

MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES

FINANCE AND FACILITIES COMMITTEE

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Philip Krinkie, Maleah Otterson, Erma Vizenor

MEETING MINUTES

January 28, 2015

Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier,
Dawn Erlandson, Robert Hoffman, Thomas Renier, and Louise ClarF

Representatives Present: Chancellor Steven Rosenstone, Vice Chancellor

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At this time the system is past the midpoint of peak work for spring enrollment and financial aid processing. The campuses continue to perform well in response to the process changes imposed upon them after the state was required to alter its process.

A week into spring term, enrollment is down 3.9% overall compared to last year, 4.3% at colleges and 3.3% at universities. The fiscal 2015 budget anticipated a 1.6% decline and was updated in early fall of 2014 to a projected 3.7%. Chair Renier asked about the range of enrollment decline. Vice Chancellor King reported that the range was quite wide with colleges experiencing greater losses than universities. There is high awareness of the issue, and a full report will be presented in March.

In light of the declining enrollment, campuses are adjusting budgets accordingly. Revised budgets are coming in and all strategies being used to balance budgets will be discussed at the March board meeting. Chancellor Rosenstone commented that declining enrollment is a function of two factors: demographic shifts and economics. Dropping unemployment rates means that fewer students are enrolling, reflecting a cyclical ebb and flow. The current decline in high school graduates is also a factor.

Trustee Benson commented that employers have a greater need for educated people and reiterated that it's an opportunity to present a case for the support of higher education. Trustee Cowles asked if similar trends can be seen in enrollment for for-profit and private colleges and if the competitive share is being lost. Chancellor Rosenstone remarked that private colleges are experiencing similar declines and this time last year, state colleges' declines were on par with for-profit schools.

- 3. Proposed Amendments to Policy 7.3 Financial Administration (second reading)**
- 4. Proposed Amendments to Policy 7.5 Financial Institutions and Investments (second reading)**

Vice Chancellor King presented the proposed amendments to Policy 7.3 and 7.5 (second readings) and recommends them as non-controversial. Trustee Benson moved that the Finance and Facilities Committee adopt the amendments as proposed. Trustee Cowles seconded the motion. The motion prevailed.

The Finance and Facilities Committee recommends the Board of Trustees approve the following:

- 3.

through on a property acquisition approved by the Board in 2012 and acquired in 2013. The college plans to renovate 14,000 sq. ft. of the first floor for a digital commons and a library space. Cost is estimated at \$2 million dollars.

Trustee Otterson asked about the student consultation process and why a letter of recommendation from the student body was not included in the proposal. Mr. Yolitz referenced the standard practice of dialogue with students on design projects and stated that due to the level of student participation in the process a letter was not sought. Trustee Hoffman expressed enthusiasm for this initiative on the St. Cloud campus.

Vice Chancellor King introduced President Hanson, President Allen, and Denise Kirkeby, Director of Financial Reporting, who assisted in presenting the 2013 and 2014 Audited Financial Statements Review. The information presented included the audited financial statements as a walkthrough of fiscal 2014 activity, comments about performance, financial index results, monitoring protocols, and an outlook for fiscal 2015.

In November, the audit committee was presented with the system statements, the statements of the four universities and the revenue funds and in all instances, the auditors issued clean opinions with no weaknesses or deficiencies, signifying at the material level the information in the financial statements is reliable and dependable. The four university audits, part of the board's new audit program as of fiscal 2014, represent about 26% of the system's revenue and expenses. The revenue funds represent 6% of the system's expenses and is not a material part of the overall financial activity of the system. At each level, assurance was provided that the results were reliable.

Revenues declined from 2013 to 2014, with tightening of controls and slightly negative college and university budgets. System and college and university reserves are stable though thinly funded. Budget stress emerges in composite calculations and in operating losses and strategies are being implemented to strengthen the outlook and add stability. Chair Vekich asked about the downward trend and from President Hanson's perspective what could mitigate these circumstances. President Hanson said that Bemidji State University could not be described as "nimble" financially and reiterated that it is difficult to make changes quickly in comparison to public/for-profit schools.

Chancellor Rosenstone pointed out the rapid drop in unemployment last year which impacted enrollment, labor contracts which must be respected, and the operating inertia of physical plants which makes a quick response problematic. Chancellor Rosenstone praised the college and university presidents for their efforts to balance budgets but acknowledged the need for more nimbleness and better forecasting.

Trustee Krinkie asked about a scenario in which a school has no cash reserves. Vice Chancellor King responded that no institutions within the system have zero funds in reserve nor are any institutions facing that scenario. The finance department's oversight of system college and universities is a defense against such a situation. Trustee Krinkie reiterated his question about how a failing institution would be engaged. Vice Chancellor King explained that, on occasion, system reserves have been used to stabilize a school experiencing a negative cash flow issue. When faced with such an issue, the chancellor's management team engages in discussions and brings recommendations to the board concerning an institution's financial outlook. Chancellor Rosenstone added that he remains in conference with Vice Chancellor King and college presidents when certain negative financial thresholds are reached. Annual performance reviews and other early warning systems are tools that maintain direct accountability back to the chancellor's office.

Vice Chancellor King spoke about the fiscal 2015 outlook and said the campuses are working to manage their revenue and expense profiles. There is some indication that colleges are making tough decisions in order to have positive margins in 2015, but not without a struggle,

and emphasized the importance of the schools thin but stable reserves. The campuses continue to work on new initiatives, program developments, student success initiatives, and recruitment strategies. Chancellor Rosenstone added that a long term financial plan with the support and collaboration of the Governor's office is critical to assemble a package of revenue to meet projected costs.

Trustee Krinkie asked that Vice Chancellor King share updates on the eight colleges and three universities under special review. Chair Vekich reported that the findings would be presented at a later date. Trustee Krinkie commented on the importance of enrollment figures and asked what can be done to deal with the decline. Chancellor Rosenstone spoke about new recruitment strategies and working with the Department of Education to build the "pipeline" from pre-collegiate education and working on better branding which will be discussed at the board meeting in March.

Trustee Sundin expressed interest in the report and voiced a hope that it would contain discussion about 10th grade technical class opportunities under Postsecondary Enrollment Options (PSEO) that would provide alternative options for students. Chancellor Rosenstone described the threads pertaining to the conversation: one of pathway and one concerning branding/marketing element.

Trustee Benson emphasized the importance of collaboration in terms of the "pipeline" and participated in the summer 2014 work session at MnSCU

