



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities

DATE: May 22, 2024

TITLE: FY2026 Capital Budget Request Guidelines (Second Reading)

Action

Review and Discussion

This item is required by policy

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Brian Yolitz, Associate Vice Chancellor for Facilities

PURPOSE

Board Policy 6.9, Capital Planning, calls for the chancellor to develop and recommend for board approval capital program funding guidelines for system facilities and real property.

Gain Board of Trustees approval of guidelines for developing the capital investment request of the State of Minnesota during the 2026 legislative session and potential Revenue Fund projects funded through the future sale of revenue bonds by Minnesota State.

BACKGROUND INFORMATION

Background – College and University Facilities and Capital Investment Programming:

College and university facilities and property contribute to and influence the Minnesota State experience. They set a lasting first impression of our colleges and universities and their programs and directly impact recruitment, retention, and success of students, faculty, and staff.

Academic facilities, which include classrooms, labs, student support spaces, and offices, make up 80 percent of Minnesota State’s owned campus facility space and are eligible for capital investment from the State of Minnesota, which includes construction of new facilities, their major renovation and replacement, as well as asset preservation of major building systems and components, through the issuance of general obligation bonds by the State of Minnesota. Capital investment by the State of Minnesota typically occurs in even-year legislative sessions. The State of Minnesota carries the full debt of asset preservation projects and two-thirds of the debt of individual college and university major capital projects. Minnesota State is responsible for one-third of the debt associated with individual major capital projects through user financing. This responsibility is shared equally between the institution receiving the project and the system as a whole. As of June 30, 2023, Minnesota State had \$153.8 million in outstanding user financing

debt associated with previously funded projects. In fiscal year (FY) 2023, the total debt service payment was \$25.0 million. As of fiscal year 2023, there was an estimated backlog of maintenance of \$1.5 billion associated within Minnesota State college and university 22.5 million square feet of academic facility space.

Residence halls, dining facilities, student unions, some parking ramps and lots, along with other select auxiliary facilities, are in the Minnesota State Revenue Fund and make up the remaining 20% of campus facility spaces. Capital investment in these auxiliary facilities comes through the sale of revenue bonds through statutory authority ([136F.90](#)) granted to the Board of Trustees. The college or university with a Revenue Fund project is responsible for the full debt repayment. Minnesota State has typically pursued Revenue Fund bond sales in odd-numbered years, with the last sale being a refunding in 2021 of bonds issued earlier to take advantage of favorable economic conditions. The last revenue bond sale for Revenue Fund facility capital investment was in 2017 for \$9.3 million to renovate East Snarr Hall, a residential facility at Minnesota State University Moorhead. As of June 30, 2023, Minnesota State had \$170.7 million in outstanding debt associated with previously funded Revenue Fund projects. This is well within the Revenue Fund debt limit of \$405 million established in state statute [136F.98](#). In fiscal year FY 2023, the total Revenue Fund debt service payment was \$22.3 million. As of fiscal year 2023, there was an estimated backlog of maintenance of \$233 million associated within the 5.9 million square feet of Minnesota State college and university Revenue Fund facilities.

As this report was drafted, the House and Senate Capital Investment Committees had introduced similar capital investment bills providing only Higher Education Asset Preservation (HEAPR) funding for Minnesota State. The HEAPR amount was initially \$64 million or 32 percent of the \$200 million requested for HEAPR and roughly 4 percent of the current backlog of maintenance in Minnesota State's academic facilities. This amount may change in the final days of session as a final bill is crafted. None of the \$341.4 million requested for individual major capital projects is addressed in the bill currently being considered. Should these bills prevail and be passed into law, 12 percent of Minnesota State's capital program request for 2024 would be funded. The funded work would be deferred for future consideration.

Capital Program Guidelines: After reviewing [college and university facilities planning](#) in light of the confluence of enrollment trends, academic program delivery, workforce practices, state capital investment support, and their impact on the use and condition of college and university campus facilities, the board asked for a change in capital planning and programming practices while they engage in deeper work around these trends and impacts. This change drives the following recommended guidelines and reflects a change from past practice. The change is specifically around capital investment request of from the State of Minnesota which included of a system-wide call for candidate capital projects, individual predesign development and review, and a formal scoring and prioritization process leading to a recommendation to the board by the chancellor for a list of projects and priorities to be funded by the State of Minnesota.

The recommended overarching capital program guidelines include:

- Reduce backlog of maintenance in college and university academic and student support facility spaces by 15 percent in a biennium through Higher Education Asset Preservation

and Replacement funding

- Preserve interior and exterior of existing highly utilized academic and student support buildings
- Improve operating and energy efficiency of systems and infrastructure and reduce operating expenses
- Enhance accessibility and compliance with Americans with Disabilities Act requirements including environmental, health and safety standards and abated hazardous materials and improve air quality
- Asset preservation accomplished in individual major capital projects will complement this funding
- Evaluate and only consider requesting funding for those major capital projects that were part of the 2024 capital program development process
 - Conduct project verification and basic project budget updates for:
 - Projects that are part of the Board of Trustees 2024 capital program request and
 - Candidate projects submitted as part of the 2024 capital program development process but ultimately not included in Board of Trustees final 2024 capital program request
 - Accept no new or additional candidate major capital project requests for the 2026 capital program development process
- Create flexible classroom and lab spaces enabled with technology capable of delivering over a broad spectrum of programming modalities
- Respond to workforce demand from community and industry partners
- Seek full funding for project design and construction costs to eliminate significant project delays associated with gaps between project design funding in one legislative session and construction funding in a later session

For potential Revenue Fund projects and revenue bond sales, in addition to the overarching guidelines, project proposals will require significant financial modeling and sound project and program financials supported by reasoned assumptions on costs and revenues over time and reflected in a project pro forma. Because of the reliance of user fees to finance and service project costs, debt, and operating expenses, strong evidence of student involvement and commitment to sustainable financial support for candidate Revenue Fund projects as outlined in system procedure 2.3.1 Student Involvement in Decision-Making is required along with additional factors offered by the Minnesota State Revenue Fund financial advisor and rating agencies at the time of proposal and consideration.

Future Actions: Upon board approval, a project update, validation, and scoring methodology will be developed reflecting these guidelines and shared with stakeholders prior to being applied to those projects considered in the 2024 program development process. The review process will be undertaken with intent on having a Chancellor's Recommendation on a 2026 capital investment request for board review and approval in June 2025 to meet Minnesota Management and Budget's deadlines for submission into the State of Minnesota's Capital Budget System.

In addition, as outlined in March 2024 Facilities Planning Update, staff will develop a facilities condition assessment strategy, a recommissioning and retrocommissioning strategy, assess and recommend options for the decommissioning and demolition of obsolete space and facilities, updating guidance and direction for college and university Comprehensive Facilities Plans and Planning, reviewing space use and scheduling methodologies and best practices, and updating associated board polity and system procedure documents.

RECOMMENDED ACTION

The Finance and Facilities Committee recommends the Board of Trustees approve overarching capital program guidelines as outlined above. These guidelines are to be used by the chancellor in developing a recommendation for capital investment funding by the State of Minnesota in the 2026 legislative session and for potential Revenue Fund bond sales in future years. These guidelines may be amended by the Board of Trustees based on their ongoing work and outcomes of the 2024 or 2025 legislative sessions.

<i>Date Presented to the Finance and Facilities Committee:</i>	<i>5/22/2024</i>
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<i>Date of Implementation:</i>	<i>5/22/2024</i>