

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

*Second Reading*

<b>ACTION ITEM</b>
<b>REVENUE FUND BOND SALE</b>

**HISTORY AND BACKGROUND**

Capital assets within the Minnesota State Colleges and Universities system can be identified as either academic or auxiliary. Most academic facilities are constructed and remodeled through capital appropriations, using proceeds from state government-issued general obligation bonds. Operating costs, including utilities, maintenance and repairs are funded primarily by tuition, biennial state operating budget appropriations, and other revenues. While Minnesota State Colleges and Universities pays one-third of the debt service on state bond funded projects, the entire debt is an obligation of the state and is backed up by the full faith and credit of the State of Minnesota. The one-third debt service is split between the College or University and the system, each paying one-sixth of the debt.

Auxiliary operations typically include residence halls, dining facilities, student unions, bookstores, parking facilities and similar operations. Unlike academic facilities, Revenue Fund auxiliary facilities (hereinafter called Revenue Fund facilities) must generate their own construction, maintenance, operations and repair funding through room, board, and other related facility fees or gifts. Their operating budgets must be kept separate and distinct from general fund operating budgets.

The Board of Trustees was given authority by the legislature in 1955 to issue revenue bonds through the Revenue Fund to provide funding for construction and renewal of these and similar revenue-producing facilities. Continuing statutory authority is contained in Minnesota Statutes, Chapters 136F.90-98. Debt obligations of the Revenue Fund, unlike capital appropriations for academic facilities, are not debt obligations of the State of Minnesota and are backed solely by the physical assets pledged and the revenue generated from them. Authority for participation in the Revenue Fund is currently restricted to the seven state universities, although the Board has provided flexibility for future expansion to two-year colleges. Such expansion, however, would require a change to state statutes.

**DELEGATION AND FINANCIAL RESPONSIBILITIES**

The Board of Trustees has fiduciary responsibility for the Revenue Fund, and has delegated the responsibility to manage the assets to the Chancellor, who in turn has delegated responsibility to the university presidents while retaining management oversight responsibility in the Office of the Chancellor. This delegation includes all monies, programs, and operation, maintenance and repair of facilities necessary to

administer the Revenue Fund at each university. Staff level management oversight resides in the Office of the Chancellor, Facilities Unit.

Similar to financial operations within the General Fund, state universities' Revenue Fund activities must adhere to the Minnesota State Colleges and Universities financial policies and procedures, and provide financial and facilities information as scheduled or requested. Financial detail is also provided in the System's annual financial statements.

Although the presidents are delegated the responsibility to manage the Revenue Fund Programs at their own institution, the Board is required by statute and Master Resolution to approve fees and long term financial commitments. Annual finance plans for each university's portion of the Revenue Fund, including fees to support these plans, are approved by the Board prior to the beginning of the fiscal year. Each university is required to present a balanced finance plan. Finance plans must include funds for operations, Repair and Replacement (R&R), debt service (if required), and operating reserves, as prescribed by Minnesota State Colleges and Universities. Plans are also required to reflect funds for the Revenue Fund Reinvestment Program. While operating revenues normally produce enough funds for operations and R&R, Reinvestment Program funds have typically come from the sale of Revenue Fund Bonds.

### **REVENUE FUND REINVESTMENT PROGRAM**

A facility condition assessment was undertaken in 1998-99 to quantify the physical condition of all facilities within the system. An estimated \$165 million deficiency backlog was identified at that time within the Revenue Fund facilities at six of the state universities. (Metropolitan State did not have Revenue Fund facilities at that time.) Biddison Heir, a higher education consultant, conducted a subsequent review of the assessment data with recommendations for improved facility stewardship. Their report was presented to the Board in January 2000.

The magnitude of the identified deficiencies prompted the System to request an increase in Revenue Fund bonding authority to \$135 million in order to reinvest in the renewal of the Revenue Fund's physical assets and bring them up to an acceptable condition. In 2000, the legislature approved a debt authority of \$100 million for the Revenue Fund. This renewal program is referred to as the Revenue Fund Reinvestment Program. FY 2006 will be the fourth year of the Reinvestment Program.

The overarching goal of the Revenue Fund Reinvestment Program is to maximize available financial resources to achieve the greatest improvements and reduce deficiency backlogs in the Revenue Fund facilities. Each institution was subsequently charged with developing a viable multi-year improvement plan to meet this goal. Reinvestment plans were to use a variety of approaches to include renovation, decommissioning/demolition, and building of new facilities. Reinvestment Program projects were approved by the Board in 2001 and bonds in the amount of \$36 million were subsequently sold in 2002.

## **REVENUE FUND BOND PROJECTS**

Revenue Fund Bond requests to further the Reinvestment Program projects have recently been submitted to the Office of the Chancellor. Project requests include:

### **Minnesota State University, Mankato – Residence Life**

#### **New Student Housing**

This 608-bed Student Housing Project is Phase I of the replacement housing for the existing 1,200-bed Gage Hall complex. This new 4-story residence hall is planned to be located on the existing Rugby Pitch area of the main campus. The residence hall will consist of semi-suite single and semi-suite double room configurations, which more appropriately addresses the housing desires of juniors and seniors.

**Schedule:** An architect has been selected and design has begun. Design is expected to be complete by summer 2006. Construction will commence thereafter and should be complete and ready for occupancy by September 2008.

**Estimated Cost:** Approximately \$40.475 million (\$39.475 million in Revenue Bonds and \$1.0 million in operating fund reserves)

### **St. Cloud State University – Student Life**

#### **Parking Ramp**

Request is for a new parking ramp and ancillary office building. The project will provide approximately 525 student, staff and visitor parking spaces. This new parking ramp will help alleviate the shortage of proximity parking for events held after hours and on weekends at the Performing Arts Center, Atwood Center and the Ritchie Auditorium. The 5,000 square foot office portion of the project will house the University's Public Safety Facility.

**Schedule:** Design complete by summer 2006; construction complete summer 2007

**Estimated Cost:** Approximately \$9.6 million (\$4.7 million in Revenue Bonds and \$4.9 million in operating fund reserves)

### **Winona State University – Residential Life**

#### **Acquisition of Maria Hall**

The University is pursuing the acquisition of Maria Hall from St. Mary's University. This 240-bed residence hall is located directly adjacent to both Lourdes Hall and Tau Center in the West Campus area. The university has been leasing this property since 2002 to accommodate their student housing needs. The facility is in good shape, but some maintenance and improvements will be accomplished after acquisition. The university is in the process of final assessment of property.

**Schedule:** Acquisition is scheduled for later this calendar year

**Estimated Cost:** Approximately \$3.0 million (includes acquisition and improvements). The university has bond proceeds remaining from a previous project, so only \$2 million in bond proceeds will be sought in the upcoming sale.

Student representatives from each campus have participated in a consultation process for these projects. Each of the three projects has been favorably endorsed by student representatives. In the case of MSU, Mankato, students expressed concern regarding availability of food services and pedestrian traffic/safety in connection with the project but felt these issues could be addressed as the project develops.

### **Systemwide Capital Planning**

#### **Planning Funds for Future Projects**

Architectural design funding to allow development of accurate scopes, budgets and schedules in advance of requesting approval for future projects. Projects currently in the planning and formulation stages include: Bemidji State University – Residence Hall Improvements; MSU Mankato – Residence Hall Replacement (Phase 2); and MSU Moorhead – Student Activities Center.

**Schedule:** Projects are anticipated to proceed through 2006 and 2007

**Estimated Cost:** \$3.0 million in planning funds

### **BOND SALE (SERIES) RESOLUTION**

The draft Series Resolution authorizing the bond sale is presented in Attachment A. After the second reading in September, the financial advisor, Springsted will publish a notification of sale. The Series Resolution will also be finalized with assistance of Bond Counsel Richard H. Martin, Esq. The sale will occur in late October.

The blanks in the Series Resolution will be filled in based on the results of the competitive sale of the bonds. The interest rates, redemption features, and other details, as well as whether all or any of the bonds are insured, will be determined on the basis of the best (most favorable on a net interest cost basis) bid received from those submitting offers, and will be memorialized in the Series Resolution, the bonds themselves and in a certificate of the Chief Financial Officer.

### **BOND RATING**

On August 25, 2005 detailed financial, facilities and program presentations were made to bond rating agencies Standard & Poor's and Moody's Investors Service. A copy of the presentation is at Attachment B. These agencies had rated MnSCU Revenue Fund bonds for the previous sale as AA in the case of Standard & Poor's and AA3 in the case of Moody's. These ratings are considered to be excellent, and compare very favorably to the state's bond ratings of AAA and Aa1 by the respective agencies. Ratings for the proposed bond sale are expected by the end of September.

**RECOMMENDED COMMITTEE ACTION:**

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

**RECOMMENDED MOTION:**

The Board of Trustees approves the Series Resolution as described in Attachment A and further authorizes projects listed estimated at \$56,075,000, of which \$49,175,000 will be funded by Revenue Fund bond proceeds.