

Minutes*

Senate Committee on Finance and Planning
Tuesday, March 29, 1994
3:15 - 5:00
Room 238 Morrill Hall

- Present: Irwin Rubenstein (chair), Mary Askelson, David Berg, Mark Davison, Michael Hoey, Karen Karni, Craig Kissock, Gerald Klement, Roger Paschke, Richard Pfitzenreuter, Doris Rubenstein, Thomas Scott, Mary Sue Simmons, Dianne Van Tasell, Albert Yonas
- Regrets: Fred Morrison
- Absent: David Dahlgren, William Gerberich, Karen Geronime, William Rudelius, Susan Torgerson
- Guests: Senior Vice President Robert Erickson, Professor Gary Gardner, Associate Vice President Robert Kvavik, Associate Vice President Susan Markham
- Others: Mike Berthelsen (Office of Budget and Finance)

[In these minutes: 1993-94 budget, the capital budget and request]

1. The 1993-94 Budget

Professor Rubenstein convened the meeting at 3:15 and asked Associate Vice President Pfitzenreuter to inform the Committee about the status of the 1993-94 budget. He made a number of observations about it.

- There were very good discussions in the budget presentations from the units, which ended a week ago Saturday. Since then, the senior vice presidents and others have been meeting two or three times a day reviewing the discussions.
- There were over \$70 million in requests for the Strategic Investment Pool (SIP). There will be \$8.4 million available SIP funds in the O&M budget.
- There will be a total of \$1.6 million in non-SIP tuition-rate or enrollment-driven revenue increases in several units. Other items that also need to be paid, it was discovered, total about \$600,000.
- In addition to finishing the O&M budget, the ICR and Central Reserves budgets must be completed soon. The Central Reserves balance will be lower than predicted because of higher outside legal fees and ALG legal fees.

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- The tuition revenue increase to be recommended by the President to the Board of Regents will be 4.2%, or 1.2% more than the guidelines adopted by the Board. Undergraduate tuition would increase 3.7%; other units would vary. Tuition rate increases were largely driven by unit requests; most requested increases but some, citing the market, did not. These increases are exclusive of enrollment increases.

- Some units will be permitted to retain 70% of additional tuition revenues generated by additional enrollment. This has long been true for the coordinate campuses; Twin Cities units also had the opportunity to request such an arrangement in this budget process; the additional \$1.6 million mentioned earlier comes from those enrollment increases. Some units will increase tuition because the market will bear it, some will increase enrollment, and some will do both. These increases, it was noted, are a negligible fraction of total tuition revenue.

The intent is to track these enrollment changes in subsequent years; if a unit keeps the enrollment levels up, it retains the funds; if not, there will be a reduction in funding.

This is an "interesting principle," observed one Committee member, and raises questions and concerns about the bases for funding the colleges.

Mr. Erickson commented that in the future there will need to be a discussion of formula funding for the colleges (this is not it), which would mean collegiate funding would be based on enrollment, costs, and other factors. It is important to understand the costs of each unit, he observed, although it may not be necessary to have formal funding formulas. That understanding of costs drives the sense of equity among units--are they being fairly treated?--because there are different costs that need to be considered. Such an understanding also affects what is communicated to the legislature: the University "gets killed by averages" because it has virtually all of the high-cost higher education programs in the state. Isolating the costs of those programs can help the University and state understand the resources needed to perform the tasks. An understanding of costs also permits better decisions internally.

- There are five categories of expenditures of SIP money, totalling \$8.4 million, and the money will be spent on all campuses. Mr. Pfutzenreuter said it would be premature to try to identify ways in which faculty and students would see a difference in the University as a result of the SIP expenditures, inasmuch as final decisions on SIP requests have not been made.

Discussion then turned to the legislative request. Mr. Pfutzenreuter reviewed for the Committee the status of the request in the two houses. He also reviewed the status of the capital request.

It is his sense, Mr. Pfutzenreuter said in response to a query, that the University is being treated quite reasonably by the legislature; its image has improved considerably, he said. Mr. Berg added that communication with the committees is as good as it has ever been and that the work has been bipartisan. Mr. Erickson pointed out that Associate Vice President Pfutzenreuter and his staff have a high level of credibility with the legislature and their contribution cannot be underestimated.

The discussion also touched on the status of the ICR budget and the intentional reduction in Facilities Management balances and the problems associated with each. Also mentioned were the high percentages of unit budgets that are dedicated to salaries and fringe benefits--often over 90%--and the problem in some units of spending "carryforward" balances on current operating costs. This is a structural problem that will have to be watched closely.

Mr. Pfutzenreuter agreed to provide to the Committee as soon as they are available the final budget numbers to be recommended to the Board of Regents.

2. The Capital Budget

Professor Rubenstein next welcomed Associate Vice Presidents Kvavik and Markham to the meeting to discuss the capital budget. He also welcomed Professor Gary Gardner, the faculty representative to the Capital Improvements Advisory Committee. Several handouts were distributed and reviewed with the Committee.

The 1995 capital budget is the work of the Capital Improvements Advisory Committee (CIAC), Dr. Kvavik reported, and consists of recommendations to the senior vice presidents. The CIAC is a staff group with representatives from each coordinate campus, each vice presidential area, a student, a faculty member, Facilities Management representatives, Associate Vice President Paul Tschida (campus health and safety) and Associate Vice President Clinton Hewitt (campus master planning).

The work of the CIAC consists of three elements: the capital expenditures for the next fiscal year, the six-year capital improvement program (a less precise projection of capital expenditures that, at present, is beyond the capacity the University to fund), and the capital request to the legislature (which has been reviewed earlier).

Dr. Kvavik recalled that this is the second year of the new capital budgeting process, which represents a radical change from prior years. The new system is working very well, he said, and the improvements were evident in the budget hearings.

Some of the funds for next year do address deferred maintenance, Ms. Markham told the Committee in response to a question. \$20 million will be available for facilities renewal and will be directed primarily at Civil & Mineral Engineering, Johnston, Williamson, and Wilson. There will also be about \$15 million for smaller repairs and replacements. This is still a small amount, she agreed, but it represents an advance over where the University was until very recently.

One benefit of the improved capital budget process, Mr. Erickson observed, is that it permits better discussion with the state about the University's needs and has enabled the University to make the case for the facilities funds. Dr. Kvavik noted that the University has received a round of applause from the state for its process--the University is far ahead of other institutions--and the state is considering adopting the University's process for the state.

Discussion then turned to the 1995 capital budget and the capital forecast. Among the points raised in the discussion were these:

- The Program Accommodation Remodeling funds (\$1.287 million for 1994-95 and subsequent years) are obtained by departments by making requests through the deans to the vice president. They can be requested any time during the year; there are already a lot of requests for funds for next year, so any requests made now will be for fiscal year 1995-96 or later.
- Repair and replacement funds (\$13.888 million for next year, \$9.888 million per year projected thereafter) are used for projects identified by Facilities Management (and its counterparts on each campus) that must be addressed. The appropriation of these funds has remained constant since she has been at the University, Ms. Markham observed, but the University is seeking a substantial increase in them.
- The University is requesting \$20 million for 1994-95 for health and safety projects; the same amount is projected to be requested in the 1997 legislative session. These funds include a pool of dollars held for hazardous substance abatement so that projects are not held up because hazardous substances are encountered (e.g., asbestos). Asked about reducing capital expenditures by demolishing buildings, Ms. Markham said that there are plans to decommission buildings. Some have historical merit so may not be demolished, but the University is able to save a lot of money by decommissioning them.
- The total capital budget projected for 1994-95 is \$179.9 million. The University has over 1000 buildings, Dr. Kvavik pointed out, with a value in excess of \$3 billion, and stewardship of that asset is a critically important part of our responsibilities to the state.
- The list of fire and life safety projects needing funding is much longer than the projects being funded. The projects selected are those that involve the highest levels of risk; they are being made in areas where groups of people gather and mostly involve sprinkler systems, doors, and emergency lighting. If more funds become available, more projects are funded.

This is an impressive task being performed by an impressive group, concluded one Committee member. The recommendations are developed largely by consensus, Dr. Kvavik reported, and the decisions are made on factual grounds and for the common good of the University.

- A pool of funds has been set aside so that Facilities Management can respond immediately to problems that crop up unexpectedly.
- Funds for improvements for the handicapped are allocated by committees on the campuses. \$3 million has been identified for this purpose; the original estimate of need was \$80 million, and that number will probably grow.

It must be recalled, Dr. Kvavik noted, that the average age of the buildings on the east bank campus is 67 years; many of them have a lot of problems.

- A major "repair and replacement" item for the Twin Cities campus that gave the CIAC trouble was the Northrop chiller (\$3.9 million). It must be replaced; the question was (a) to

replace it so that only Northrop could be air conditioned or (b) to install a larger unit, at greater cost, to permit air conditioning in other east bank buildings as well. After review of campus master plans and financial considerations, the CIAC recommended spending the \$3.9 million for the larger unit. But that means, Dr. Kvavik pointed out, that a lot of other projects with a larger visual impact could not be tackled. The chiller, however, was a better long-term investment. This decision, Mr. Erickson observed, is a reflection of the fact that information is now becoming available to approach these issues systematically; in the longer term, this will pay off for the University.

- Asked about the expense of carpet replacement and whether or not those projects were placed on competitive bid, Ms. Markham affirmed that they are subject to bid. She maintained that when one considers life cycle, the University is much better off investing in expensive carpeting, because it lasts longer and pays for itself. The University's needs for carpet replacement (in public areas) over time have been determined, Dr. Kvavik noted, and the amount proposed in this budget is not sufficient to keep up with the needs.

Although the cost of doing something within the University may seem high compared to that of outside vendors, Mr. Erickson said, the University is subject to stringent regulation in terms of prevailing wages and agreements with organized labor and state law--and the University will enforce those regulations and laws, he warned. The University cannot tolerate legal and other problems that arise from units acting independently in contracting with vendors.

- Attention turned to the Jackson-Owre-Millard-Lyon complex (JOML) and the fact that funds are being spent on it. Of the four buildings, Ms. Markham said, an assessment has determined that for three of them (not Lyon), it is more cost-effective to renovate and update them than it would be to construct new facilities.

Professor Rubenstein thanked Dr. Kvavik and Ms. Markham and turned to Professor Gardner for comments.

Dr. Gardner said that Dr. Kvavik was correct in describing the CIAC process as one of making decisions by consensus. The two associate vice presidents, he said, are even-handed in leading the committee and the tenor of the discussions is "what is best for the University." The process is effective and works well.

He offered a couple of criticisms. One is that the administration of some units does not take seriously the work done by the CIAC. The action of the legislature reflects the fact that units can lobby independently and openly. If the University allows independent action, it will "lose big as an institution." The University had decided that debt capacity was the most important item affecting its capital request; colleges must understand that when they go around the administration, that hurts the University. This is not the fault of the CIAC, he added.

That is a systemic problem for this University, agreed another Committee member, in its relationship with the legislature and its ability to govern itself. Crucial decisions are made in St. Paul rather than at the University because of end-runs.

Dr. Kvavik agreed with the points made by Professor Gardner but recalled that in the past, the University would develop a long list of capital projects--that could be changed if one lobbied enough internally--to the legislature, from which it could then pick and choose. Under Gus Donhowe, that process was changed so that the list was shortened considerably, submitted to the Board of Regents and approved, and with very little manipulation of it in St. Paul. There have been some compromises of the list in the current session, but nothing has been acted on that the University did not have high on its list, and at least the House has largely respected the University's position on the indebtedness problem.

The practice of end-runs has long been a problem here, observed another Committee member. One institution put a quick stop to it by deducting from a unit's budget an amount equal to any funds it had obtained by end-runs.

Professor Rubenstein thanked Professor Gardner and Associate Vice Presidents Kvavik and Markham and then adjourned the meeting at 5:10.

-- Gary Engstrand

University of Minnesota