

*Dollars in Thousands*

	Current		Governor Recomm.		Biennium 2006-07
	FY2004	FY2005	FY2006	FY2007	
<b><u>Expenditures by Fund</u></b>					
<b>Statutory Appropriations</b>					
Miscellaneous Agency	223	230	0	0	0
<b>Total</b>	<b>223</b>	<b>230</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	223	230	0	0	0
<b>Total</b>	<b>223</b>	<b>230</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><u>Expenditures by Program</u></b>					
Hgher Educ Fac Authr	223	230	0	0	0
<b>Total</b>	<b>223</b>	<b>230</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Full-Time Equivalentents (FTE)</b>	<b>2.4</b>	<b>2.8</b>	<b>0.0</b>	<b>0.0</b>	

# HIGHER ED FACILITIES AUTHORITY

# Change Summary

*Dollars in Thousands*

	FY2005	Governor's Recomm.		Biennium
		FY2006	FY2007	2006-07
<b><i>Fund: MISCELLANEOUS AGENCY</i></b>				
Planned Statutory Spending	230	235	240	475
<b>Change Items</b>				
Consolidation- Facility Bonding Services	0	(235)	(240)	(475)
<b>Total Governor's Recommendations</b>	<b>230</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b><i>Revenue Change Items</i></b>				
<b><i>Fund: MISCELLANEOUS AGENCY</i></b>				
<b>Change Items</b>				
Consolidation- Facility Bonding Services	0	(235)	(240)	(475)

# HIGHER ED FACILITIES AUTHORITY

## Change Item: Consolidation- Facility Bonding Services

Fiscal Impact (\$000s)	FY 2006	FY 2007	FY 2008	FY 2009
General Fund				
Expenditures	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Other Fund				
Expenditures	390	390	390	390
Revenues	(390)	(390)	(390)	(390)
Net Fiscal Impact	\$0	\$0	\$0	\$0

### Recommendation

The Governor recommends that the powers and duties of the Higher Education Facilities Authority (HEFA) be assumed by the Higher Education Services Office, and that HEFA be abolished on July 1, 2005. The Governor also recommends canceling HEFA's operating fund reserves of approximately \$2.1 million to the General Fund.

### Background

HEFA was created in 1971 to assist nonprofit institutions of higher education in the construction, financing and refinancing of capital projects.

Under current practice, the fees charged to participating higher education institutions and 40% of the associated expenditures are managed outside of the state's accounting and budget systems. The other 60% of the expenditures, for compensation, flows through the accounting system and has been reflected in the related fiscal pages.

Under the Governor's proposed transfer of HEFA duties to the Higher Education Services Office, both the fees and expenditures will be managed within the state's accounting and budget systems. As a result the full amount of this activity will be reflected in the Services Office's budget and managed within the state's accounting system.

At the end of FY 2004 HEFA had a reserve of about \$2.1 million in net operating assets. This reserve was built up through the annual fee HEFA charges each participating institution. The fee has generally been set at 1/8 of 1% of the value of the amount outstanding of the bonds issued for the institution. In recent years HEFA has applied significant discounts to this fee level.

### Relationship to Base Budget

HEFA covers its operating costs through the fees it charges to participating higher education institutions. The Governor recommends that the Higher Education Services Office continue to use this fee mechanism to cover the administrative costs and expenses it will incur when it assumes HEFA's functions.

**Statutory Change:** Minnesota Statutes, sections 136A.25 to 136A.42

### Agency Purpose

The Minnesota Higher Education Facilities Authority (hereafter called the Authority) was created by the state legislature in 1971 to assist nonprofit institutions of higher education within the state in financing or refinancing capital construction projects by issuing tax-exempt revenue bonds. Beginning in FY 1988, the legislature also asked that the Authority finance limited types of projects at certain public higher education institutions. The Authority receives no General Fund tax dollars or any other legislative funding. The operating funds come from fees charged to the institutions that benefit from tax-exempt bonds.

### Core Functions

The Authority operates under a board of ten members, eight of whom are appointed by the governor with the advice and consent of the senate. A representative of the Minnesota Higher Education Services Office and the President of the Minnesota Private College Council are the two ex-officio members of the Authority.

The Authority issues tax-exempt revenue obligations and enters into agreements with higher education institutions to be responsible for the use of the loan proceeds and to repay the bondholders. The Authority has access to capital improvement funds only through borrowing directly. When a higher education institution needs funds for capital improvements, the Authority is able to provide more favorable interest rates because of its status as a government entity. Since the Authority is an agency of the state, the interest paid by the institution to the bondholders is exempt from both state and federal income taxes. The Authority has no liability to repay the bondholders.

Core functions support the goal of issuing tax-exempt revenue obligations in an efficient and cost-effective manner for higher education institutions. The core functions are:

- ◆ develop Authority expertise and educate institutions on financing options;
- ◆ provide analysis and consulting in developing institutional capital financing options; and
- ◆ manage Authority operations without increasing fees.

These functions support ongoing operating goals to:

- ◆ provide a consistent and efficient process for obtaining tax-exempt financing;
- ◆ educate institutions through the application guide, newsletters and annual educational forum on market, legal, and accounting considerations;
- ◆ provide specific analysis and consulting for institutional capital financing plans; and
- ◆ assist institutions with investor relations, post-closing compliance and rating agency reviews.

### Operations

The Authority serves eligible higher education institutions throughout Minnesota by providing access to tax-exempt interest rates. Access to capital improvement funds is essential to the long-term viability of institutions dedicated to educating Minnesota's workforce. Students benefit because lower borrowing costs reduce the pressure to increase tuition costs.

### At A Glance

The Higher Education Facilities Authority assists nonprofit institutions of higher education in financing capital projects through the issuance of tax-exempt debt.

- ◆ The Authority is authorized to have a maximum total of \$800 million outstanding bond principal.
- ◆ In FY 2004, the Authority completed four financings for a total of \$59 million.
- ◆ The total bond principal outstanding at June 30, 2004 was \$578 million.
- ◆ 21 nonprofit, post-secondary institutions in Minnesota have utilized the program of the Authority and realized interest savings on financing their capital improvements.

The Authority operates with the advice and leadership of a board of ten people and a staff of three people. The board meets monthly and acts incrementally on the application for financing and the financing structure of all bond issues. For each bond issue, a law firm is appointed by the Attorney General to serve as bond counsel. A financial advisor firm is retained by the Authority to advise on the financial feasibility and structure of each bond issue.

In general, except for payroll administration, the Authority's staff is responsible for all operations relating to the core functions. Staff receives minimal services from other state agencies (other than payroll and legal services). As a result, the Authority's operations have a neutral impact on the state's biennial budget and capital budget.

### **Budget**

Operating expenses of the Authority are paid by a fee charged to each participating institution. The Authority receives no General Fund tax dollars or other legislative funding. The Department of Finance administers the three-person payroll using dedicated receipts deposited monthly by the Authority.

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