Minutes*

Senate Committee on Finance and Planning
Tuesday, January 9, 1996
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Thora Cartlidge, Craig Dexheimer, Joanne Jackson, Kathy James, Karen Karni, David Kittelson, Gerald Klement, Richard Pfutzenreuter, Doris Rubenstein, Charles Speaks, Craig Swan, Steven Thelen, James VanAlstine

Regrets: none

Absent: David Berg, Allen Goldman, Patrice Morrow, Roger Paschke, Peter Robinson, Ryan Thrun

Guests: Vice President McKinley Boston, Associate Vice President Ron Campbell (Student Development and Athletics); Jim Sebesta

Others: A DAILY reporter; Michael Berthelson (Office of Budget and Finance)

[In these minutes: Hospital merger update; subcommittees on tuition, facilities, and support services; the Coca-Cola contract; the steam plant; biweekly payroll.]

1. Update on the Hospital

Professor Morrison convened the meeting at 3:20 and welcomed Senior Vice President Jackson to report on the current status of the negotiations about the Hospital merger with Fairview.

Ms. Jackson distributed copies of slides that had been used at a presentation made by Provost Brody earlier in the day to explain what has been happening in the negotiations and to let everyone know that the University takes very seriously the human side of the issue.

The Memo of Understanding that is being prepared is NOT a legally binding agreement; it says what directions the negotiations are going in, that their purpose is consistent with what the Board of Regents has been told, and if no obstacles are uncovered, there will be a definitive agreement ready (it is hoped) for action at the June Regents' meeting. The purpose of the Memo is to let everyone know what has gone on and what the future intentions are.

Ms. Jackson pointed out several things to the Committee and responded to comments and questions from Committee members:

-- Negotiations with various parties have been going on for about four years. The University tried to affiliate with a number of groups but was unable to do so. It was in a competitive situation

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similar to that of a lot of hospitals across the country: the patient base is declining and managed care systems mean fewer patient days in the hospital.

-- The University knows that after concerns about patient care, jobs is a major issue. They want to approach the merger realistically, and not have to review or redo it in six months or six years.

-- There have been 30-35 people on the University side meeting--both internally and with Fairview--in small groups to identify problems, which range from legislation and human resources to facilities management, the Medical School, and communication.

-- The University is seeking to be SURE it keeps control of education and research, while Fairview has responsibility for patient care and is able to compete in the health care business. These objectives will be accomplished in a variety of ways, including committees and delegations of authority, changes in the Fairview bylaws, and reservation of certain rights to the University.

-- Fairview is very respectful of the University's prestige and image, its high-quality employee base, and its medical staff. They are also learning a lot about dealing with a public institution and the amount of information that must be made public.

-- The process will take about 4-5 months to complete; the present goal is to be done by June 30, at which time the transfer of assets and employees would take place. The soon-to-be organization has been approached by other groups that want to negotiate affiliations with it, so it would be optimal to have the arrangements completed as soon as possible.

-- About 20 University employees in various areas: Finance and Operations, Human Resources, etc., will need to devote full-time efforts to this project for several months, and will be paid with money taken from the Hospital reserves to be used for the merger.

-- NONE of the physicians work for the Hospital, and never have; they have always worked for the Medical School and the department practice plans. Things will change for the physicians, but they will not have a new employer.

-- The Memorandum of Understanding will be about affiliation between the Academic Health Center (not just the Hospital) and Fairview, so will take into account the other health sciences that have continuing programs.

-- What about the Governor's expression of interest in helping the University develop a relationship with the Mayo Clinic? The relationship will not be exclusive; the University is free to enter into other relationships for educational and research purposes. The Hospital, in the meantime, will be developed into a flagship tertiary care hospital.

-- The name of the organization is still on the table. The University will be very careful to ensure that its name is not misused.

-- Employees will work for Fairview after the merger because the University is selling to Fairview assets and physical plant; the University will stop reporting revenues and expenditures of the Hospital, and that includes the expenditure on employee salaries. The annual balance sheet of the

University will change. Unit J will either be sold to Fairview or leased for 99 years, depending on which works out best financially. The remainder of the physical plant will be leased in pieces. In turn, Fairview will pay off the debt owed by the University for that physical plant.

The land itself will not be sold. The agreement with Fairview will address standards of building maintenance, and the University will have sufficient representation in decisions to approve capital expenditures. There are safeguards in the transfer about what Fairview can do with the physical plant (e.g., it must be a health care facility, not a discount retail outlet).

-- About 1/3 of the residents are educated at the Hospital, and that will continue; these residents are employees of the University. Other residents are employed by other hospitals in the Twin Cities but registered as students at the University.

-- It will be the option of unionized employees to determine which bargaining unit they will be in.

-- Money that has been raised by the University specifically for the Hospital will be segregated from other funds; in the future, the new organization will have to raise money for the Hospital, and people will need to understand that this is not the University of Minnesota.

Professor Morrison thanked Ms. Jackson for informing the Committee. He said he would report to the Senate later in the week that the Committee has been informed and that if it hears there are no problems, it will likely be able to endorse the effort.

2. Subcommittees

Professor Morrison then brought to the attention of Committee members an item that had repeatedly been put over from previous meetings. There has been a proposal to re-create the Assembly Committee on Support Services as a subcommittee of the Finance and Planning Committee, to create a tuition subcommittee, and to realign the membership of the Facilities Management Subcommittee on the parent committee. Professor Morrison outlined possible membership of the three subcommittees and relationships with the parent committee; the Committee unanimously approved the proposal. It was agreed that one of the subcommittees would deal with tuition, fees, and financial aid, with the understanding that some of its issues would be dealt with by the subcommittee while others would also be taken up by this, the parent committee. Appropriate bylaw changes will be prepared.

3. The Coca-Cola Contract

Professor Morrison next welcomed Vice President McKinley Boston and Associate Vice President Ron Campbell to the meeting to discuss the recently-negotiated contract with Coca-Cola. He noted that the soon-to-be-appointed Subcommittee on Support Services would work with Dr. Boston and Mr. Campbell on issues such as this, but this Committee should also know of the contract and its concept because it deals with money.

Dr. Boston explained that the new contract replaces a previous contract with Pepsi-Cola that expires this year. He described the process used that led to the new contract proposal, and said that one motivation was to use the contract as a vehicle to help operationalize U2000. The revenue could be used to address issues of the undergraduate experience, and the contract reflects that orientation.

Mr. Campbell told the Committee that this contract brought together diverse units at the University--athletics, housing, recreational sports, the unions, the Hospital, and so on--into one beverage contract. The process of bringing the organizations together and reaching an understanding of what would be sought took a year.

There has been much talk of redefining the undergraduate experience, Dr. Boston related, but there has been a lack of funding for it. This contract will help. The total value of the contract for its ten years, is $28 million; $15 million is guaranteed, of which $6 million will go into an endowment to support program initiatives. (The balance of the money will be earned if "pouring goals" are met.) There will be both community and academic initiatives supported. Mr. Campbell said he was satisfied that the pouring goals were reasonable, given the information they gathered, and the University should be able to earn the additional $13 million.

Asked where the money would go, Dr. Boston said some would go toward meeting gender equity goals in athletics to increase opportunities for women; other areas need more definition, but could include campus life initiatives related to orientation, homecoming, and so on, and there will be internships with Coke for University students. The only signage rights in the contract are for locations where the University has typically had signage before, such as Williams Arena and the Sports Pavilion. The contract covers only the Twin Cities campus, but includes the possibility of expanding to the other campuses as their current beverage contracts expire.

Asked if the University will receive cash, rather than goods or services, Dr. Boston affirmed it will be money. Coke will receive other things from the University that it needs--a market for its product as well as tickets to athletic events.

There are other exclusive agreements underway, Professor Morrison noted, with different types of products. Those should be explored, Mr. Campbell agreed. If there are other such broad agreements considered, they should be taken to the Subcommittee on Support Services, Professor Morrison commented, and thanked Dr. Boston and Mr. Campbell for joining the meeting.

4. The Steam Plant

Professor Morrison now asked Professor Kittelson to speak about the steam plant. Professor Kittelson brought to the Committee a resolution that had been adopted, in principle if not specific wording, by the Subcommittee on Facilities Management, and noted that the Subcommittee had been following this issue for a long time. The Board of Regents have in front of them later in the week a resolution concerning the steam plant, and the Subcommittee believed it should either express support or opposition to the Board action. The resolution from the Subcommittee, the final version of which follows, gives qualified support to the proposed Board action.

RESOLUTION ON THE STEAM PLANT PROPOSAL

Whereas, the Facilities Management Subcommittee of the University Senate has, since 1990, consulted on issues surrounding the Steam Plant issue on the Twin Cities campus with the University administration, the Environmental Quality Board, and various interested students and faculty, and

Whereas, the Subcommittee agrees with the Board of Regents statement supporting fuel flexibility because:

1. it minimizes the impact that fuel price increases could have on the academic mission of the University,

2. it allows the University to respond to changing environmental issues over time,

3. it improves the competitive position of the University for purchasing the most reasonably priced fuel, and

4. it allows the University to burn alternative low-emission fuels (e.g., bio-mass), and

Whereas, the Subcommittee believes that a low co-generation option is acceptable at this time, it urges the Administration to seek to increase the possibility of the steam plant's co-generation capabilities if changes in electrical costs to the University make such additions economically viable,

Therefore be it resolved that the most attractive solution (subject to the concerns of the local community) would be a flexible fuel plant at an off-river site, and that the Subcommittee would favor this option over the present proposal coming from the Administration if external funds to cover the additional costs associated with moving could be found, but that if such funding does not become available, the Subcommittee supports the Steam Plant Proposal the Administration will present to the Board of Regents on January 11, and

Be it further resolved that the Subcommittee urges the University administration to do its utmost to obtain the additional funding required in order to pay the additional expense of burning the cleanest possible fuel mix.

Professor Kittelson then introduced Jim Sebesta, a consulting engineer for the University, to provide information about the decision before the Regents. He reviewed the history of the project and presented a series of complicated slides dealing with the financial and environmental issues associated with the steam plant. He explained how those with opposing opinions view the data on costs (capital and fuel) and emissions, and the interrelationship of the two. He spoke about the present economics of co-generation, and agreed with the observation of one Committee member that right now electricity rates in this part of the country are low enough that the expense of co-generation would not repay itself. He affirmed that delays in construction of the facility are costing the University about $6 million per year, and that the proposed system COULD burn all gas; the decision on fuel, including accounting for the externalities, could be made annually.

Committee members discussed the integrity of the EIS process and the interest of the contractor, Foster Wheeler, in having a coal-burning versus gas-burning plant (Mr. Sebesta maintained they do not care, and that they operate both gas-fuel and coal-fired plants). They also discussed the opposition of certain groups of faculty and the possible reasons for that opposition. Mr. Sebesta reported that the contract with Foster Wheeler includes damage provisions if the plant exceeds certain emissions levels (but that are still within permit allowances).

Mr. Sebesta also noted the financial difficulties facing the University with respect to the existing plant, designated as a historical site; if the University does not use it as a steam plant, it will nonetheless incur continuing costs unless someone else does something with it.

Professor Kittelson noted that the EIS, the University, and Foster Wheeler agree on the relative rankings of cost and emissions standards; the disagreement comes over the absolute amounts involved. Those opposed to the plan believe that the term "flexible fuel" is a euphemism for coal, and that the University will burn coal in the plan. There will be pressures to do so, because of the relative cost of fuels (it will cost an additional $3 million to $15 million to burn gas). The problem is that if the option of coal is excluded, so are the options for alternative fuels, such as biomass. Originally, he related, he had favored the all-gas option proposed by Minnegasco; he has changed his mind and now favors the option which permits use of alternative fuels in the future. What should be urged is that "flexible fuel" not be a euphemism for coal, and that the administration do its utmost to obtain legislative funding to burn gas. His concern, he said, is that if gas costs $15 million more to burn in the year 2007, he does not want that money to come out of tuition revenues.

Professor Morrison inquired if the Committee wished to take action on the Subcommittee resolution. The Board will be acting on this subject in two days; if the governance system is to participate, it must act today. One Committee member objected to the off-river provision in the resolution; Mr. Sebesta said it would cost the University $35 million to move the plant, which includes $5 million to decommission the existing plant. This would all be one-time expenditures, and would not affect the predictions about the long-term. Professor Kittelson added that this provision was added later in the debate, after intense discussion, because there is a concern the University is ignoring the will of the local community in leaving the plant on the river, and that there could be negative consequences if it proceeds.

Committee members expressed a preference to not act on the Facilities Management Subcommittee resolution, but agreed that it should be forwarded to the President for transmission to the Board of Regents.

Professor Morrison said he would forward the resolution the following day, and thanked Mr. Sebesta for his presentation.

5. Biweekly Payroll

Professor Morrison reported that the Faculty Consultative Committee had voted 8-1 in favor of supporting the biweekly payroll, over his objection. One Committee member said it had been understood the project would be brought back for Committee review before a decision was made. Professor Morrison said he would put it on the agenda.

He then adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota