cutting and growth efforts, the university has not lost sight of quality. It is delivering positive results on the key performance measures of the MNSCU strategic framework; including the success of SCSU graduates.

The president went on to share some comments on the forces that brought SCSU into this challenging situation. The design of its strategy for managing the institution going forward has to be informed by an understanding of these forces if he and the board are going to be confident that the plan will succeed. President Earl Potter observed that the governor's commitment in his budget to \$142 million reduces, but does not eliminate one of the risk factors that threaten his strategy. The university's plan is going to be possible and difficult to achieve. The university's internal analysis indicate that external factors of unemployment rates and the number of high school graduates has a very strong relationship with actual, full time student equivalent production.

SCSUs actual FYE enrollment mirrors what would have been predicted from high school graduates and the unemployment rates alone. The president now realizes that prior to 2010 externally driven enrollment growth was masking the lack of improvements in admissions approaches and program delivery and dulled the urgency around new program development that are critical for growth in time of decline. SCSU was benefiting from trends that were positively impacted everybody. There were aspects of program management that were deficient. The impact of those deficiencies were masked by the larger enrollment increase. In 2011, SCSU experienced unpredicted, unanticipated drop of 1,000 students in one fall. University leadership immediately saw some of the practices that were damaging to the university and immediately began to correct them.

Over the same five year period, SCSU students enrolled in few credits each semester impacting both their time to degree and total FYE enrollment. The result is the total amount of students that the university is serving has declined 16% in the last five years. The total FYE production and tuition that is generated from them declined more than 21%. Enrollments came down faster than SCSU was able to adjust staffing. The president has made some efforts to reduce employee FTE this year, but will need to make deeper cuts next year.

SCSU leadership knows that the financial sustainability for the organization will be in how it grows and enhance revenues. While the university continues to attract new students and develop programs, it must ensure that it is using physical and human resources as effectively as possible. One of the biggest challenges will be in how to reduce resources while still creating the ability to invest in new programs. Looking forward to next year, the president intends to deploy a number of key strategies to successfully manage the university in the future. SCSU is in the midst of a comprehensive program portfolio management process that will allow it to sharply target staffing reductions for the next year at those areas where it will do the least damage by reducing teaching and staff resources. This work will be completed this semester and will inform new program development and cost reduction strategies for FY16. SCSU will continue to expand data tools to make strategic choices for further reductions and re-allocations. It is also in the process this year of completing a comprehensive facilities plan which will allow it to focus classroom scheduling into a smaller set of buildings, saving costs and also will direct future reductions in square footage. Over the next three years, the university will make square footage reductions driven by strategic planning and comprehensive facilities planning.

This year, the university has revised enrollment projection up for next year that reduces the gap by \$1.5 million. The university's projections currently are for the worst case. As it refines projections, that situation will get better.

President Earl Potter thanked the group for allowing him to present this information and stated that the thinking that has been done was a consequence of a partnership with Vice Chancellor King's staff and has been critical to the university's ability to shape a plan in moving forward. He mentioned the partnership with the team on campus and stated that the partnership with the Chancellor's team has been no less important.

Trustee Krinkie commented that President Earl Potter is dealing with a difficult situation and asked if the president were to look back over the last five years and see if there was one thing he could have done differently, what would that might have been?

President Earl Potter responded that that is hard to answer. When the university hit the wall in 2011 it did not have the analytical tools in hand to guide next steps. If he had the tools that he has now, there clearly would have been cost reduction strategies that would have been put in place sooner.

Chair Vekich observed that the president indicated that the university has reserves for 2015 to handle the situation but it is not clear what 2016 going to look like? He asked what the general

numbers are going to look like and whether the president is planning to dip into reserves. If so, where are those reserves going to be at? Are they going to be at a compromised level?

President Earl Potter stated that he would respond to the first question and he would ask the university CFO to address the second part. Approximately \$10 million will have to be cut out of the budget for FY2016. The program review work that the university is doing and the strategies for cost reduction are going to get them most of the way there. The university will determine how much it can narrow the gap as a result of increased revenues. If it does that, the president indicated that they will be pretty close to a balanced budget. He won't know the answer to that questions until the end of April when he has finished all of the program review analysis and determined what cuts the university is going to take. The other variable is that the university intends to use a BESI strategy to reduce positions. The current hope is to achieve the salary savings in the following year (FY2017). If the university does not achieve the FY2016 reduction \$10 million target, it would put great strains on reserves and I know that the Vice Chancellor is concerned about that.

Tammy McGee, vice president and CFO commented that the university reserves have historically been some of the lowest percentage of the universities. The university is forecasting FY2016 ending cash balances of \$15 million based upon accomplishment of the planned \$10 million spending. If the plan is successful, the university will preserve the system required reserves in addition to the forecast cash balance.

Chair Vekich asked the president what assurances can be provided to the committee and board of the accuracy of the forecasting as it relates to trends for enrollment and why is it so much better now that it was a year or two ago? In trying to cut \$10 million, the chair is concerned that the president will not be able to achieve those numbers with the lack of nimbleness within the labor contracts.

President Earl Potter responded that one of the things that will help voluntary attrition is the aging of the university's faculty and staff workforce. The university intends to offer a BESI program which will allow SCSU to reduce significantly. Efficiencies will achieved through better management of the fiscal plan. He stated that he has complete confidence in their program and development, for example the RN to BSN has done exactly what was expected. The other programs are likewise. The 2+2 will result in \$1.4 million in the first year, and \$2.8 million in the second year. The cuts stopped the deficit spending. He stated that he is sure the university can get close to the target in FY 2016 and has confidence in the program enrollment development for the on-going years. The 2+2 is a real number. Those students are in those classes. Students who start those programs complete the program. The other things are we are doing are as predictable as that. What we can do to reassure the board is sit down and go through the numbers, show you the formulas and how they work. He asked that his assurances be accepted.

Chair Vekich agreed to accept the assurances and stated that he expect that President Earl Potter will be in close contact with Vice Chancellor King and her staff as it relates to a workout plan as well as the other college university present. The other part is what the contingency plan is? If we get through this process and don't end up with the \$142 million. The committee

would like to see some reporting metric on the key strategies that were presented. He also asked what can the board help with, is there anything that the board can take into consideration in assisting the university as well as others.

President Earl Potter asked two things of the board, but first acknowledged that the work the board is doing to shine a spotlight on the conditions and having these conversations is one of the most important things that has been done and the board's partnership with Vice Chancellor King in developing measures of resiliency is critical. He stated that he would ask that in the conversations going forward, it could be considered that freezing tuition the way we have, it could lock colleges and universities into a places that are very hard to work out of. SCSU has lower tuition receipts for the same number of students compared to other MnSCU universities because recent tuition policy has locked rates into place. The board was asked to address this. One of the things that was done was the faculty and staff across the campus were involved in conversations last Fall and this Spring based on "grateful places to work" and one of the complaints faculty and staff has is the university does not act quickly enough to hold people accountable who fail to perform their duties. The problem is due to the way the university works with its unions. The fact that faculty and staff sees that the problem damages morale and the university. The board was asked to pay some attention to helping institutions effectively support every employee which means a high standard of accountability.

Trustee Otterson asked what is being done to change the stigma among students that St. Cloud is not known for the excellent academics that it provides. What is being done to make the institution known for the excellent academic and amazing things that the school does?

President Earl Potter stated that the reputation as a party school is long-standing. Reputations changes slowly. When President Earl Potter arrived at the institution, the goal was to change the substance of the campus and not just the reputation. During the last five years abusive drinking was reduced among the students from 31 points above to 5 points below the normal average. The recidivism rate for young people adjudicated for underage drinking in the City of St. Cloud has dropped so much that they don't make the revenues that they thought through education programs. The neighbors feel that the institution is a good neighbor and the neighborhood improvements done together improves the tenure in the neighborhood. The number of students who are strong academically and choosing to come to St. Cloud State is rising and the success rates are excellent, particularly among students of color. A MnSCU employee who is African American stated that his daughter would be coming to St. Cloud State but he did not have let the older children attend the university. That is the strongest evidence that the reputation has begun to change.

Chair Vekich thanked President Earl Potter and stated that he appreciated the work that the university and community are doing and that he wanted to send a strong message that the board is as deeply concerned, and also send a broader message to the community that there are expectations, not just for the board and President Earl Potter, CEO but also in the role they play and some things that will be needed for the nimbleness in order for the changes to be made. The board does expect a level of accountability in reporting back. President Earl Potter was encouraged to let the board know if there are things they can help with.

Metropolitan State University

Vice Chancellor King introduced President Devinder Malhotra, Murtuza Siddiqui, Vice President and CFO, and Ginny Arthur, Provost of Metropolitan State University.

President Malhotra thanked the board, Chancellor Rosenstone, and Vice Chancellor King and acknowledged his colleagues and Ron Beckstrom, Associate Vice President for Financial Management who was present in the audience. The current financial picture is the result of two factors; foremost was over-run in construction costs. Some of the over-run was caused by the re-design and some because of soil contamination. Also, the FY2015 budget was formulated on the basis of a flat enrollment. When the enrollment came in, the numbers dipped between 1-2% depending on whether you look at FYE or headcount. In some ways, one could argue that these are short run matters that need to be dealt with; there are some underlining structural issues which are of concern and need to be kept in mind. With the help of Vice Chancellor King and her staff and looking at sustainability, the Financial Recovery Plan is built around four objectives:

- 1) Bring structural operating deficits under control
- 2) Rebuild CFI to acceptable levels
- 3) Rebuild some of the reserves that were used to cover the over-runs in cost
- 4) Build in some capacity for re-allocation and re-prioritization which will free up resources to make additional investments to move towards a sustainable future.

In a sense the work in being undertaken to bring financial metrics and budgets in line but also and an eye to see how the university can be positioned to scale up its activities and broaden the schools' program offerings and activities. In order to do this the focus has been on three different areas.

The university started a midyear budget review in February that has two purposes; to give a good sense of where the institution will end FY2015 and to be on more solid ground as the FY2016 budget is formulated. Also, this will help to provide a comprehensive institutional picture to re-prioritize activities and to make sure that the institution is moving in the right direction with regard to administrative efficiencies and re-allocation of resources. Flexibility also has to be addressed in order to deal with some of the unexpected occurrences that has come up and have a large financial impact. Just like St. Cloud State, we are at the lowest of the fees among all seven universities. If the institution was at the median, it would have a much greater inherent capacity to deal with some of the unexpected twists and turns. The strategies are focused on first understanding what the causes of the problems are and then re-prioritizing.

The university started a full discussion about the budget formulation and incentivizing the budget implementation work as it proceeds through the year and will be moving towards a responsibility centered budgeting. The discussions are at an exploratory stage.

A proposal was sent out to the university community around organizational restructuring introducing the idea of integrating the division of Student Affairs and Academic Affairs under one structure. The purpose is more focus on student success and integrating enrollment

management and student affairs in order to look at the educational experience of the students and put in place predictive analytics and having the appropriate intervention strategy in place with one oversight structure. Conversations have just started and have been shared with the impacted bargaining units and the university community and will go through discussions over the next 2-3 months and make appropriate decisions on April 1st. As we go through this work of organizational restructuring, there would be some administrative savings which will emerge and help to bare some capacity and make some needed investments to grown in the future.

Apart from looking at expenses, the institution is focusing on new revenues and focusing more on new enrollment. The organizational restructuring will help to focus better on retention issues, when the enrollments patterns were analyzed, it was found that new enrollments were going up, returning students/retention rates is the causes of the decline, so the whole enrollment management strategy and approach will shift to the prism of student success and not only from the prism of recruitment. Two other areas under discussion is new program development – the new Science and Education center which is coming up would be critical in building needed diversity in the program portfolio, particularly in STEM related areas and their accessibility to students drawn from communities of color. It is noted that 38% of the student body is from communities of color.

Over the last two years, the university has expanded its academic partnership dramatically with community colleges offering four-year degree programs on community colleges campuses. Currently 300 students enrolled in Metropolitan State programs at Normandale College staffed by Metropolitan faculty and housed in the partnership center at Normandale College. Similar work and conversation is going on with Minneapolis Technical College, Inver Hills Community college, Dakota County Technical College, North Hennepin Community College and other partnerships around the metropolitan region.

Switching to the financial aspect of the recovery plan, in FY2014 on an accrual basis, the university's deficit was around \$6 million. Last week, the revised FY2015 outlook, as the result of a mid-year review, the accrual basis deficit will go down to \$2.5 million from \$6 million. There is still a lot more work to do particularly getting a much better handle as FY2016 is formulated. The expectation as FY2016 is formulated is to try and balance the year's budget and create sufficient resources for re-allocation and re-investment.

Chair Vekich thanked President Malhotra and stated that the committee expects the university to continue its close work with Vice Chancellor King and her staff and to report back on progress on a quarterly basis.

Chancellor Rosenstone asked if it would be appropriate to partition the puzzle that the president is trying to solve in two parts, one part is the one time consequence of the need to redesign the new parking structure and the student center because of the necessary consultation with community that was accomplished with Vice Chancellor King's help; and the environmental discovery as earth was being turned. The second and more structural part of the puzzle then would have to do with enrollment and alignment of academic programs. Could the president give the board of sense of what part is a onetime set of events and what was structural?

Murtuza Siddiqui, Vice President and CFO responded that in FY2014, contamination was the driver that resulted in an operating loss of \$3.7 million. It was a one-time blip. On a budgetary basis, in FY2014 at first look was structurally balanced, but when an accrual form was put in and the construction costs adjusted, FY2014 went negative. In FY2014, there was a slight operating surplus on a cash basis. In FY2015, the budget required them to do an infusion of fund balance in the amount of \$4.5 million. They are doing a mid-year review and a lot of staff is involved. It appears that they will not have to dip into the fund balance and the \$4.5 million is going to be somewhat less. There is some flexibility remaining as we go into FY2016. The overall goal is to be structurally balanced.

The enrollment projection is based on 3 scenarios for FY2016 which is -1%, flat enrollment and +1%. The hope is, given some of the current initiatives and activities, enrollment will either be flat or at +1%. Trustee Krinkie commented that the challenge is Metropolitan State is always going to be fighting an uphill battle because it is not seen as an institution similar to other colleges and universities around the country. President Malhotra commented 97% of the students are transfer students and embraces the reputation as the only public institution in the state of Minnesota.

Minnesota State College – Southeast Technical

Vice Chancellor King introduced President Dorothy Duran and Mike Kroening, CFO of Minnesota State College – Southeast Technical.

President Duran thanked the board and members for an opportunity to share the recovery plan and introduced Mike Kroening to share an overview and plan for recovery. CFO Kroening stated in FY2012, the college sold their aviation building which was located 7 miles from the main campus. In FY2013 the funds from the sale were reinvested to construct a 25,000 sq. ft. state of the art transportation building on the main campus. This resulted in the elimination of a 75,000 sq. ft. building that had repair backlog and its replacement with only 25,000 sq. ft. The sales proceeds did not cover the cost of the construction which was also supported with general fund balance. The new building carries no debt.

The college has experienced deep enrollment declines of 20% since FY2011 and has declined another 10% this fiscal year. The combination of investing the fund balance along with the steep enrollment drops has resulted in a CFI below 1. The financial recovery plan started last August and is now completed. The steps to the plan was put together in this order:

- 1) Retention Revenue – 43% of students are lost through attrition – this is a wealth of enrollment that can be gained back.

Grant opportunities - after putting up the transportation building, the institution was awarded a \$1.8 million diesel grant to start a diesel program in that facility.

- 2) Reduce non-salary budget – started out with a 10% non-salary budget reduction, froze the budget in January of this year for essential spending and have gained \$350,000.

There are two Continuous Quality and Improvement teams that meet monthly with all faculty and staff to share progress. One team works on non-salary budgets and comes up

with efficiencies and improvements and the other team is working on retention and has focus groups with students to figure out how to keep students at the campus.

- 3) Share more services – the institution have a very good relationship with Winona State University and share many services with them phone, security, institutional research, health and wellness center, library service. Also, to help in addressing the deficit, we shared the HR Director. That will save \$75,000 alone this year and next year \$100,000. The institution also shares licensed testing centers.
- 4) Reducing Personnel – an equivalent of 15 FTEs have been reduced since August.

The institution has already accomplished \$1.1 million in cuts and will end FY 2015 instead of an \$800,000 deficit, with a \$30,000 cash plus. Because of cutting early in FY2015, so FY2016 the CFI will be raised above 1.0 and will remain there. The down side, is that the fund balance will remain low but will remain safe.

President Duran commented that the four part plan was developed as a result of a meeting that she had with the chancellor on May 12th and learned about the low CFI and high instructional costs. The chancellor pointed out that the college had the highest cost of all the schools. In August President Duran made it a point to use the attrition rate of 43% to focus on retention and engaging students. “Engaging Students” has become the colleges theme and practice. From those efforts, continuous quality improvement teams were developed and have changed the culture of the college to become more student focused.

All the academic programs were reviewed and programs identified that need to be right-sized. Cuts were made in August. Non-tenured faculty was reviewed and based upon enrollment in programs, it was seen that there were areas that the college could do without. All unfilled positions were held open. Many people took on extra duties. Outreach was increased to diverse populations. In August, the college was recognized as a veteran friendly college and is in the process of applying to become a yellow ribbon college. Listening sessions were held this past November and December with local businesses and manufacturers in Red Wing and Winona. As a result of these sessions, the college is creating three new programs that will start in the fall: computer forensics, business administration, and a manufacturing technician program which are all built on a curriculum currently on the books. Another response was to offer more evening and weekend classes. Red Wing asked to have a machine program offered. The college will partner with Fastenal, other suggestions are electrical trades and cyber forensics which will tie into the criminal justice program. On January 5th a new Vice President of Academic Affairs was hired. She is housed in Red Wing to help restructure the low enroll programs.

President Duran has been meeting with the Red Wing and Winona school district superintendents and they are looking at establishing an industrial technology program at the college to meet their students’ needs. The college is now offering concurrent enrollment classes to 22 high schools in our Perkins consortium. The college continues to build on shared services and is doing everything possible to re-invent and be more responsive to the communities.

President Duran was asked to speak to the nursing program restructuring. In 2011-12 there were approximately 350 students in the program with 12 faculty. As of today, there are 16 faculty and 132 students. Through research, the president learned that the program had too many credits to meet national accreditation. This program needed to be at 60 credit hours. This program was cut and that had a tremendous impact on enrollment college-wide. In meeting with hospitals, President Duran is learning that they want nurses from an accredited institution. Low pass rates have held the college back, which put the college on probation but they just received a letter last month that they had high enough pass rates to no longer be monitored. This was not the case with the practical nursing program, the Nursing Director and faculty had been working on accreditations. The visit in 2012 was not successful. Things were being changed and students didn't feel like they were connecting with the faculty. It wasn't a positive experience. The college is now working with Health Force, a consultant that is helping them prepare for an accreditation visit in September. Because enrollment was so low, faculty had to be laid off to restructure courses.

Chair Vekich asked for questions and comments. Vice Chancellor King referred members back to the materials and acknowledged the three presidents and their teams as well as other schools present. She will work with Chair Vekich to establish a continuing reporting protocol as he requested.

Chair Vekich announced Governor Dayton's has made his Budget Recommendation – which includes full support of MNSCU's \$142 million request. The state will continue to invest in core public service, providing Minnesotans access to high quality, affordable education throughout the state.

Chancellor Rosenstone conveyed how deeply grateful we are to the governor for his support and deeply grateful to the trustees for their patience over the last several months to advocate for this proposal, grateful to all our bargaining units, and our two student associations who have been working hard for this investment in our colleges and universities. As we've discussed, this is about protecting access through an affordable education, it's about protecting programs and the people necessary to deliver the kind of education we are committed to providing all of Minnesota and assure the vitality of communities across the state. We are delighted and have a lot of work ahead of us and we look forward to the conversations in the remaining weeks of the session.

11. Adjournment

Chair Vekich adjourned the meeting at 2:30 pm

Respectfully submitted,
Maureen Braswell, recorder