

SECOND
READING

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

FY 2005 Revenue Fund Fees and Spending Plans

BACKGROUND

The Board of Trustees annually approves fees and finance plans for residence hall and student union programs under the auspices of the Revenue Fund. Minnesota Statutes, Chapter 136F.93 and the Master Resolution governing the Revenue Fund require approval by the Board of Trustees. With the transfer of a parking ramp into the Fund on July 1, 2003, this will be the first year the Board is also asked to approve fees for such a facility. In addition, an update on the Reinvestment Program and a summary of the Revenue Fund's FY2003 Investment Program is provided for information.

RESIDENCE HALL FEES AND FINANCE PLANS

The universities provided a set of proposed rates for FY 2005 which also includes financing for the Reinvestment Program. Attachment A (Proposed Room and Board Fees FY 2005) illustrates the rates proposed by the universities; Attachment A-1 (Room and Board Rate Comparisons) is a comparison of state university rates with other universities by region. Attachment B (Residence Hall Finance Plan FY 2005) is a summary of finance plans of the residence hall programs. In the finance plans, under Expenditures, the line labeled "R&R Contribution" indicates the amount transferring from operations into the R&R Program, not the amount actually spent on R&R. The last two lines of the expenditure section illustrate how a university is funding the second year of the Reinvestment Program, either with cash derived from increased fees, labeled "Deferred Maintenance", or with bond proceeds labeled "Debt Service". There is also a line indicating the level of operating reserves. Revenue Fund Guidelines require three to six months' reserves, which staff will continue to monitor.

STUDENT UNION FACILITY FEES AND FINANCE PLANS

The Facility Fee supports the basic operation of the student unions, including core operations that relate to the building, but not the programs offered in the building. Examples of core operations are a director and supporting staff, custodial and maintenance staff and associated equipment, supplies and other expenses, repairs and renewal. Debt service and insurance costs are also included. The "programming" provided through the student unions is supported by the Activity Fee on each campus and is not part of the Revenue Fund. Examples of items covered by the Activity Fee are student government, student clubs and organizations, recreation and club sports. The Board approves only the Facility Fee.

Facility Fees are charged on a per credit hour basis, and vary by university. Attachment C describes the specific assessments. The exception is MSU Moorhead where the student government has guaranteed a specific level of funding, so the actual fee fluctuates with enrollment. The Board is being asked to approve the maximum fee that a student may be charged in a year.

Proposed Student Union Facility Fees are shown in Attachment C (Proposed Student Union Facility Fees FY 2005) and finance plans in Attachment D (Student Union Finance Plans FY 2005). The finance plans show the same breakdown of reinvestment funding as do the residence hall plans described above. In the case of Winona State University and Southwest Minnesota State University, plans for their reserves are acceptable because of planned construction projects. The Student Union Finance Plans (Attachment D)

also show a subsidy for the Bemidji and Southwest State University programs that were approved as part of the Fund restructuring process several years ago. The subsidies are funded from the interest generated by the student union program reserves. FY 2005 is the last year for these subsidies.

PARKING RAMP FEES AND FINANCE PLAN

As noted above, because the Parking Ramp located at Minneapolis Community and Technical College transferred into the Revenue Fund under the authority of Metropolitan State University (Board approval January 2003), the fees must be approved by the Board of Trustees. Attachment E (Parking Ramp Finance Plans FY2005) shows the finance plan and proposed fees for FY 2005.

REVENUE FUND FINANCE PLAN

A consolidated finance plan for the Revenue Fund is shown in Attachment F (Projected Finance Plans and Fund Balances, Combined) for your information.

REVENUE FUND REINVESTMENT PROGRAM

FY 2005 will be the third year of the Reinvestment Program that was adopted by the Board in October 2001. The intent of the program is to maximize available resources to achieve the greatest improvements and reduce the deficiency backlog within the Fund's facilities. Each institution was charged with developing a financially viable long-range improvement plan to meet this goal. Details of these plans were included in the fee presentations for FY 2003.

In order to gauge the progress of the Reinvestment Program an outside consulting firm was engaged to perform independent audits of both Year 0 and Year 1 of the program since there was some concern among the universities about self-reporting. As background, Year 0 was FY 2002 and was to include only projects that were part of the original deficiency report in 1999 that had been completed or were determined to be unnecessary. Year 1 is FY 2003 and marked the first year of the program. Attachment G shows the actual level of expenditures compared to that projected in the original program at the Fund level, and G1 shows it at the individual universities. The expenditure rate in the Student Union programs ranged from 15% to 110%, averaging 74% completion of planned expenditures. The expenditure rate in the Residence Hall programs ranged from 11% to 115%, averaging 58% completion of planned expenditures. These results show less progress than anticipated. Accordingly, the Office of the Chancellor will work with the universities over this coming year to maintain the integrity of the Reinvestment Program. In developing the program, a university decided how it would fund the program: elimination of the backlog early in the program by means of bond proceeds; use of internal reserves over a period of time; or increasing fees substantially in order to tackle large program costs early in the program. The point of these tables is to determine whether a university is spending the amount of funds it had planned to spend, particularly if it went into debt and/or substantially increased fees for that purpose.

Attachment G2 shows the progress made in the actual reduction of the deficiency backlog. This is a slightly different issue, in that a project may cost more than initially planned, or other issues rendered it more problematic or moot. The universities have the option to adjust their plan and/or move planned projects from one year to the next. At this time progress to date is measured against the entire program, not on whether a specific project was accomplished in Year 0 or Year 1.

STUDENT CONSULTATION PROCESS

Student consultation has been concluded for the Revenue Fund programs. Communications from the appropriate student groups have been received by the Office of the Chancellor.

REVENUE FUND INVESTMENT PROGRAM UPDATE

This is the annual performance report to the Board of Trustees concerning the Revenue Fund's investment program. See Attachment H (FY 2003 Investment Performance). Management of this activity was transferred to the State Board of Investment (SBI) by action of the Board effective July 1, 1997.

For FY 2003 the Fund earned \$1.3 million in interest on an average balance of \$67 million. The Fund consists of three sub-accounts: Bond, Debt Service and Maintenance and Operations. The table in Attachment H summarizes the average portfolio and the average yield for each of the three accounts during FY 2003.

The investment program is restricted by the Fund's bond covenants to the purchase of low-risk, interest-bearing securities. The portfolio, therefore, consists primarily of U.S. Treasury notes, certificates of deposit, commercial paper and U.S. agency securities. The State Board of Investment's function as a fund manager allows for an objective, professional investment strategy of the highest standard, benefiting the Revenue Fund by safeguarding and building the Fund's assets.

RECOMMENDED COMMITTEE ACTION:

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

RECOMMENDED MOTION:

The Board of Trustees approves the FY 2005 finance plans and associated fees for residence hall/dining services, student unions, and parking facilities of the Revenue Fund.

Date Presented to the Board: March 17, 2004

Date Approved by the Board: March 17, 2004