MINNESOTA STATE
Board of Trustees

30 East 7th Street
St. Paul, MN 55101

651-201-1705

Meeting Summary
November 16, 2016
(This summary does not constitute the official minutes of the meeting.)

FY2018-FY2019 Legislative Operating Budget and 2017 Capital Bonding Proposal

The Board of Trustees adopted the following motion:

The FY2018-FY2019 legislative request strengthens the state's commitment to access and affordability, invests in critical technology infrastructure, and supports student success. The Board of Trustees approved the FY2018-FY2019 biennial budget request in the amount of $733,416,000 in FY2018 and $791,216,000 in FY2019 for a total of $1,524,632,000. The Board strongly urges the state of Minnesota to support Minnesota State's biennial budget request.

The Board of Trustees has been granted the authority in state statute to govern and operate Minnesota State. The board, after full consultation with Minnesota State constituencies, will make final budget decisions, including setting tuition rates, at the conclusion of the legislative session. If the legislative request is fully funded, the board intends to hold undergraduate tuition rates at current levels.

The Board of Trustees approved the 2017 capital bonding request as presented in attachment A (see page 152 at http://www.mnscu.edu/board/materials/2016/november-packet-revised.pdf), specifically the projects and priorities for 2017. The chancellor is authorized to make cost and related adjustments to the request as required, and to forward the request through Minnesota Management and Budget to the governor for consideration in the state's 2017 capital budget. The chancellor shall advise the board of any subsequent changes in the capital bonding request prior to the 2017 legislative session. In addition, as funding is authorized and appropriated by the legislature and approved by the governor, the chancellor or his designee are authorized to execute those contracting actions necessary to deliver on the project scope and intent.

Report of Internal Financial Model and Allocation Framework Redesign

The Board of Trustees adopted the following motion:

1. Adopt changes to the allocation framework as outlined in Attachment A (see page three) including the implementation plan and commitment to continuous improvement. The board will be advised annually of implementation results and impacts.

2. Approve reassignment of the debt service costs effective with the capital bonding

projects funded in the 2018 legislative session.

3. Approve establishment of a one percent priority allocation set-aside to recognize and support cooperative and collaborative efforts throughout the system.

FY2016 and FY2015 Audited Financials
Based upon the review and recommendation of the Audit Committee, the Board of Trustees approved the release of the fiscal year 2016 audited financial statements as submitted.

Annual Audit Plan for FY2017
The Board of Trustees approved the Office of Internal Auditing annual audit plan for fiscal year 2017.

FY2017 Revenue Fund Bond Sale
The Board of Trustees authorized a revenue bond sale for the issuance of tax exempt bonds:

1. Sufficient to realize net proceeds of $9.3 million for project costs for the MSU Moorhead project, and
2. Sufficient to realize net proceeds which, with available debt service reserve funds and debt service funds from bonds to be refunded, will refund $71.235 million of tax exempt bonds from Series 2007A, 2008A, and 2009A.

The Board of Trustees authorized a revenue bond sale for the issuance of taxable bonds:

1. Sufficient to realize net proceeds of $1 million to advance design or small projects, and
2. Sufficient to realize net proceeds which, with available debt service reserve funds and debt service funds from bonds to be refunded, will refund the outstanding $2.14 million of taxable bonds from Series 2007C.

The sales are subject to the sale parameters as presented on Attachment A as amended (see page five).

The Board of Trustees approved the Series Resolution as described in Attachment B (see page 62, at http://www.mnscu.edu/board/materials/2016/november-packet-revised.pdf), subject to final legal form completion. As bond proceeds are made available, the chancellor or his designee is authorized to execute contracting actions necessary to deliver on the project scope and intent.

Attachment A – revised
November 16, 2016

Minnesota State
Allocation Framework 2017 Redesign Recommendations

IMPLEMENTATION

Single Allocation – Colleges and universities will continue to receive a single annual allocation based on the results of the allocation framework. The framework allocates state appropriation but does not dictate how funds must be spent. Presidents will continue to retain the authority to make budget and spending decisions on behalf of their campuses. In accordance with board policy 5.*9 Biennial and Annual Operating Budget Planning and Approval*, budgets must meet the approval of system leadership evidencing sound financial management including the achievement and continued assurance of structural balance.

Continuous Improvement – The Allocation Framework Technical Advisory Committee will continue as a standing advisory committee to evaluate and examine unintended consequences and recommend adjustments to the framework as needed. The Board of Trustees will be periodically advised of any material findings.

Transition Plan – It is the policy of the board to only invest in colleges and universities financially in partnership with responsible college/university leadership. In order to be eligible for transition plan assistance, colleges and universities must provide the Chancellor and Vice Chancellor – Chief Financial Officer, subject to its acceptance, an action plan that details steps that will be taken to achieve a structurally balanced budget by the start of FY2020. The chair of the Finance and Facilities committee and the Board chair will be consulted concerning the action plans. The Vice Chancellor – Chief Financial Officer will provide status reports semi-annually to the board.

Implementation of the new framework will begin with fiscal year 2018 allocations. To mitigate the negative impact on colleges and universities that lose percent share in the new framework, an implementation plan that guarantees every college and university receive at least the same dollar amount in fiscal year 2018 base allocation as they received in fiscal year 2017 (100 percent hold harmless) will be implemented contingent on the receipt of additional base state funding. Colleges and universities that lose funding in fiscal year 2019 compared to fiscal year 2018 would be guaranteed that half of those dollar losses would be covered (50 percent hold harmless). By fiscal year 2020, the implementation would be complete, with no hold harmless applied.

RECOMMENDED CHANGES TO ALLOCATION FRAMEWORK COMPONENTS

Student Success Outcomes – Establish a new allocation framework component to reward performance on key student success metrics. Calculate an expected rate for each college and university based on the students they serve. Reward colleges and universities whose actual performance exceeds expected performance and those who demonstrate improvement on key student success metrics.

Instruction and Academic Support – Eliminate a separate category for libraries and recognize actual library expenses (rather than a calculated amount) within academic support. To increase transparency and responsiveness to changing conditions, use a two-year rather than a three-year average in calculating the allocation for this component. Create a new level of instruction and compare the cost of similarly classified concurrent enrollment courses to other concurrent courses beginning with the fiscal year 2020 allocation framework.

Student Services and Institutional Support – To better align resources with demand for student services, use headcount rather than full year equivalent (FYE), give additional weight to underrepresented students and less weight to concurrent enrollment students when calculating the student services allocation. To increase transparency and responsiveness to changing conditions, use a two-year rather than a three-year average to determine allocation in both the student services and institutional support calculations. The component retains the multi-campus adjustment.

Facilities – Simplify the component by eliminating several components that drive small dollar amounts (headcount, residential beds, and central steam plants). Freeze square footage and eliminate recognition of utility costs to add incentive for efficiency. Retain multi-campus recognition.

Research and Public Services – Recognize actual research and public service expenses rather than a calculated amount.

Enrollment Adjustment – Eliminate the enrollment adjustment for non-resident/non-reciprocity students, recognizing the repeal of statutory language this language was originally intended to address.

Revenue Buydown – Eliminate the impact of spending decisions, including the use of fund balance, from the revenue buydown calculation by modifying the calculation to include only revenues.

Smoothing mechanism – Annually, effective with fiscal year 2018 allocations, allocate results based on 50 percent on the prior year's percent share and 50 percent on the results of the current year's allocation framework.

Attachment A – Amended
November 15, 2016

Minnesota State
FY2017 Revenue Fund Bond Sale

ATTACHMENT A

SALE PARAMETERS – as amended

Series 2017A (Tax Exempt)
1. Maximum Interest Rate (TIC): up to 5.00%
2. Maximum Principal: $ 85,000,000
3. Maximum Discount: 1.5 % of par or $15/$1,000 Bond. Minimum bid of 98.5% is required per the Official Statement
4. Earliest Redemption date: April 1, 2027

Series 2017B (Taxable)
1. Maximum Interest Rate (TIC): up to 5.00%
2. Maximum Principal: $4,000,000
3. Maximum Discount: 1.0 % of par or $10/$1,000 Bond. Minimum bid of 99.0% is required per the Official Statement
4. Redemption date: The 2017B Bonds will not be optionally callable

In any event, the total principal for Series 2017A and 2017B may not exceed $89,000,000