Minutes*

Senate Committee on Finance and Planning
Tuesday, May 13, 1996
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), David Hamilton, Gerald Klement, Charles Speaks, Craig Swan, James VanAlstine

Regrets: Thora Cartlidge, Catherine French, Peter Robinson, Benjamin Senauer

Absent: Bruce Bromberek, Jason Frick, Robert Kvavik, Gary Malzer, Richard Pfutzenreuter

Guests: Assistant Vice President Steve Cawley, Senior Vice President Joanne Jackson

[In these minutes: Fairview transaction; telecommunications issues]

1. Update on Fairview Transaction

Professor Morrison convened the meeting at 3:15 and asked Senior Vice President Jackson to provide the Committee with an update on the sale of the hospital to Fairview.

Ms. Jackson distributed a one-page handout summarizing the financial elements of the transaction.

-- The University received $87.5 million in cash, last month, the amount agreed upon. That money has been applied against the bonds, retiring the long-term debt.

-- In the other areas, there has not been a resolution on the audit; that will determine the liabilities retained by the University versus the value of the assets transferred to Fairview. This is still in process.

She reviewed the other elements of the transaction as well. All remaining funds have been restricted and are being held centrally. Everyone wants to get involved in use of the proceeds, but all have been told that no one receives anything until the audit is resolved and there is agreement on what is available.

It appears that a determination already has been made where the ________. One reason this was done was because the state said the University has all this money, and should use it to fill in some budgetary holes, Ms. Jackson said. The University has indicated it has no way to renovate all the space that will be returned, over 3 - 5 years, by the Fairview deal. The University also had to agree to certain indemnifications; if any of them come to pass, they must also be funded. There may also be liabilities from the Justice Department lawsuit. If the University uses the money for operating budgets, it will be

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unable to deal with other potential problems, so they are identified on the summary as being set aside. No funds have been identified for any particular purpose; there is $68 million set aside for these various purposes.

One Committee member expressed surprise at how low the hospital reserves were ($141.3 million), because one had heard earlier that they totalled between $200 and $250 million. People were probably referring to the total of the reserves, sale proceeds, endowments, and so on, a total of $291.6 million, Ms. Jackson replied; there was a lot of misinterpretation of what funds were sitting in the hospital. She identified the possible sources of misunderstanding as different accounting statements that were prepared for different purposes, statements that were never reconciled.

Committee members also inquired about the transition education and research costs (the University could have a cost of up to $53 million, over 32 months, if Fairview has a deficit), the returned space to be renovated (located in many different buildings). With respect to the space, the amount of money available will be able to renovate roughly 20% of the space to be returned, said one Committee member. Ms. Jackson said the original plans provided enough money, but subsequent plans have raised the costs considerably. A feasibility study on converting the space to research purposes found that that would be impossible, said one Committee member; the space could be used for offices (not labs), but will still cost more than the funds available. Most of the space was not used for housing patients; it consists in Mayo of patient rooms that had earlier been turned into offices. The problem is that the building must be brought up to code; if the asbestos and code problems were eliminated, the funds would probably be sufficient.

Part of the problem is that the transaction relied on a database that was completely inaccurate, said one Committee member, so the funds will only barely start to cover renovation. Had the space been used for labs, those involved in the reorganization of the biological sciences would have used it; since that is not possible, occupants may be a consolidated School of Public Health. But the $24 million for space renovation comes from the sale of what was Medical School property; the Medical School would, in essence, be contributing $24 million to the School of Public Health. Ms. Jackson pointed out that the money came from the hospital, not the Medical School; another Committee member said the asset was wasting away. True, but the Medical School has expectations about the money, it was said.

After the moves are done, said one Committee member, when is the dynamite going to be used? Ms. Jackson said the $24 million is a hypothetical figure, but part of the negotiations on the money and the desire to recover the space was the goal of saving money on rental property off campus.

Does this turn out to be cost-effective, asked one Committee member? If one could use as office space the areas currently being used as office space, it is, Ms. Jackson replied--but there have been all kinds of problems. Even assuming that could be done, and the funds were available, would the cost of that space be cheaper than rental space? It would have been a wash, Ms. Jackson said, but the University would not have been paying a third party. Even though money paid for University facilities also goes out for utilities, etc., the money is being spent for both off-campus and on-campus facilities when space is rented; this way the expenditure will be only for the on-campus facilities. There is a long list of space being rented, Ms. Jackson said, and she said the space regained is about 180,000 net square feet.

There are minor overhead reductions as a result of the Fairview sale, Ms. Jackson said; the hospital did all its own purchasing and accounting and legal work, for example. What has not been transferred to

Fairview has been absorbed within existing budgets, such as worker's compensation, legal expenses, and so on. The savings that will come about, in a year or so, could be a reduction in worker's compensation claims and overhead costs. Costs attributable to the hospital itself are now being paid to Fairview.

One Committee member inquired if any of these issues contribute to the financial problems of the clinical departments; Ms. Jackson said they should not and she would like to know if they are. Billing for clinical departments will be handled centrally; Fairview will pay the University and the University, in turn, will pay the various billing departments. That should be working, she said.

One Committee member inquired how the merger is working, in general. Ms. Jackson said there are some governance problems that have not been sorted out, but nothing that was unexpected. The hospital statistics are about the same. Another Committee member said he had heard that the academic aspects of the clinical departments are still in transition; there is concern among faculty about this, and there have been very significant losses of faculty from clinical departments. Part of this may be confused with the shift to the single practice, Ms. Jackson said. The high income people are leaving, it was said; they do not want to pay for departments that have a structural deficit.

Ms. Jackson concluded by saying that the budgets of the finance departments are being completed; they are pretty much being held even with last year. After the salary increases and subtraction of the reallocations and support for the enterprise projects, it turns out that the budgets for all the units will increase by about $272,000, on a base of over $100 million. Rather than distribute that small amount of money, all of the managers were asked to identify technology improvements they could make to improve effectiveness; that is how the money will be used. The budgets, she affirmed, will be flat; the units will absorb the salary increases.

On the capital budget, Ms. Jackson reported that the Regents supported very much the health and safety items and building decommissioning, rather than new construction. She said she made the point that every time a new building is built, it costs every department at the University. She emphasized that she cannot put a new building on line without taking something off line unless every department pays.

With respect to capital budgets, she said she has become an advocate of what she has seen in other states. There is an agreement with the state to fund renewal separate from the capital budget, by formula. One Committee member recalled seeing that at the University of Washington, where they have continual upgrading. That needs to be sold to the legislature, it was agreed.

Professor Morrison thanked Ms. Jackson for joining the meeting, and welcomed Mr. Cawley.

2. Telecommunications Issues

Mr. Cawley said that a short list of items that must be funded next year to keep the network functional has been prepared as part of the budget process. As the legislature adjourns, they will need help to ensure that those items are funded.

The short list includes no wiring for buildings, but has the highest priority items on the backbone list, such as fiber optic upgrades to some key buildings to support ATM upgrades, ATM switches, a change to new technology, improvement of the fiber optic link to the St. Paul campus, and a few additional items. The list is primary electronics plus the fiber optic work for St. Paul. Once it became apparent that the $80 million four-year plan would not be funded, this was put on the table, this $5.8 million plan was prepared.

One Committee member inquired about the new basic science and Carlson buildings; they will be far ahead of the rest of the campus. To attain the leading edge in networking technology in the basic sciences building cost $1 million, said one Committee member.

Mr. Cawley said there is no trace of any money for the network plan in the budget deliberations at the legislature. There is money for technology, however. They have received positive feedback from the Executive Council, that this is a priority. It was suggested that the Committee be provided copies of the priority list; Mr. Cawley agreed to do so.

The telephone system will be paid off in February, Mr. Cawley said in response to a query; the annual debt is $3.5 million. That money becomes available to do something, it was noted (it is built into the rates, and could presumably be taken out, or be used to replace the telephone system). The system works fairly well, although it is aging, and could be made to last for another 3-4 years. Replacement is not the highest priority, Mr. Cawley said. But there is a recurring stream of money that could be applied to technology needs, said one Committee member.

Mr. Cawley was asked about the most recent Federal Communications Commission proposal to lower long-distance rates for everyone and to increase business telephone charges. Is that a plan it is committed to? What implications does it have for the University? It is all tied up in court, he said, and it is not clear it will have an impact on rates. One issue is whether the gross payment to a provider will go up or down, said one Committee member; an internal issue is allocation of costs.

One Committee member then asked about the collection of modem charges, and how much it is costing to collect $4. Mr. Cawley said there have been no out-of-pocket costs, although a lot of staff time has been put into the effort. They have used electronic methods, and leveraged on what they do for student long-distance bills. To collect the money was not the intent; the intent was to manage the resource, to use it as a governor. In that sense, it has been successful. In November, before the charges, the University needed at peak about 1400 modems; today it peaks at about 1300. There are, however, more people using the modems than before. About 91% of the users use 30 hours; another 6% use 60 hours, with the rest using more. Senior Vice President Marshak has emphasized that collection of the $140,000 is insignificant; he told the Senate Committee on Computing that adjustments may be possible. The minimum number of hours could be raised, if only 1300 of the 1600 modems are being used.

One Committee member cautioned that the growth curve may continue, and that it only had a one-time adjustment because of the imposition of the charges. Usage may continue to expand. What was a free good may now be something people place more value on, and turn their computer off; people are not logging on at 6:00 a.m. and leaving the computer on all day. The question is whether or not there are groups who still do not have modems, or if there will be more intensive use by certain groups. One Committee member said he is more aware that he will be charged, and does not care about the charge as much as he does that he may be holding someone else up if he does not log off.

What they want to do is manage growth and to direct faculty and staff to the most cost-effective technology, programmatically. About 17,000 students use the modem pool; about 7,000 faculty and staff do so; students are the group they focus on. An alternative to restrictions on modem use is provision of other ways into the system. They have two dorms wired, and two more to be wired this summer; they are also looking at the fraternities and sororities. That gets those groups off the modem pool.

Technology is running against them, one Committee member said, and reported on a small device, a fully functional computer that is the latest Newton.

-- Gary Engstrand

University of Minnesota