Minutes[*]

Senate Committee on Finance and Planning
Tuesday, September 7, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Wendell Johnson, Michael Korth, Terrence O'Connor, Richard Pfutzenreuter, Charles Speaks, Susan Carlson Weinberg

Regrets: James Perry, Dan Feeney

Absent: Cynthia Gillett, Gerald Klement, Eric Kruse, Jane Phillips, Terry Roe, J. Peter Zetterberg

[In these minutes: committee business; upcoming agenda items; the capital request; preliminary discussion of faculty salary issues]

1. Announcements

Professor Gudeman convened the meeting at 3:20, welcomed Committee members back to the first meeting, and made several announcements.

-- An amendment is expected to be approved by the Senate which would allow the appointment of ex officio members of subcommittees; that would permit the Committee to formalize the membership of the representatives of the Subcommittee on Twin Cities Facilities and Support Services (STCFSS). An amendment designating the chair (or designee) of the Academic Health Center Finance and Planning Committee as an ex officio member will also be offered.

-- One issue that has been assigned to STCFSS is the Aramark contract. There will be a representative of Aramark on campus later in September, and it is hoped that the chair and members of STCFSS, as well as a few representatives from this Committee and the Faculty Consultative Committee, will meet with him.

-- A different issue to be brought before the Committee for discussion later in the semester will be recommendations of the budget management task force, chaired by CLA Dean Steven Rosenstone. A preliminary set of recommendations will probably come in late October or early November.

2. The Capital Request

Professor Gudeman turned now to Associate Vice President Pfutzenreuter to lead a discussion of the capital request and of the capital budget planning process.

Mr. Pfutzenreuter distributed two sets of handouts and began with the 2000 capital request. He noted that it is still changing, but that it should be fairly well set after the day of this meeting. By law, the

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University must provide to St. Paul a preliminary capital request in the spring, which it did. The present list is in priority order, but could change before the President submits it to the Board of Regents later this week.

Mr. Pfutzenreuter then reviewed the items on the tentative President's recommendations to the Board of Regents. (In priority order)

-- $16.0 million, HEAPR (Higher Education Asset Preservation and Replacement). This money is used for code and fire/life safety items. Of the $16 million, $10 million is for chilled water (air conditioning), primarily for St. Paul and the Academic Health Center; there is concern that existing systems are well past their useful life, and research experiments could be endangered if the systems fail. This $10 million expenditure is also necessary if the Molecular and Cellular Biology building is to be completed.

    The University requested over $20 million in HEAPR funding in 1998, and received about $4 million. HEAPR funds are exempted from the requirement that the University pay 1/3 debt service on capital funding. (MnSCU is seeking about $100 million in HEAPR funding, but separates the code/safety items from other remodeling construction costs. The University could do the same, but the legislature routinely appropriates far less than the institutions request; since the University wants to get the projects done, it folds in code/safety items into the project cost, and pays the 1/3 debt service on the entire cost.)

-- $35 million, Molecular and Cellular Biology, Phase II. The University is spending $35 million, as promised in the 1998 capital request; the legislature said it would pay for half if the University paid half. It has.

-- $21 million, Art Building. An additional $15 million will be funded by University-issued debt and $8 million more will come from fund-raising. The Center for Freshman Studies is no longer in the request; that $15 million has been put into the request for the Art Building, which the administration feels is so important that University funding had to be put into it. The new building will be another anchor for the West Bank arts district, which includes Rarig and the Ted Mann Concert Hall.

-- $10 million, Microbial and Plant Genomics. Cargill has donated $10 million, which must be matched by the legislature if the University is to receive the money. The building will be on the St. Paul campus; the site has not been selected.

-- $17.1 million, Plant Growth Facilities, Phase I.

-- $6.5 million, Kiehle Hall, Crookston

-- $8.2 million, Science and Math, Phase II, Morrison

-- $6.1 million, Music Performance Laboratory, Duluth

-- $10.4 million, Bulldog Sports Center, Duluth

-- $4 million, research and outreach centers at Cloquet, Waseca, Itasca, Crookston, and Grand Rapids.

The total request is for #134.3 million from the state. The University would issue bonds for $31.5 million, and would raise $27.6 million privately, as follows:

Art Building	8.0 million
Microbial/Plant Genomics	10.0
Bulldog Sports Center	2.1
Law School Addition	7.5

The Board of Regents will review the request at its September meeting and act on it in October. The request is submitted to the Governor at the end of October; the Governor makes capital recommendations to the legislature in February.

Mr. Pfutzenreuter recalled that he had been asked what the operating and debt costs for the items in the capital request would be. Operating costs would be $4.7 million per year, if all were open and running, while the peak debt service would be $2.5 million, for a total of $7.2 million per year in increased operating costs. This amount does not discount any source of revenue that might be used to pay the costs.

Committee members then asked a number of questions about the request.

-- How much will infrastructure costs be, and where are they identified in the request? The University has tended to ignore infrastructure costs when a new building is constructed, and then scrambled around at the last minute to identify funding. Project costs now include associated infrastructure costs (e.g., $6 million of the $44 million Art Building cost is infrastructure).

-- What is the capacity of Parking to support projects? There needs to be a benchmark for Parking; some have suggested using downtown parking rates. It is not clear what the right benchmark would be.

-- The money being raised by the Law School for its addition is counted as part of the University's 1/3 contribution to capital construction. The law requires a total contribution of 1/3, not a project-by-project contribution. Private funds are proposed for use in the 6-year capital plan as a way to leverage funds and to decrease the amount of debt the University must take on. What happens if the University does not raise the funds? The legislature amended the capital request in 1998 to provide that if the University does not obtain the outside funds, it must pay its 1/3 debt service--and, the legislature said, the projects needed to be done by 2003. The University is in good shape; on a couple of the projects, it is ahead of schedule. In the case of both Art and Law, a sizeable amount of the money has already been raised. Mr. Pfutzenreuter said the University would not put these items on the capital request unless it were pretty sure it could raise the money. But there is a slight risk, he agreed.

-- The numbers presented today represent only the STATE capital budget; the University total capital budget is much larger. How much? Approximately $800 million. The University does not count parking or housing facilities in calculating the state capital budget; the state request usually consists of academic buildings. Why not include the Gateway Center? Because it is privately funded, and the University is only leasing space in it.

-- Does the legislature accept what the University puts on the list as the University's share of capital debt? It typically has; it is not statutorily bound to do so.

-- Asked about the requirement that the University pay 1/3 of the debt service on capital projects, Mr. Pfutzenreuter explained that it was adopted in about 1992 in order to try to stem higher education's appetite for new buildings (the same requirement is imposed on MnSCU). It also allowed the legislature to spend more money elsewhere. He related that he and President Yudof have met with Governor Ventura, and told him that they believed it unfair that the same requirement is not imposed on district building projects--many of which benefit ONLY the local area. The University is trying to get the requirement removed, but Mr. Pfutzenreuter expressed doubt that the requirement would soon go away. He also said he did not know of any other state that imposed this requirement. This is something the Twin Cities legislative delegation should work on, said one Committee member.

-- Will the University be affected if Mr. McComb gets his way and there is substantial state debt for a new football stadium? That depends on the size of the state capital bill will be, Mr. Pfutzenreuter said. The Governor has said he wants a bill of about $400 million; the University could expect about $50 million if that is the case (if past history is any guide). If the University receives only $50 million, that will cover the HEAPR funds and the completion of Molecular and Cellular Biology--and nothing else. The University list has important facilities, however, especially for agriculture. The legislature is not obligated to stick to the University's priority list, it could approve spending for more than the Governor recommends; the Governor could veto the increase, the legislature could override the veto, and the Governor could still decline to issue the bonds.

-- There is no single major project competing with the University in the capital request this time; there are no new prisons or hospitals that need to be built. MnSCU is seeking $240-250 million. A stadium could subtract from what is available if it is passed.

3. Conceptual Framework, 6-Year Capital Plan

[Note: the presentation on the conceptual framework was the same as that made to the Faculty Consultative Committee on August 19; that portion of the FCC minutes are appended. Recorded here are the comments and questions raised by Committee members at this meeting.]

-- Mr. Pfutzenreuter emphasized again that the University will not be able to afford all of the $1 billion in capital proposals that have been made internally. Decisions will have to be made.

-- Is the process for moving proposals forward new? Mr. Pfutzenreuter explained that it had always been there, at least implicitly, but that there has not usually been the discipline to enforce it. Some new project always seems to come along--and there always will be exceptions that will come along that need to be fitted in. But in the past, some academic officer could have a computer design of a new facility prepared and go out and talk to possible donors--and the project is off to the races without regard for infrastructure costs, impact on vehicular and pedestrian traffic, parking, etc. Under the system now in place, if a facility is not approved for predesign, it will not be allowed into the capital request or onto the agenda of the Regents.

-- Have wants escalated in the last 5-6 years? EXPECTATIONS have increased, because people are seeing a lot of new buildings and construction.

-- This Committee needs seriously to contend with the problem of needing to cover debt service and operating costs of new buildings. Typically, those costs come "off the top" of the state appropriation.

-- With respect to the "funding lanes," Mr. Pfutzenreuter said that key items include the approval stages, the question of who decides which projects will have what priority, and how it is decided what the fiscal capacity of each lane will be.

-- How much outstanding debt does the University have? About $553 million, with $130 to be added. There is need for a discussion of how much more can be added. In a family, debt capacity consists of how much one thinks one can pay off. There might be a difference between what you think you can pay and what the mortgage company thinks; in the case of the University, it is a question of what the rating agencies say. It was agreed that the Committee should be provided information on other institutional debt as well as on debt levels at peer institutions, and BEFORE the October Regents' meeting.

-- Could public-private partnerships be expanded, and allow the University to obtain better financing? The obligation still exists, even if it is not on the balance sheets, and rating agencies count it. Dinnaken would not count, because the University has no obligation, but a 5-year lease at University Village would.

-- Is it a long time before the University's debt disappears? The state sells bonds for 20 years but pays them off in 12, so the state portion of the University's debt declines fairly fast. The University's own indebtedness is for 20 years. Some debt is eliminated in 2002 and 2004, which gives the University the opportunity to issue more for additional capital construction.

-- There is a reasonable ceiling on the amount of debt the University can take on without having its interest rates increase. Is the University approaching that ceiling? That is a policy decision, Mr. Pfutzenreuter said. There is no precise number. It is possible the University will have incurred debt to the extent that it will tell the state that it--the University--cannot afford any more, so any additional facilities will have to be fully funded by the state.

-- One implication from declaring a moratorium on new buildings would be that a pool of funds would need to be reserved for emergencies and unpredictable costs.

-- There could be one more "funding lane," Mr. Pfutzenreuter commented: use of the internal loan fund. That is a source for short-term capital projects, usually six or fewer years. The University has been cautious in using the fund, but it has about $30 million that constitutes a reserve. It could deal with unanticipated cost overruns and emergencies, lab renovations, etc. Any funds drawn from it must be repaid.

Professor Gudeman thanked Mr. Pfutzenreuter for his presentation.

4. Faculty Salaries

Professor Gudeman then said he would like the Committee to take up the issue of faculty salaries during the semester. Dr. Peter Zetterberg will join the Committee in November to present a variety of data, but the Committee should begin thinking now about the kind of questions that it wished to address to him. Topics might include salaries and fringe benefits across peer universities, salaries vis-à-vis cost of living, sources of funding for faculty salaries, and so on.

In response to a question, Professor Gudeman affirmed that the Faculty Consultative Committee expects this Committee to take the lead on the issue this year. If so, it was said, the Committee needs to know more about the process of dealing with the legislature and how salaries are set inside the University. Professor Marshak plays a significant role in this process, and he should be asked to keep the Committee in the loop. He should also be invited to join the Committee. It was agreed that discussions need to begin now, in the off year, and that faculty need to be better prepared.

Faculty salaries seem always to be on the "wrong side of the line" in the University's priorities, it was said. Buildings seem to come first, while people, faculty and staff, who are the most important resource at the University, should come first.

It will be necessary to be informed about the breakdown of faculty salary funding by unit, it was said--some colleges rely more on O&M funds than do others. Others asked about tenure versus non-tenure track appointments. It will be helpful if the data to be presented by Dr. Zetterberg can be provided in advance of the meeting at which he will attend, and that he be asked to make clear what his assumptions are.

The Committee also needs also to inquire of the administration about salary policy and strategy, and lack--by some colleges--of providing additional salary increase funds, although encouraged to do so by Executive Vice President Bruininks. Professor Gudeman agreed that this matter should be posed to Dr. Bruininks. The Committee might also develop a salary policy to present to the administration as well.

Professor Gudeman adjourned the meeting at 5:05.

-- Gary Engstrand

FROM THE AUGUST 19 FCC MINUTES:

Mr. Pfutzenreuter began by noting that the Regents have directed the administration to develop a rolling 6-year capital plan to be reviewed and approved by the Board of Regents on an annual basis. The 6-year capital improvement plan is presented in two parts, as described below. Part one is the annual capital improvement budget, which identifies projects in the 6-year capital plan that are ready for immediate construction. It includes information on the source of funding for each capital project. Each year the Board of Regents adopts an annual capital improvement budget for the upcoming fiscal year. The Board approved the fiscal year 2000 capital improvement budget in May 1999.

Part two of the capital improvement program identifies projects that will be included in the 2000 capital request to the legislature or are candidates for the 2002 to 2004 capital budgets where state dollars are required of, if self-funded, are candidates for the 2001 to 2004 annual capital improvement budgets. The capital improvement plan identifies expected costs and financing plans for each project. Part two is driven primarily by the nature and timing of the capital budget request process of the State of Minnesota. The Minnesota Legislature has traditionally acted on the operating budget in odd-numbered years and focused its attention on capital budget authorization during even-numbered years. Accordingly, projects included in the University's capital budget request to the legislature represent the majority of projects of the first two years of the 6-year capital improvement plan.

Consistent with past practice, the administration is outlining for the Board of Regents at its September board meeting a conceptual framework for preparing the 6-year capital improvement plan. The Board of Regents will review the 2000 capital request at its September meeting for approval at its October meeting. The administration will augment this plan with additional capital improvement projects targeted for FY 2002 and 2004 for review in October and approval in November.

These 6-year plans have been presented in the past; one difference between this one and those in the past are that the list now is VERY large, with projects that total $1.2 billion. Not everything on that list can be funded, so what priorities will be set? That is the problem that the University now faces.

The capital planning principles are four in number. (1) priority will be given to projects that must be supported to address serious and harmful conditions or other undesirable consequences (e.g., health and safety, infrastructure, legal obligations). (2) to advance projects that constitute the completion of prior projects or projects that were previously provided planning funds and have completed pre-design (e.g., Phase II molecular and cellular biology, art building, UMD music performance lab). (3) projects that enhance and strengthen key academic priorities. (4) projects that leverage non-state funds to limit additional debt costs. With respect to the last, Mr. Pfutzenreuter said, this will lead to increased emphasis on fund-raising in order to replace and reduce debt service costs to the University.

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Mr. Pfutzenreuter then turned to the conceptual financial framework for capital planning: the analogy is with a highway: "there are only so many lanes on a highway and only so many vehicles that can fit in those lanes." The idea is that capital projects will be approved and assigned to a "funding lane," and once assigned, it will stay in that lane. Examples of lanes include

(1) facilities to be funded 100% by State General Obligation Debt
(2) funded by U of M 1/3 debt service, State debt 2/3
(3) funded by U of M debt through auxiliaries
(4) funded by current local resources
(5) funded by public-private partnership.

The development of these lanes influences what projects can be in the six-year capital plan.

Mr. Pfutzenreuter then reviewed for the Committee the stages through which a capital project must move before it becomes reality, going from proposal to planning and feasibility to resource acquisition to implementation.

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Mr. Pfutzenreuter now turned to a page in the handout that identified the "considerations and constraints" the affect capital planning and a capital request (not listed in order of precedence): academic priorities, 1/3 state match requirement, geographical balance, potential for staging, federal/state priorities, project readiness, prior planning funds, interdisciplinary, external factors, fund-raising potential, project interdependencies, traditional share of state bonding, and internal debt capacity. With respect to the last item, Mr. Pfutzenreuter reviewed the status of the $330 million in debt for (1) 1998 capital projects and (2) the University's portion of the proposed 2000 capital budget ($200 million has been issued to date). A constraint is the amount of debt the University can take on: there is no precise number, but there are benchmarks used by rating agencies.

The University received a very good rate on the $330 million. The question is how much more debt it can incur. The view of those who have thought about it is that the University can comfortably issue another $30-50 million in debt. The funding lanes, in turn, dictate the number of projects that can be undertaken and the priority they will receive.

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Professor Morrison inquired if FCC had any advice to offer. Professor Kuhi said it would be helpful to see the list of projects on the next part of the list. Mr. Pfutzenreuter said the conceptual framework will go to the Board of Regents, and that by October there would be a six-year plan. It will not, however, be a final, approved list of projects. Whether the Committee can see the list in September is up to the President, he told Professor Morrison. He cautioned again that given the various funding lanes, there will be many groups that will be disappointed.

The question is how much to winnow down the $1 billion list, Dr. Kvavik said. There are different ideas of what should be on a final list, but there is probably agreement on some items, such as earth science and completing the Mall. The President, he recalled, has talked also about renovating the knoll. Candidates for funding can be identified; what should go first in terms of programmatic strategy? If one does the very expensive items, there will not be a lot of money left.

Professor Rabinowitz reflected that faculty are being asked more and more to participate in fund-raising. That is not in the faculty job description, and while she does not oppose "tooting the horn" about her department, faculty must spend more and more time thinking about their activities can be connected to fund-raising. Professor Morrison observed that that is the reason the faculty keep the deans. Dr. Kvavik said that fund-raising is a reality of life.

Professor Humphreys said she is aware that some in the business community are concerned about the appearance of the campus, and there is a perception that the campus does not look as nice as its competitors. Planting flowers helped considerably. But it may be possible to touch a chord in the capital campaign on the issue of campus appearance. She said she was impressed at other large state university campuses, after a number of visits, by how much better they look. They are clearly more successful at keeping the campuses attractive.

Professor Morrison asked that Mr. Pfutzenreuter provide the Committee with written materials on the points that had been raised during the meeting (building operating costs, annual debt costs, long-term debt, expiring debt each year) and it would then decide what to do with them.

Professor Ratliff-Crain inquired if the majority of the buildings on the $1 billion list fell in the second "lane" (funded 1/3 by University debt); Mr. Pfutzenreuter said that they are not concentrated in any particular category, although historically most tended to be funded by the state. Most would fall in the first two lanes, Professor Morrison surmised. Would this mean the ones in the other three lanes would rise in priority, and take funds away from the first two categories? Morris, for example, is less likely to have access to fund-raising money than is the Twin Cities campus. Mr. Pfutzenreuter pointed out that one consideration in capital planning is geographical balance. At the same time, if fund-raising can be increased, for those projects that provide the opportunity, that in effect leverages money for buildings.

University of Minnesota