Finance, Facilities and Technology Committee Members Present: Tom Renier, Chair; Clarence Hightower, Vice Chair; Trustees Ruth Grendahl, Dan McElroy, Scott Thiss, and James Van Houten

Finance, Facilities and Technology Committee Members Absent: Duane Benson

Other Board Members Present: David Paskach, Christine Rice and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King, President Ann Wynia

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on September 16, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 8:10 am. Chair Renier thanked Trustee Hightower for his work as chair of the committee last year.

1. MINUTES OF JULY 15 2008
Trustee Thiss moved to approve the Finance, Facilities and Technology Committee meeting minutes of July 15, 2008 as presented. Trustee Van Houten seconded the motion which carried with no dissent.

2. MINUTES OF WORK GROUP ON TECHNOLOGY MEETING OF JUNE 18, 2008
Trustee Thiss moved to approve the Work Group on Technology meeting minutes of June 18, 2008 as presented. Trustee Van Houten seconded the motion which carried with no dissent. Trustee Van Houten also commented the work group discussed revising the technology timeline at their August meeting (minutes for that meeting will be included in the November packet) to include more summary materials for the projects.

3. FINANCE, FACILITIES, AND TECHNOLOGY UPDATE (Information Item)
Vice Chancellor King noted that included in the packet was a copy of the Finance Division work plan which is annually presented to the Committee for their information. Suggestions and comments from committee members are welcome.

Ms. King also noted that the financial reporting unit is now working on the financial statement audits. Colleges and universities are finalizing their work and the auditors will start visiting campuses this month.

The Technology Work Group discussed on-line learning, project execution schedules, project management tracking; and the need for a comprehensive communications plan at their August meeting. Questions about on-line learning will be addressed at the
November meeting. The Enterprise Investment Committee (EIC) consisting of presidents and the vice chancellors met earlier this month - project status was reviewed and the selection process is underway for December decisions. The Constituent Advisory Group has offered thoughtful and constructive comments to the EIC.

4. RESERVES DISCUSSION (Information)
Vice Chancellor King noted that the Audit Committee, chaired by Trustee Thiss, asked the Finance, Facilities and Technology committee to pursue this topic last fall when the external auditors presented the system and individual institutional audited financial statements. The auditors have voiced concern for several years regarding the level of primary reserves held by the system overall, as well as the individual colleges and universities. Associate Vice Chancellors Tim Stoddard and Judy Borgen prepared the report which is very complex but provides valuable background information and data to the committee about the financial health of the system.

Although measured differently, financial reserves are represented by both Board required reserves (designated fund balances—a designation of yearend general fund cash) and primary reserves. The primary reserve has no standing in Board Policy, procedure or guideline. The primary reserve is more commonly used in accrual based accounting and compares the expendable net assets (relatively liquid) to the sum of operating expenses (including depreciation on capital assets) plus interest. Increasing the primary reserve from the system’s current 2.5 months to 3.0 months would require an additional $67.1 M. Increasing each additional month thereafter would require about $128M.

Vice Chancellor King remarked that having a larger primary reserve is less of an operating issue than a financial health benchmark to work towards. With the state’s current economic issues, increasing appropriation for reserves would be practically and politically difficult. Committee members agreed that working with the institutions that are currently below the general fund reserve minimum to assess their plans to replenish their reserves would be prudent. Establishing a guideline to define operating margins, primary reserve targets and other accrual based measures and definitions would facilitate the implementation of future actions necessary to achieve an appropriate level of financial health for each institution.

Vice Chancellor King will work with the nine colleges and universities, who are currently below the general fund reserve minimum to assess their plans to replenish reserves. The Office of the Chancellor Finance Division will work to establish a guideline formulating accrual-based financial measures building on the Division’s yearend Finance Trends and Highlights reporting for all colleges and universities through continuous improvement.

5. TUITION AND FEES STUDY INCLUDING THE COST OF ATTENDANCE (Information)
Vice Chancellor King reported that the tuition and fees study was undertaken during the spring and summer of 2008 by the Finance Division at the request of the Board of Trustees. She noted the report provided tuition and fee history; the system’s
dependency on appropriation and tuition; a regional and nationwide comparison of gross and net tuition and fees; the total cost and net cost of attendance (including the role of financial aid); and regional and nationwide comparisons of the cost to educate students (total operating expenses per student).

The study concluded that for the System’s colleges appropriation per student is less than peers, gross and net tuition is higher than peers and total operating expenses per student were greater than peers. The System’s universities likewise had appropriation per student less than peers, with gross and net tuition similar to peers and total operating expenses per student less than peers. Students in the lowest income quartile, enrolled at least half time, paid a greater share of their total cost of attendance (67%).

Karen Kedrowski, System Budget Director, presented highlights from the study. She noted that in absolute value the System appropriation has increased over the past decade, however, on a per student basis, appropriation has increased just 3.7% over the past decade while tuition has increased 105%. During the past few fiscal years, the increase in tuition per FYE student has slowed due to the Board’s desire to limit tuition rate growth. During the past decade, actual appropriation and tuition per FYE student increased overall 37% but when adjusted for inflation, the increase was just 6%.

Tuition rate dispersion has occurred incrementally since merger. The Board’s past commitment to delegated decisions was designed to allow for flexibility in the tuition pricing structure to accommodate mission, academic program mix, geographic location, individual market, and competitive circumstances. The study noted that dispersion of tuition and fees exists in other higher education systems as well. MnSCU colleges rank 3rd for gross/net tuition and fees nationally. MnSCU universities rank 17th gross and 12th net tuition and fees nationally.

Ms. Kedrowski noted that the revenue from students covers just of a portion of what colleges and universities spend to education a student; the balance is financed by the institutions (predominately state appropriation). The student share of total expenses has increased from 18% to 26% at the System’s colleges and from 25% to 33% at the System’s universities between FY2003 and FY2006.

Vice Chancellor King concluded by noting with limited new state resources and the Board’s interest in controlling tuition rate growth, colleges and universities are managing costs by cutting operations, increasing class size, reallocating resources from lower to higher priorities, and downsizing or find new sources of revenue.

The Board will need to balance the conflict between controlling tuition rate growth, potential eroding of state appropriation, investments in quality and innovation, interest in cost containment, impact of academic program mix on cost structure (technical programs compared to liberal arts/sciences), the desire for competitive faculty salaries, the 60/120 degree credit cap (impact on enrollment, revenue, expenses, and cost savings to students), the current structure of 32 colleges and universities (53 campuses) serving the higher education needs of Minnesota, and high
gross and net tuition and fees at the System’s colleges compared to nationwide averages.

The Chancellor is committed to a tuition program that is transparent (clear and complete communication) with early Board direction on tuition setting parameters.

The Committee concurred with the Chancellor’s identification of the following overarching principles concerning the role of tuition and its relationship to mission/vision and strategic plan including commitment to “decentralization with accountability”; keeping central the goal of increasing access and success – seek to balance educational quality, access and ability to pay; seeking the state’s commitment to its partnership of financial support; respect and support the diverse needs of each college and university – academic program mix and type and level of support services offered; striving for moderate and predictable tuition increase; and ensuring colleges and universities have the ability to generate sufficient revenue to provide a quality and competitive educational experience.

Trustee McElroy commented that the report did not focus on the difference in cost between traditional and on-line educational delivery. There was also interest expressed in displaying the net cost of attendance without the impact of loans. Trustee Dickson commented that fees should be more transparent or included in tuition to avoid misunderstanding of the cost of attendance.

Vice Chancellor King thanked Karen Kedrowski, Judy Borgen, Craig Schnoecker, and the college and university chief financial officers for their work in preparing this report.

Chris Frederick, Minnesota State University Student Association Chair, addressed the committee and expressed support for the part-time student grant program. MSUSA has long believed that part-time students were not provided the funding they needed under the current state grant program. He also expressed concern about allowing colleges with low tuition rates to “catch up” to other System colleges.

6. **FY2010-2011 BIENNIAL OPERATING BUDGET REQUEST** *(First Reading)*

Vice Chancellor King noted this is the first reading of the biennial operating request. A public hearing will be scheduled in October and the Board will be asked to adopt a final proposal at the Board meeting scheduled for November 18-19, 2008.

The state has estimated, after 2008 legislative session adjustments, a $940 million deficit in the 2010-2011 biennium before consideration of cost inflation. The deficit would increase by an additional $1.04 billion assuming the Department of Finance and Employee Relation’s initial inflation planning estimate of 1.9% increase per year. The state’s economic outlook has a significant influence on the System’s economic future. Slightly more than half of the System’s general fund is supported by state appropriation. The System moves into the 2010-2011 biennium with a $7.7 million reduction in appropriation as a result of 2008 legislative adjustments. In addition, the System will experience inflationary cost pressure. This budget request represents a balanced approach to financing public higher education. It asks the
Legislature and the people of Minnesota to invest in students, it asks students to continue to invest in their own education, and it anticipates reallocating $20.0 million in existing resources to fund a share of the inflationary costs and academic initiatives.

The Board is being asked to consider a budget request recommended by the Chancellor that is focused on infrastructure needs, access and affordability, and strategic plan advancements. The request would be financed by two sources of new revenue: increased state appropriation and additional tuition revenue plus reallocation of current resources.

The request consists of inflation ($48.1M); tuition assistance ($34.5M), academic initiatives ($26.2M), and state university faculty compensation special ($17.9M). Senior Vice Chancellor Linda Baer spoke to the importance of the academic initiatives and investing in the metropolitan area. The impact on tuition assistance was also discussed.

The requested increase in state appropriation totals $126.7 million, with a 4 percent ($222 per year) average tuition increase at the universities and a 3 percent ($122 per year) average increase at the colleges generating an additional $68.0 million for total new revenues of $194.7 million. In addition, the Chancellor is recommending that the System reallocate $20.0 million of existing resources to generate the necessary resources to support a total package of $214.7 million.

Further discussion will continue at the public hearing and the November Board of Trustees meeting.

The meeting adjourned at 11:00 am.

Respectfully submitted,
Nancy Lamden, Recorder
Finance, Facilities and Technology Committee Members Present: Tom Renier, Chair; Clarence Hightower, Vice Chair; Trustees Ruth Grendahl, Allyson Lueneburg, Dan McElroy, Scott Thiss, and James Van Houten

Finance, Facilities and Technology Committee Members Absent: Duane Benson

Other Board Members Present: Cheryl Dickson, Jacob Englund, Christine Rice, Louise Sundin, and Terri Thomas

Leadership Council Representatives Present: Vice Chancellor Laura King, President Ann Wynia

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on September 17, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 10:04 a.m.

1. GUIDED TOUR OF THE OFFICE OF THE CHANCELLOR

Chair Renier reminded the committee that today’s session involved a tour of the Office of the Chancellor, followed by an opportunity to ask questions. The Trustees have been assigned to a tour group and each group has been assigned a tour guide.

Vice Chancellor King informed the trustees that this tour was arranged in response to an interest by trustees, who wished to see what goes on beyond the lobbies, Board rooms and meeting spaces in the Office of the Chancellor.

2. OFFICE OF THE CHANCELLOR ORGANIZATION – CAMPUS SERVICES AND POLICY FUNCTIONS (Information Item)

Vice Chancellor King explained how the work within the Office of the Chancellor is categorized as either Office of the Chancellor (leadership, governance, policy and compliance activities) or Campus Services (activities providing direct services to campuses that result in cost savings and greater efficiency). The distinction is not an apparent, physical one. A Presidential Advisory Group exists to offer input on categorizing and determining direct service activities. Staff time and efforts have been carefully examined and assigned percentages to one or both of the categories.

Such difficulty in categorizing the work of the Office of the Chancellor makes it challenging to identify peers for the purpose of national comparisons. Integrated Postsecondary Education Data System (IPEDS) data was used for this purpose, and some comparisons have been included in the board report.
Vice Chancellor King provided some information to the trustees regarding the size, cost and utilization of the space here at the Office of the Chancellor. We currently utilize 103,000 square feet. There are 5 or 6 other state agencies utilizing the same or more square footage in downtown Saint Paul. State agency leases currently range from $14 to $24 per square foot. The Office of the Chancellor pays $16 per square foot. Significant savings have been negotiated in both rounds of contracts for this space.

Additionally, it was noted that Office of the Chancellor currently has 76 employees in remote sites- primarily Information Technology employees with a few Internal Auditing employees.

Finally, Vice Chancellor King noted that you will not see computer servers on site during the tour. The servers are located off site on the West Bank of the University of Minnesota in a facility shared with that institution.

The tour concluded at 12:00 noon.

Respectfully submitted,
Kathy Hanon, Recorder