

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
FINANCE, FACILITIES AND TECHNOLOGY COMMITTEE
MEETING MINUTES
November 18, 2008**

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

Finance, Facilities and Technology Committee Members Absent: None

Other Board Members Present: Cheryl Dickson, Jacob Englund, David Paskach, Christine Rice, David Olson 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 November 18, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 1:15 pm.

1. FY2010-2011 BIENNIAL OPERATING BUDGET REQUEST DISCUSSION
(Information)

Chair Renier advised the committee that two time slots would be assigned to discuss the FY2010-2011 biennial operating budget request. At the meeting today the members will discuss the operation budget request. Tomorrow, November 19, the committee will continue the discussion and make an operating budget request recommendation for Board approval.

Chancellor McCormick addressed the committee and noted that higher education in several states is already in economic distress. The November forecast, which will be released on December 4, will give a clearer picture of the economic situation in Minnesota. In late January the Governor will release his budget recommendations. The Chancellor is committed to the Strategic Plan but acknowledged that action plan targets may be reached at slower rates than originally anticipated. Chancellor McCormick will support the Board's recommendation on the operating budget request and will make the case as strongly as possible to the legislature. He suggested that the Board not make a decision on tuition at this time because of the economic uncertainty.

Trustee Van Houten questioned whether Minnesota State Colleges and Universities should initiate a hiring freeze. Chancellor McCormick responded that he and the presidents review all hiring decisions at their institutions. He noted that a total freeze could be harmful if a critical position could not be filled. If a program only has one instructor and that instructor leaves it would be important to replace that position to continue the program.

Vice Chancellor Laura King introduced Judy Borgen and Karen Kedrowski who proceeded to summarize the overall budget request.

Ms. Borgen noted that over three hours of testimony from 20 individuals and constituent groups was heard at the October 8, 2008 hearing on the operating budget request. A summary of the testimony was provided. Susan Heegaard from the Minnesota Office of Higher Education had testified that her office would work with Minnesota State Colleges and Universities to resolve part-time grant concerns. Vice Chancellor King has sent a request to ask the Office of Higher Education to clarify her intentions concerning that commitment.

Ms. Kedrowski gave a brief PowerPoint presentation on the system and the biennial operating budget request. The FY2010-2011 operating budget request represents a 9.3% increase over the biennium. Appropriation now represents 51% of the operating budget, down from 67% a decade ago. Enrollment has increased slightly (3.2%) between FY2004 and FY2008. Modest growth is projected in FY2009-2011. The student to staff ratio remains the same. Approximately 73% of general fund expenses are within instruction and instruction support areas. A majority (63%) of the increased spending in the general operating fund occurred in instruction and academic support areas. Overall compensation for employees is 75% of the general operating fund.

Colleges and universities and the Office of the Chancellor reallocate approximately \$23 million per year from suspended or closed programs, faculty and administration/staff position reductions, equipment reductions, student services reductions and other operating budget reductions. These reallocated funds are then directed to enhanced or new programs, new or reassigned faculty or staff, equipment, repair and replacement, expansion of student services advising services, inflationary cost increases, expansion of safety/security or advancement of recruitment and retention initiatives.

Vice Chancellor King noted that reallocations are part of the organic course of business. If the colleges and universities need to reach beyond the \$20 million per year it becomes a concern. Because of employee contracts there is less flexibility in the short term to make cost saving changes.

Ms. King also noted that the 3% inflation number was set by the Minnesota Management and Budget Office (formerly the Department of Finance). Economic conditions, labor negotiations, and fringe benefits (health insurance) may change that number.

Trustee Grendahl was concerned that in the current economic conditions the \$17.9M for state university faculty compensation stands out. Trustee Thiss was concerned about the campus initiatives, also citing the economy. Trustee Hightower questioned whether the current request should be reflective of the needs of the system or reflective of the current economic situation. He commented that the request had already been “pruned” and was not the complete list of the system’s needs.

Chair Renier suggested that the request be limited to cover inflation and that the \$20M reallocation be used to advance the initiatives. Concern was expressed about capacity building for the metropolitan area and the Power of You tuition assistance. Chancellor McCormick suggested that the part-time grant program could be handled by the Minnesota Office of Higher Education. Board Chair David Olson also urged a “realistic” number for the request. Trustee This suggested \$58.7M for inflation; \$5.3M for Power of Year; and \$5M for metropolitan area capacity building – total request of \$69M.

Discussion of the FY2010-2011 operating budget request would continue on November 19 at 9:00 am.

The meeting adjourned at 3:00 pm.

Respectfully submitted,
Nancy Lamden, Recorder

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

Finance, Facilities and Technology Committee Members Absent: None

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

Leadership Council Representatives Present: Vice Chancellor Laura King, President Pat Johns

The Minnesota State Colleges and Universities Finance/Facilities Policy Committee held its meeting on November 19, 2008, 4th Floor, Board Room, 30 East 7th Street in St. Paul. Chair Renier called the meeting to order at 9:10 am.

1. MINUTES OF WORK GROUP ON TECHNOLOGY MEETING OF AUGUST 20, 2008

Trustee Van Houten moved to approve the Work Group on Technology meeting minutes of August 20, 2008 as presented. Trustee Benson seconded the motion which carried with no dissent.

2. MINUTES OF SEPTEMBER 16 AND 17, 2008

Trustee Hightower moved to approve the Finance, Facilities and Technology Committee meeting minutes of September 16 and 17, 2008 as presented. Trustee Thiss seconded the motion which carried with no dissent.

3. MINUTES OF PUBLIC HEARING OF OCTOBER 8, 2008

Trustee Van Houten moved to approve the minutes of the Public Hearing of October 8, 2008 as presented. Trustee Benson seconded the motion which carried with no dissent.

4. FINANCE, FACILITIES, AND TECHNOLOGY UPDATE (*Information Item*)

Vice Chancellor King was pleased to announce the release of the personnel expense portion of the budget module. With 70% or more of college and university budgets dedicated to personnel expenses, it has been a priority to develop a tool that uses actual data from the human resources system (SCUPPS) to build a staff base that ultimately can be manipulated to forecast personnel expenses based upon inflationary assumptions that users enter into the application.

The Chancellor and several of his staff met with Commissioner Hanson last week to present the system's FY2010-2011 draft budget proposal. It was made clear the

Board had not acted on the proposal and it may change before it becomes final. The discussion was cordial and compliments were received for the System's efforts with on-line education, teacher education changes and overall cost controls. Commissioner Hanson was not encouraging about the availability of any new funds.

Two campuses had fires of significance within the last month. On October 25, 2008, Southwest Minnesota State University attributed a fire to jammed athletic gear in a dryer in their laundry area. The total cost of damage is estimated at \$850,000 including cleanup. The university's deductible is \$25,000. On October 28, 2008, Ridgewater College attributed a fire to spontaneous combustion of chemical residue on towels used in the Cosmetology program. Fire detection systems worked properly and damage was estimated at \$120,000. The college's deductible is \$25,000.

Vice Chancellor King reported that progress continues in the implementation of a number of projects in the Information Technology arena. Uniface software has been upgraded for every ISRS user throughout the system after months of work on a very difficult conversion; development of the eTranscript (electronic transcript) has been completed and a pilot test will begin shortly allowing automated transfer of transcripts between MnSCU institutions; the eTimecard project is being implemented across the system; and the Tuition Waiver automated request system rolled out systemwide. Over 60 course topics have been identified for information security training for campus technical staff. It is also of some note that that Information Technology division facilitated the smoothest fall start up in many years. Recent substantial investments in infrastructure were evident in the start up experience.

Vice Chancellor King thanked all the college, university and Office of the Chancellor staff who were a part of the financial statement effort. The results will be reported in the Audit committee. While the work effort is getting more streamlined every year it remains a significant effort for the staff.

The chairs of the House and Senate Capital Investment and Higher Education Committees have been informed that MnSCU is being aggressive in spending bond proceeds authorized in the 2008 legislative session. Of the \$234M authorized in the 2008 bonding bill, 47% (\$111M) has been placed under contract to date. It is estimated that 97% (\$227M) will be under contract by the end of calendar year 2009. In addition, should the legislature fund the projects vetoed last session in the upcoming session, it is estimated that 80% (\$32M) will be under contract by the end of calendar year 2009.

5. **FY2010-2011 BIENNIAL OPERATING BUDGET REQUEST** (*Second Reading*)
Chair Renier began the discussion on the FY2010-2011 Biennial Operating Budget Request by noting that Board members have conveyed concern about the original proposal due to the rapidly deteriorating state economic outlook. While there is clear recognition of the daunting economic outlook there is still a desire not to abandon the Strategic Plan.

Chancellor McCormick hoped that the part-time student grant program could be developed by the Minnesota Office of Higher Education. He also noted that he has heard little Board support for the two new Centers of Excellence (Agri-industry and Biosciences).

Trustee Van Houten suggested the committee reconsider capping tuition, that institutions take a vigorous look at expenses, and that the committee have further discussion of the use reserve funds. Vice Chancellor King is not recommending setting tuition at this time. She suggested the Board take action on tuition in the spring after the legislature had acted on the operating request. She would convey to the legislature that the Board's intent is to hold down tuition. Chair Renier also agreed it was unwise to lock tuition at this time.

Trustee Thiss moved that the Facilities/Finance Policy Committee recommend the Board of Trustees adopt the motion (page 43 of the Board materials) with Table 2 (page 42) modified to reflect an appropriation request of \$58.7M. Trustee Hightower seconded the motion.

After further committee discussion Trustee Benson amended the motion to insert the language "The Board of Trustees will seek the removal of all possible legal and policy barriers that hamper that goal." Trustee Grendahl seconded the amendment to the motion. The amendment to the motion was approved with no dissent.

Trustee Grendahl moved to amend Trustee Thiss' original motion to reflect an appropriation request of \$71.7M. Trustee McElroy seconded the motion. This change would reduce the tuition increase assumption to 3% for universities and 2% for colleges. The amendment failed to pass with Trustees Hightower, Benson and Grendahl voting in favor and Trustees Lueneburg, McElroy, Thiss and Van Houten dissenting.

Trustee Renier called for a vote that the Facilities/Finance Policy Committee recommend the Board of Trustees adopt the following motion with the appropriation request of \$58.7M on Table 2A. The motion carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees is committed to providing high-quality, accessible education at all Minnesota State Colleges and Universities. The Board strongly urges the state of Minnesota to support the Minnesota State Colleges and Universities 2010-2011 biennial operating budget request as illustrated in Table 2A. This budget request builds in a modest tuition increase that supports the Board of Trustees' interest in affordability and accessibility. The Board of Trustees is committed to providing the System's colleges and universities with the ability to generate sufficient financial resources to provide a quality and competitive education to the learners of today. The Board of Trustees will seek the removal of all possible legal and policy barriers that hamper that goal. Final tuition decisions will be made at the conclusion of the 2009 legislative session.

The Minnesota State Colleges and Universities' Board of Trustees approves the final 2010-2011 Minnesota State Colleges and Universities biennial operating budget request for transmittal to Minnesota Management and Budget. The Chancellor is requested to provide periodic updates on the progress of the budget through the executive and legislative branch review and approval process.

Table 2A

**Minnesota State Colleges and Universities
Fiscal Year 2010-2011 Biennial Operating Budget
Request**

(\$ in millions)	Fiscal Years 2010-2011	Percent Change
Base Appropriation	\$1,363.4	
Appropriation Request	\$58.7	4.3%
Total Fiscal Years 2010-2011 State Appropriation	\$1,422.1	

Note: Table 2A was later modified at the full Board of Trustees meeting to show the appropriation request at 71.7M, a 5.3% change.

6. BEMIDJI STATE UNIVERSITY FACILITY LEASE (Action)

Associate Vice Chancellor Allan Johnson asked the committee to approve a hockey arena lease at the new City of Bemidji's Regional Events Center scheduled for opening in January 2011 for Bemidji State University men's and women's hockey programs. Bemidji State University would be the anchor tenant in the Center. The Regional Events Center is to be a part of a planned development on the southern shores of Lake Bemidji and will be fully financed by the City of Bemidji. There would be no capital cost to the University or the System.

The University would pay \$255,000 rent per year on average (estimated on a per game basis). The lease is expected to be valued at approximately \$5 million over a 20-year lease term.

Trustee Benson moved that the Facilities/Finance Policy Committee recommend the Board of Trustees adopt the following motion. Trustee Van Houten seconded the motion which carried with no dissent.

RECOMMENDED MOTION:

The Board of Trustees approves the lease of the Bemidji Events Center, subject to final approval of lease terms as outlined in **Exhibit B** by the Chancellor or his designee.

7. FY2010-2015 CAPITAL BUDGET UPDATE (*Information*)

Associate Vice Chancellor Allan Johnson provided the committee with an update on the FY2010-2015 Capital Budget Request. In the 2008 session, \$280.9 million was authorized by the legislature in the session's first "bonding bill." However, six projects were vetoed by the Governor resulting in a final appropriation of \$234.2 million. These vetoed projects total \$46.7 million and will be recommended for high priority placement in the FY2010-2015 capital budget. Should these projects be considered by the legislature in the 2009 session, the staff recommended their cost estimates, except for property acquisition, be slightly increased to \$55 million due to inflation.

System practice has been to request design funding in one biennium and construction/renovation funding in the following biennia. The carry forward amount needed for those approved and pending projects is estimated to be \$192 million. Assuming a repeat request for HEAPR at \$110 million, the budget would total \$357 million. There have been 23 new projects submitted by 21 institutions valued at \$59 million. These projects have a significant carry-over of \$342 million into 2012. Adding \$110 million for HEAPR would suggest a budget request in 2012 of \$482 million. Clearly, this projection requires significant tempering of new projects in 2010 especially if the vetoed projects are not funded in 2009.

Mr. Johnson noted that with a request in the range of \$380-\$410 million the System would continue to make progress to reduce the deferred maintenance backlog. Further, a request in that range would be consistent with prior capital budgets when inflation is factored in. Deferred maintenance will always exist because the System is physically so large and spread out. Vice Chancellor King noted that an instructional session on this topic had been planned but has not yet been scheduled. Chair Renier recommended the session be scheduled.

Committee members also discussed the concern about the large carryover from year to year; the continued growth in the capital budget; the future needs of the metropolitan area and the ability to assume additional debt service.

A public hearing on the capital budget request has been scheduled for February 25, 2009 at the Office of the Chancellor. Prior to that time, a preliminary capital budget will be presented to presidents and the Board. Colleges and universities who have concern over their placement or non-placement in the preliminary budget may present their project at the Board's public hearing. Prior-approved projects and new projects whose placement on the project priority list is acceptable to college and universities are not expected to be heard at the public hearing. The final request will be presented to the Board in June 2009 for approval. Legislative bonding visits will begin in July 2009.

The meeting adjourned at 11:00 am.

Respectfully submitted,
Nancy Lamden, Recorder