

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

Second Reading

BOARD ACTION

FY 2007 Revenue Fund Fees and Finance Plans

BACKGROUND

The Board of Trustees annually approves fees and finance plans for residence hall and student union programs under the auspices of the Revenue Fund. Minnesota Statutes, Chapter 136F.93 and the Master Resolution governing the Revenue Fund require approval by the Board of Trustees.

RESIDENCE HALL FEES AND FINANCE PLANS

The universities provided a set of proposed rates for FY 2007 which also includes financing for major repairs, renewal, and new construction. Attachment A (Proposed Room and Board Fees FY 2007) illustrates the rates proposed by the universities. The fee increases for a base double room range from a high of 13 percent at St. Cloud State University to a low of 4 percent at Southwest Minnesota State University and Winona State University. Attachment A also shows a base single room rate; the fees for the differing room types do not always increase at identical rates, usually due to marketing. In addition to the base room fee and the base board fee, there is a line item for "Other Room Fees" which includes supplementary fees such as phones, cable television, and hall social fees. These communication fees tend to fluctuate from year to year as rate increases one year cause universities to look for better and cheaper providers for the next year. The Board fees shown are tentative at this time since negotiations with the various dining vendors have not yet been completed. It is anticipated that at the second reading in April the board fees will be final. The "Other Board Fees" are mandatory flex dollars required as part of the board plan that students can use as cash to eat in retail food operations on campus.

Attachment B (Residence Hall Finance Plans FY 2007) is a summary of finance plans for the residence hall programs. In the finance plans, under Expenditures, the line labeled "R&R Contribution" indicates the amount transferring from operations into the Repair and Replacement (R&R) Program. The last two lines of the expenditure section illustrate how a university is planning on funding the Reinvestment Program, either with cash derived from increased fees, labeled "Deferred Maintenance", or with bond proceeds labeled "Debt Service".

Near the bottom of the page is also a line indicating the level of reserves. Revenue Fund Guidelines require three to six months of reserves dedicated to operations. Several universities are accumulating higher reserves for use in deferred maintenance reduction or to supplement bond proceeds.

STUDENT UNION FACILITY FEES AND FINANCE PLANS

The Facility Fee supports the basic operation of the student unions, including core operations that relate to the building, but not the actual programs offered in the building. Examples of core operations are a director and supporting staff, custodial and maintenance staff and associated equipment, supplies, and other expenses such as debt service, insurance, and R&R. The

“programming” provided through the student unions is supported by the Activity Fee on each campus and is not part of the Revenue Fund. Examples of items covered by the Activity Fee are student government, student clubs and organizations, recreation and club sports.

Facility Fees are charged on a per credit hour basis, and vary by university. Attachment C describes the specific assessments. The exception is MSU Moorhead where the student government has guaranteed a specific level of funding. The general activity fee reserve accommodates any fluctuating revenue. The Board approves the maximum fee that a student may be charged in a year. For FY 07 the fees range from a reduction at Winona State University to an increase of 9 percent at MSU Moorhead, which is due to enrollment as noted above.

Proposed Student Union Facility Fees are shown in Attachment C (Proposed Student Union Facility Fees FY 2007) and finance plans in Attachment D (Student Union Finance Plans FY 2007). The finance plans show the same breakdown of reinvestment funding as do the residence hall plans described above. As in the residence hall program, several universities are accumulating reserves to fund facility projects.

PARKING RAMP FEES AND FINANCE PLAN

The Parking Ramp located at Minneapolis Community and Technical College transferred into the Revenue Fund under the authority of Metropolitan State University in January 2003, and so these fees must also be approved by the Board of Trustees. Attachment E (Parking Ramp Finance Plans FY2007) shows the finance plan and fees for FY 2007. The fees are not being increased for FY 07. St. Cloud University is in the process of planning a parking ramp financed in part with Revenue Fund bond proceeds but no approvals are necessary at this time.

REVENUE FUND FINANCE PLAN

A consolidated finance plan for the Revenue Fund is shown in Attachment F (Projected Finance Plans and Fund Balances, Combined). There has been an increase in the Fund Balance due to the additional proceeds from the bond sale last October.

REVENUE FUND FACILITIES REINVESTMENT PROGRAM

The Reinvestment Program for the Revenue Fund was adopted by the Board in October 2001. It was based on a 1999 facilities study modified by the consulting firm of Biddison Hier. The intent of the program is to maximize available resources to achieve the greatest improvements and reduce the deficiency backlog within the Fund’s facilities. While the universities were diligent in working through the program, sufficient progress has not been made at all sites. At the same time, the universities were grappling with the backlog of maintenance and repair in academic buildings. In 2005 a consultant was engaged to develop a reinvestment model for academic facilities system-wide, and staff at two universities (MSU, Mankato and Winona Sate University) requested that the Revenue Fund facilities be included in this model also. A decision was made to use these two schools as pilots in the Revenue Fund. The pilot study indicated that the results of the two programs (Biddison Hier and the new model known as FRRM) were similar enough to warrant switching all Revenue Fund facilities to the new program. The fundamental difference between the two models is that Biddison Hier is based on historical data, while the FRRM model also incorporates future planning. The funding for the Reinvestment Program will remain inside the Revenue Fund, that is, student fees, as opposed to capital or HEAPR on the academic side. However, now the condition and renewal needs of all facilities on a university campus can be

evaluated and managed using the same criteria. It is anticipated that the Revenue Fund will make the full transition to the new FRRM model beginning in FY 07.

The Facilities Renewal Reinvestment Model (FRRM) has three fundamental objectives:

- Predict building systems replacement or renewal scheduling, and associated costs on a campus and system-wide basis;
- Estimate and update the magnitude of the Deferred Maintenance (DM) backlog;
- Provide a sustainable planning tool that has broad profiles of each building, is easy to update, and inexpensive to maintain.

The model provides the added benefits of collecting information for multi-year capital plans; saving costs by minimizing the need for detailed condition assessments; identifying buildings where reinvestment may not be cost effective; and providing tools to enable consolidation of capital projects in individual buildings as well as across building systems.

Several parameters are fundamental to the FRRM and its use as a planning tool:

- Building systems have predictable life expectancies; renewal needs for building systems are cyclical and predictable based on age, construction or quality of manufacture; and the history and performance of maintenance of those systems. These extrapolate to a predictable “life cycle.”
- The remaining life of each building and its “systems” can be estimated; reinvestment needs vary year-over-year and can be 200 - 300% higher in some years than in others.
- Renewal costs can be estimated; and therefore campuses can systematically plan for capital repairs and improvements.
- Backlog and renewal costs are related. If an item is not funded in the year it is anticipated and needed for renewal, then its cost moves into the Backlog.

Methodology of the FRRM using this life cycle approach was developed at Stanford in the 1980’s. The approach has been endorsed in a book published jointly by APPA, NACUBO and SCUP, and has been implemented on over 100 campuses including the University of California System; Oregon University System; California State University System; University of Texas System; the Smithsonian; and Stanford University.

Reinvestment projects funded by Revenue Fund bond proceeds (bonds were sold in 2002 and 2005) continue through design and construction. A project that was earmarked in April 2004 and September 2005 for design only is the renovation and modernization of the MSU Moorhead Kise Dining Service building. The project, which will totally renovate the building’s infrastructure, dining and food preparation areas, is now in the final stages of design and is scheduled to be bid and constructed in phases during the next two summers. This phasing will allow dining services to continue during the time students are on campus. Construction will be funded from existing reallocated bond proceeds and MSUM’s Revenue Fund repair and replacement (R&R) monies. The overall project cost is anticipated to be \$5.6 million, of which \$3.05 million will be from

bond proceeds and \$2.55 million from R&R. Board approval is necessary due to the capital nature of the project and the anticipated construction contract over \$2 million.

STUDENT CONSULTATION PROCESS

A matrix for student consultation is provided in Attachment F. As indicated above, with on-going negotiations with dining service vendors affecting board rates, final board fees have not yet been determined but consultation with students brought them into the process. Some of the responses that have been received indicate that the process was difficult in part because some students felt that the timeline was too compressed. Also, the students on the Revenue Fund Advisory Committee have indicated a clear preference to move the approval of Revenue Fund Fees to coincide with the tuition approval process. Staff is working with university administrators on this proposal.

RECOMMENDED COMMITTEE ACTION:

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

RECOMMENDED MOTION:

The Board of Trustees approves the FY 2007 finance plans and associated fees for residence hall/dining services, student unions, and parking facilities of the Revenue Fund. The Board of Trustees approves the construction of the Minnesota State University Kise Dining Service project from Revenue Fund internal operating funds and bond proceeds.