BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD ACTION
FY2008-2013 Capital Budget Request

BACKGROUND

The Minnesota State Colleges and Universities capital budget must be submitted as a multiyear plan to the Minnesota Department of Finance, Governor and Legislature in June 2007 consistent with the state's anticipated capital bonding program for the 2008 legislative session.

Guidelines for the System's FY2008-2013 capital budget were approved by the Board in June 2006 based on the Board's strategic plan. Capital budget guidelines were expanded and improved from previous years to strengthen the relationship between capital projects and academic programs and planning, as well as to emphasize stewardship of state buildings by appropriately managing existing campus space and physical plant infrastructure at colleges and universities. This stewardship emphasis was based on improving the physical condition of each academic building and campuses as a whole through reduction in the backlog of deferred maintenance and timely life-cycle renewal. New space would be added only when fully justified based on enrollment growth, programmatic needs, or obsolescence.

Colleges and universities have been engaged with the Office of the Chancellor staff over the last several years to update their campus long range master facilities plans and develop more detailed project scope and cost information (known as project predesigns) regarding specific capital projects contemplated for funding. These master plans include detailed information regarding the physical condition of facilities and the overall space and room utilization situations that would be improved through individual campus capital plans. Over 85 projects were presented from colleges and universities in the fall of 2006 that represent an integral part of each institution's master facilities plan and reflect the capital budget guidelines.

In January 2007, two separate groups of advisory teams reviewed these projects. Based on Board input from the previous biennium, an Academic Review Team was established. The Academic team was composed of 42 deans and academic administrators from all campuses and Office of the Chancellor academic staff. Their comments were then forwarded to the Project Advisory Team which was a broader based review team composed of 62 facilities, finance, academic and technology staff from all campuses and the Office of the Chancellor. Both these team reviews yielded comments and resulted in ranked projects in quartile groupings. Project documents, scoring information and other critical analysis from staff on past funding history, deferred maintenance conditions, space utilization, planning dynamics and enrollment information was provided to the Board in February.

The Finance and Facilities Committee of the Board held public hearings covering all major capital projects on March 7 and 20, 2007. Presidents or their designees presented 52 major capital and property acquisition projects plus 35 initiative projects. The major line-item projects totaled over $287 million for FY2008 with a potential for follow-on work totaling $411 million in 2010. Of that total, approximately $190 million represented completion of projects funded in 2006 or earlier for design and/or phased construction with follow-on funding anticipated in 2008.

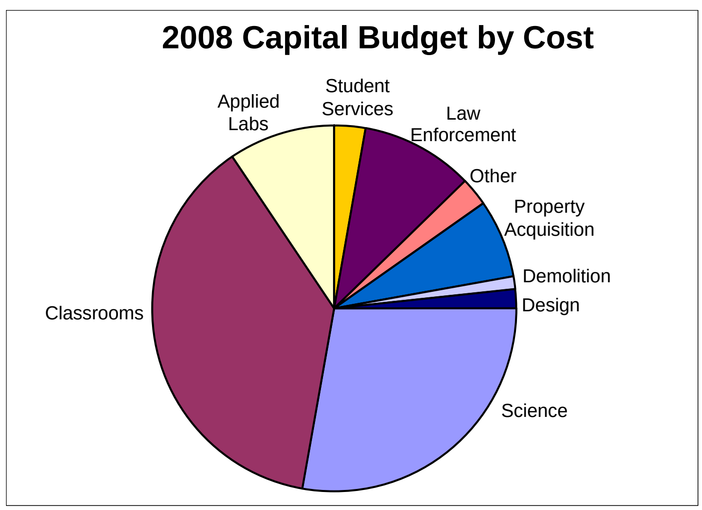
The proposed Capital Budget includes $110 million for major repair and replacement projects under the Higher Education Asset Preservation and Replacement (HEAPR) program; and $237.3 million in line-item projects, property acquisition and demolition. The request to the Legislature and Governor is for $271 million in general obligation bond financing with $76.3 million in debt service directly financed by the System and each college or university gaining a capital project. Total authorization is for $347.3 million. See Attachment A. This list was distributed to the Leadership Council in April and discussed at their meeting on May 1, 2007. Attachment B contains a brief description of each project.

In addition to the major line-item capital projects that create the bulk of the capital budget request, there are smaller "Initiative" projects that impact one or two classrooms or laboratories, estimated under $525,000 each. These smaller capital projects have been successfully funded in the last three biennia. In July, campuses submitted their potential list of 35 separate initiative projects in three categories: science lab renovations; demolition of obsolete space; and classroom innovation totaling $19.5 million. Attachment A indicates the final 21 projects totaling $12.2 million recommended for these three initiatives.

Acquisition of real property has been a part of the Capital Budget request for the last six biennia. Eight campuses submitted funding requests at $13.1 million to purchase adjacent real property. Four of the eight requests carry over as unfunded from prior biennia. Both the real property acquisitions and the initiatives were reviewed by the same teams as the major capital projects.

Line-item projects totaling $237.3 million in 2008 have programmatic impact as follows:

2008 Recommended Line Item Capital Projects	
Project Type	*Cost*
Science	$ 65,975,000
Classrooms	$ 89,305,000
Applied Labs	$ 22,800,000
Student Services	$ 6,400,000
Law Enforcement	$ 23,900,000
Other	$ 5,700,000
Property Acquisition	$ 16,600,000
Demolition	$ 2,830,000
Design	$ 3,800,000



Projects and the priority list continue to follow prior year principles that reflect completing projects already started, either currently in design or in a "phased" approach to construction; recognizing projects in the construction queue for completion; and bringing on new projects either through design or design with a moderate amount of construction. Project priority numbers 2 through 20 are projects that had prior approval from the Board and Legislature; two of these projects continue with renovation components to be requested in 2010. Priority numbers 21, 22, 23, 25 and 26 are new projects that also include some construction in 2008. Four of these have renovation components in 2010. Priority numbers 24, 27 and 31 through 37 are for partial design in 2008 with an expected request for renovation and/or new construction in 2010. Note that all projects programmed in 2010 have an expected target funding amount as shown on Attachments A and B.

CAPITAL BUDGET HISTORY AND SIZE

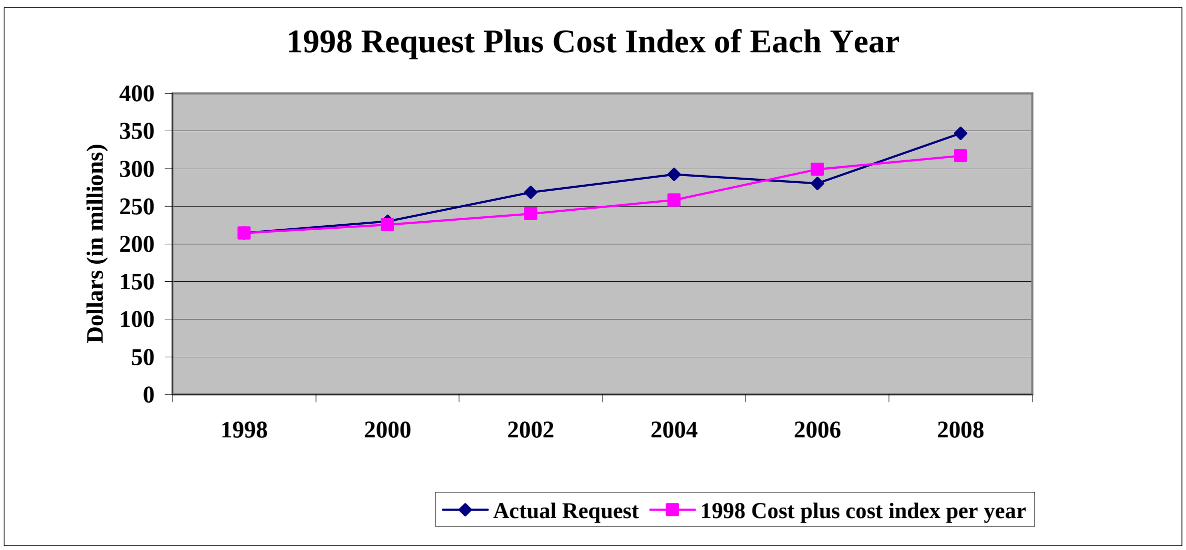
In approaching the 2008-2013 Capital Budget and particularly the funding request for the 2008 legislative session, it is useful to examine previous Capital Budget requests and final results:

	1996	**1998**	**2000**	**2002/03**	**2004/05**	**2006**
Capital Request (including HEAPR)	$141.3	$214.4	$230.0	$268.4	$292.6	$280.4
Enacted	$ 84.2	$143.1	$131.1	$218.6	$213.6	$191.4*
Funding Received (including HEAPR)	60%	67%	57%	81%	73%	68%

* Does not include $11.0M for the Regional Event Center on the campus of Southwest Minnesota State University, Marshall.

These budget requests may appear to have grown in size from 1998. However, they have only kept up with construction inflation, which has lately been higher than the general rate of inflation. The chart below indicates the System request in 1998 of $214.4 million inflated in each subsequent biennium compared to the System's actual budget request. Construction cost index data was obtained from RS Means, 28th Annual Edition.

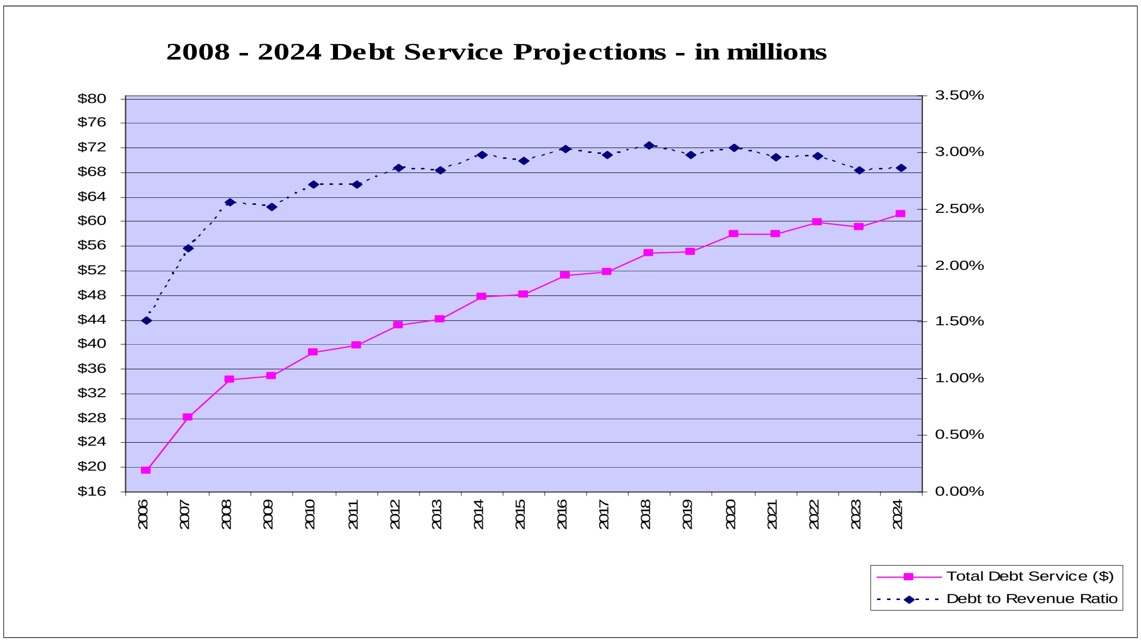
	1998	2000	2002	2004	2006	2008
Actual funding request	**214.4**	230	268.4	292.6	280.4	347
1998 request plus cost index per year	**214.4**	**225.6**	**240**	**258.3**	**299.2**	**317**
Percent increase of cost index from 1998	0.0%	5.2%	12.0%	20.5%	39.6%	48.2%



DEBT CAPACITY

In addition to the overall size of the capital budget, the amount of System and college/university debt must be considered. As noted above, this Capital Budget request will require the System and the gaining institutions to absorb an additional $76.3 million of debt. Beginning in 1991, the higher education systems now comprising the Minnesota State Colleges and Universities were required in session law to pay one-third of the debt service for projects funded by state general obligation bonds. Only the University of Minnesota and the Minnesota State Colleges and Universities have this requirement within the state bonding process. In 1996, the Board determined that half of the one-third would be passed on to the individual institutions that were receiving the benefit of the capital appropriation with the remaining half absorbed throughout the System. HEAPR projects do not incur debt for the System or campuses.

Each campus in its written project narrative and in public testimony discussed and confirmed their ability to pay this one-sixth debt obligation. Based on current and proposed debt (which is based on similarly sized future capital budgets), and using a conservative 3% growth in revenue, the system can absorb the proposed additional debt and still be under the self-prescribed 3% limit of debt service to general operating revenue. The chart below indicates the average debt-to-revenue ratio is 2.76% and the highest ratio is 3.06%.



CAPITAL RENEWAL AND REINVESTMENT

A critical part of the capital budget is the overarching principles established by the System's Strategic Plan. Within the Strategic Plan, there is broad direction to provide new space when necessary and improve existing space and supporting facilities to further the academic goals of the System. New facilities respond to enrollment growth as well as the need to replace obsolete space where renovation is not feasible. In addition, the Strategic Plan requires good stewardship of the state's physical resources. A method of monitoring that stewardship of campus facilities is through use of the Facilities Renewal and Reinvestment Model (FRRM).

The FRRM is a tool for evaluating existing conditions based on life cycle analysis of campus buildings and infrastructure, as well as predicting future building systems renewal requirements. The Facilities Condition Index (FCI) is a nationally accepted measurement to evaluate the size of the backlog of maintenance and repair for specific buildings as well as an entire campus. FCI is the amount of deferred maintenance (backlog) divided by the replacement cost of either a single building or a campus. In 2006, the system-wide backlog was estimated to be $646 million; the system-wide FCI was calculated as 0.13. Seen another way, an FCI of 0.13 says that the backlog of necessary yet unaccomplished work is 13% of the value of all college and university facilities.

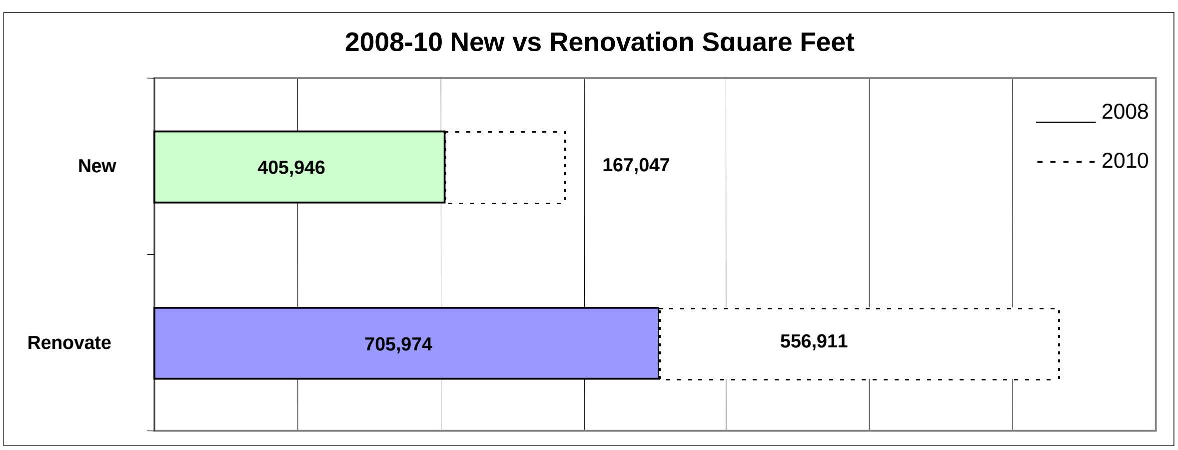
Backlog and FCI data for 2007 are currently being reviewed. At this juncture, it is clear that some of the expected benefits from the 2005 and 2006 capital appropriations for repairs and renovation have not impacted the backlog or FCI since much of that work is still underway. Nevertheless, it appears that the System FCI is holding steady at 0.13. Thus, we might conclude that the growth in the backlog has stabilized. While this is encouraging, this and future capital budgets must continue to focus on maintaining, renovating and modernizing existing campus facilities.

Two important aspects of this existing backlog situation should be kept in mind. First, failure to reduce the backlog can be directly attributed to lack of HEAPR funding in capital appropriations. Only $40 million of the requested $110 million was appropriated in 2006. Secondly, colleges and universities are expected to spend at least $1.00 per square foot from operating budgets on major repair and replacement items as their share of capital renewal. Note that, on average, system-wide spending in 2006 was $0.92/square foot compared to $1.11/square foot in 2005.

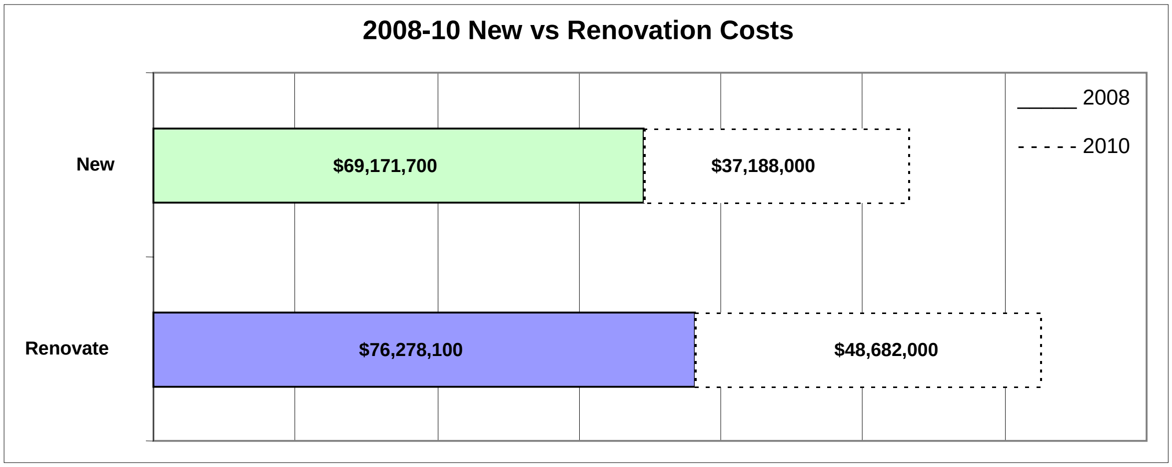
For 2008, knowledge gained by using the FRRM model has proven beneficial in the capital budget process. Impact on campus FCI is noted on each of the project descriptions shown on Attachment B. Of the top two quartiles of projects submitted for review, all but two will significantly lower the overall FCI of a campus in the next five years, indicating that the scoring and review process recognizes projects that will improve physical conditions. In the last two quartiles of rated projects, only nine improved the overall FCI of a campus. Several projects are recommended for funding that do not lower the FCI as they are new construction where the academic program could not be delivered through renovation of existing spaces.

In the proposed capital budget, 29 of the line-item projects will lower the FCI with the exception of land acquisition and the proposed space for law enforcement training, allied health and classroom buildings on five campuses. However, at four of those campuses other projects are in place that will result in lowering the campus FCI in the upcoming biennium.

The following charts indicate the capital program impact on square footage (excepting HEAPR, property acquisition and demolition) for 2008 and 2010. The first chart highlights that more than twice the square footage of space is being improved through renovation compared to the new space that is being added in the 2008-2010 biennia of the capital plan.



The next chart indicates the amount of dollars in the capital budget spent on new square footage versus that for renovated space (hard construction costs; not full project costs). This further emphasizes the cost effectiveness of renovating existing space rather than building new.



HIGHER EDUCATION ASSET PRESERVATION AND REPLACEMENT (HEAPR)
The acronym "HEAPR" refers to the program authorized in statute as Higher Education Asset Preservation and Replacement. This is the major source of funding for projects that replace roofs; update heating ventilating and air conditioning (HVAC) systems; repair building exteriors; renovate building interiors for current functions and programs; provide for hazardous material abatement; and make improvements to comply with building and life safety code. Since first identifying the magnitude of the backlog in 1999, HEAPR has been the major source of funding aimed at reducing that backlog. HEAPR funding history is as follows:

	1998	2000	2002/03	2004/05	2006
Request	$91.0	$100.0	$100.0	$100.0	$110.0
Enacted	$43.0	$ 30.0	$ 60.0	$ 41.5	$ 40.0
Funding Received	48%	30%	60%	42%	36%

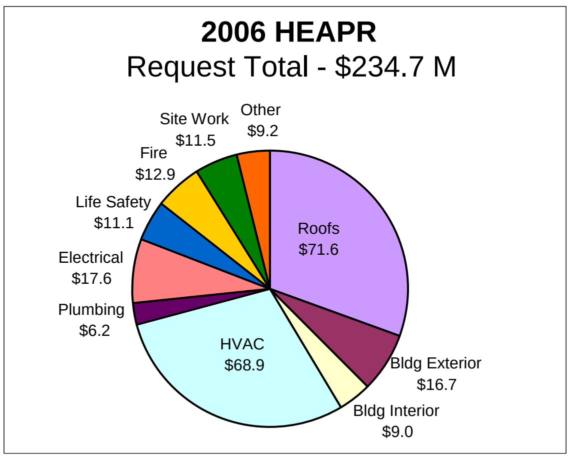
The 2008 HEAPR program will follow the Board's long established principles for preserving and improving the physical plant infrastructure to support quality education. It will also align with the strategic goal of stewardship of resources. Specifically, the HEAPR program will strive to keep students, staff and public "warm, safe and dry."

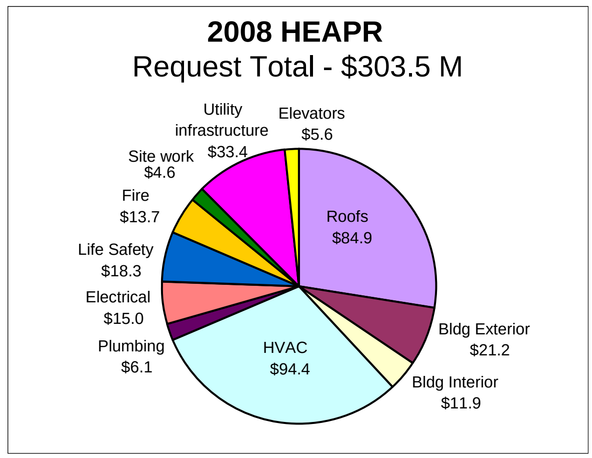
HEAPR projects were submitted in March 2007. Colleges and universities requested $303 million in over 400 projects for all campus locations. This list is being evaluated and projects prioritized to meet the proposed $110 million request. Campuses will have a final review before presentation to the legislature. Criteria for major HEAPR projects were noted in the Capital Budget guidelines. The final list will reflect that criteria on how specific projects will improve the campus FCI. Due to the age of buildings throughout the system, replacement of basic systems such as roofs and heating, ventilation and air conditioning (HVAC) are the major components of campus requests.

Comparing the initial HEAPR requests for 2008 with the previous request in 2006 indicates a significant increase in need:

	2006 campus requests	**2008 campus requests**
HEAPR	$220.0 million	$303.5 million
Initiatives projects	24.0	19.5
Property acquisition	20.0	13.2
Line-item projects	270.0	274.4
Total	$534.0 million	$610.6 million

The appropriation of only $40 million in 2006 was not adequate to reduce the backlog of many critical items. As an example, the 2006 request for roofs was $71.6 million and that request has grown 19% to $84.9 million for 2008. HVAC needs have grown 37% from $68.9 million in 2006 to $94.4 million in 2008.





A change in the 2008 HEAPR categories includes the addition of "utility infrastructure." Projects had previously been included in HVAC and other site conditions, but they have grown in significance to warrant their own category. Due to the age of our campuses, particularly the state universities, major repair and replacement needs are reflected in deteriorated and undersized utility systems unable to adequately handle current loads in potable and fire fighting water mains, and utility tunnel systems that distribute heating and cooling water from campus utility plants. This category is of concern, and its growth will be carefully monitored.

Another category that emerged this year is for safety improvements to elevators required by a 2007 change in the Minnesota Building Code affecting elevators installed before 1987. Staff recently conducted a survey of all campuses and of the 298 elevators in the system there are 179 that will be impacted by this code change and must be modified in the next five years. For 2008, requests for elevator improvements are $5.1 million, which could easily triple in future years.

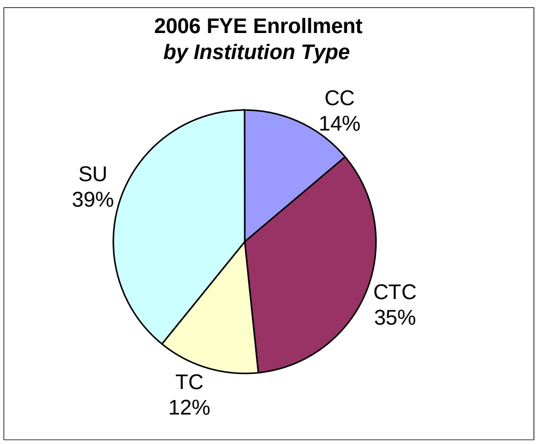
The size of the HEAPR request was determined, as in prior capital budgets, by considering the funding level needed to correct building deficiencies (reduce the backlog) and renew facilities in a timely manner to avoid backlog growth. Three major funding sources are included in this plan. First, the capital budget is the primary mechanism to renovate and "take care of what we have." For the last eight years this has consistently yielded more renovation and modernization projects than projects for new square footage. Secondly, campuses have been expected to spend at least $1.00 per square foot from operating funds on Repair and Replacement (R&R). Third is undertaking HEAPR projects to directly impact the backlog of deferred maintenance.

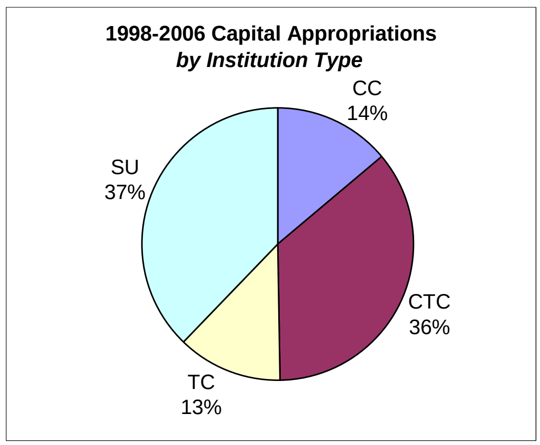
In prior capital budgets, the need for $100 - $110 million in HEAPR projects was based on the level of anticipated funding for line-item renovation and renewal projects and campus funding of R&R. The HEAPR request was also based on a long-range plan to reduce the backlog by 50% over 10 years. Since the capital renovation and renewal budget is similar to prior years, and since campus spending through the operating budget is close to the target $1.00/square foot, it is reasonable to conclude that a $110 million HEAPR request should be made again for 2008. Other considerations include the fact that the System FCI has not decreased, and that campus requests for HEAPR projects, particularly in the critical areas of roof and HVAC replacements have increased.

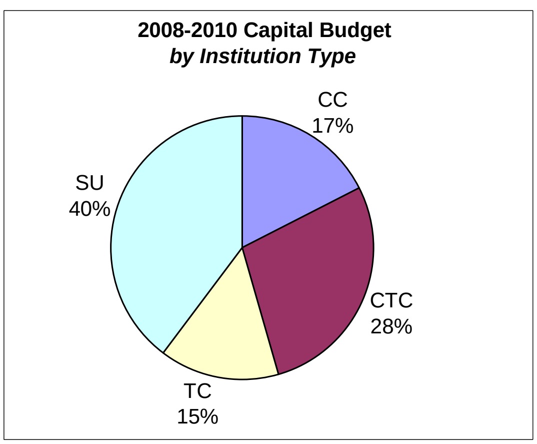
As this report is written, $31 million in critical HEAPR is pending at the legislature and governor's office as part of the 2007 bonding bill. However, even if these projects are funded this year, thereby reducing the overall 2008 request for roof and HVAC replacements by $16.4 million, there is still considerable need for work in these and other important repair areas within the $110 million budget.

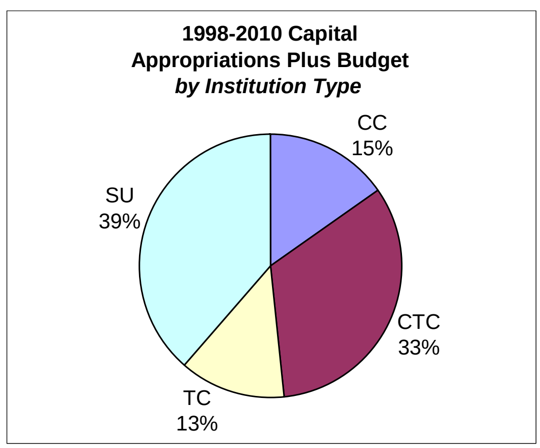
DISTRIBUTION OF THE PROPOSED CAPITAL BUDGET

Based on the projects as proposed in the Capital Budget for 2008 and 2010, distribution of funds by institution type and full year equivalent student population is shown below. While there may be slight variations in one or two biennia, such as the state universities being slightly higher in 2008-2010, the aggregate over a 12-year period compares favorably with student distribution. This distribution does not include property acquisition, demolition or HEAPR.

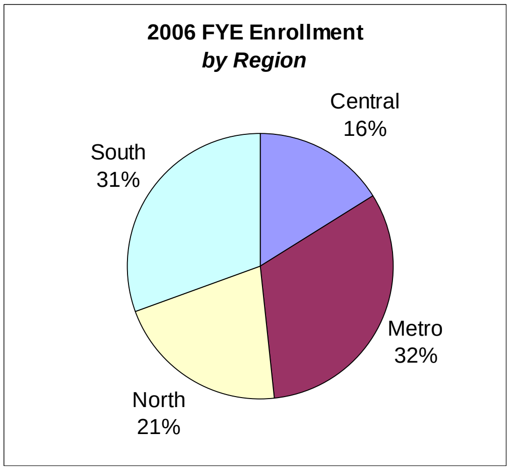


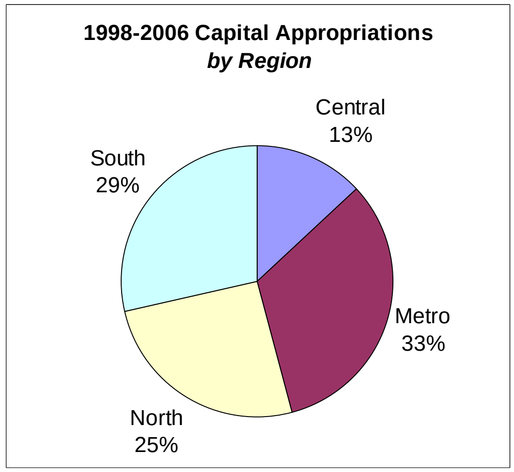


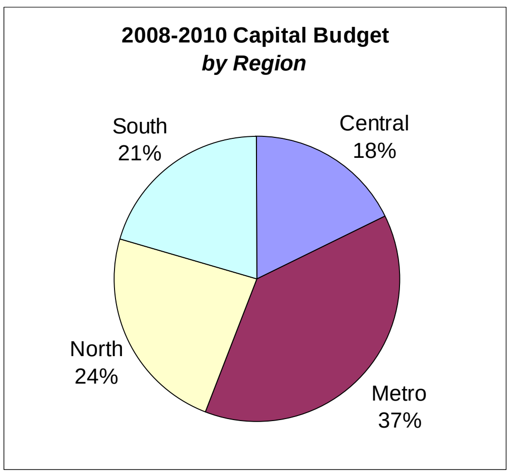


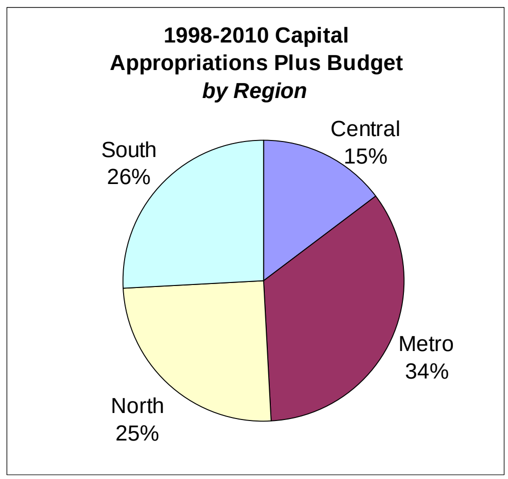


Similarly, the charts below show distribution of the proposed budget by region. The slight advantage in the metro area is partially a reflection of the need for more space to address enrollment growth.









BOARD DISCUSSION ITEMS

During the public hearings, Board members raised several important issues that are elaborated upon below:

Library development at technical colleges: Generally, technical colleges did not have a central repository for books as those resources were in designated lab spaces. As the need for more central scheduling and multi-use space has developed, those resource books as well as computers and web-based data are now available in common spaces. In addition, more technical careers require critical information gathering and evaluating skills. These information literacy skills are taught and facilitated by current faculty librarians on technical college campuses. Additionally, libraries that once held only books and some study areas are now becoming fully developed Learning Resource Centers (LRCs) with significant computer access to the web, team spaces in this collaborative study environment, and adjacent computer classroom areas for academic classes, access to on-line research and learning programs as well as open computer labs for students to work. With the changes in technical education, that include increased general education curriculum, these LRCs are becoming much more automated and demand correspondingly more space.

Metro planning: Looking forward to 2010, a number of strategies will be undertaken to help set the stage for the next capital budget cycle:

- In the southwest metro, Minnesota State University, Mankato, Hennepin Technical College, Normandale Community College, and South Central College are pursuing strategies to increase higher education access. This will likely take the form of initially leasing space along Highway 169.
- In the northwest metro, there is support for designating planning money to plan and consider design options. This is primarily in response to the capital request from North Hennepin Community College to construct a higher education center for bioscience and health careers on land adjacent to the campus, and a request from Anoka-Ramsey Community College to build a center for science, health and technology. Both proposals were deemed somewhat premature considering possible legislative funding for a bioscience center of excellence and lack of either an inter-institutional or overall strategic system response to growth in this area.
- Other growth corridors, including I-35 in the north metro and I-94 in the east metro will be addressed based on future assessments by the Office of the Chancellor to determine whether demand necessitates a facilities response and/or further efforts on the part of individual institutions.

Law enforcement and skills training: In response to the specific request from Fond du Lac Tribal and Community College for additional facilities for skills training, there are accessible skills training sites available at the Lake Superior College Emergency Response/Fire/Rescue site between Duluth and Cloquet, and at leased facilities in Cloquet. To the larger issue, a moratorium on expansion of skills training facilities was put in place in March 2005. Since then, the Office of the Chancellor contracted with MGT of America to conduct a study of law enforcement programs and accessibility to these programs across the state for completion at the end of 2007.

Civic engagement and the arts: It is anticipated that many theatres across the system will be in need of renovation due to the age of these existing facilities. A consistent expectation and level of support in the capital budget process may be needed, such as institutions seeking external donations and other support since these theaters bring a significant resource and benefit to the community. The level of support from the system should be to demonstrate to the state the importance of these types of facilities to the educational environment and community vitality, as indicated in the system strategic plan.

Student life and wellness facilities at colleges: Colleges should primarily frame these types of capital requests as supporting credit-based instruction in physical education and related fields. This type of space also supports other major campus activities such as graduations, science/curriculum fairs, and other similar events. However, support for capital projects for wellness and general student and community recreation should be scrutinized. As with requests for theatre renovations and/or expansions, there should be an expectation of community investment. Requests for this type of space at state universities should be supported when students are willing to support such wellness projects through user fees. Financing for state university projects is available within the Revenue Fund. It was noted that Normandale Community College's name for its project did not accurately describe its function. It is a building addition project, or infill, adding classrooms and removing an obsolete gym area, replacing it with adequate space that can be used for credit-based physical education programs.

Workforce Center co-location: Rochester Community and Technical College proposed, for the second time, a project for co-locating the Rochester area Workforce Center on the campus.

During presentation at the public hearing, the college also spoke about a collaborative effort with the Rochester School District to develop joint vocational/technical programs at the college campus. Workforce co-locations on college campuses have been successful in the past, most recently at Northland Community and Technical College and St. Cloud Technical College. Over the next several months, discussions should continue between the Office of the Chancellor and the Department of Employment and Economic Development to determine a financing strategy for this type of project in order that the project request (and therefore its cost) is not carried on the System's capital budget request to the legislature. Meanwhile, the college and local partners, including the school district, should continue discussions and refine the project scope and cost. Should a financing strategy not be agreed upon by December, the request for predesign and design funding should be withdrawn.

NEXT STEPS

The FY2008-2013 Capital Budget requests state general obligation bond financing of $271 million with $76.3 million in debt service financing by the System for 2008. The total amount requested for authorization is $347.3 million. By way of comparison, we understand the University of Minnesota will be requesting a capital budget in the $250 to $300 million range. This is a net amount, comparable to the proposed MnSCU capital budget of $271 million.

The Department of Finance is scheduled to issue instructions for submitting the statewide FY 2008-2013 Capital Budget later this month. Project cost estimates are based on current guidelines published by the Department of Finance. These new guidelines may require cost revisions due to new inflation factors. Project costs shown on Attachment A may change depending on revised inflation factors or revised construction schedules of each project. Agency requests are due to the Department of Finance by mid-June for a coordinated preliminary submittal to the legislature by July 1st. The Legislature will use this preliminary information as they make their visits around the state in the summer and fall to become familiar with upcoming capital requests. Final adjustments to the June submission must occur no later than September 15, 2007 for preparation of the Governor's Capital Budget recommendations to the 2008 legislative session.

RECOMMENDED COMMITTEE ACTION:

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

RECOMMENDED MOTION:

The Board of Trustees approves the FY2008 - 2013 Capital Budget as presented herein, specifically the projects and priorities for FY2008. The Board recognizes the projects in the 2010 and 2012 program years as strong candidates for future funding. The Chancellor is authorized to forward the Capital Budget to the Governor for consideration in the FY 2008 state capital budget. The Chancellor shall advise the Board of any subsequent changes in the Capital Budget prior to the FY2008 legislative session.

Date Presented to the Board: June 20, 2007