Minutes*

Senate Committee on Finance and Planning
Tuesday, May 29, 2012
2:30 – 4:30
238A Morrill Hall

Present: Russell Luepker (chair), Catherine Fitch, Lincoln Kallsen, Kara Kersteter, Cody Mikl, Fred Morrison, Kathleen O'Brien, Richard Pfutzenreuter, Ann Sather, S. Charles Schulz

Absent: Martin Caride, Sarah Chambers, Will Durfee, Susan Hupp, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Arturo Schultz, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Julie Tonneson (Office of Budget and Finance); J. P. Hagerty, Brian Swanson (Office of the Vice President for University Services); Professor Dan Feeney (incoming 2012-13 Committee member)

[In these minutes: (1) report of the chair (president joining the committee, questions about the AHC, reviews of college administrative costs, course poaching); (2) Ambulatory Care Center financing plan; (3) 2012-13 annual budget (details on revenues, expenses, investments, tuition); (4) policy on funding and approval of capital projects (new policy combines and clarifies existing practices and rules in one place; the committee endorsed it unanimously)]

1. Report of the Chair

Professor Luepker convened the meeting at 2:30 and reported on several items.

-- The president will be joining the Committee in June; Committee members should review the questions that the Committee posed to him.

-- The Committee needs to provide to Vice President Friedman and Associate Vice President Bock questions about Academic Health Center (AHC) administrative costs in advance of their meeting with the Committee in July. Professor Luepker noted that there is a substantial amount of state funding going into the AHC and suggested that Committee members look carefully at the data that were provided earlier in the year.

-- The reviews of college administrative costs spun off naturally from the Committee's discussion with the vice presidents about administrative costs; the Committee recognizes that there are administrative costs in central administration but there are also large administrative costs in the college that could be duplicative of central or departmental functions. Thus far the Committee has spoken with six deans, not including the Medical School and some of the smaller colleges. What does the Committee wish to do? His impressions, Professor Luepker commented, are that there are no smoking guns, all deans have problems, and there are small differences between the colleges in how they structure administrative functions.

* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

Professor Morrison said he believed the Committee had mined the information as well as it can; there will be different stories from each college but they will be similar. He said he would also be willing to have the Committee visit with more of the deans and suggested that the Carlson School and the Law School would be likely candidates because those two units are moving to nearly total self-funding. Mr. Kallsen agreed with Professor Morrison: There will not be significant differences between colleges and Carlson and Law are moving to zero dollars in state support. He suggested that the Committee might wish to seek to understand the AHC versus the Medical School and whether there is overlap. Professor Shulz agreed on the latter point and said the Committee could look at the administrations of the two units both in terms of numbers of people and dollars.

Professor Luepker, in response to several comments making a more general point, observed that the Committee has not asked of the deans "where is the college going?" or "what is the plan?" Some of the deans touched on goals and vision but it has not been a consistent part of the conversations. Professor Feeney asked if the intent is to see if the college has a plan or if there are glaring examples of plans. The AHC Finance and Planning Committee in the past looked at the AHC colleges' reliance on tuition, the extent to which they were leveraged on research funding, and so on. They learned that if one makes changes to tuition, the change has a big effect on some colleges and very little effect on others (the extremes are CLA versus the Medical School). Is the Committee receiving information like that from the discussion with the deans? Are such changes driving behavior? Professor Luepker said the discussions have not taken a finance tack because they were driven by concerns about the costs of administration. The data the Committee has received thus far seem to suggest that the costs and number of people in administrative roles has been falling.

Professor Shulz said it would be appropriate for this Committee to pursue the kind of questions that Professor Feeney mentioned, such as the extent to which colleges rely on tuition or research funding or clinical revenue, etc.

Mr. Mikl inquired why there have been several reviews of the AHC in recent years. Professor Morrison explained that the financial problems in the AHC and the Medical School are severe and that they have nothing to do with the academic side of the endeavor. The pressures are elated to the practice of medicine and the funding of health care. One question facing the University is how to finance high-quality medical education when it has declining revenues in a number of directions; the AHC has been scrambling for a number of years to accommodate the economics of health care. It is not clear if the efforts will be successful.

Professor Luepker amplified. All schools dependent on clinical revenue have the same issues. It is a changing environment and some factors are out of the University's control (such as federal decisions on Medicare and research funding levels); in other cases, the schools have some control (how much research funding it will seek). Many AHCs around the country are struggling with the same questions. It is expensive to run pet and human hospitals and they must all deal with payers.

Professor Shulz said he is on a number of committees that are looking at these issues. There are a number of geographic features that differentiate medical schools (e.g., there are large differences in Medicare payments to Minnesota versus Pittsburgh); there are also differences in endowment support. The Medical School here must look at what it can do given the state in which it is located. Last week the AHC, University of Minnesota Physicians, and Fairview-University Hospital signed a new joint governance agreement that has the potential to help considerably.

Professor Feeney recalled that when Christine Maziar was Vice President for Research, she did an analysis that demonstrated that if the University received full indirect-cost funding for research, it still "lost" 25 cents for every dollar it spent on sponsored research, and later Senior Vice President Cerra affirmed that the University cannot "research its way into prosperity" with research funding—and that the institution could be WORSE off with more research funding (from a purely financial point of view). Professor Feeney also noted that tuition at both the Medical School and the College of Veterinary Medicine is very high and they will begin to lose students because they will shop around for value. Is the University trying to do things that it cannot achieve? It would be helpful for the Committee to hear from Dean Ames (Veterinary Medicine) and Dean Friedman (Medical School) on what they expect their fields to look like in ten years or so.

The Committee was also interested in the reviews because after the State budget cuts there were questions about the budgeting of the AHC in relation Medical School. There has also been raised a question about the value of the AHC structure to the colleges in the AHC. On the latter point, Professor Luepker said that the AHC is a structure parallel to the University central administration; many AHCs are not structured that way. The functions must be performed but the question is whether the University is getting its money's worth out of the structure.

Professor Luepker concluded that the Committee wished to continue discussions with the deans and to broaden the scope of the conversations. He said he would check with Professor Durfee about doing so (because Professor Durfee will be chair of the Committee beginning July 1).

-- The fourth point Professor Luepker reported on was his discussions with several deans about "course poaching." He prepared a report for incorporation in the minutes (between the * * *).

* * *

Student credit issue (poaching)

Professor Luepker presented the results and his summary of individual meetings with Deans Crouch, Elde, Levine, McMaster, Parente, and Quam and Professor Wambach (former chair of the Senate Committee on Educational Policy). With each, he asked questions about undergraduate education credits and interdisciplinary studies.

A. Finances
   1. State cutbacks have resulted in increasing reliance on tuition with a direct link to the number of credits taught in a college.
   2. In this context, retaining majors in their college of enrollment becomes important.
   3. Recruiting students from other colleges is also a priority.
   4. The liberal education requirements are frequently a focus as they provide large numbers of students in classes

B. Quality education
   1. Because many colleges have multidisciplinary faculty, there are skilled individuals able to teach core courses while having an appointment in another college. For example, many faculty outside of the College of Biological Sciences are also trained in biology and can teach biology courses.
   2. Some colleges have made a particular effort to be relevant to undergraduate students, focusing on the student experience and teaching at convenient times.

C. Examples of the problem

1. Teaching biochemistry (CBS) as an alternative to organic chemistry (CSE) for those hoping to go to medical school.
2. Substituting environmental chemistry (CFANS) for chemistry (CSE).
3. The focus of the multidisciplinary former General College faculty, now in the College of Education and Human Development (CEHD), on undergraduate teaching in multiple disciplines offering courses from mathematics to psychology.

D. Actual and potential problems:

The movement of students away from their college of enrollment to take credits elsewhere is a particular problem for CLA. It is also a problem for other colleges, such as CBS where students in that college take only 1/3 of their courses in that unit. The 25% administrative overhead does not adequately cover the cost pool charges for students.

E. Solutions: I asked the leaders interviewed for their suggestions for solving this problem. Among those ideas suggested include:

1. Individual memorandum of understanding (MOU) negotiated between colleges or between departments where funds and their movement is clearly defined. These memoranda may vary greatly in stipulations and terms.
2. Vice Provost McMaster has formed a committee to developing a plan for oversight of the liberal education requirements. This faculty committee may have a wider purview.

Suggestions:

It seems clear that the economics of the current budget model will naturally lead to efforts to build enrollment and capture student credits. There may be perverse incentives in such a system. Professor Luepker suggested that policies be developed by administration and faculty to discourage this practice and adjudicate the course proposals in question to assure the most appropriate education experience for students.

* * *

Professor Luepker repeated orally the point in his report: He concluded there is a need for rules. There is a growing cottage industry in stealing students and the University needs to set ground rules, whether faculty- or provost-driven.

Professor Luepker said he would ask for Committee discussion and support of the recommendation.

2. Ambulatory Care Center (ACC) Financing

Professor Luepker turned now to Vice President and Associate Vice President Tonneson to provide the Committee a report on financing the Ambulatory Care Center (ACC) and the FY13 budget. Mr. Pfutzenreuter began with the ACC. [The new ACC will be located on Fulton Street, just off the Huron Boulevard exit from I94, on the site of what is currently a parking lot.]

The cost estimate for the ACC is $182,500,000, of which $103 million is construction, $31 million is non-construction costs, $2.5 million is site costs, and $45.7 million is equipment. Of the last, about $40 million is medical equipment. Professor Luepker commented that $40 million seems a large amount for equipment—will it include MRIs, PET scanners, etc.? Mr. Pfutzenreuter said he did not believe it included that kind of equipment and said there is a list that he could provide to the Committee. So for more sophisticated tests, do patients have to go over to the hospital, Professor Luepker asked? Professor Shulz said he did not believe so; the ACC physicians will not only do routine exams and there will be many more sophisticated procedures done there.

The ACC is proposed to have a partnership financing structure, Mr. Pfutzenreuter told the Committee. There will be two tenants, two separate business entities, in the ACC. One will be Fairview-owned provider-based clinics that are totally owned by Fairview, and the other will be clinics that are jointly owned by Fairview and University of Minnesota Physicians (UMP). There will be two separate leases that will be tied to the integrated structure that Professor Shulz alluded to earlier.

(1) The $40 million in medical equipment will be financed by provider-based clinics and joint-venture clinics. The useful life of the equipment is 5-7 years, and some of it could come from the existing clinics in Phillips-Wangensteen.

(2) Of the $142.5 in building costs, Masonic Charities is making a $10-million contribution. The remaining $132.5 million will be financed by University of Minnesota Special Purpose Bonds. The ACC will make lease payments to the University that will be sufficient to cover the debt payment on the Special Purpose Bonds. Fairview will provide an explicit debt backstop for about 61% of the total $132.5 million indebtedness and UMP will provide an explicit debt backstop for the remaining 39%. So the bonds will be secured by leases and corporate guarantees. The ACC itself will be responsible for facility upkeep and maintenance and long-term capital upgrade costs.

The University is taking this action because it is important to UMP—which is, for rating and other purposes, really a part of the University—and because it is where students will be trained, Mr. Pfutzenreuter said. They have tried to protect the University from the downside through the leases and corporate guarantees. There is also a letter of agreement that if the cost changes, all three entities (the University, Fairview, and UMP) must agree. The cost has to be agreed on within a year or so and it is likely the University would issue debt starting in the fall of 2013. (The predicted debt service is about $8 million per year.) Moreover, the project will not move forward until there is a governance and management agreement between Fairview and the University.

Professor Shulz thanked Mr. Pfutzenreuter for the clear explanation of the financing; he also thanked the University for moving ahead with the project. The ability of the University/UMP to take care of patients is very inconvenient now and the ACC will substantially improve the situation. Phillips-Wangensteen is rated the third-worst building on campus but it is where patients are treated.

Professor Morrison said he wished to interject a similar sentiment. Mr. Mikl asked earlier about the AHC; the question is financial viability. One way to maintain financial viability is to maintain a healthy practice. To do that, UMP needs facilities that are competitive with others in the community. The University must do this project, he said. Professor Luepker concurred.

In response to a query from Professor Luepker, Mr. Pfutzenreuter affirmed that the University will own the building and that Fairview and UMP will make lease payments. Professor Luepker also noted, from information that Mr. Pfutzenreuter had provided, that the University has a better credit rating than Fairview; is that why the University is providing the financing? Mr. Pfutzenreuter said the cost of capital will be less than if Fairview and UMP had handled the financing, so the University acting as banker helps keep the costs down.

Right now the clinics are in "that miserable Phillips-Wangensteen," Professor Luepker commented. Fairview rents some of that space, he noted. That is correct, Mr. Pfutzenreuter said, and the University will not have that income when the clinics move to the new ACC. But if units that are currently off campus are moved into those vacated spaced, there will be some funds available, although he would not claim that the University will break even. The space will also need renovation.

If UMP is to pay for part of the new ACC, how will it do so, Professor Luepker asked? It receives money from insurance companies, patients, and other payers, and the money goes to the practices and the Medical School. Where will the extra money come from? Over the last ten years, UMP as a business entity has generated $300-400 million in revenues per year, Professor Shulz said, from clinical billings and business models with health-care providers, and it has ensured that there are reserves for the practice plans. Mr. Pfutzenreuter added that the status quo was a losing proposition; the goal is to grow and to become more efficient.

Is this a common financial structure or is it something new, Dr. Fitch asked? It is new in his experience at the University, Mr. Pfutzenreuter replied. But the project was not getting done—and it needed to get done—and all the governing boards have approved it.

Professor Luepker thanked Mr. Pfutzenreuter for the information.

3. FY13 Annual Budget

Ms. Tonneson next informed the Committee about the president's recommended FY13 operating budget. She began by reviewing the sources of funds for the $3.5-billion budget. The three major sources are tuition (24%), state support (16%), and sponsored research (18%). The other sources are indirect cost funds (4%), student fees (4%), auxiliary operations (businesses that sell to the public; 7%), other unrestricted (fees, educational sales, etc.; 6%), gifts and endowment income (5%), all other (e.g., federally-restricted income; 9%), and internal service organizations (7%). The latter funds are not included in the annual report because they are "double counting": They sell internally to other University departments. But because they represent a significant amount of business conducted at the University, they are included in the budget plan.

Ms. Tonneson reviewed the three elements of the budget (resources, costs and investments, and balancing the budget) as well as the general fund appropriations from the state.

There will be about $59.4 million in *incremental* resources available in FY13 from several sources, Ms. Tonneson reported, as follows (in $ millions):

Institutional resources	7.6 (non-recurring)
Uncommitted state O&M	16.9 (recurring)

Planned O&M Carryforward	6.1 (non-recurring)
Tuition revenues	24.6
Unit resources	4.3 (reallocation, any other sources)

Ms. Tonneson also presented information about changes in tuition, fees, and room & board.

Twin Cities Campus, Undergraduate, Resident – Residence Hall					
	FY12 Academic Year	FY13 Academic Year	$ Increase	% Increase	FY13 % of Total
Tuition (13-credit band)	$11,650	$12,060	$410	3.5	56.6
Student services fee	732	737	5	0.7	3.5
Collegiate fee*	429	443	14	3.3	2.1
Transportation fee	38	38	0	--	0.2
Stadium fee	25	25	0	--	0.1
Other required fees**	7	6	(1)	(14.3)	--
Subtotal tuition and required fees	12,881	13,309	428	3.3	62.5
Room & Board (double room, 14 meal plan)	7,728	8,000	272	3.5	37.5
Total Cost– Twin Cities	$20,609	$21,309	$700	3.4%	100.0%

She noted that tuition is proposed to increase 3.5%, as has been reported, and the total increase taking into account fees is 3.3%--and 3.4% for students living on campus. The increases are even smaller at Duluth and Crookston; they are the same at Morris. Graduate and professional tuition will increase by an average of about 4%. Mr. Mikl said the focus of the discussion should be shifted to the 3.3%, which is more reflective of what students pay. They do highlight that smaller increase, Ms. Tonneson said, and she also noted that these are not official "cost of attendance" figures because they do not include transportation, etc. These are the figures presented to the Regents and what they must act on.

Vice President Pfutzenreuter reported on the projected resident undergraduate tuition increases for CIC (Big Ten plus Chicago) and other peer institutions:

Wisconsin	5.5%
Illinois	4.8
U Chicago	4.1
Michigan State	4.0 (4% is legislative cap; may be lower)
Michigan	4.0 (ditto)
Nebraska	4.0
Iowa	3.8
Purdue	3.5 (additional new recreation fee of $91)
Indiana	3.5 (additional new deferred maintenance fee of $360)
Ohio State	3.2
Penn State	TBD (potential state cut of 20-30%)

Washington	16.0%
Florida	14.0
UC Berkeley	6.0
Kentucky	6.0
Georgia	5.0
Oregon	4.2
Colorado	3.9
Texas-Austin	-0-
Arizona	-0-

In addition, two of the institutions are proposing to have substantial new fees, one for deferred maintenance and one for recreational facilities.

Mr. Pfutzenreuter also reported on the projected salary increases at CIC institutions:

Wisconsin	-0-%
Illinois	2.5-3.0
U Chicago	2.0
Michigan State	3.0 faculty, 2.5 staff
Michigan	CPI for all plus .75% for faculty
Nebraska	2.5
Iowa	--
Purdue	2.0
Indiana	2.2
Ohio State	3.0
Penn State	TBD

So, he concluded, Minnesota is in the mix, neither high nor low compared with its peers.

Professor Shulz said that he had been told there would be 2.5% compensation increases in the Medical School but that he (as a department head) would have to find the funds to pay the increases—from clinical revenues, grants, etc. Is that correct? It is, Mr. Pfutzenreuter said; the administration is not allocating money for compensation increases. The impact is different for colleges that do not generate a large amount of tuition revenue and must rely on other sources. In increasing undergraduate tuition 3.5%, they know how much money that will generate for CLA, for example, and how the cost pools will be affect. Other schools will rely on other sources, not University funds or tuition revenue.

Is the 2.5% in the Medical School across the board or only for the University-funded portion of the salaries, Professor Luepker asked? Professor Shulz said he believed it is only for the University-based portion of salaries and that they are not required to give an increase on the portion that might come from UMP, for example. But if someone teaching with a base University salary receives a raise, and a colleague whose salary comes primarily from clinical income does not, that creates a problem. Fringe benefit rates will decline, however, which will help some, Professor Luepker observed; Mr. Pfutzenreuter affirmed that is the case, because of over-recovery of funds earlier.

The $59.4 million available for investments will be distributed in four unequal portions, Ms. Tonneson reported.

Academic investments	33.9 million
Compensation	15.6
Mission support/operations	6.8
Student aid	2.8

The compensation plan, 2.5% increases plus associated increases in fringe-benefit costs, includes $500 for every faculty, P&A, and civil service staff member, with the remainder delivered on the basis of merit or by other rules in place.

Professor Luepker inquired if the $15.6 million is for those who are on O&M funds. Mr. Pfutzenreuter explained that the revenue to pay for the increases comes from tuition or reallocation; the administration is not allocating state funds for compensation. The Medical School, for example, has not (cannot) raise tuition enough to cover the increased compensation costs. Professor Morrison suggested that the Committee, at a future meeting, talk about the impact of mandatory salary increases in different parts of the University. The effect is very different if a unit is dependent on state funds, tuition, research funds, or clinical income. The University makes a global decision about salary increases but perhaps the time has come to take into account the unit differences, perhaps through the compact process.

The majority of the increase in student-aid funding will be for merit-based recruitment funds ($2.1 of the $2.8 million); the remainder will be for targeted programs for specific student groups. Ms. Tonneson noted, however, that the University has an extensive need-based aid program that will provide 14% increases in the size of the awards because of money available in the program due to structural changes).

The "mission support" category includes contractual and safety concerns and investments in support services. The academic investments will be $22.9 in recurring and $11.1 in non-recurring funds to over 30 units. Mr. Pfutzenreuter said they can provide the Committee with the list of investments that are being proposed.

Professor Luepker thanked Ms. Tonneson and Mr. Pfutzenreuter for the report.

4. Policy on Funding and Approvals of Capital Projects

Professor Luepker turned now to Ms. Hagerty, Vice President O'Brien, and Mr. Swanson to present a new administrative policy, Funding and Approval of Capital Projects.

Vice President O'Brien explained that the policy updates practices and brings policy into conformance with practice. Mr. Swanson distributed copies of the new policy and explained that there were a number of policies that dealt with capital projects and how they are funded that were grossly out of date. What they wished to do was consolidate in one document the practices and policy that had been located in various places. He reviewed the elements of the policy. [The main provisions of the policy are appended to these minutes.]

Professor Morrison inquired if the rule about fund-raising (#3) had been cleared with the deans. Mr. Swanson said the requirement has been in the six-year capital plan instructions for a number of years. But it has not been discussed recently at the Deans' Council, Vice President O'Brien observed. Professor Morrison pointed out that preparation for fund-raising for a building must start long before it becomes part of the six-year capital plan. It appears that a quiet feasibility study would be prohibited by this policy. Mr. Swanson said that they are trying to avoid units using pretty pictures from architects that depict unrealistic facilities or set unrealistic expectations. Vice President O'Brien noted that last year the University of Minnesota Foundation was brought into the process so that it would hear about the deans' plans and the six-year capital plan.

Professor Feeney asked what the requirements are if a dean wants a new building—what percentage of the funds must the unit provide in order to get a project on to the six-year capital plan? Vice President O'Brien said that finances are only a part of what determines whether a project gets on the plan; the most important factor is academic need or imperative. The colleges sort out their needs and decide on priorities for the six-year planning process. Last year several deans worked together to improve the facilities they need, a collaboration they are seeing more and more. The process also considers which projects should go to the legislature, which have fund-raising opportunities, and which can be supported by grant funding. They can put the pieces together to fund a project, she said, but the focus is on program needs.

Professor Morrison asked if the new Ambulatory Care Clinic was on the six-year capital plan. It was, Vice President O'Brien said, and said in response to a further question from Professor Morrison that it was placed on the list in February of this year.

Professor Luepker commented that the deans are encouraged to raise money and to be entrepreneurial, but the policy says they cannot raise money unless their project is on the list. If a college has a $25-million donor and a $75-million project, is the college supposed to tell the donor to go away if the project isn't on the list? But if something is a clinical facility, it can move up the list? Professor Morrison added that a unit might also have a $25-million donor for a $20-million building; must the dean tell the donor to go away until the project is on the list?

Vice President O'Brien said that the college compact process and the six-year capital plan should be aligned. They do not make up the list on their own, she pointed out; the items on it flow from unit academic plans and the deans should be involved in developing the list. It is true that if a college has a large grant or donation, that improves the probability of the building getting on the list and being approved. She has noted before that once a project is on the six-year capital plan, it will get done, although it may not be in six years (e.g., Folwell Hall took 12 years).

Mr. Swanson said that the six-year capital plan is a guideline to try to ensure that institutional resources are focused on the highest priorities. There have been cases where money has almost come out of nowhere, was unexpected, and the University can move quickly to accept it. What they are trying to prevent is projects that are not in the list of academic projects or that do not align with academic priorities. And those involved in the capital planning process are not naïve, Vice President O'Brien added—they recognize that faculty and deans need to develop relationships over time with donors, not just at the point when a predesign has been approved. The gist of the policy intent is not to sell a particular project too early in the process.

The problem is that big donors want to see a dream and want to see a picture, Professor Luepker commented. Vice President O'Brien said the deans and faculty have to talk about the need with the donor, then get the predesign and drawings; in reality, she pointed out, a project takes about four years.

Professor Morrison said he was comfortable with the policy given the people who are currently in office in University Services and Capital Planning and Project Management; his concern is that the language will be carved in stone and future administrators will create bureaucratic obstacles. Mr. Swanson noted that an exceptions process has been written in to allow for just the kind of scenarios raised in the discussion, but that those conversations need to occur in an organized manner.

The Committee voted unanimously to endorse the new policy.

Professor Luepker adjourned the meeting at 4:30.

-- Gary Engstrand

University of Minnesota

Funding and Approvals of Capital Projects (policy provisions only)

The University of Minnesota (University) maintains a disciplined program for making capital investments and managing its capital resources. Capital Planning and Project Management (CPPM) manages all capital projects, systemwide and regardless of funding source, to ensure compliance with local, state and federal laws, guidelines and regulations.

1) Board of Regents Requirements
All units are required to comply with the requirements of the Board of Regents Policy: *Board Operations and Agenda Guidelines*.
All University capital projects, system-wide and regardless of funding source, that meet or exceed the approval thresholds as defined in Board of Regents Policy: *Reservation and Delegation of Authority* are required to be included in the annual capital improvement budget.
Projects being managed by the University on-behalf of non-University entities (e.g. The Metropolitan Council) are considered University projects for capital budgeting purposes.

2) Project Funding

Funding Requirement **-** Prior to initiating work or issuing a contract, units with capital projects with a total value of $500,000 or greater must have:
a. 100 percent of the funds required to complete the project in the appropriate plant fund or
b. a signed finance agreement with University Budget and Finance
Units with capital projects with a total value of less than $500,000 are required to have 100 percent of the funds required to complete the project in the appropriate plant fund.

Cash Flow Requirement – Units must maintain sufficient cash in the appropriate plant fund throughout the duration of the project to meet the projected capital project expenditures. Units should not anticipate spending debt proceeds in advance of issuance or donated funds in advance of their receipt at any recognized University foundation, as described in Board of Regents Policy: *Foundations at the University*.

Exceptions – The Vice President and Chief Financial Officer will consider exceptions to the cash flow requirement. If approved, the exception must be documented in the project finance agreement.
In-Kind Gift – Units cannot include pledges to provide in-kind design or construction services and/or materials toward meeting a project's funding requirements. See also Procedure: Managing In-Kind Gift on Capital Projects.

3) Fundraising Requirements
To focus the University's fundraising efforts on the University's highest priority capital projects, fundraising for capital projects is only allowed when the:
a. project has been approved and included in the six-year capital plan and
b. a pre-design has been developed by CPPM and approved by the Capital Oversight Group
Projects relying on fundraising as part of their financing plan must meet the following thresholds to advance:
a. Start schematic design: 25 percent of gift must be received in cash or pledges at the appropriate University foundation.
b. Start construction: 80 percent of gift must be received in cash or pledges at the appropriate foundation and an acknowledgement from the foundation must be received by University Budget and Finance that the balance of funds can be raised in a reasonable timeframe.
Exceptions The Vice President and Chief Financial Officer will consider exceptions to the fundraising requirement. If approved, the exception must be documented in the project finance agreement.

4) Project Approvals
Only the Vice President for University Services and specified designees are authorized to sign contracts (*Signature Authority)* related to capital projects, per the President's Delegation of Authority.

5) Project Expenses
Allowable Uses of University and State Bond Proceeds – Units may only use bond proceeds for qualified or eligible capital expenditures as outlined in the definitions section of this policy. Bond proceeds may only be used for direct capital costs and not for depreciation, amortization, overhead, general administration or similar costs. (See also Reporting below)
Charges for University Personnel and Expenses (including Project Management) – The University allows internal personnel and project-related expenses to be billed to capital projects under very limited conditions. All charges must be made in compliance with Minnesota Management and Budget (MMB) policies including the October 20, 2009 Policy Regarding Use of General Obligation Bond Proceeds to

Fund Staff Costs, the use of general obligation bond proceeds, relevant Internal Revenue Code and Treasury regulations, University policies and Generally Accepted Accounting Principles related to capital expenditures. In addition:

• Personnel charges must be done on an individual basis and must be based on actual hours worked on the project by an individual.

• The hourly rate will not include depreciation or amortization costs, overhead or other general administration expenses not directly related to or incurred as a result of the construction activity. The hourly rate must comply with administrative policy: Selling Goods and Services to University Departments and OMB Circular A-21.

• For Internal Service Organizations (ISOs) staffing rates require annual review and approval as defined in administrative procedure: Establishing Internal Sales Rates.

• For non-ISOs, staffing rates are limited to actual cost of salary and fringe unless otherwise approved by the Internal/External Sales department.

6) Reporting

Capital appropriations used to pay for the costs of staff directly attributable to capital projects funded with state general obligation bond proceeds must be reported through MMB to the Minnesota Legislature.

To ensure both the uniformity of the project delivery system and compliance with MMB policy, all capital projects, systemwide and regardless of funding source, are required to keep track of internal staffing costs directly attributable to capital projects on an hourly basis by individual.

7) Managing Capital Projects

All capital projects must be managed in the CPPM project management system. Exceptions will be considered in rare circumstances based on business need by the AVP of CPPM. All legislatively and bond financed projects must be managed in the CPPM system to facilitate compliance reporting.