

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

MEETING MINUTES

January 28, 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, Thomas Renier, and Louise Sundin

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on January 28, 2015, 4th Floor, McCormick Room, 30 East 7th Street in St. Paul. Chair Vekich called the meeting to order at 10:00 a.m.

1. Minutes of November 18, 2014

The minutes of the November 18, 2014 Finance and Facilities Committee were approved as written.

2. Finance and Facilities Update

Vice Chancellor King reported that Governor Dayton's recommended operating budget was released. Governor Dayton declined to recommend new funding for Minnesota State Colleges and Universities (MnSCU) until after the February forecast has been released. Vice Chancellor King reiterated MnSCU's commitment to work with board members, legislators and the colleges and universities, to communicate the importance of MnSCU's work and to keep this committee informed. Vice Chancellor King mentioned the previous week's House overview of the system at Saint Paul College and the overview of the 2015 Board-approved Capital Investment request and said they were well received. A review of the budget request in the House will take place in February.

The June to December Capital Investment Program report was recently sent to all trustees by U.S. mail. Vice Chancellor King inquired if trustees would be amenable to viewing these reports exclusively online going forward. Trustees indicated agreement with this approach. Staff will send out a note when the next report is posted and available for viewing. The report can be found at www.finance.mnscu.edu/facilities/design-construction/cip.

Vice Chancellor King reported Minnesota Management and Budget (MMB) has not undertaken any borrowing from MnSCU currently. At the midpoint of the fiscal year, MMB seems to be in a good cash position.

At this time the system is past the midpoint of peak work for spring enrollment and financial aid processing. The campuses continue to perform well in response to the process changes imposed upon them after the state was required to alter its process.

A week into spring term, enrollment is down 3.9% overall compared to last year, 4.3% at colleges and 3.3% at universities. The fiscal 2015 budget anticipated a 1.6% decline and was updated in early fall of 2014 to a projected 3.7%. Chair Renier asked about the range of enrollment decline. Vice Chancellor King reported that the range was quite wide with colleges experiencing greater losses than universities. There is high awareness of the issue, and a full report will be presented in March.

In light of the declining enrollment, campuses are adjusting budgets accordingly. Revised budgets are coming in and all strategies being used to balance budgets will be discussed at the March board meeting. Chancellor Rosenstone commented that declining enrollment is a function of two factors: demographic shifts and economics. Dropping unemployment rates means that fewer students are enrolling, reflecting a cyclical ebb and flow. The current decline in high school graduates is also a factor.

Trustee Benson commented that employers have a greater need for educated people and reiterated that it's an opportunity to present a case for the support of higher education. Trustee Cowles asked if similar trends can be seen in enrollment for for-profit and private colleges and if the competitive share is being lost. Chancellor Rosenstone remarked that private colleges are experiencing similar declines and this time last year, state colleges' declines were on par with for-profit schools.

- 3. Proposed Amendments to Policy 7.3 Financial Administration (second reading)**
- 4. Proposed Amendments to Policy 7.5 Financial Institutions and Investments (second reading)**

Vice Chancellor King presented the proposed amendments to Policy 7.3 and 7.5 (second readings) and recommends them as non-controversial. Trustee Benson moved that the Finance and Facilities Committee adopt the amendments as proposed. Trustee Cowles seconded the motion. The motion prevailed.

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

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees approves the proposed amendments to Board Policy 7.3 Financial Administration and Board Policy 7.5 Financial Institutions and Investments.

- 5. Minnesota State University, Mankato Approval for Guaranteed Energy Savings Program Contract Exceeding \$1 Million**

Vice Chancellor King presented the request for a contract approval for Minnesota State University, Mankato for participation in a guaranteed energy savings program. Associate Vice Chancellor Brian Yolitz (accompanied by Ron Fields, Facilities Director at MSU, Mankato) presented the guaranteed energy saving contract as an opportunity to leverage savings that

occur through investment in infrastructure and to pay for upgrades over time, apart from the constrained flow of Higher Education Asset Preservation and Replacement (HEAPR) funds.

Project goals include reduction of the backlog of projects that are reliant on HEAPR funds, and to aid in the reduction of the university's carbon footprint. Terms of the contract reflect a project cost of approximately \$12 million, involving 40 buildings, with the goal of improving lighting, implementing water conservation measures, boiler enhancements and controls. A 15-year repayment package is being considered that includes equipment to construction ratio of 70/30. Key characteristics include 3rd-party guaranteed savings and zero out-of-pocket expense for the university. These programs are supported by Governor Dayton's executive order 11-2 that calls for a 20% reduction in energy consumption by state facilities.

Trustee Krinkie raised concern over the 15-25 year payback terms. Mr. Yolitz remarked that the 15-year payback term represented an average of differing terms of both minor and major components. Trustee Krinkie expressed concern about future developments in energy conservation making the planned upgrades obsolete and with the proposed contract amount. Trustee Krinkie moved to change the proposal amount from \$12 million to an amount not to exceed \$10 million. The motion failed due to a lack of second.

Trustee Otterson asked what effect not having the full amount would have on the project. Mr. Yolitz replied that it would limit negotiating options. Mr. Yolitz responded to Trustee Krinkie's concern in reference to similar projects within local school districts and reported that other MnSCU schools are contemplating similar plans.

Trustee Otterson asked about the impact on tuition and fees for the campus and if the savings from renovation efforts will be passed on to students. Yolitz said that saving would go back into university infrastructure (and subsequently benefit students).

The chair entertained the motion, Trustee Benson moved that the Finance and Facilities Committee recommends adoption of the motion. Trustee Otterson seconded the motion. The motion prevailed with Trustee Krinkie voting in dissent.

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

RECOMMENDED COMMITTEE ACTION:

The Board authorizes the chancellor or his designee to enter into a Guaranteed Energy Savings contract not to exceed \$12 million for purposes of improving campus energy efficiency, reduction of carbon emissions and reduction in deferred maintenance at Minnesota State University Mankato.

6. St. Cloud Technical and Community College Approval for Building Renovation Contract Exceeding \$1 Million

Mr. Yolitz acknowledged Joyce Helens, President of St. Cloud Technical and Community College (SCTCC), who was present at the Capital Bonding Presentation on January 27, 2015 and Lori Kloos, the Vice President of Finance/Chief Financial Officer. This project is follow-

through on a property acquisition approved by the Board in 2012 and acquired in 2013. The college plans to renovate 14,000 sq. ft. of the first floor for a digital commons and a library space. Cost is estimated at \$2 million dollars.

Trustee Otterson asked about the student consultation process and why a letter of recommendation from the student body was not included in the proposal. Mr. Yolitz referenced the standard practice of dialogue with students on design projects and stated that due to the level of student participation in the process a letter was not sought. Trustee Hoffman expressed enthusiasm for this initiative on the St. Cloud campus. Trustee Sundin clarified that a “digital commons” refers to a library.

Trustee Benson moved that the Finance and Facilities Committee recommends adoption of the motion. Trustee Cowles seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Board of Trustees authorizes the chancellor or designee to execute a construction contract not to exceed \$2 million for purposes of the Digital Commons renovation located at 1520 Whitney Court, St. Cloud, MN.

7. Minnesota State College Moorhead Approval for Athletic Field Improvement Contract Exceeding \$1 Million

Mr. Yolitz described the Athletic Field Improvement project at Minnesota State University Moorhead, with costs totaling \$1.9 million; \$1 million came from a gift by Scheels Sports, and the balance of \$900,000 comes from campus funds for turf replacement and light replacement. Trustee Benson asked why, with expected ticket sales, a revenue fund project is not contemplated. Mr. Yolitz stated that, as a multi-use and inter-mural facility, ticket revenue would not be sufficient to cover the cost of renovation. Trustee Otterson moved that the Finance and Facilities Committee recommends adoption of the motion. Trustee Cowles seconded the motion. The motion prevailed.

RECOMMENDED COMMITTEE ACTION:

The Board authorizes the chancellor or his designee to enter into a construction contract not to exceed \$2 million for purposes of replacing of Minnesota State University Moorhead’s athletic field lighting and artificial turf on the newly renamed Scheel’s Field.

8. Proposed Amendment to Policy 7.1 Finance and Administrative Authority of Board, Chancellor and Presidents (First Reading)

Vice Chancellor King presented the proposed amendments that emerged from the periodic review process. The amendments are non-controversial changes, fixing language and references and conforming to system style guidelines. There were no questions from Trustees.

9. 2013 and 2014 Audited Financial Statements Review

Chair Vekich recommended that item #9 be limited to an overview and a more in-depth examination be done during March’s board meeting.

Vice Chancellor King introduced President Hanson, President Allen, and Denise Kirkeby, Director of Financial Reporting, who assisted in presenting the 2013 and 2014 Audited Financial Statements Review. The information presented included the audited financial statements as a walkthrough of fiscal 2014 activity, comments about performance, financial index results, monitoring protocols, and an outlook for fiscal 2015.

In November, the audit committee was presented with the system statements, the statements of the four universities and the revenue funds and in all instances, the auditors issued clean opinions with no weaknesses or deficiencies, signifying at the material level the information in the financial statements is reliable and dependable. The four university audits, part of the board's new audit program as of fiscal 2014, represent about 26% of the system's revenue and expenses. The revenue funds represent 6% of the system's expenses and is not a material part of the overall financial activity of the system. At each level, assurance was provided that the results were reliable.

Revenues declined from 2013 to 2014, with tightening of controls and slightly negative college and university budgets. System and college and university reserves are stable though thinly funded. Budget stress emerges in composite calculations and in operating losses and strategies are being implemented to strengthen the outlook and add stability. Chair Vekich asked about the downward trend and from President Hanson's perspective what could mitigate these circumstances. President Hanson said that Bemidji State University could not be described as "nimble" financially and reiterated that it is difficult to make changes quickly in comparison to public/for-profit schools.

Chancellor Rosenstone pointed out the rapid drop in unemployment last year which impacted enrollment, labor contracts which must be respected, and the operating inertia of physical plants which makes a quick response problematic. Chancellor Rosenstone praised the college and university presidents for their efforts to balance budgets but acknowledged the need for more nimbleness and better forecasting.

Trustee Krinkie asked about a scenario in which a school has no cash reserves. Vice Chancellor King responded that no institutions within the system have zero funds in reserve nor are any institutions facing that scenario. The finance department's oversight of system college and universities is a defense against such a situation. Trustee Krinkie reiterated his question about how a failing institution would be engaged. Vice Chancellor King explained that, on occasion, system reserves have been used to stabilize a school experiencing a negative cash flow issue. When faced with such an issue, the chancellor's management team engages in discussions and brings recommendations to the board concerning an institution's financial outlook. Chancellor Rosenstone added that he remains in conference with Vice Chancellor King and college presidents when certain negative financial thresholds are reached. Annual performance reviews and other early warning systems are tools that maintain direct accountability back to the chancellor's office.

Vice Chancellor King spoke about the fiscal 2015 outlook and said the campuses are working to manage their revenue and expense profiles. There is some indication that colleges are making tough decisions in order to have positive margins in 2015, but not without a struggle,

and emphasized the importance of the schools thin but stable reserves. The campuses continue to work on new initiatives, program developments, student success initiatives, and recruitment strategies. Chancellor Rosenstone added that a long term financial plan with the support and collaboration of the Governor's office is critical to assemble a package of revenue to meet projected costs.

Trustee Krinkie asked that Vice Chancellor King share updates on the eight colleges and three universities under special review. Chair Vekich reported that the findings would be presented at a later date. Trustee Krinkie commented on the importance of enrollment figures and asked what can be done to deal with the decline. Chancellor Rosenstone spoke about new recruitment strategies and working with the Department of Education to build the "pipeline" from pre-collegiate education and working on better branding which will be discussed at the board meeting in March.

Trustee Sundin expressed interest in the report and voiced a hope that it would contain discussion about 10th grade technical class opportunities under Postsecondary Enrollment Options (PSEO) that would provide alternative options for students. Chancellor Rosenstone described the threads pertaining to the conversation: one of pathway and one concerning branding/marketing element.

Trustee Benson emphasized the importance of collaboration in terms of the "pipeline" and asked what efforts were being undertaken to collaborate with potential employers. Chancellor Rosenstone listed workforce alignment work with the Minnesota Chamber of Commerce and with the Itasca Project, where pilot studies were conducted in the summer 2014 with the participation of 20 MnSCU schools and 90 companies around the state and high school guidance counselors. Chancellor Rosenstone cited the expected increase in retirees will affect the job market and that MnSCU is working to anticipate and solve potential future problems. Chair Vekich asked about the possibility of hiring a demographer to model the potential demographic shifts anticipated. Chancellor Rosenstone said this was being considered and mentioned the necessity to focus on students of color and Pell-eligible students as the future of education in Minnesota.

Chair Vekich suggested the discussion over the resiliency framework be continued at March's board meeting. He invited any remaining comments from the trustees. Trustee Hofmann agreed with delaying the framework discussion and confirmed the need for a focus on minority students.

Trustee Erlandson agreed with the need to tell our story, especially as related to the annual funding request. Trustee Benson suggested that a focus should be on building relationships with local employers. Trustee Otterson referenced the North Star Summit and its assertion that we "can't afford to not use every person to stay sustainable." Trustee Cowles suggested focusing on attracting students while matching them with opportunities and on retention. He urged that data be collected concerning college attendance and career options and provided to high school students in the early stages of charting their post-secondary academic career. Trustee Ristau seconded the notion of focusing on local partnerships with businesses. Trustee Vizenor proposed an emphasis on students of color and inquired about tuition waivers for

American Indian students. Trustee Sundin agreed with the importance of tuition waivers, citing education as the “pathway out of poverty.” Trustee Krinkie argued for fiduciary responsibility and the importance of reaching students early about their post-secondary options. Chair Renier emphasized the importance of outlining career opportunities available to potential students.

Chair Vekich invited Presidents Allen and Hanson to comment. President Allen commented on the rapid change in demands in the workforce and the need to maintain flexibility and foresight. President Hanson commented on the human equation, i.e. issues of loyalty and commitment and that effective leadership is a result of being receptive to student concerns.

10. System Financial Resiliency Framework – moved to March meeting

11. Adjournment

Chair Vekich brought the meeting to a close.
The meeting was adjourned at 12:10 p.m.

Respectfully submitted,
Aaron Coker, Recorder