

BOARD OF TRUSTEES
FINANCE AND FACILITIES COMMITTEE
MEETING MINUTES

March 15, 2016

Finance and Facilities Committee Members Present: Chair Jay Cowles, Tom Renier, Philip Krinkie, and Maleah Otterson

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

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

The Minnesota State Colleges and Universities Finance and Facilities Committee held its meeting on March 15 and 16, 2016 at 4th Floor McCormick Room, 30 East 7th Street in St. Paul, MN

Chair Cowles called the meeting to order at 1:38 p.m. and welcomed everyone. A quorum was present. Chair Cowles expressed appreciation for the committee and board's engagement in the three hour committee meeting. He also reviewed for the committee the work they can expect to see on the committee agenda over the next several months including: the Long -Term Financial Sustainability Workgroup results; the Allocation Framework Redesign; formulation of FY2018-2019 Legislative Operating Budget Request; college and university financial health measurement, reporting and mediation and a special focus on student affordability and debt. All of the work will be coming to completion in the next four months and brought to the committee and board.

Concerning today's agenda, all committees have the recommendation of adopting a committee charter which was developed at the suggestion of the board chair as an aid in the work as a committee, expanding on the authority of the committee detailed in the board policy and provides a more extensive list of the committee's oversight. It is anticipated that the charter will be reviewed and modified annually as warranted.

The committee will be asked to adopt the Capital Planning Guidelines for FY2018, and the material has been amended per members' request in January to include total general obligation debt burden by college and university. The financial performance of all of the colleges and universities will be discussed in the system financial health update agenda item. In January, the committee asked staff to bring additional information and background material on enrollment. There will be a joint meeting in April with the Academic and Student Affairs committee to hear research on student affordability and debt matters.

Today we will also hear the findings of the ISRS business case review and a report on the progress of the ISRS NextGen report. There's been a lot of campus outreach and input in the effort.

Vice Chancellor King was invited to make remarks and noted the following; March 31st is the deadline for submission of the state single audit to the Department of Education; the Technical Advisory Committee and the Allocation Framework Redesign groups continue to meet monthly. There was a WebEx meeting with the interested constituent groups and more upcoming. There was input solicited, good feedback and conversation and the work is on track for preliminary recommendations in June.

A copy of the campus impact statements relating to the supplemental budget request was sent out electronically and a hard copy is at members' places. The document lays out work done on a campus by campus basis and the work surrounding the core mission, talent and work force, commitment to diversity, and it articulates the impacts if the \$21 million is not received.

The governor recently released supplemental budget recommendations. The spending recommendations totaled under \$700 million, including \$170 million in recommended tax cuts. Included in the \$690 million spending recommendations were \$411 million in one-time recommendations and \$270 in base spending increases. The base spending would occur in FY2017 and continue into FY2018 and FY2019. The governor recommended base funds and the recommendation for higher education overall totaled \$56 million; \$21 million for MnSCU and \$35 million for the U of M. The U of M request was concerning a one-time infrastructure investment in their IT domain and investments in the academic health center. Other general fund budget recommendations were \$45 million for state cyber security investments at the state's IT enterprise office. There may be advantages for MnSCU in that investment. Vice Chancellor Padilla has a rich relationship with the state's IT leadership and the state's IT infrastructure.

The governor recommended \$77 million in early learning education including \$25 million for the pre-K program expansion that the governor has been promoting for several years. There was a \$100 million recommendation for investments characterized as equity related which includes \$20 million to the Office of Higher Education for a program labeled Equity and Opportunity Initiative Grants to Increase Completion. There were a variety of recommendations in other state agencies including DEED, DHS, and the Housing Finance agency totaling \$33 million.

1. Vice Chancellor King reported that members should have received a link to the bi-annual capital improvement program status report which gives a project-by-project update of construction work that is underway or reached completion. The property at 393 Bates near Metropolitan State University has been demolished and cleared and the university is preparing for the next step. There has not yet been a value established for the property; the condemnation judges are expected to provide a determination in June. The FY2016 Capital program is being promoted at the legislature. Trustee Cowles, Chancellor Rosenstone, and Associate Vice Chancellor Yolitz are making legislative presentations throughout March. St. Cloud University

hosted Representative O'Neil in a joint conversation with the university and St. Cloud police department around safety, security, and neighborhood management around the area adjacent to St. Cloud. There were no questions. Chair Cowles proceeded with the agenda. **Minutes of January 27, 2016**

Chair Cowles recommended a motion to approve the minutes. Trustee Otterson made the motion, Trustee Krinkie seconded. The motion was approved.

2. Approval of Finance and Facilities Committee Charter

Chair Cowles stated that the committee charter was revised in February and was discussed at the executive committee meeting and can have further confinement as warranted. There were no questions or comments. The recommendation for a motion to approve was made. Trustee Krinkie made the motion which was seconded by Trustee Anaya, and approved.

3. Proposed Amendments to Board Policy 5.9 Biennial Budget Planning (Second Reading)

Chair Cowles explained that Policy 5.9 only had technical changes as a result of the recent review and consultation. Vice Chancellor King stated that there has been no outreach from interested parties or comments since January. Trustee Krinkie made the motion that the committee recommend the Board of Trustees approve the changes to Board Policy 5.9 Biennial and Annual Operating Budget Planning. Trustee Anaya seconded and the motion was approved. ~~The motion was adopted.~~

4. FY2018-2024 General Obligation Capital Budget Program Guidelines (Second Reading)

Chair Cowles welcomed Vice Chancellor King and Associate Vice Chancellor Yolitz to present to the committee the second reading of the proposed guidelines. Associate Vice Chancellor Yolitz stated that the report starts on page 24 of the packet. The purpose of the proposed Capital Program Guidelines is to shape the future of capital investments through state general obligation bonding and revenue funding program. The report provides a great deal of information. General obligation bonding debt and debt service information was added to the end of the report since last month.

This action is rooted in Policy, 6.5 Capital Program planning, which asks the board to establish criteria and approve the capital program guidelines. The guidelines are a basis for assessing and prioritizing college and university candidate capital projects for board consideration as part of a capital bonding request to the state or revenue fund bond sale by the system. The fifty four campuses include over 840 buildings, 28 million square feet of total space and over 7,000 acres of land.

The systems Facility Condition Index, or FCI represents the ratio of backlog requirements to the value of the physical plant. The system's ratio of 10 percent is on par with other higher education institutions across the nation. Some facilities are in better shape and have a lower FCI, others are in worse shape and have a higher FCI.

The board's capital guidelines are the first step on the road to a recommendation for GO (General Obligation) bonding. The guidelines drive the project scoring instrument which uses campus metrics around enrollment and FYE trends, programs being impacted, student outcomes, financial indicators including the CFI, facility condition, space utilization, energy costs and consumption, and campus investment through their local R&R funds in their facility space. This helps to prioritize projects for recommendation and approval for funding.

Once the guidelines are approved, the colleges and universities will develop pre-designs for selected projects based upon their comprehensive facilities plan. During the summer and fall, there will be a review of the predesigns and updates to make sure they are ready for scoring in January 2017 which is when representatives from across the system will look at the projects and score against the board guidelines and the institutional metrics. The scoring results sets the stage for the board's consideration next May and June on the bonding recommendation to be submitted through MMB to the governor's office and legislature and for the 2018 legislative session.

Page 41 shows a snapshot of the GO and revenue fund debt by college/university. A few points highlighted: since its creation, the system has received nearly \$2 billion in general obligation bonding authorization for projects. There was \$1.5 billion for projects which includes the one-third cost that the system provides as well as \$500 million in HEAPR investments. The total GO capital authorization in 1994-2015 is \$1.962 billion. The outstanding debt on that work is \$241.7 million and the annual debt service is \$31 million. The board's debt management principle targets overall annual debt service at less than 3percent of annual revenue. There are a couple of institutions that have exceeded the 3percent. These are small institutions that requires large investments or colleges/universities that had serious facilities issues that needed to be addressed with capital investments.

Vice Chancellor King advised members that there are often questions from legislators to describe how much tuition is consumed making debt service payments. There are continuing discussions in our community about trying to change the law on the legislative practice of assigning one-third of the debt service associated with capital projects to the system. The chart shows 2.2 percent annual of the college and university revenue is assigned to making debt service payments. Reviews from the rating agencies view a number of over 10 percent as being a financial stress to institutions. At the enterprise level there is a low obligation of debt exposure.

Chair Cowles commented on the recommended committee action on page 27 making reference to the opportunities for capital bonding offered in off years. The committee was asked to consider the recommended motion on page 27 of the packet for the revenue fund and GO program which was referred in the guidelines.

Chair Cowles commended Mr. Yolitz's presentation particularly in light of Charting the Future. There was a conversation earlier this winter about supplemental bonding requests being the topic of review next fall and whether it could be included on the bonding requests. Vice Chancellor King responded when coming before the board in June of FY2017 for the FY2018 program, there will be a recommendation that the Board of Trustees adopt the motion for the \$250 million program for the 2018 session with a subsidiary clause. Chair Cowles responded that it would be a good idea to identify the process ahead of time to avoid waiting for the moment of decision-making and suggested it might be part of next fall's discussion.

Mr. Yolitz stated when the 2016 bonding request was approved, it included a clause that describes the process. It is not expected that all the projects would get funded in 2016, but would come back with recommendations for the 2017 session. Chair Cowles asked for questions. Trustee Hoffman asked whether the 28,000,000 square feet of space include privately developed space or if there isn't any privately developed space. Mr. Yolitz responded that it includes all the space owned by the system and there has been some private investments in the past. Trustee Otterson asked for clarification as to why the report refers to FY2018- FY2023. Mr. Yolitz responded that board policy calls for a recommended capital improvement program not only for a specific year but also to provide information to the board for years beyond that.

Trustee Krinkie questioned where things are heading regarding academic space and where it was five years ago in terms of total square footage. Mr. Yolitz responded that in FY2005-FY2015 total system academic square footage grew from around 21,000,000 to 22,000,000 square feet. We are now contracting academic square footage and looking to make better use of space. Trustee Krinkie asked whether there are comparisons that can be used on a national basis of the square footage per student. Mr. Yolitz responded that nationally recognized professional groups such as APPA and system consultants are used to looking at space utilization numbers. Space utilization is based on a 32 hour week. Trustee Krinkie commented that there is an increasing need in the metropolitan area as the number of students increase while declining enrollments shows difficulty in recruiting students in some rural areas and asked how the program presented takes that into account the student population increase and also the impact of online courses.

Mr. Yolitz responded that utilization and space demographic trend metrics help shape and drive projects and gave the following example; Bemidji State University was originally proposing a project that would replace a 82,500 square foot building. After further development, the building will be replaced with a much smaller footprint for a net reduction of around 53,000 square feet and then renovate existing space and create individual learning communities throughout existing buildings on campus. The project is on the 2016 list and is part of the board's recommendation. The governor and both capital investment committees in the House and Senate were impressed. Mr. Yolitz stated that there is quite a spectrum of online learning. The students do come to campuses to use the space. Campus scheduling software allows colleges and universities greater diagnostics on how labs rooms and classrooms are being used in order to better manage them. Reports were created to help colleges do a better job in managing day-to-day classes and to

manage their plans for capital investments. St. Cloud State University did an array of space utilization analysis that shaped their comprehensive plan and will drive some major changes in the way that campus looks in the future. The projects are anticipated to be seen in the 2018 request and future.

Chancellor Rosenstone commented that the questions posed get to the hearts of our colleges and universities. The capital guidelines being considered will produce the third capital budget in a row that this board has considered that will propose a net reduction in square footage for the system. It would not be sustainable for colleges and universities if a quarter million square feet are added every two years. The strategy being pursued is described as finding ways of making the physical footprint smaller and more efficient going forward. The questions posed are critical to understanding the practical strategies that can be executed; given the constraints being faced politically. These topics were at the heart of the conversation many months ago with Commissioner Frans relating to the capital budget that's under consideration this legislative session. The executive branch administration appreciates the approach being taken.

Trustee Benson asked if a contributor or somebody wants to finance a building that's held by the foundation would be treated the same way as if owned by the system. Vice Chancellor King responded that there is a better opportunity at leveraging contributors and partners in the capital program arena. If there is a private donor interested in building a building and retaining title on our land, it would require working with legal counsel and driving a hard path to make that possible. There is occasion where related foundations have built buildings and held title off campus, and have had operating relationships like the Winona State University foundation project and Southwest State University foundation action where the foundation has been a good partner and held the asset on land off campus. It is much more typical to accept a donation than to build a building on campus. Trustee Hoffman asked if it would be worth exploring some of those legal hurdles that are in the way. Vice Chancellor King responded that there has been hundreds of hours dedicated to the issue. It revolves around the IRS tax code concerning tax exempt general obligation bonds.

Trustee Anaya asked in regards to the strategic framework and charting the future, where in the strategy is the subject of student housing and the expansion of student housing; Vice Chancellor King responded there is no place in the capital budget guidelines that expectations are telegraphed to bring forward a general obligation financed housing program.

Chair Cowles commented that in the fall, there was a discussion to bring forward a review of the facility design and construction evaluation process. This could be revisited in the context of the financing strategies. Vice Chancellor King responded that there has been extended conversations in that workgroup around student success and measures that relate resource allocation with student success measures. Trustee Anderson-Kelliher commented when looking at income disparities, it is unknown from one year to the next who is going to live in housing. A typical way is to look at how grant and aid comes into the student's assistance. This needs to be looked at overall beyond a facilities issue.

Trustee Hoffman commented that years ago the percentage of utilization was very low for academic space on Fridays, Saturdays, and evenings and asked if that has improved. Mr. Yolitz responded that there are similar patterns of space utilization. In looking at student's needs and desires, ways of exploring opportunities to expand classes is being examined i.e. evening and early in the day programming.

Trustee Otterson commented that there needs to be a priority in the guidelines on following the changing social and demographic trend in students and faculty. Mr. Yolitz responded that the concerns are addressed in the design of the work and addressed at the tactical level. For example Metropolitan State was designed with the inclusion of gender-neutral restrooms and other colleges have taken it upon themselves to provide foot washing stations. Some universities provide day care. Every college and university is assessing their student's needs.

Trustee Sundin asked whether Committee Chair Cowles and Chair Vekich will get together and address the bigger issues. The response was yes and that careful notes were taken to present to the Executive Committee about the discussion. Chair Cowles presented the recommended motion on page 27 for board approval. Trustee Anaya made the motion. It was seconded by Trustee Krinkie. The motion was adopted.

5. Approval of Contracts Exceeding \$1M for State Universities Food Service Vendors

Vice Associate Yolitz explained the recommended board action seeks approval of the food service contracts at the six residential universities. Each contract will exceed \$1 million with a five year original term and the option to be extended for five years. Full details are on page 42 of the board packet. The detailed work was done by Greg Ewig, Director of Real Estate, revenue fund directors, and students at residential universities. The presidents and CFOs are interested in this moving forward.

The process began two years ago with the solicitation for and selection of a food service consultant. They brought their expertise which guided the system office team and campus individuals to present the contract to the committee and board. The team crafted a single RFP that established core criteria; reflecting student input and feedback on offerings of food service vendors in areas of contract dining, retail sales, catering and concessions. The RFP was launched April 2015 and requested proposals by early July 2015.

Vendors were able to bid for one/more/all of the universities' food service needs. Based on universities' feedback, the RFP empowered each university to evaluate and score vendors on how well their student and program needs are met. Six vendors submitted proposals and they were evaluated by each individual universities based on technical merit including food service concepts, management and staffing, total financing packages including donations and capital investments.

Chair Cowles presented the recommended motion on page 46 for board approval. The motion was made by Trustee Anaya and seconded by Trustee Krinkie. The motion was adopted.

6. System Financial Health Update, Including Update on Financial Recovery Plans and Monitoring Metrics

Vice Chancellor King introduced Deb Bednarz and provided an update on the 2015 financial performance of the colleges and universities. Based on FY2015 results, 19 colleges and universities reported improvements in adjusted CFI scores. The half billion dollar GASB entry has been taken out of the income statement and balance sheet for comparison purposes. Based on the chart provided in the material, 19 colleges and universities reported improvements compared to their FY2014 score while 17 reported no improvements.

At the January discussion, the committee expressed interest in understanding and identifying ways to improve the enrollment forecast. As a tuition dependent, revenue dependent organization, enrollment has an instant impact on the financial condition of the colleges and universities. Graduating high school seniors and changes in state demographics has the most powerful impact on enrollment. There has been work with campuses to get analytics in place. Of the 19 colleges and universities that are now operating under the financial recovery plan, the enrollment performance is a significant influence on their financial results. Ten of the twelve colleges that are in the financial recovery plan had enrollment loses that exceeded the average; which translates into loss tuition, revenue and financial stress. This suggests that enrollment accuracy is an important indicator for financial condition.

This was not the case with universities operating under financial recovery plans, with only two universities reporting below average enrollment results

Nine colleges and universities were added to the FRP group as a result of changing financial conditions that triggered thresholds established financial health indicators. Revised FY2016 budgets and outlooks for FY2017 have been received for all 19 of these schools. Meetings with presidents and their leadership to develop written recovery plan documents have taken place.

Trustee Benson commented that if the money is obtained from the legislature, the system should act like a K-12 system and ask the state for funding on a per pupil unit. Vice Chancellor King responded that over the last five years the system is more volatile because of the increased reliance on tuition revenue rather than state appropriation. Appropriation levels change every two years, but tuition loss is immediate. There is nothing in the state formula that is tied to enrollment levels. The internal allocation is based on instructional cost averages, square feet, and number of students.

Trustee Bourdeau commented that this seems like a significant number of our colleges and universities operating under financial recovery plans and asked whether this is the first time this has happened with this number of schools. Vice Chancellor King responded the financial recovery

plan monitoring protocol is fairly new. Of the 11 schools, 7 have improved their CFI score since they established their recovery plan, 8 reported improvement in their net operating income, 8 reported general fund balances above the guidelines, and 5 added to their fund balance. The indicators are changing behavior and encouraging tough financial decisions to improve their outlook. Chancellor Rosenstone commented that this is a process in response to board requests to fully monitor colleges and universities that are under financial stress. The fact that there is a formal process that includes Vice Chancellor King, presidents, chief academic officers, and chief financial officers is a response to the board's request. Greater oversight is warranted from the system when colleges and universities appear to be in some financial stress.

Vice Chancellor King reported that CFI scores are improving at 53 percent of the colleges and universities. The system cash position is stronger than indicated by the CFI results. Enrollment forecasting integrity is a key indicator for financial improvement and financial condition. The process is producing the right results in terms of monitoring, reporting and oversight.

There are changes across the system in terms as a result of the stress testing work which includes changing enrollment methodology, adding metric work, building and improving relationships with local high schools, and working with the data systems at the local high schools. There has been demographic work at the regional and state level. The academic and student affairs community works on this from a best practices standpoint. Some of the colleges and universities will be reducing their expenses in order to produce positive operating results. The stress testing model was developed as a way of designing a map of the college or university budget to see how much flexibility it has. The model stresses revenue based on enrollment declines but it makes no other assumptions about expenditure changes. The object is to understand how much cash the campus has to respond to enrollment decline.

Chair Vekich commented that it would be of interest at the end of the stress analysis to create observations or information on evaluating the cash balance policy or practice to see whether they are adequate as designed. Chair Vekich asked what the reaction has been from the CFOs and presidents on the information that was provided them. Vice Chancellor King responded that the principal reaction is that the model held steady. The stress test exercise helped connect the dots for schools that are in a financial recovery plan. Chair Cowles recommended that consideration be set aside on bonding requests for any institution that is in a financial stress and recovery position until they determine how they will be using the square footage. Vice Chancellor King noted that this recommendation will be taken into the staff work.

7. Integrated Statewide Records System (ISRS) NextGen Business Case Report

Chair Cowles introduced Vice Chancellor Ramon Padilla. Vice Chancellor Padilla reported that this is the third discussion regarding ISRS over the course of two years – the last discussion being held in October 2015.

During the October Board Study Session, ISRS was discussed from a student perspective which highlighted the unmet needs of modern functionality and mobility. The process of building a business case for the replacement or re-engineering of ISRS is culminating at the end of the month with a full report available in April. Vice Chancellor Padilla pointed out the summary of the report in the board materials.

ISRS is critical to students and the enterprise. It is one of the few systems which touches everyone throughout MnSCU. It is the cornerstone data system for the enterprise. An extraordinary education requires an extraordinary information system to support it. There has been a high degree of consultation and engagement to ensure that everyone has had an opportunity to have their voice heard. Specifically, there has been engagement in two cycles of listening sessions. Cycle 1 was part of Charting the Future gallery walks, and cycle 2 consisted of 31 campus all-day listening sessions and survey feedback during September and October 2015.

Twenty years ago MnSCU developed a single system of record for the system. Vice Chancellor Padilla stressed how important and futuristic this direction is for MnSCU and where other systems in the United States are beginning to move to now. ISRS is reaching its technological end of life and continued investment in the current language and architecture is no longer sustainable. The system office is not staffed to keep ISRS current with the needs of students, the colleges, universities, and the ever changing environment. There is strong support from student faculty and staff that an examination of options regarding ISRS is long overdue. The most important points are unmet student needs in the mobile experience, concurrent enrollment, degree planning, student success, analytics, recruiting, admissions and retention processes. Also there are unmet needs for business intelligence and analytics. The future looks mobile ready, easy to use, personalized to the student, focused on student success, rich with data and analytics and hosted in the cloud.

Trustee Otterson asked whether the cloud is in MnSCU data centers or if other data centers will be used. Vice Chancellor Padilla responded that no decision has been made but it is assumed at this time that it would be consumed as a software/service so data centers will be hosted on an outside source's cloud. Viable options are to purchase an entirely new system which is the recommended optimal solution. It would take approximately six years to completion and an estimated external funding cost between \$100-170 million. Risks include all the typical risks of an ERP implementation. The other option is hybrid components which is a combination of components with in-house staff rewriting the remaining components.

Campus Works is partnering in developing this business case and anticipates a hybrid solution would have costs about 30percentpercent higher than option one. The risks are the same but also include additional risks; time to completion, higher internal cost to remain current, project fatigue and integration costs.

In pointing out the factors for success, it is noted that ISRS replacement is a significant effort that will affect the entire enterprise and will require commitment that is commensurate with the size of this enterprise project. The replacement of a system such as ISRS is hopefully a once in a

generation-activity. The current system has gone 20 years. The project workload is extensive, touches everyone in the system and will span the 10 years of leadership of those involved. The replacement of ISRS is not an IT project; IT is the facilitator in the project. The project owners are the leadership of the system; the chancellor, the vice chancellors, the presidents, and the board. The project will require the ongoing resolute support of the Board of Trustees and success will be determined by the unwavering commitment of leadership to make and stand behind timely decisions about business and organizational processes. Trustee Hoffman asked for the financial ramifications. Vice Chancellor King responded that the interest in presenting to the board at this time is to get support on continuing the development. There is not a cost estimate at this time.

Chair Cowles requested that the following questions be included in the scope of the project: the time table, resource, and deliverables. Vice Chancellor King responded that the conversation will move to the campus consultation and information will be provided in the fall.

Chancellor Rosenstone expressed understanding of how daunting the project will be, the amount and length of commitment. This is not just about putting in a new piece of software, it's about thinking systematically for all business and management practices. Chair Cowles commented that this is not an IT project and it will touch every single function and staff member, student, and faculty member at the institution. Vice Chancellor Padilla was commended for his experienced leadership.

8. FY2018-2019 Legislative Operating Budget Request Planning

Vice Chancellor King referenced page 111 of the board packet and noted that the focus of the agenda item is the FY2018-2019 legislative budget request for the fiscal year starting in July of 2017. There will be work this summer including consultation with constituency groups to develop a budget request for review by the board in the fall of this year and subsequent presentation to the governor and the legislature in advance of the upcoming legislative session. The FY2018-2019 state's revenue and expense outlook is structurally positive which has not been the case for years. It is hoped that the state has some resources available for new decisions at the start of the FY2018-2019 process.

The system continues to rely on tuition revenue as a primary revenue source which puts at risk our ability to maintain our commitment to affordable higher education including high quality service to students. The system is in the fifth year of enrollment decline following five years of growth. The relationship between affordability and tuition has been the subject of much policy work.

The chancellor will launch a consultation process between March and July. There will be presidential formulation discussions beginning in July and the committee will be presented a first reading in October in order to meet the deadline for submission to MMB in November. The object of today's agenda item is to have a discussion about developing the FY2018-2019 legislative request. Trustee Hoffman commented that if there is a tuition freeze there will need to be an

equivalent cost reduction which will result in cuts in staff and programs. Vice Chancellor King responded this will challenge the committee to come to the table with new thinking.

Chancellor Rosenstone commented that it would be helpful to begin conversations early with leadership in both houses and parties to provide insight into the system's collective thinking as strategies are developed for presentation to the board.

Chair Cowles thanked everyone for their comments and involvement in the meeting and stated that the Finance and Facilities Committee meeting is recessed due to time constraints until 8:00 a.m. on March 16, 2016 to allow Associate Vice Chancellor Phil Davis to give an update on Campus Service Cooperative.

The meeting recessed at 4:55 p.m.

9. Campus Service Cooperative Update

The update was given on March 16, 2016 at 8:00 a.m.

Chair Cowles reconvened the Finance and Facilities Committee from March 15, 2016 which had to be recessed due to time constraints. Associate Vice Chancellor Phil Davis acknowledged Celena Monn for assisting with the presentation. The Campus Service Cooperative is guided by a team from the Leadership Council and was formed in 2011 to demonstrate how working collectively could leverage the buying power of our 31 colleges and universities and improve processes by sharing services among colleges and universities. The outcomes for FY2015 were good. There was a savings of about \$2.26 million on approximately \$50 million in spending which broke out at about \$1.7 million in savings on the contracts and about \$564,000 in direct cash rebates to our colleges and universities.

Every college and university in the system had total savings of at least 7 times the system's investment and some as many as 10 times the system's investment in the CSC. Of our 31 colleges and universities, all but 4 received a cash rebate that was equal to or greater than the investment. Associate Vice Chancellor Davis asked President Potter to comment on the operating framework.

President Potter commented the cooperative serves to assist in the value proposition by taking some of the financial pressure off of operating budgets. Early on, there were concerns about the cooperative and whether relationships with local suppliers would be preserved while taking advantage of some of the economies and efficiencies provided by the CSC. It has worked and is not the answer to any particular question but it is one of several tools used to help navigate difficult financial waters.

Associate Vice Chancellor Davis posed two the questions; one about the benefits and pitfalls of moving from the current model which honors campus autonomy and is built around voluntary

participation and whether campuses are ready to make change within the organization to accommodate the benefit. Some of the benefits include increasing leverage to get best pricing and terms on a contract and services. One of the pitfalls is giving up some local control. There is also question whether a campus is ready to make a change within the organization to accommodate the benefit.

Chair Cowles asked Associate Vice Chancellor Davis to describe the potential scale of what universal participation might represent if similar results are achieved. Associate Vice Chancellor. Davis responded that the kinds of results on services that haven't shared are estimated at around \$50 million. Office supplies spending is about \$2.8 million a year so our experience have been a savings of about between 5 and 10percent overall.

Chancellor Rosenstone asked for clarification to the question before the board on whether to continue with the process of voluntary participation and accept that there may be another \$2 million not being gained or whether the board would like to see mandatory participation understanding the consequence but go for the potential additional \$2 million savings.

Trustee Krinkie asked if there has been discussion or exploration into expanding into the academic area. Associate Vice Chancellor. Davis responded that three- fourths of spending is on the personnel side and in academic affairs. Associate Vice Chancellor Davis stated that CSC is built on a culture of respect. The following items are desired areas of study; core business, financial aid spending progress, admissions, and placement testing and academic leaders sharing programs.

Trustee Krinkie asked about discussion into payroll operation and potential savings. Associate Vice Chancellor. Davis responded that there are currently two payroll hubs and 11 of 31 institutions participate. Trustee Hoffman asked President Hansen what is the major challenge for going towards mandatory purchasing versus voluntary. President Hansen responded that the ultimate analysis is whether we are able to do a better job with student success. A challenge will be to determine the balance between core functions and investment decisions.

Chair Cowles suggested that the conversation be paused until the next board because these kinds of questions will surface from other areas. Chair Cowles thanked all for their participation.

This agenda item adjourned at 8:30 a.m.

Respectfully submitted,

Maureen Braswell, Recorder