

Minutes*

**Senate Committee on Finance and Planning
Tuesday, March 2, 2004
2:30 - 4:15
238A Morrill Hall**

Present: Charles Campbell (chair), Brittny McCarthy Barnes, Stanley Bonnema, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Michael Korth, Yi Li, Timothy Nantell, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Rose Samuel, Charles Speaks, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Warren Warwick, Susan Carlson Weinberg

Absent: Calvin Alexander, David Chapman, Daniel Feeney, Thomas Stinson, Michael Volna, Cleon Melsa

Guests: none

[In these minutes: (1) stadium update; (2) lease for University Enterprise Laboratories; (3) finance issues; (4) sustainability policy; (5) Parking and Transportation budget issues]

1. Stadium Update

Professor Campbell convened the meeting at 2:30 and reported that the President had mentioned that there may be action at the legislature with respect to the revenue stream for a Gopher-only stadium, but nothing has happened thus far. He turned to Vice President Pfutzenreuter for comment.

Mr. Pfutzenreuter reviewed the three elements of the cost of a stadium (site preparation, district preparation, and the building itself) that total \$222.2 million. In response to questions at the legislature about what "significant" means in terms of the University making a "significant" contribution to the cost, he has suggested 60%, or \$133 million. That 60% would come from fund-raising, sponsorships, and possibly a student contribution, legal claims, parking revenue, and (as a last resort) game-day revenues. He testified that for the remaining 40% (roughly \$90 million), the University does not preclude the possibility of someone paying the cost or the state paying the cost or providing a revenue stream. (Construction bonds to cover the 40% would cost between \$6.5 and \$7 million per year.) The University has assumed the state might do something about stadiums; the University could be part of any decisions made (e.g., extend existing taxes to cover the cost of the construction bonds).

The administration is talking with legislators about the stadium, Mr. Pfutzenreuter said, and it will remain flexible as proposals are made--probably within the next three weeks.

What if the legislature says the University can have X million dollars and use it for a stadium or its capital request, Professor Speaks asked. The President and Board of Regents would say that the money will be used for the capital request, Mr. Pfutzenreuter responded. But the University will never really know if any funds for a stadium are supplanting capital request funding, Professor Speaks commented. That is true, Mr. Pfutzenreuter agreed, but in part that will depend on how the funds might

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be made available. If a direct appropriation, the funds could supplant the University's request; if the legislature extends user fees or existing taxes, then it will be less clear. The University should not fool itself in thinking that "there is no great scorekeeper in the sky." Depending on how any funding is structured, however, the impact of stadium funding on the University can be minimized. Mr. Klein inquired whether the Committee might want to deliberate about the question Professor Speaks raised, rather than be caught facing it later if it arises. If the state provides the 40% and the University develops some plan to allocate \$133 million, Professor Konstan said, there is time to consult. There are more optimistic numbers than the Committee has seen before but the University needs to wait to see what comes out of the legislature. It would not be productive to have a discussion without real numbers, he maintained.

Professor Speaks said it was his impression that the process has gone far enough that if the legislature provides the \$90 million, the University has assented to the proposal to build a stadium. Mr. Pfutzenreuter said that the provision of state funds would likely contain a requirement that the University raise its \$133 million before the state funds would be available. Professor Konstan said the University would be in an awkward position if it could not meet the requirement. Professor Speaks is right, he said; there is a point at which the University will request the funds so it can build the stadium and it must reach the go-no go point before that decision is made.

There are big questions about finding the \$133 million, Professor Campbell observed. Given those uncertainties, he said he believed that consultation with the Committee is still important, but it is premature to take any action. Mr. Pfutzenreuter said that if he is made aware of any legislation he will bring it to the Committee.

2. Lease for University Enterprise Laboratories (UEL)

Professor Campbell next reported that there had been discussion at the University Senate about the proposed Regents' policy on the use of royalty income to support start-up business incubators. There had not been discussion of the proposed lease with UEL, but the lease has been discussed in parallel with the policy at meetings of this and other committees. At a meeting he participated in last week, a group was shown the draft lease and were assured that the price would be something the University will receive value from.

Ms. Weinberg reported that the lease has been deferred to the May/June Regents' meetings.

It is unusual for a governance committee to be consulted on a lease, Professor Campbell observed, but Vice President Hamilton wanted the Committee to look at it because of the interest the committees have shown in the issue. He has understood that the lease would provide space for the Office of Business Development (Office of the Vice President for Research) and for Carlson Ventures Enterprises of the Carlson School as well as for a few other University programs.

What happens to the space that those organizations now occupy, Professor Konstan asked? This would amount to the Vice President for Research paying for their space costs, Professor Campbell said, and presumably the units would put the vacated space to other use.

The President informed several people that they would be on a committee to develop principles and measures for the use of University funds for the incubators, Professor Campbell said. They had the meeting to review Page: 2

a draft of a support agreement with UEL, but this seems to be moving very fast and they have raised questions. He said he would try to stay on top of things and to keep the Committee informed.

3. Finance Issues

Professor Campbell reported that at the February 19, 2004, Faculty Consultative Committee meeting the President laid down a charge for this Committee. First, there will be a biennial request working group to rethink the University's strategy with respect to the request; the President asked this Committee to think about the charge and to identify nominees to serve on it. He said the group must be "small, agile, and quick." Second, for the longer term, he asked that this Committee think about the University's overhead and budget model--and he would like to have any changes in place by July 1, 2005.

The Committee will have at its next meeting a representative from the Academic Health Center Finance and Planning Committee, which has been focusing on IMG and what has been done at other institutions. They have developed a set of proposed budget principles for discussion.

What is the timing of the biennial request process, Professor Campbell asked? The work starts in earnest in June, Mr. Pfutzenreuter said, when the University is given parameters by the Department of Finance and the Governor's office. Although the University is autonomous, it does try to respond to the guidelines and it considers the themes in the Governor's recommendations. The President has urged the University to get ahead of the game and to think conceptually about how to frame the request. How much of the framing is marketing rather than a conceptual process, Professor Konstan asked? The University has flexibility with the recurring funds and increases are for the University to fund initiatives; how much of the request is the University deciding where the money should go versus where the state tells the University the money must go? The University will try to achieve consensus on where it should go in the next two years (e.g., spend money on faculty salaries, technology costs, or areas of emphasis) and then provide that information to the legislature and Governor. The legislature, unfortunately, sometimes appears to be less interested in continued funding for University operations (e.g., the libraries, technology, etc.) than it is in new projects.

If this Committee has a role in setting the charge for the biennial request working group, Ms. McCarthy Barnes said, it should call for an integrated approach because many in the University do not understand what it is seeking funds for (for example, students and alumni). The University could do a better job of getting people involved with a common message.

Mr. Pfutzenreuter said that in the last ten years or so the University has paid virtually all of its attention to the incremental gain on the base. The environment has changed; the state had a budget problem, and will again, so the University must fight not only for an increase but also for its base budget. Is there legislation the University should include with its request that would help keep costs down but not cost the state money (e.g., change the open records law to match the federal law) that would mean repealing unfunded mandates, Professor Konstan asked?

Professor Roe inquired if anyone had asked the University to define what should be considered its core costs, things that should have first claim on revenue streams, that should receive first priority. Other things would have to take care of themselves, perhaps via the market, he said. That is a question for the long-term financial model of the University, Professor Campbell suggested. Professor Roe suggested that for the financial model discussion, the Committee obtain the views of the administration on what is broken and get a sense of what it believes to be important. Much has changed but much remains the same, Mr. Fitzgerald commented; the need to fund common goods remains and the Committee need not reinvent the wheel on that point.

It was agreed that Professor Campbell would also get in touch with the Council of Deans, who are also working on a set of budget principles.

Professor Konstan observed that the challenge here is more one of planning than one of finances. Any model can be set with initial parameters to achieve the status quo; the question is how things react when changes occur. As part of that challenge, the committee will need to understand enough about academic administration to make reasonable choices about the burdens to place on Deans and on the President. He recalled that this was part of an early RCM/IMG discussion--the question of whether Deans were likely to have the skills, information, and resources to really manage their own budgets as envisioned in this model.

Ms. O'Brien, who said she was speaking not as Vice President for University Services but as someone with 20+ years experience in public budgeting, said she agreed that there had to be alignment in the institution and that the University needs to be a team as it thinks about how to make financial decisions. She also agreed on the importance of programmatic planning and observed that a programmatic plan should be developed first and then a financial plan, rather than doing them in reverse. Professor Speaks said he agreed with Vice Presidents O'Brien and Pfutzenreuter--but said that the integrated approach has not worked. That was the idea behind the Budget Advisory Task Force, which had an incredibly detailed charge and a deadline--but it never did what it was charged to do. The integrated approach should work but it did not. It may work when it is more urgent, Mr. Pfutzenreuter said. People outside Morrill Hall do not believe it is more urgent, Professor Konstan said. The question is not the whole University, it is faculty governance, Professor Speaks said; when the President issues a charge and the task force does not address it, and if the governance structure does not feel a sense of urgency, who will? The average faculty member may not sense any urgency, Professor Van den Bosch said, but department heads do. The current status of IMG makes planning difficult, and heads and chairs will therefore be interested in participating in the discussion; the erosion of IMG by the various taxes, and the prospect of continued change, make it difficult to know what to expect. One financial model does not work for all colleges, she added.

No one can shake off their parochial interests when they get involved in the budget structure, Professor Konstan said, and each side is right. If one could use John Rawls's veil of ignorance, that would be wonderful, but that is not possible. With small groups involved in discussions, the result will be parochial compromises that all can live with. It is perhaps not a bad idea that each should identify its position and then there could be an effort to craft a compromise.

Asked whether a new model might change the way tuition is dealt with, Mr. Pfutzenreuter said that it could, but he said the Committee should not think of this only as an overhead model. President Yudof adopted the model he did because no one wanted to cut the Operations and Maintenance or tuition allocations; that is also why he imposed the Internal Revenue Sharing tax; that is why the Enterprise tax was created. All this was established, making a very complicated system, because no one wanted to make a decision. No model is a substitute for leadership, Mr. Pfutzenreuter concluded. It was a good model for a time of budget increases but not for cuts, Professor Konstan said.

The Committee must identify a way to proceed, Professor Campbell said, and it needs to do so by the next meeting. He said he assumed he would receive suggestions about what to do.

In terms of the model, Mr. Pfutzenreuter reported that if one adds the University fee and tuition, the administration now attributes to the colleges about 90% of the revenue from students; before the fee, it

was 100%. The original premise of the system has already been broken, he pointed out; it has been "modified to death and it is too complicated." With respect to space, Vice President O'Brien said, if the institution were starting over, it would not build 24 million square feet. It needs to figure out how to aggregate space and put in place incentives for the use of space, which could save a lot of money.

Vice President Pfutzenreuter spoke about the state's financial condition. The Department of Finance revenue forecast is not too bad, and the Governor may release his recommendations later this week. He cannot unallot because the projected deficit is smaller than the state reserves, which must be used first. If the Governor and legislature do not act, the reserves will be used. The forecast is a little optimistic, some say (e.g., it predicts U.S. GDP growth to be the strongest in 25 years). In addition, 2006-07 has a projected deficit of \$441 million (which is calculated by inflating revenues but projecting no increase in spending; it is more likely that the deficit will be about \$1.6 billion). Professor Konstan wondered if they should be worried about the projected drop in state revenues during 04-05; the state has cut spending but there appears to be no sustainable path to growth. Mr. Pfutzenreuter said he believed the next three years would be very tough and this report confirms that view. The state is not seeing new jobs being created, and until it does, the financial picture will be bad because the state relies heavily on taxes from jobs.

4. Sustainability Policy

Vice President O'Brien now explained that a sustainability policy was one of eight academic initiatives: the environment and renewable energy. There are three components to the effort: IREE, the initiative on renewable energy and the environment, headed by Dean Elde, that will use money from Xcel Energy; curriculum development; and development of a Regents' policy on the environment and energy conservation. The origins of the latter are a committee report issued in the summer of 2002; the committee was chaired by then-Dean Al Sullivan.

The Commission on Environmental Science and Policy that reported in 2002 was a large group of people working in the environmental area, Dr. Sullivan told the Committee, that had been charged by then-Executive Vice President Bruininks. One "eureka" for him, he said, was discovering the passion and enthusiasm that already existed in the University in the units that are now led by Vice President O'Brien. As they have tried to implement the Commission's recommendations, they have used funds in the compact process to charge three deans to pursue program opportunities.

The charge to the new Sustainability and Energy Conservation Policy Work Group, which Vice President O'Brien distributed (which she and Dr. Sullivan co-chair), envisions the University as a leader, as a model and as an educator, using the University as a lab and to leverage research funding. If 50,000 students can learn about environmental and energy conservation issues, and live up to them after they leave the University, there could be a large impact. They have looked at current University policies and what other universities are doing to develop a vision of a desirable end state, Ms. O'Brien said, and have started working on drafting a report. They expect to consult on it in late March or April and prior to bringing the policy to the Board of Regents. Where does the Committee believe the Working Group should go, she asked?

What will be the groups' recommendations, Professor Campbell asked? They are trying to craft a document as Regents' policy, Vice President O'Brien said, which will describe where the University wants to go rather than how to get there. They will also include models of administrative implementation and proposed guidelines.

This is an excellent idea that it is difficult to get one's hands around, Professor Speaks said. What might work its way into policy recommendations? First they have to define sustainability, Ms. O'Brien said. Does it apply only to operations? To teaching, research, service, and operations? They have been helped by what has been done at the University of British Columbia and the University of Edinburgh; the idea is to use only what is needed, to reserve resources for the future, and to balance environmental and social and financial factors. One element of the approach is full-cost accounting. They envision a "high-level" Board of Regents' policy that will set the tone for where the University will go, Dr. Sullivan said; it will call for the wise use of resources that is scientifically-based and a model for society. Are there any U.S. universities that are approaching being "model," Professor Speaks asked? A few have pieces of programs and policies, Vice President O'Brien said.

This Committee could lend support to the call for quantification of benefits, Mr. Klein said, and support efforts to measure the implications and results of policies. Ms. O'Brien suggested considering the University Plan, Performance, and Accountability report to help identify measures that might be used.

Professor Van den Bosch asked about the relationship of this effort to teaching, research, and service. She also said it is not clear that there is a consensus on what sustainable means, especially in agriculture. Dr. Sullivan said he believes that the word "sustainability" creates more confusion and arguments in agriculture than in the rest of society. He said he did not see why it was a problem to favor a policy that will not compromise the future. Professor Van den Bosch responded that there is debate whether a practice is sustainable and there may be problems with academic freedom in research. Dr. Sullivan disagreed; this is to be science-based, he said, not a matter of theology.

Vice President O'Brien said the Working Group recognizes that it must balance several goods--resources, the environment, the economy, and social/cultural factors. They have debated within the group what the University as a community is doing and how its activities can be integrated in teaching, research, and service.

Vice President O'Brien promised that the policy would be brought back to the Committee for review. Professor Campbell suggested that she also take it to the Senate Research Committee.

5. Parking and Transportation Recommendations

Professor Campbell noted that the Committee had received information from Parking and Transportation at its last meeting about its budget planning for 2004-05. In the past, Mr. Baker has come to the Committee with an already-well-developed plan; the Committee asked for an opportunity to consult earlier. Mr. Klein recalled a memo from Professor Feeney last year that described the need to complete the communication cycle. The process has been that the Committee makes recommendations, goes through the math, and then is not informed why the recommendations are not followed. It would strengthen communication to report back the decision and rationale before the new rates and service decisions are announced. Vice President O'Brien said that last year the consultation happened in April, when the budget was due; what the Committee has received this year are ideas; the department does not have a budget target yet.

Professor Roe said that the projected increases will be very small and there is not much of a decision this year, with capacity well-used, not a lot of extra spaces, costs under control, and the department facing a small increase in costs.

The Committee debated a number of the options for revenue increases and service reductions. Committee members were reluctant to endorse service cuts that impaired the ability of students to get

around the campus, especially between St. Paul and Minneapolis, and their safety (e.g., night bus service). Mr. Klein said that Mr. Baker had argued he had no room to cut administrative expenses; Mr. Klein said he would encourage everyone not to say that because there are always ways to look at doing things more creatively. Professor Campbell said he had been asked how the parking reserves could be used, and whether they might be used for something like a loading dock. Vice President O'Brien said that in theory the parking fund could be used for purposes the University's leadership determined, but the money for parking reserves is being set aside because in the past no funds had been allocated for depreciation of parking ramps. There are depreciation funds for housing, for example, but not parking facilities. Because parking has moved substantially away from surface lots to structures, there is a need to build up depreciation reserves. There was a decision years ago that parking would fund streets, sidewalks, skyways, and transit--for transit, it was decided that it would be good policy to increase the use of transit through parking funds. To spend beyond those purposes at this time, however, would be extraordinary.

Something is out of whack, Professor Speaks said, when University buildings depreciate and the University tries to obtain HEAPR funds from the state for maintenance and repairs--and if the funds are not made available, the buildings go down hill. Parking is required to be self-sustaining, and identifies what it needs to do, which includes setting aside depreciation reserves. These are different ways of addressing the problem of structures that need repair. The rest of the University should adopt the parking practices, Professor Warwick commented. The idea is that parking should not compete with other buildings for repair and maintenance funds, Vice President O'Brien said. But when they sense that something needs repair, they eliminate something to obtain the money or they raise fees, Professor Speaks responded. Ms. O'Brien said that is not really true; parking must go through a budget process and must defend their recommendations. Their plans are included in the University's six-year capital plan, and auxiliary services at the University also pay taxes, she said. The money still comes from faculty, staff, and students, Professor Speaks observed. Mr. Klein said he did not see this as a heavy-handed decision by Parking and Transportation; parking is a matter of convenience and choice.

Committee members discussed the proposed service reductions (eliminate late night and weekend bus service, eliminate service between Minneapolis and St. Paul on weekends, require contract parkers to pay for parking on the night of events on campus). They adopted the following motion (voted on by email the following day):

The Senate Committee on Finance and Planning suggests to Parking and Transportation, as it prepares its budget recommendations for 2004-05, that it make cost reductions and revenue enhancement decisions that not reduce services that are important for student safety and access between campuses. The Committee also recommends that it not charge contract parkers for event parking because it will disadvantage the many faculty and staff who work evenings, and in particular those with official functions such as evening classes, irrespective of whether there is an event on campus.

Vice President O'Brien promised to bring the Committee's comments back to Mr. Baker.

Professor Speaks inquired if all revenue generated by events is credited to parking, not the unit that held the event. Vice President O'Brien said she believed it is. Professor Speaks said that was also his understanding, unless the practice had been changed in the last couple of years without any consultation. He asked, he said, because Mr. Pfitzenreuter had mentioned the possibility of parking revenues from game-day events to help pay for a new football stadium. He said he was disturbed by that possibility, if no other events are permitted to receive the parking revenues.

Professor Campbell adjourned the meeting at 4:30.

-- Gary Engstrand

University of Minnesota