

Minutes*

Senate Committee on Finance and Planning
Tuesday, August 20, 2002
3:00 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Bruce Brorson, Charles Campbell, David Chapman, Tom Gilson, Gary Jahn, Thomas Klein, Joseph Konstan, Michael Korth, Timothy Nantell, Richard Pfutzenreuter, Susan VanVoorhis, Susan Carlson Weinberg

Absent: none counted for a summer meeting

Guests: Mike Berthelsen (Office of Budget and Finance)

Other: none

[In these minutes: (1) issues coming to the committee; (2) the six-year capital plan and the capital request]

1. Issues Pending Review

Professor Speaks convened the meeting at 3:00, called for a round of introductions because a number of new Committee members were present, and then reviewed the fall semester Committee business. He noted that the meeting agendas for the fall were already quite full. The issues coming include a review of the status of the proposed joint-use football stadium (a matter which the Faculty Consultative Committee asked this Committee to keep tabs on and report back to it) and the athletic financial situation, as well as the capital budget and the biennial request. The new athletic director, Mr. Maturi, has agreed to join the Committee to discuss, at a conceptual level, his financial plans for the athletic department.

Professor Jahn noted that this Committee must also discuss the agenda of the Subcommittee on Twin Cities Facilities and Support Services: what should it be doing this year?

2. Status of the Six-Year Capital Plan

Professor Speaks turned next to Mr. Berthelsen to discuss the six-year capital plan. Mr. Berthelsen reminded the Committee that the University has a two-part six-year capital plan: a capital budget, which is for buildings with funding available and approved for the next year, and capital plan for the following five years.

This year the University will make a supplemental capital request to the State (which is not usual, because this is not a legislative session devoted to capital construction) to seek funding for the \$61

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million in items that Governor Ventura vetoed. The University will only seek funding for projects that were approved by the House, the Senate, and the conference committee. Will the University know who the new Governor is before it submits the supplemental request, Professor Speaks asked? It will not, Mr. Berthelsen said; the Regents will act on the request in October and it will be submitted shortly thereafter.

Mr. Berthelsen reviewed the assumptions underlying the six-year capital plan contained in a memo from Associate Vice President Pfutzenreuter to the chancellors and vice presidents.

1. Vetoed projects will become the 2003 supplemental capital request and not included in the 2004 request at this time.
2. The updated 6-year plan builds on the Regents' current and approved 6-year plan.
3. The Regents will only approve preliminary capital requests for 2004 and 2006 until the outcome of the 2003 supplemental request is known (after which time the 2008 request may be added).
4. The 2004 and 2006 requests will not exceed \$250 million in projects per biennium.
5. The 2004 and 2006 requests will limit the University's debt obligation to \$30 million per biennium.
6. The 2004 and 2006 requests will maintain the principle that the academic unit that is the primary beneficiary of the proposed project will be required to finance in cash 1/6 of the project budget during the project construction time except for projects that were originally requested in 2002 and were subsequently vetoed or not approved.

Mr. Berthelsen also quickly reviewed the timeline for preparation of the 6-year capital plan, existing University debt (\$706 million outstanding), the debt reduction schedule (assuming no additional debt is incurred, existing debt would be largely eliminated by 2022), and the projected annual cost of debt service (it peaks this year at about \$67 million and then declines to about \$60 million or slightly less for the next five years). In response to a question from Professor Konstan, Mr. Berthelsen said he would be preparing revised graphs showing the impact of adding debt if the 2004 and 2006 capital requests were approved. They would add about \$64 million in debt, at a cost of about \$6 million per year.

The Committee next looked at the preliminary 6-year capital plan, beginning with the proposed 2003 supplemental request. The items to be requested in 2003 include:

Translational Research Building	37 million
Jones Hall	8
Heritage District UMM	9
IT Teaching/Tech Design	3
Res & Outreach Centers	2.5
Vet Diagnostic Lab	1.5

Mr. Berthelsen then reviewed the items in the 2004 and 2006 capital request and the very short list for 2008. All three requests include \$80 million in HEAPR funds (Higher Education Asset Preservation and Replacement) for health and life safety, building systems (plumbing, electrical, etc.), and utilities. The only other item on the 2008 request is possible funding for University acquisition of the State Department of Health building for the School of Public Health, should it become available. Mr. Berthelsen also noted the non-state items of the 6-year plan, which total approximately \$127 million for 2004, 2005, and 2006.

The tables listing the proposed capital projects also included estimated debt service cost and estimated net operating costs. Professor Speaks asked if anyone had any idea about the source of funding for the operating costs once a project is approved. They do a four-year projection of building operating costs, Mr. Berthelsen said, and those costs are part of the biennial budget planning. So they are fully or partially funded in the biennial budget request, Professor Speaks asked? They are, Mr. Berthelsen said. Professor Speaks noted that there had been conversations with Dr. Maziar about the biennial request and the capital request; the link between them appear to be the building operating costs. Mr. Pfutzenreuter agreed and said the operating costs never get funded.

Does anything lead to decreased operating costs, Professor Konstan asked? Not really, Mr. Berthelsen replied. Facilities Management is continually working on projects to make buildings more efficient (for example, they may add air conditioning to a building, which saves money because window units are no longer needed), or may improve air-changing efficiency (but may also change air more often). The University is committed to meeting its standards of care when a building is newly-opened or renovated, which usually means increased operating costs.

Legislators believe the University should take buildings off-line when new ones are built, Professor Campbell observed; does that ever happen? It does, Mr. Berthelsen said, and legislators were provided a report. The growth in space at the University, given all the building, was much less than expected.

Professor Speaks inquired about the \$80 million in HEAPR requests. Mr. Berthelsen commented that before the last request the University had never requested that much money; it had usually sought about \$30 million. The University proposes to keep the total request at about \$250 million, Mr. Pfutzenreuter explained, but has moved away from requesting funds for new buildings to requesting money for renovation and renewal.

Professor Speaks reported that the Capital Projects Subcommittee is being asked to review one-page case statements providing the rationale for each of the projects proposed for the 2004 capital request, how the projects would mesh with academic priorities and the President's plans, and to report to this Committee its recommendations on which items should be a high priority.

Professor Campbell inquired about a project not on the list: the move of English to Pillsbury Hall. Mr. Berthelsen said that would probably be on the 2008 list because there are a number of dominoes that must fall before that move could be made.

Professor Campbell wondered where the space for new buildings in the future would be found, especially if the University gives up much of the land adjacent to Mariucci Arena for a football stadium. Mr. Pfutzenreuter said he would be glad to review with the Committee the land available on and around the campus and discuss thoughts on land acquisition. Is it too late to plan for academic space in any joint-use stadium, Professor Speaks asked? Such space is absolutely under consideration, Mr. Pfutzenreuter said. They have talked to Recreational Sports and the Dean of the School of Public Health, but they do not know how much space will be available. Mr. Berthelsen added that there are spaces that could be used for other purposes. For example, Norris Gymnasium and existing clinic space in Phillips-Wangensteen (if University of Minnesota Physicians move to their own, new, clinics, there would be about 100,000 assignable square feet freed up, or about the equivalent of a new building).

Is the stadium a fait accompli, Professor Speaks asked? Mr. Pfitzenreuter said he believes with 100% certainty that there will be a predesign process. If he were a wealthy betting man, he would bet on when, not if, there is such a stadium.

The Committee also briefly discussed possible future uses of the University golf course for other University uses.

The Committee then moved on to an off-the-record discussion of the politics of the biennial request.

Professor Speaks adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota