

Minutes\*

**Senate Committee on Finance and Planning  
June 5, 1990**

Present: Burton Shapiro (chair), David Berg, David Biesboer, Arthur Erdman, Lael Gatewood, Virginia Gray, Nick LaFontaine, Cleon Melsa, Jeff von Munkwitz-Smith, Charles Speaks, Tim Wolf

Guests: Senior Vice President Gus Donhowe, Associate Vice President Edward Foster, Ken Janzen (Regents' Office)

**1. Report of the Chair**

Professor Shapiro began the meeting by announcing that the June 12 meeting of the Committee was cancelled; it was agreed, later in the meeting, that there would be two meetings in August to discuss the biennial request.

There has been no final report on the radon and asbestos issues.

**2. Discussion of the Implications of Shared Responsibility for Debt Service**

Professor Shapiro welcomed Mr. Donhowe and Mr. LaFontaine to the meeting; they began by distributing materials concerning the bonding bill and the University's options for debt service.

Mr. Donhowe began by recalling for the Committee the new wrinkle introduced into the bonding bill by the legislature; they concluded they could approve a bigger bonding bill if they could find money beyond what they had available from general sources. They reallocated some of the lottery revenue--about one-third of it--to debt service for higher education and then added their "shared responsibility" formula, the one that has been used for paying instructional costs (tuition pays one-third, the State pays two-thirds). For 1990, the estimates of lottery proceeds will permit the sale of about \$42 million in bonds in July, 1990.

There are peculiarities about how the State sells bonds which must be understood. The bonds are sold only once per year, in July. All bonds are 20-year obligations and have level principal reduction (not level debt service). There is, finally, a constitutional provision which requires that the State have 19 months of debt service on deposit each December 1--which means that if bonds are sold in July, there must be the following December about 16% of the principal amount on deposit in the Debt Service Reserve Fund. Thereafter it is replenished, one year's debt service at a time. As a result there is a large amount which must be paid at the beginning and then a rapid decline later.

The issues are these: What projects, if any, should be approved for financing in the July, 1990, bond sale; the total amount of bonds the University should request be sold on its behalf; and the sources

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of financing as a guideline to assessing tuition, student fees, and user fees for 1991-92 (this cannot be done for 1990-91). The decisions will have to be made at the June Regents' meeting.

Mr. Donhowe then walked the Committee through a schedule of the appropriations--\$77,147,000--and the cash flows which would follow if an ideal schedule were adhered to (a copy is attached to these minutes). \$4.9 million would be required in 1990-91, \$49 million in 1991-92, and so on. Mr. Donhowe cautioned that this is an optimistic schedule, one which follows existing plans for buildings.

It appears from these numbers that all of higher education will under-utilize the debt capacity in 1990-91 and all the systems will be in trouble in 1991-92. How much trouble will depend on how under-utilized the debt capability was in 1990-91 and on knowing more about the amount of the proceeds from the lottery (and assuming that all systems follow the timing for projects as the University proposes.)

There appear to be six sources for funding the University's share of the debt service (see attached list). There could be other categories, such as regular Operations and Maintenance Funds; Mr. Donhowe said the University will not use that source--program funds will not be taken and committed to debt service for 20 years. Others have suggested philanthropy, which might work but it would come in small pieces because there is no program in place to obtain private support for buildings. It would be difficult to obtain such funds for the buildings currently on the list; such support would have to be planned years in advance. Giving priority to capital fund-raising would conflict, Mr. Donhowe pointed out, with other priorities, such as fund-raising for financial aid funds.

The guidelines being proposed, Mr. Donhowe told the Committee, are that any tuition-related source would be levied across the system rather than by campus. Student-fee-supported facilities, however, have traditionally been levied on a campus-specific basis; that practice would continue.

Using the best evidence available from the collegiate units about the uses of the buildings proposed for construction, the proposed debt service has been allocated to the five income categories (other than the State). It appears that tuition would pay slightly less than half the debt service; the remainder is divided among the other sources.

For the buildings authorized in the 1990 bonding bill the maximum claims against the various revenue sources would be reached in December, 1992 (when the funds must be deposited for the 19 months of debt service). Tuition would contribute \$1.481 million, fees \$287,800, ICR funds \$592,200 (out of a total of about \$34 million), and so on. Unless the University decided, on philosophical or policy grounds, that it does not want to do the projects, it is within its capability to complete them--the amounts involved are not beyond the bounds of reasonableness.

For 1990-91 there would be a \$131,200 draw on tuition, except that the legislature prohibited the use of tuition income for debt service for 1990-91; the money would come from reserves. In 1992-93, when the \$1.481 million would be required, the impact on tuition would be about \$11 per quarter--or about a 1% increase over the present base. \$11 per quarter, Mr. Donhowe said, is not "nothing, but I am prepared to say that it is not an outrageous number. It is a debatable number." Students, he observed, will rightly have an opinion about it. The \$11 increase is predicated on constructing all the projects authorized in the 1990 bonding bill; the actual number would probably be smaller and later, in part because the demands for 1992 will exceed the State's bonding capacity so that some buildings will have to

be built later.

The fee impact would be very different, depending on the campus. Morris students, who will have the new student center, would pay \$22 per quarter more beginning in 1992-93; students on the Twin Cities would pay about \$2 per quarter (for the Recreational Sports facility).

The administration, Mr. Donhowe said, will recommend that the Regents authorize the July bond sale at the \$4.9 million level. This would approve four projects for construction--Ferguson Hall, the Morris Student Center, some very small Experiment Station improvements, and some fire and life safety projects. Everything else would be delayed until the following year. At the same time there would have to be approval of the sources for funding the debt service. Ferguson Hall, exclusively for instruction, would be a tuition burden for the next 20 years. The Morris Student Center would draw from both student fees and tuition. The other projects funded from the \$4.9 million are for planning--and they could be stopped later short of actual construction.

Asked about possible political repercussions from using appropriated funds for construction (in the case of the Experiment Stations), Mr. Donhowe opined that there would be no political repercussions from using any money; the legislature, he said, knew that the systems would have to scrape up the money from wherever they could. The legislature is really not in a position to have an opinion about the sources of funding the systems can identify for 1990-91. The legislation itself left the options wide open: the institutions could take the money from anywhere and they did not have to build the buildings if they did not wish to. The University, Mr. Donhowe said, also made it clear that it would draw from a number of sources, depending on the nature of the building. The other higher education systems are much more restricted; they have virtually no ICR funds or activity/user fees, they have no State Specials--they will have to take the debt service out of their operating funds, student fees, or tuition. Mr. Donhowe said they apparently intend to do precisely that.

It is likely that all the systems, next year, will push to reduce the percentage of debt service the systems must pay. The legislature will probably indicate it would be willing to do so--at the cost of reducing the operating appropriations. If that is the response, the University will not pursue the argument to reduce the percentage. The legislature, he said, "has got us where they want us." If there turns out to be a great deal more money from the lottery than anyone expected--it is allocated automatically, stays in the fund, and earns interest if it is not used--and if the money builds up so that more debt service can be handled than had been expected, then the legislature might agree to reduce the percentage. That, however, is unlikely in the 1991 session, he said.

Other ways to "nibble around the edges" include a University presumption that the Integrated Waste Management facility will be a fire and life safety item. The State, however, may not concur with that presumption.

Mr. Donhowe was asked what happens to tuition in eight years, after eight rounds of building buildings and relying on tuition for part of the debt service. That, he said, is the big question; there will have to be some long-term thinking on the subject. The University might have to decide that there is a dollar or proportional limit to the amount of the debt service which can be imposed on tuition. That, in turn, would mean a significant slow-down in instructional projects. Construction will be slowed down, in any even, for other reasons, which would spread out the impact on tuition and fees.

One irony, said a Committee member, is that a building which gets all the way through the approval process and is authorized by the legislature might, later, be superceded by another project which comes later but which moves to a higher priority. Mr. Donhowe expressed doubt that this would occur; it would be unlikely that a building ready to be bid would be delayed because of one which was approved later.

Renovations, another pointed out, are being delayed; there is substantial vacant space which unusable and which was not approved in 1990. And these delays will remain because of the large projects which are planned for the next capital request. Mr. Donhowe responded that deletion of the remodeling projects from the University's request presumably reflects institutional priorities; he also asserted that the University continues to engage in practices which are not cost-effective, such as renovating old buildings into new laboratories--"which has got to be the most inefficient use of money I can think of." The University has become less land-locked and should think seriously about not doing such remodeling any more; old buildings should be used for simple purposes such as classrooms, offices, and student study space.

Mr. Donhowe also reported that the Senate has said that no one should plan on another bonding bill in two years (the House is not); the odds in favor of a bonding bill of any significant size in 1992 are very low, he said. This has implications, for instance, for the basic sciences building, which Committee members discussed briefly; it is at risk for 1992, Mr. Donhowe said.

Also discussed for some while was the Rochester center; concern was expressed about the possibility that it will become UMR. Mr. Donhowe said that the facility there would likely be an exception to the guideline on a system-wide draw on tuition.

What are the options, Mr. Donhowe was asked. Is the Committee sufficiently bothered, Mr. Donhowe replied, by the burden on tuition, fees, and ICR funds that it wishes to see all projects delayed for awhile? Asked how long the University could delay, Mr. Donhowe said waiting was possible, although probably not indefinitely. In the case of Ferguson Hall, however, a \$2 million private contribution would be lost.

The debt service scheme, Mr. Donhowe added, does become an argument for releasing the last of the ICR offset funds--but then the University accepts the debt service plan and implies that it will expect the legislature to continue it.

One Committee member expressed the view that the University should proceed. It will not become cheaper to wait, it was pointed out, and the needs for space will not go away. It is, moreover, the University's friends in the legislature who dreamed the plan up; if the University does nothing it will not look good even to its friends. The plan proposed appears to be a reasonable way to spread the debt around; even though the principle is unattractive it is here and there is nothing to do but try to accommodate it. Mr. Donhowe agreed that a refusal to accept the plan would be seen as extremely uncooperative by the Senate leadership--which is composed of people who are likely to be in office for awhile.

The tougher decision, all agreed, will be next year, when the amounts involved are substantially

greater. What the legislature is doing, in essence, one Committee member observed, is discouraging institutions from building buildings. Mr. Donhowe responded that they wanted the institutions to make trade-offs; they did not want the bonding bill items--space--to be a free good any more.

The Committee appeared to be of the view that the proposal for 1990 was a reasonable one and that to do nothing would be a serious mistake.

When asked, neither Mr. Donhowe nor anyone else present knew of any other states which use this scheme for financing construction.

There was a short exchange about the Maxwell-Gorbachev institute; there is little known about how it will be structured or the extent to which it might be affiliated--if at all--with the University.

It was suggested that serious scrutiny would have to be given to the capital items next year, given the very long debt service which attaches to the decisions; tuition in particular will be under terrific pressure and the University cannot keep adding to it. Mr. Donhowe responded that the legislature is not convinced of the truth of the last proposition. If so, it was said, then the University must be more clear about its comparison group and demonstrate the relationship between tuition paid and what is received in return. The legislature, Mr. Donhowe said, will look at the level of income in the state, how Minnesota ranks in expenditures on higher education, and the participation rate; it will say, he explained, that students may have to help out a little more here than they do in other states if decent solutions are to be found. The State of Minnesota will not see cheap tuition for a long time, he warned.

One Committee member observed that the professional schools would not share in the burden; Mr. Donhowe pointed out that market is the consideration in setting their tuition. Charges for debt service would not, therefore, be added to professional school tuition, it was then argued, because they would drive those rates up too high. Mr. Donhowe agreed that that question had not been confronted.

Mr. Donhowe observed that a lot of consulting with students would have to occur; there will be wide variations in views on what is equitable.

Professor Shapiro told Mr. Donhowe that the Committee supported the proposal and wished him luck with the Board of Regents.

### **3. Agenda Items for 1990-91**

Professor Shapiro said it was appropriate to decide what issues would need to be taken up next year inasmuch as most of those present would remain on the Committee next year.

It was agreed that there would be two meetings in August to discuss the proposed biennial request prepared by the administration (the request must be virtually set by the middle of September).

Other issues that the Committee should take up:

- Space rental (more definitive plans should be prepared by early Fall; it might also be useful to have, earlier, a joint meeting with the Subcommittee on Physical Plant, which has been

- asked to address the space rental plan).
- Performance of various units vis-a-vis retrenchments; how the retrenchments accord with Academic Priorities (the Academic Affairs Vice President should be requested to make a report). The question is whether the units have cut departments or operating funds by 2% or if they have stopped doing some things; there remains considerable suspicion that the colleges continue to impose across-the-board 2% cuts.
  - The strategy of the 2% cuts (early in the Fall so that advice can be timely).
  - Civil Service satisfaction and salaries have come up several times but have not been discussed.
  - Major planning issues which are not specifically financial (enrollment in particular, other long-term planning items); these are issues in which the entire University will be involved.
  - MSPAN1 and MSPAN2; a briefing by the internal committee drafting a report should take place in early Fall.
  - Indirect Cost Recovery funds; Associate Dean Brenner should be requested to return to discuss the implementation plans. The allocation of the funds to various activities should be examined.
  - The 1991-92 budget.
  - Mechanisms that will ensure an early Committee role in the development of such things as the biennial request and the budget (there is a dilemma about timing: does the administration talk things through first and then present proposals or do ideas and items come before the administration has discussed them? The administration prefers the former practice but does want to rely on the Committee; the Committee also agreed that the practice has improved.)

The Committee agreed that it was very useful to have a joint retreat with the Senate Consultative Committee and that the event should be repeated. The agenda, it was suggested, might include a review (again) of the legislative process.

One Committee member inquired if the deans had been notified yet about the 2% reallocation--so that there can be no claims that they were not prepared for it when the time comes for preparation of the budget. Dr. Foster told the Committee that they have; whether or not they have received the message is not clear. It was agreed that the Committee would advise the administration to emphasize again that the 2% reallocation would be imposed--and that it should be made clear that 2% across-the-board retrenchments would not be accepted. It is not a good answer to simply say that the colleges will finally cut programs when the pain becomes too great. Professor Shapiro agreed to write to the senior vice presidents conveying the sentiments of the Committee.

It was agreed that meetings during 1990-91 would be held from 1:15 - 3:00.

The Committee adjourned at 4:45.

-- Gary Engstrand