

Minutes*

Senate Committee on Finance and Planning
Wednesday, July 10, 2002
1:30 – 3:00
510 Morrill Hall

Present: Charles Speaks (chair), Prince Amattoe, Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeny, Wendell Johnson, Thomas Klein, Marvin Marshak, Timothy Nantell, Elo Charity Oju, Richard Pfutzenreuter, Susan Van Voorhis, Warren Warwick

Absent: none counted for a summer meeting

Guests: none

Other: none

[In these minutes: (1) biennial budget request preparation; (2) capital projects subcommittee report on the capital request and capital plan]

Professor Speaks convened the meeting at 1:30 and announced that he had invited General Counsel Mark Rotenberg and Auditor Gail Klatt to a meeting early in the fall in response to the article in City Pages concerning University construction practices.

1. Biennial Budget Request

Professor Speaks turned then to Mr. Pfutzenreuter to lead a discussion of the 2003-05 biennial request. Mr. Pfutzenreuter distributed copies of a set of slides which, he explained, had been used the previous day with the steering committee on the budget. Asked who was on the steering committee, he and Professor Speaks explained that it included deans, two faculty (Professors Feeny and Speaks), several administrators and people with experience working with the legislature.

Mr. Pfutzenreuter discussed the timeline for preparing and presenting the request. The process is running later than usual; state budget instructions from the State Department of Finance usually come in early June but it is only now that the University is receiving information from the state on budget expectations. The budget instructions will come in later July; Mr. Pfutzenreuter said he has been told that agencies will be instructed to prepare budgets that are X% lower than the current budget. He said he did not know what X will be but the state faces a large budget deficit; in any event, the University can still submit a budget request in addition to what is required by the Department of Finance.

Will there be changes with a new administration in St. Paul, Professor Campbell asked? There will no time to make significant changes, Mr. Pfutzenreuter said; the budget framework will be set by the previous Governor. And the University will not know who the Governor is when the biennial budget has

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to be provided to the Board of Regents, Professor Speaks added. Mr. Pfutzenreuter pointed out that the budget has to be submitted to the state by October 15; the elections are not until early November.

Mr. Pfutzenreuter next reviewed the outcomes of previous biennial requests. The dollar amounts are in millions.

Year	\$ increase requested	% increase requested	appropriation	% of requested increase received
1997	230.0	25	151.5	65.6
1999	198.7	18.4	119.9	60.3
2001	221.5	18.4	110.6	50

The best proxy for how higher education will do in a legislative request is the size of the budget surplus: the larger the surplus, the more higher education will receive. This relationship is more true for higher education than other state agencies, Mr. Pfutzenreuter said.

Traditionally the legislature does a two-year projection in order to achieve a structurally-balanced budget both in the year it is making appropriations as well as the following year. It did not do so last year and left a \$1.6 billion deficit (and also directed that there should be an assumption of no inflation in costs). The total, realistically (when inflation projected at 2.5% is taken into account), is a \$2.6 billion deficit going into the 2003-05 biennial appropriation session.

For the University, the State Department of Finance planning estimates are as follows:

November, 2001 base biennial budget:	1,379,965,000
End-of-session planning base budget:	1,278,704,000
Change in base	(101,261,000)

The change in base represents the reduction imposed during the last session carried forward into the 2002-03 fiscal year (\$50.9 million) and a reduction due to the exclusion of inflationary increases (\$50.2 million). The base budget is thus down over \$100 million from what the University had planned on last November. The \$1.278 billion, moreover, is the base from which the Department of Finance expects the X% reduction. Mr. Pfutzenreuter said he would not be surprised if X were somewhere between 5% and 10%. It is not unexpected that the state would ask for a reduction plan nor is it certain the University will lose \$130 million (10% of the base budget), but how the University responds to the request for a planned reduction is something the President, senior officers, and Board of Regents must wrestle with.

Mr. Pfutzenreuter reviewed two graphs indicating, once again, that the percent share of total state spending on higher education has declined since 1980: after peaking in 1988 at approximately 16% of total state spending, the total is now about 10%. Higher education HAS received more money, but its percent share is declining--other parts of the budget have received more funding (K-12 education, property tax relief, health and human services). State spending on the University as a percent of Minnesota personal income has also declined since the mid-1980s.

Examples of cost pressures on the University include compensation (for all employees, each 1% increase in compensation costs \$26.8 million over the biennium), facilities (new debt, utilities increases,

and the cost of operating new buildings, which total about \$25 million), technology (a new financial system [about which no decision has been made], classroom improvements), academic priorities, and the "must do" list (items not funded by the legislature, typically totalling \$10-12 million). Examples of "revenue pressures" include the state deficit, recent tuition increases (each 1% increase in tuition provides \$10 million in revenue over the biennium), ICR funds, and investment income from gifts.

Mr. Pfutzenreuter said he had to leave the Committee with the impression that the state has a lot of budget problems and that the University may be asked to cut funds from a budget that is already less than the original biennial base. On the cost side, the University cannot cut the buildings--they are already there and must be paid for. The University does have choices on compensation and other expenditures. And compensation is always the most visible target, Professor Speaks observed. Mr. Pfutzenreuter agreed. This is similar to the situation of the late 1980s and early 1990s: compensation was frozen and the University as a result lost a lot of faculty.

Committee members then held an off-the-record discussion about legislative strategy, advice to be provided to the steering committee on the budget, and various related political matters.

Professor Speaks thanked Mr. Pfutzenreuter for joining the meeting.

2. Report from the Capital Projects Subcommittee

Professor Speaks now called on Professor Marshak for a report from the Capital Projects Subcommittee. Professor Marshak said the Subcommittee had met twice so far; he distributed copies of notes from a meeting of the Subcommittee held earlier in the week, which were as follows:

The University Budget Office is currently developing a revised capital plan for consideration by the Regents at their September 2002 meeting. The plan includes six assumptions:

1. Vetoed projects will be included in a 2003 Supplemental Capital Request. [\$37 million Translational Research Facility (which had \$12.5 million in private donations), Jones Hall renovation on the Twin Cities campus (\$8 million total), the Social Science Building renovation at Morris (\$9 million), funding for the Research and Outreach Centers (\$2.5 million), planning money for a new Teaching and Technology Center on the Twin Cities campus (\$3 million), and improvements at the Veterinary Diagnostic Laboratory in St. Paul (\$1.5 million)]

[The University is considering allocating \$0.6 million of its own funds now for planning for the TRF building.]

2. The current 6-year plan is the base for the new plan.

3. Consideration of a 2008 capital plan will be deferred pending action on the Supplemental 2003 request.

4. The 2004 and 2006 requests will not exceed \$250 million each. [This limit is not restrictive. The most the University has ever requested is \$251 million; the most it has ever received is considerably less.]

5. The 2004 and 2006 requests will limit the University's debt obligation to \$30 million per biennium. [This assumption appears highly restrictive since the State expects the University to pay 1/3 of non-HEAPR expenditures. Thus, requests will need to include a considerable amount of HEAPR and private fundraising.] [Service units (parking, housing, etc.) are apparently not included in this limit.]

6. Academic units will be expected to raise 1/6 of the funding [one-half of the University's contribution] for new projects, that is, not including projects requested in 2002. [This requirement has been promised for some time, but will now take effect.]

One member of the sub-Committee suggested adding a seventh assumption, at least for the Twin Cities campus, that projects should be assessed a cost associated with their land use. This principle should be established prior to the real costing of an on-campus stadium.

One member of the sub-Committee suggested that the University's academic program has been and will continue to be seriously harmed by lack of space and the slow pace of the capital projects pipeline. This member pointed out that other major research universities have funded capital projects from increased indirect cost recovery from research using the new space. Such a strategy requires development and execution of a disciplined plan to build space, recruit faculty, initiate research and recover costs. Consideration needs to be given to the importance of encouraging and supporting the total funding capacity of academic units whose research faculty have the potential to increase dollars earned from the sponsor organizations.

Possible 2004 Capital Request [not from Budget Office]

Previously requested but not approved projects:

1. MRRC (for College of Education)	\$18.4 million
2. Morris Social Sciences	\$ 9.0 million
3. IT Teaching and Technology Design	\$ 3.0 million
4. Northrop Design	\$ 2.0 million

Recurring Projects

1. HEAPR	\$80.0 million*
2. Classroom Improvements	\$ 4.0 million
3. Research and Outreach Centers	\$ 4.0 million

*Higher Education Asset Preservation and Renewal, aka building upkeep

2004 Projects from Previous Plan

1. AHC	\$20.0 million
2. Crookston	\$ 4.5 million
3. Morris	\$ 3.0 million
4. Kirby Plaza UMD	\$12.0 million
5. Folwell	\$27.0 million
6. IT Teaching and Technology	\$42.0 million
7. Lind (Geology)	\$18.0 million

8. Pillsbury (design)	\$ 1.0 million
9. Northrop	\$10.0 million
10. St. Paul Fish & Wildlife/Entomology	\$24.0 million
Total:	\$281.9 million
University Contribution (1/3 of total minus HEAPR)	\$ 67.3 million

Comment from a subcommittee member on the draft minutes: The point that projects should be aligned with the University's priorities/plan doesn't appear here. Although that may appear obvious, given the land and money restrictions, building can proceed with resources overpowering a plan. It seems to me that this is an important part of this subcommittee's existence-- to keep an eye on the "plan" and how projects fit.

Professor Feeney inquired if the previous arrangements for funding the Translational Research Facility are still in place (e.g., will the donor still provide \$12 million)? Mr. Pfutzenreuter said the University hopes that it can still obtain the private funding.

In terms of the cost of land, at the least projects should be assessed for the cost of parking that must be replaced as a result of construction; Professor Marshak said this would have a big effect on any new football stadium.

Would any new shared-use football stadium be a part of the next capital request, Professor Speaks asked? Presumably not, Professor Marshak said. Mr. Pfutzenreuter said he did not believe the Regents were ready to take a position on including a \$500-million football stadium in the University's request. The legislature says the stadium will be owned and operated by the University, on University land. Professor Marshak said the University should be in a position where the stadium is forced on it, not something that it asks for.

One Subcommittee member said that some universities fund research facilities on a business model: they hire faculty who get grants, and then they use ICR funds to pay for the building. It was said the University should consider doing this as well. Mr. Pfutzenreuter said he has been working with the Academic Health Center on this idea, but every time they have examined it they learn that it is NOT TRUE that ICR funds can pay for a building. That is a myth, he said. It can HELP, to be sure, but there will still be an institutional subsidy. Any such project would have to be in the AHC, Professor Marshak said; it will be interesting to see if the individual making the proposal can provide some data. Perhaps it is possible if one builds cheaper buildings, rather than meeting the regular University building code. Mr. Pfutzenreuter pointed out that 40% of the cost of the most recent new building in the AHC was in SYSTEMS, not in the building itself.

Professor Marshak reviewed the items in the capital request that he had prepared; he emphasized that the list is NOT a University list, but rather one he had assembled based on the principles that have been enunciated and the past practice of the University. He noted that the total exceeds the assumed maximum of \$250 million and that the projected University obligation significantly exceeds the assumed maximum of \$30 million per biennium.

When will the capital plan go to the Regents, Professor Speaks asked? In September for review, Mr. Pfutzenreuter said. The six-year plan will include the 2004 capital request, which must be submitted to the state by June, 2003 (according to state law). The Board could, before that time, make changes or re-approve the list that already appears in the six-year capital plan. Who decides what to present to the Regents in September, Professor Speaks asked? Interim President Bruininks, Mr. Pfutzenreuter said.

As one looks at the list, one should ask if it is aligned with University plans and priorities, Professor Marshak said. If not, the Committee should say so now. Where could one find documents that identify University plans and priorities so they could be reviewed in light of the list, Mr. Klein asked. Committee members laughed. Professor Marshak said the cynical view of the capital request is that there are eight to ten streams of information and pressure flowing to the President and that the capital request is the result of the merger of those streams.

Mr. Pfutzenreuter agreed that there are political realities: there are geographic considerations (there will always be items for all campuses), and those may reflect campus rather than institutional vision. There will always be HEAPR funds requested, which carry no debt service for the University. There will always be money sought for classroom improvements. After those items, the request consists of what the President wants and what University priorities call for. All of this is complicated by staging.

Professor Marshak agreed with the last point. He said that the current list is driven largely by a multi-step IT/English project: a new building on the existing broomball courts next to the Field House, which would allow Geology to move to a renovated Lind Hall, which would allow English to move to a renovated Pillsbury Hall. This is all phased, and would include one-half of the cost of remodeling the Physics building.

Mr. Klein's question is an important one, Professor Speaks said, which is why the Subcommittee was formed. He reviewed the history of the Capital Improvements Advisory Committee, to which deans and vice presidents would make presentations and which would then make recommendations to the President. That committee ceased to exist in 1997. The answer to the question about the extent to which the capital request aligns with University priorities is that it does so in the mind of the President--he sets the priorities. He said he proposed the Subcommittee as a way to insert faculty and student views into the capital process; it is to make recommendations to this Committee and to the President. He said he did not know how capital requests would be handled in the future, with a new president. That will depend on the role the President wants to play, Mr. Pfutzenreuter said; President Yudof did set priorities and sometimes changed the list. Whereas President Hasselmo, Professor Speaks recalled, did not become so deeply involved.

Who can meet with the Subcommittee to address Mr. Klein's question, Professor Speaks asked? This list is not his, Mr. Pfutzenreuter reminded the Committee. Who can meet with the Subcommittee, Professor Speaks asked, to answer Mr. Klein's question about whatever capital projects list comes out of Morrill Hall? Mr. Pfutzenreuter said he did not know, at this point; he tries to get presidents to make up their minds. The Subcommittee needs to know in a timely way what the President wants to present to the Regents in September, Professor Speaks pointed out, so it can react to any list.

Professor Campbell said that President Yudof set his own academic priorities that can be identified (mostly in research areas--digital media, biological research, design, etc.), along with beautifying the campus and providing space for undergraduates. But those were largely aligned with

institutional priorities. On the other hand, the Translational Research Facility shows how "leaky" the process is: some items jump up higher on the list rather than just move up in line. But it, too, is related to academic priorities.

Professor Speaks said he agreed with Professor Campbell that the last capital requests were reasonably aligned with University priorities. The difference in the last two administrations was how those priorities got set. Before 1997, the process was bottom-up. The items that Professor Campbell mentioned, however, started with the President rather than from the units. If the President is attentive to significant issues in the organization and the perspectives of constituents, it can be a different way to reach the same priorities, Mr. Klein pointed out.

Professor Feeney said the Committee needed to re-address the stadium issue. When Mr. Pfutzenreuter says the stadium will be owned and operated by the University, that reeks of University liability in the event the professional football team does not stay. The University can have all the air-tight contracts it wants and still end up on the hook if any deal falls apart. He urged that this issue be brought back in the fall.

Professor Speaks noted that the candidate for Athletic Director, Joel Maturi, favors a new on-campus stadium, but not for financial reasons--rather, he sees it as a way to re-invigorate student interest in football. By legislative proviso, the University is to provide the land for a new stadium and build a new \$60-million parking facility that is expected to lose \$3 million per year in operating costs. Professor Feeney recalled that former Vice President Kruse said his worst nightmare was inheriting the Metrodome with its operating costs; that would be nothing, Professor Feeney said, to inheriting a new \$500-million stadium. And Mr. Kruse was asked where the Gophers would be playing in five years; he said the Metrodome, Professor Speaks noted. Asked where the Gophers would be playing in ten years, Mr. Kruse had said he expected they would be in a new on-campus stadium.

With that, Professor Speaks adjourned the meeting at 3:10.

-- Gary Engstrand

University of Minnesota