Minutes*

Senate Committee on Finance and Planning
Halloween, 2000
2:15 – 5:00
The Morrill Room
Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Leanne Baylor, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Stephen Gudeman, Wendell Johnson, Michael Korth, Eric Kruse, Elo Charity Oju, Richard Pfutzenreuter, Jane Phillips, Rose Samuel, Cory Stingl, Susan Carlson Weinberg

Regrets: Joseph Konstan, Terry Roe

Absent: Michael Volna, J. Peter Zetterberg

Guests: Vice President and Dean Christine Maziar, Associate Dean George Green; Stephen Cawley (Office of Information Technology); Michael Berthelsen & Orlyn Miller (Office of Budget and Finance)

[In these minutes: IT libraries; graduate assistant funding issues; new telephone system; six-year capital plan]

1. IT Library Funding

Professor Speaks convened the meeting at 2:20; while awaiting the arrival of Dean Maziar, he informed the Committee that he had received a request from a faculty member that the Committee take up the issue of funding for the IT library. He said he had suggested that the faculty member go to the Senate Library Committee; it appears the Library Committee was unable to respond to the problem. It was agreed that the Committee would put this item on its agenda for November 21.

2. Graduate Assistant Funding Issues

Professor Speaks welcomed Dean Maziar and Associate Dean Green to the meeting to discuss funding issues for graduate assistants. Dean Maziar began by distributing handouts with comparative data on stipends and funding for graduate assistants at AAU and Big Ten schools; she expressed thanks to Dean Green for compiling the information.

The first data set, from AAU schools, listed cash salary minima, averages, and maxima as well as the ratio between the average and the minimum (as a measure of dispersion) for both teaching assistants and research assistants. The ratio for Minnesota is not significantly different from the group as a whole, nor was the average cash salary. She also explained a more complex table listing (1) average cash salary and tuition and fees paid by the institution (for a total GA compensation) and (2) average cash salary and

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lost tuition and fees (for a total "cost to institution"). This information was provided for residents and non-residents for both teaching assistants and research assistants.

These data, Dr. Maziar explained, help provide a national picture for stipends, tuition, and how the University compares with peer institutions.

A second set of tables included information on a hypothetical research assistant on a 50%-time appointment (grant) for nine months at the public Big Ten schools. The table included the cost of tuition to the department or PI and the cost of health care for a total cost of compensation. It also included the value of health insurance and of resident tuition for a "total value" to the research assistant. Dr. Maziar explained a number of variations among the Big Ten schools.

If one is a healthy graduate student without a chronic illness and without dependents, how does one look at these issues, Dr. Maziar inquired? Probably only at the stipend as the felt benefit. Students EXPECT tuition to be waived so do not see it as a benefit, even if it is a high cost as far as the institution is concerned. For many graduate students the felt compensation is the stipend even though the benefit costs may be a high fraction of the cost of supporting a graduate students. If, however, the student has health issues or dependents, health coverage is a critical issue and may play an important role in the student's decision to attend the University of Minnesota.

What if a student works more than 50% time, Mr. Stingl asked? Dr. Maziar explained that the 50%-time appointment qualifies the student for the full tuition benefit so the only additional benefit would be an increased stipend.

Dr. Maziar then asked Committee members to review a table outlining how health and tuition benefits are funded at the Big Ten schools. (Professor Speaks asked Dean Green if he had a sense, from his conversations with colleagues at the other schools while compiling the data, if schools on IMG were thinking about moving away from it or if schools not on IMG were thinking about moving to it. Dean Green said he did not sense schools moving toward or that those using it were moving away from it.) Dean Green noted some of the health care plans provided by schools were much cheaper, but those plans also include high copays and more limited coverage.

Few institutions support dependent coverage (Minnesota pays 55% of the cost for graduate assistants' dependents; two others pay 100% and one pays 68% while the remainder pay zero). In a metropolitan area, Dr. Maziar commented, the University of Minnesota is more likely to attract graduate students who are farther along in life and who have more family obligations than are institutions in non-metropolitan areas.

There is by and large a 25% trigger for tuition (and most health care) benefits across institutions. But tuition benefits are very difficult to compare across the schools, Dr. Maziar commented; they are an individual story at each place, depending on how tuition is accounted for in the budget, the state budget process view of tuition, the history of tuition, and so on.

His concern about tuition benefits, and a concern the Committee expressed in a resolution adopted in 1999, is that students on a 12.5% appointment (5 hours per week) receive no tuition benefit but departments and PIs are nonetheless charged for it, Professor Speaks related. There are two possible solutions. One, students do not receive the benefit and departments/PIs are not charged for it; this alternative is one the Council of Graduate Students (COGS) and the Graduate and Professional Student

Assembly (GAPSA) have expressed concern about because it could encourage appointment of graduate assistants at 24%). Two, change the trigger for tuition benefits from 25% to 12.5% so that students receive the tuition benefit and departments pay for it. Some colleges are reluctant to offer 12.5% teaching assistants because there is no tuition benefit, even though that is what a course may need, so the colleges fund the TA at a higher level than needed in order to deliver the tuition benefit. There could be savings for the colleges and more appointments for TAs.

Dr. Maziar said she agreed with the position taken by COGS and GAPSA that no benefit and no charge will create an incentive to 24%-time appointments. As the Graduate School Dean, she would prefer to see all students at a minimum of a 50%-time appointment; that, she observed, is just the way graduate school deans are.

One consequence of extending the tuition benefit below the 25%-time appointment would be an increased draw on the tuition benefit pool, which would probably require raising the fringe benefit charge, Dr. Maziar explained. She agreed that she advocated the second alternative (lowering the percent time appointment required for a tuition benefit) as an alternative to the first (no benefit, no charge to the department/PI) if there is to be a change, but cautioned again that the change would require an increase in the rates. When the significant majority of graduate assistants are in the 25 - 50% range, one question is the extent to which faculty want to see the benefit range extended at the cost of an increased fringe rate.

As with faculty salaries, Professor Campbell observed, the important numbers are what competitors are paying. That varies with programs. In the case of the cash stipends, some of the competitors in his program are increasing the amount by $2000; that is what they face.

Just as there is a difficult situation with health care for faculty and staff, so there is also for graduate assistants, Dr. Maziar told the Committee. The University charges 9.8% of the stipend, which does not generate enough money to pay the current year's premiums. There is a lag in the match between rate charged and premium costs because of the rolling averages used in calculating the fringe rates; as a result of the large difference between the dollars collected through the fringe rate and the cost of the benefit, it is reasonable to expect rate increases to cover the cost of the benefit provided.

Professor Campbell said he could not understand why a fixed-cost benefit (such as health care) is reported as a percentage of salary or stipend. The University pays the same amount for everyone; to report the cost as 9.8% of stipend (or as some percent of employee salary) confuses the issue. What this approach does, Dr. Maziar said, is shift the cost from slightly-less-well-paid employee lines to better-paid employee lines.

Professor Speaks, noting the press of time, thanked Drs. Maziar and Green, and said the Committee would reserve 15 minutes at its next meeting to discuss graduate assistant funding issues and determine whether or not it wished to make a recommendation of any kind.

3. New Telephone System

Professor Speaks now welcomed Mr. Cawley, who had asked to come to the Committee to discuss the proposal for a new University (Twin Cities campus) telephone system.

Mr. Cawley presented a series of slides to the Committee. The objective is to upgrade the University's 15-year-old telephone system "in order to avoid a predicted degradation of telephone service that potentially threatens core university business operations and university fire, life, and safety management." The proposal is to upgrade the existing system with the current vendor, Intecom, at a total cost of $15 million.

Mr. Cawley reviewed the history of the telephone system. The University bought its current system from Intecom in 1985, at which time an infrastructure of fiber-optic and copper cable was laid across the campus; the total project cost at the time was $31 million. That infrastructure has been well-maintained over the last 15 years and will be reused for the new system.

Reasons for upgrading or replacing the system are several. Vendor support for the existing system will end in 2003, the system cannot provide the additional telephones that are required for campus building expansion and renovation, many of the parts needed are no longer manufactured, service reliability is declining, and the system does not offer many of the features people take for granted at home (e.g., caller ID).

A Request for Information was issued and completed in 1999 to compare the option of replacing the system with another vendor's product versus upgrading the existing system. Five companies competed (including Intecom); two proposed outsourcing the telephone system while three proposed University-owned solutions. Looking at a seven-year perspective, Intecom was the low-cost alternative; the two proposal to outsource the system were four to five times as expensive. Analysis of the proposals suggests that upgrading the system will provide all of the features and benefits at a significantly lower cost.

While outsourcing is much more expensive, it would increase ease of management. Mr. Cawley affirmed, in response to a question, that the costs were adjusted to reflect reductions in staff in his office. One reason the outsourcing option is so much more expensive is that the vendors would have large initial capital costs that would have to be amortized over seven years with higher rates.

Mr. Cawley reviewed the risks and benefits associated with the choices and then itemized the benefits from the upgraded system. They include resolution of hardware and software support issues, resolution of the line capacity problem, a 75% decrease in space and power requirements, simplified maintenance, improved service provisions and a more reliable service, and reuse of a well-constructed system that extends its life another 10 years. The new system will also include "voice over IP" technology (voice calls over data lines), caller ID/*69/*70, etc., voice mail lights on all telephones, and a common numbering system across the campus (rather than the three zones that currently exist).

The projected schedule calls for review and approval in November and December and equipment delivery and set-up January to April, 2001. In May all telephones will be replaced; the St. Paul campus will be upgraded July and August with the rest of the Twin Cities campus upgraded in stages through June, 2002.

Mr. Cawley also reviewed the elements of the budget for the project. Decisions are not final, but it is suggested that a depreciation charge be added to telephone rates (as has been the case in the past); a seven-year depreciation of the $15 million cost adds about $4.25 per month per telephone. When the existing system was installed in 1985, telephone rates in 1986 were raised to $20 per month. When the original debt was paid off, rates dropped in 1998 to $10.88 per month; they have risen since to $11.55 per month. They would rise to $13.70 in 2002 and $15.80 in 2003 (plus inflationary increases due to general operating costs). Even after this increase, Minnesota's telephone charges would be the lowest in the CIC; the next lowest rate, at present, is $18.50 per month, at Northwestern.

Ms. Samuel asked if the other University-owned proposals had higher prices because they offered higher quality or if Intecom was lower because its system is already in place. Mr. Cawley said it was the latter; the quality would, if anything, be higher with Intecom, but it is cheaper because it is an upgrade rather than a system replacement. In addition, the risk analysis suggests that the upgrade solution will be the least disruptive--it will be largely transparent to users.

Why are the telephone rates higher at the other Big Ten schools, Professor Speaks asked? Two or three have outsourced their telephone system, Mr. Cawley explained, and he said he would like to attribute part of the reason to sound management at Minnesota. The University has gone from 15,000 to 35,000 telephones without having to replace the system.

The place where PeopleSoft problems will arise is with new telephone numbers, Professor Campbell commented. Mr. Cawley said no one will have to change telephone numbers; there will be one zone using the 624, 625, 626, and 301 exchanges. People should be able to go home Friday from work and return Monday and find a system that still works; the switch will occur over a weekend. They will have received new telephones before the change is made; everything else will be behind the scenes.

Mr. Bonnema said he did not disagree with the need for a new telephone system but pointed out that $4.25 per month for each telephone will result in a $10,000 increase in charges to his department supply budget--which has not increased in years. (This led another Committee member to quip "you have a supply budget?") The implication was that departments saved a lot of money when the rates dropped from $20 to $10.88 in 1998; that is misleading because departments also had to pay new network connect fees that cost more than $50,000. Departments, he said, are paying more than ever for telecommunications. Mr. Cawley agreed that IT departments ended up paying a lot more (Mr. Bonnema is from Chemistry).

Professor Gudeman asked Mr. Cawley to talk about the different length of time the systems last and why he expected a ten-year life but was depreciating the system over seven years. Mr. Cawley said they had analyzed the system and considered the useful life, in light of the rapidity of technological change. One can argue in favor of depreciating the system in seven or ten years; he said he believed the better approach was to escalate the depreciation so the University could, if needed, move to new technology earlier. It is not unusual, he said, for an institution to change these systems about every ten years.

Mr. Stingl asked where the $15 million would come from. Mr. Cawley said it would be borrowed and the telephone rates pledged to debt retirement; the rates will be set to equal the principal and interest payments on the loan.

What does he wish from the Committee, Professor Speaks inquired of Mr. Cawley? To understand what is being done, Mr. Cawley said, and if possible, an endorsement. He said he recognized that the increased charges are controversial, and noted he will return to the Committee next month to talk about data rates. He said that any statement by the Committee before December would be helpful. Professor Speaks said the Committee would return to the topic at a meeting in the near future and thanked Mr. Cawley for his presentation.

4. The Six-Year Capital Plan

Professor Speaks introduced Mr. Berthelsen and Mr. Miller, from the Office of Budget and Finance, and turned next to Associate Vice President Pfutzenreuter to lead a discussion of the six-year capital plan. Professor Speaks recalled that he had told the Committee earlier that he would talk with President Yudof about consultation on the capital plan; he had done so and the President was sympathetic to "thorough consultation" and wants the Committee to weigh in on academic values vis-à-vis the capital plan. He thanked Mr. Berthelsen for providing materials in advance of the meeting.

Mr. Pfutzenreuter distributed copies of the six-year capital plan, updated for 2002, 2004, and 2006 and began by noting that it calls for expenditures of around $726 million (over the six-year period), including new state support of $555 million that would not carry debt implications for the University. The plan is organized around the capital requests to the state in 2002, 2004, and 2006. The total request to the state averages about $240 million each of the three years; that is slightly optimistic when compared to the historical average of the capital funding the University has received, but as Mr. Pfutzenreuter explained, if the University doesn't ask for the funding it won't receive it.

Mr. Pfutzenreuter then explained a spread sheet itemizing the elements of the preliminary 2002 capital request, which the Regents must approve this fall; he affirmed that it could change before next summer, when the final request must be submitted to the state. Of the total request of $232 million, $80 million is for HEAPR funds (Higher Education Asset Preservation and Renewal), which includes funding for health and life safety improvements, building systems, Jones Hall renewal, and utilities. The most the University has asked for in HEAPR funding in the past was about $20 million, of which it received $12 million. Mr. Pfutzenreuter told the Committee that this substantial increase represents a conscious effort to emphasize renewal and renovation rather than new construction. He also explained, in response to a question, that the University is not required to pay one-third of the debt service for HEAPR funding.

The spread sheet being discussed also included about $152 million in other projects; for each one, it identified the sources of funding. In some cases, there is an expectation of local unit fund-raising. The fund-raising portion, plus amounts identified for part of the University's 1/3 of the debt obligation, TOTAL to the University's 1/3 obligation (that is, in some cases the unit will be expected to raise part of the 1/3 and the University will pay for part of the 1/3). The other projects and funding sources are as follows (dollars in millions); the listing is in priority order, starting with 2 (the HEAPR funds are ranked #1):

	Total	State	U 1/3	Unit fund-raising
Plant Growth Facilities	14.5	9.667	4.833	-0-
Lab Sci Bldg (UMD)	30.0	20.0	2.5	7.5
Nicholson Hall	18.75	12.5	6.25	-0-
MRRC for Education	16.8	11.2	3.6	2.0
Classrm Improvs (all-U)	4.0	2.667	1.333	-0-
Res & Outr Ctrs (all-U)	3.0	2.0	1.0	-0-
Bede Hall (UMC)	6.0	4.0	2.0	-0-
Soc Sci (UMM)	8.8	5.867	2.533	400
Northrop Audit (Phase I)	10.0	6.667	-0-	3.333
IT Tech & Tchg Facil	3.0	2.0	1.0	-0-
Translational Research Bldg	36.775	24.517	-0-	12.258

The University will go to the state to request authorization to spend the total of $232 million. Mr. Pfutzenreuter noted that only the 2002 request has a priority ranking attached to projects; for the other two years projects are listed in alphabetical order.

With the construction market as tight as it is, it will also be necessary to re-estimate the costs of most capital projects. When bids come in higher, that will likely mean a project must be down-sized or pushed back; there is a limit to what the state will fund and the University's debt capacity.

Has the University tried to reduce the one-third requirement to less, Ms. Samuel asked? Mr. Pfutzenreuter said it has not; the Senate insisted on the provision in the early 1990s. It is, he said, a lousy policy, one that does not apply to K-12 education, cities, or state agencies. But it is nearly impossible to get undone, he said. (The Committee later held a brief off-the-record discussion with the student members of the Committee about what students might do to get the one-third requirement changed.) Professor Speaks pointed out that if the requirement were removed that does not mean the University would fare any better with the legislature: if it appropriated $100 million for capital projects and required the University to contribute $33 million, it might still only appropriate $100 million and there would then be only $100 million.

The increase in local fund-raising will mean more development activities, which will mean the dean must spend more time on them, Ms. Phillips said. Will this mean deans must shift to more non-academic efforts? Mr. Pfutzenreuter said the reason is to take advantage of opportunities and the deans have said they can raise the money; he said he did not know if this would mean a shift in priorities. It does not necessarily seem wise to take the best academics and put them into a fund-raising job, Ms. Phillips said.

If a unit can obtain money through fund-raising, will it receive a higher priority in the capital request, Professor Bauer asked? Mr. Pfutzenreuter conceded that he has seen projects jump up on the list if outside funding can be obtained (e.g., the Carlson building, plant genomics). The rule being adopted now, that units will need to raise one-half of the one-third, should level the playing field, he said. So a project that can never raise money could go to the bottom of the list, Professor Campbell concluded. Mr. Pfutzenreuter agreed that could happen. Mr. Kruse, however, pointed to the list of projects on the 2004 and 2006 requests and noted that it would be difficult to raise money for many of them--but they are still on the list.

Is it safe to assume that items on the 2004 list are "near misses" for 2002, Professor Speaks asked? In some cases, yes, Mr. Pfutzenreuter said, but in some cases there is the domino problem: one project has to be completed before another can be started. There are many constraints and considerations that go into a capital budget, including staffing, the number of times a program will be moved, and so on. These three proposed budgets reflect those constraints.

The legislature makes a line-by-line appropriation for capital items (sometimes giving the University a project it did not request). In the case of the HEAPR funds, it is NOT line-by-line, but the University does provide a detailed list of the projects on which it will spend the money. The legislature does ask how the University spends the money; a report is provided to the legislature every year.

Professor Campbell recalled that the Committee had talked about its role in the capital planning process and that it had said it should discuss the consistency of the request and academic priorities. It should also discuss the impact on the University's debt service and on the rest of the University's budget. In that vein, he said he was unsure why Northrop Auditorium was ahead of other academic items. He also raised again the issue of parking: if a building is built on space occupied by a parking lot, it should pay for the cost of replacing those parking spaces.

The University has gone back and forth on parking, Mr. Pfutzenreuter said. It goes to the legislature and asks for capital funds; that request is "scrubbed pretty hard." If there are funds in capital projects to replace parking spaces the cost is pretty likely to get rejected. There is also a worry that decisions about new academic buildings will be made on the basis of whether they can pay to replace parking spaces, not whether the academic need is being met. If, however, a building is built on land the University does not own, the project cost includes land acquisition, Professor Campbell pointed out. As a result of not including lost parking spaces, Professor Speaks observed, those who park pay the cost because new ramps are required when surface lots are lost.

On the issue of debt service, Mr. Pfutzenreuter said, there are three costs associated with capital projects: debt service, operating costs, and depreciation (if it is to be funded). The proposed capital budgets for 2002, 2004, and 2006 (combined) will add about $78 million in new debt service; he said he did not have projections of additional operating costs prepared yet. The operating costs will go up, however, because renovated buildings cost more to operate than older buildings. The University includes all three costs in its operating budget request; if the legislature does not fund them, they fall back on the University. If the legislature provides funds for 100 new faculty but does not fund building operating costs, the University cannot use the money for the new faculty because it must pay to operate the building.

The projected debt service, Professor Campbell said, means that the University's debt payments will not go down for 10-12 years. Mr. Berthelsen agreed but said that one needs to look at the percentage of the budget going to debt service vis-à-vis the University's peers; Minnesota is quite low compared to that group. The University will go from about 1.3% to 3.8 - 4%, Mr. Pfutzenreuter said. The question is what must be cut, Professor Campbell said; it may be that the other institutions absorbed their debt service levels some time ago and are not cutting. But the University must now pay for all these projects.

This suggests the University need to try to curb its appetite for new buildings, Professor Speaks said. Does it need all the projects that are on these lists? They are largely academic buildings and the list is driven by requests from the faculty and deans that the President has concluded have merit, Mr. Pfutzenreuter responded.

It is a problem that the University looks like it is permanently under construction, Ms. Samuel said; has it looked at how successful other institutions have been? Minnesota has been VERY successful, Mr. Pfutzenreuter said. And actually it has NOT been under permanent construction, Professor Speaks observed; it has only seemed that way for the last two or three years. Before that, there was far less construction. Success breeds its own problems, he observed.

There was a concern some years ago about deferred maintenance, Professor Feeney recalled. Are the HEAPR funds a solution? Mr. Berthelsen said that they are in part, along with requesting more funds for annual maintenance. In addition, when there is complete renovation of a building, the problem is addressed. When the Owre-Millard-Lyon complex was torn down, $50 million in deferred maintenance needs disappeared. Despite a major investment in capital projects, however, there has been only a small increase in deferred maintenance needs, Mr. Berthelsen said, when one looks at formula for calculating depreciation, because the size of the University's physical plant is so great. The University is not losing ground but it is only gaining ground slightly.

Professor Speaks then said with respect to the 2002 request, it looked very good but that he would raise the same question about Northrop. He also noted that the Academic Health Center has done well in the last few years in capital projects and this request contains another very large project. What justifies keeping it in at $37 million plus another $20 million in the 2004 request?

Mr. Pfutzenreuter explained that Northrop is a priority of the President. How much will be spent will depend on how much money the state provides. Northrop is projected for two phases because it needs a lot of work. The building is used heavily and the President feels something needs to be done. He believes there is a good opportunity for fund-raising so there would be no debt payments by the University.

The translational research building for the Academic Health Center, an addition to Lions Lab by Mariucci Arena, will have an interior similar to Molecular and Cellular Biology. It will consist of research labs because the AHC believes itself to be short of space considering the growth of research programs. Even with the new Molecular and Cellular Biology building, with new faculty hires the University will still be short of space. There is a long-term precinct plan for the AHC but it cannot expand within the limited space available in the area between Washington Avenue and the river. Over time, it will need to demolish several times in order to meet its space needs. There has, finally, been much space devoted to basic research needs; this building is devoted to translating that research into treatment of disease. Dr. Cerra believes that translational research is the next area of growth. In addition, Professor Feeney said, the University must look at what is "fundable"; NIH and NSF are funding translational research. And some AHC buildings are simply not flexible, he said, and cannot be renovated to accommodate research needs.

It was agreed that the 2002 capital request should be on the agenda of the committee again in May, just before the final version must be submitted to the Board of Regents and then to the state.

Professor Speaks adjourned the meeting at 4:45.

-- Gary Engstrand

University of Minnesota