Minutes[*]

Senate Committee on Finance and Planning
Tuesday, March 26, 2002
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Brittny McCarthy Barnes, Jean Bauer, Charles Campbell, David Chapman, Daniel Feeney, Cynthia Jara, Wendell Johnson (counted as present although power failure prevented a telephone connection), Michael Korth, Marvin Marshak, Elo Charity Oju, Richard Pfutzenreuter, J. Peter Zetterberg

Absent: Prince Amattoe, Stanley Bonnema, Robert Cudeck, Greg Fox, Gary Jahn, Terry Roe, Michael Volna, Susan Carlson Weinberg

Guests: none

Other: none

[In these minutes: (1) closed discussion of the stadium bills; (2) land acquisition; (3) management of reserves; (4) parking rates; (5) cost of attendance data, Twin Cities and peers]

1. Closed Discussion

Professor Speaks convened the meeting at 2:20 and accepted a motion to close the meeting. The Committee held a 20-minute discussion with Mr. Pfutzenreuter about the status of the various stadium bills and the implications for the University.

2. Land Acquisition

Mr. Pfutzenreuter next distributed copies of a map of a small part of the northern edge of the Minneapolis campus; it identified areas of land that the University is considering purchasing. Mr. Pfutzenreuter reviewed the cost and issues involved in negotiating for the sites and how they would be used. The sites the University will probably purchase cost about $1.75 million; there is another property (the McLaughlin-Gormley King building and site) in the same area which the University is also negotiating on, for an additional $2 million or more. The latter property could be used for outdoor tennis courts, to replace those being lost with the construction of the new ice hockey/tennis facility.

The University is also looking at the Public Health building, across from Centennial Hall. There is a legislative rider to allow the University to purchase the building at fair market value; the University's position is that this is a "sick building" (which is one reason Public Health is getting out of it) and that the University should only have to pay the fair market value of the land (about $1-1.5 million); it would cost another $900,000 or so to demolish the building.

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

The University is taking a hard look at 1200 Washington Avenue (the old Supercomputer Center); it is also not a healthy building. The University must decide whether to sell it or rehab it (one novel element is that it has no heating plant).

Professor Campbell observed, apropos McLaughlin-Gormley-King, that spending $2 million or more is a lot of money for new tennis courts, and constitutes spending more University money on intercollegiate athletics. Mr. Pfutzenreuter recalled that there had been a promise made to replace the outdoor courts--but without a site on which to fulfill the promise. There may also be environmental problems with the MGK site, and the ONLY way to use the land may be to put a cover on it (e.g., use it as parking ramp, tennis courts, or a recreation field).

3. Reserves Management

Mr. Pfutzenreuter next distributed a multi-page handout of a discussion to be held with the Board of Regents at their April meeting; the Board has asked him to indicate how much money there should be in central reserves. There are two parts to reserves: institutional reserves and unit reserves. His presentation to the Board will answer the question it asked about central reserves and set up the discussion (for later) about unit reserves.

Of the University's current revenues, about 57% are generated by local units (tuition, fees, auxiliary operations, sales and service, grants and contracts, 51% of indirect cost recovery funds, etc.) and about 43% is centrally distributed (O&M funds, state specials, central reserves, 49% of indirect cost recovery funds).

The current Regents' policy on central reserves, which dates from the Keller administration in the mid-1980s, describes how they should be thought of, how the Regents deal with them, direction on spending from the reserves, and provides that the reserves should be no less than $40 million. It is not clear who decided on the $40 million number, Mr. Pfutzenreuter told the Committee. The policy in any event is outdated and needs to be rewritten.

The "risk factors" the University faces (for which reserves might potentially be used) include such things as an unanticipated or uninsured catastrophic event, temporary revenue declines or expenditure gaps, unforeseen legal obligations or costs, medical malpractice, unexpected financial requirements, unanticipated major capital cost, failure in central infrastructure or major business systems failure, or (not really a "risk"), institutional initiatives or unplanned opportunities. There are three different sources of central reserves that could be called upon, each of which covers different elements of the University's risks: the central reserves, the internal loan pool (which would be used for capital costs), and RUMINCO, Ltd., the University's captive insurance company (which would cover insured liability).

At present, the central reserves will have about $11.4 million at the end of this fiscal year; the internal loan pool will have roughly $18 million and RUMINCO will have about $18 million in excess of its liabilities. Mr. Pfutzenreuter reviewed the balances in the central reserves for the last several years; the number has ranged from $13 million to $35 million since 1994. On average, it has represented about 2.2% of centrally-allocated funds (had the $40 million been maintained in the reserves, it would have amounted to about 6% of centrally-allocated funds). Some have suggested that the central reserves should equal about 3% of centrally-allocated funds. Mr. Pfutzenreuter said he thought that may be an appropriate number; it is not necessary to have a large central reserve when some of the risk factors have been shifted to the units (with the adoption of Incentives for Managed Growth).

Mr. Pfutzenreuter outlined the plan to restore the central reserves to about $21 million over the next two years. To increase it from the projected balance of $11.4 million on 6/30/02, TIP payments to units will be suspended next year (they have already been suspended for the remainder of this year), non-recurring allocations will end, and transfers to the O&M funds will be reduced. The draft plan to go to the Regents calls for maintaining the reserves at approximately $20 million, not allowing them to fall below 3.5% of O&M and State Special revenues unless there is a plan to restore the balance in a reasonable time, and to continue the "general contingent" amount at $1.5 million annually (to meet emergencies). The internal loan pool would include a reserve of $8 million for emergency or catastrophic facility needs, and RUMINCO would maintain its current level of reserves.

The discussion turned next to unit reserves. Mr. Pfutzenreuter noted that the University is a VERY decentralized organization; there are 40,842 different "orgs" that have balances. To establish a policy that governed unit reserves would require going against the management philosophy of the institution, which calls for decentralization. It would also be impossible to analyze 40,842 balances to determine if they were complying with a policy. His office is developing a graph showing unit balances as a percentage of operating expenses; in some cases, the balances equal 25-30% of the unit's operating budget.

There are local unit risks, Mr. Pfutzenreuter pointed out. They include things like the stability and diversity of revenue, volatility of costs, equipment needs, employee turnover, and so on. These risks differ for academic and administrative units; in some cases (such as his own office), the unit does not need large reserves. Academic units, with a wide range of revenue streams, on and off contracts, varying indirect cost recovery funds, etc., face different levels of risk from administrative units. To help units identify their levels of risk, Mr. Pfutzenreuter told the Committee his office is developing profiles that units can measure themselves against in order to help them plan their reserves. They will provide this tool but will not MANDATE any particular amount. He said it would be bad practice for the central administration to try to manage department reserves.

Professor Feeney recalled that the Academic Health Center (AHC) Finance and Planning Committee had looked at reserves in the AHC and concluded that units are all managing for the same risks. There are some things the University could do to help units (e.g., identify a way to cover accumulated vacation and sick leave liability) to eliminate some worries.

The underlying problem, Professor Marshak said, is that deans and departments heads know that if their unit shows a deficit, they are at risk, while there is no penalty for missing opportunities, so the bias in the system is to sit on cash. No one knows if opportunities are missed. The result is an operating practice whereby units sit on a lot of money as the sure and safe way to do business.

Professor Feeney recalled that when the survey of AHC balances was conducted, there was concern about releasing the data. Is there any way to segregate funds so that those available for unit use are separated from those that are encumbered? Units can be criticized for what seem to be large reserves, but in many cases those funds are committed. Professor Speaks agreed and asked if something analogous to plant funds could be set up for specific plans a unit may have, funds that should not be vulnerable to other uses. Dr. Zetterberg suggested that the Committee may wish to talk with an accountant about this alternative. Professor Marshak said one problem is that unit mix cash and accrual bases; they should do their accounting one way or the other.

Professor Campbell expressed a concern about how the University can be planning to increase central reserves by about $9 million at a time it is obligated to impose cuts of $23 million because of reductions in state funding. Are part of the cuts to be used to fund the reserves? He said he could not understand the philosophy of the Board of Regents in pursuing this issue at the present time.

4. Parking

Professor Speaks recalled that after the last meeting there was concern expressed about the proposal from Parking and Transportation to increase parking rates for faculty, staff, and students but not for special events. If the Committee wishes, it could make a statement about the matter.

Later in the meeting, the Committee returned to this topic. Professor Feeney recalled that the reason the event rate was not increased was because of competition; Professor Speaks expressed doubt that raising the rate by $1 would have an effect on parking at events and Ms. Barnes said she would like to have an explanation of how it was determined that event parking was at market. She also said she was bothered that car-pool rates increased while event parking did not.

On some things the Committee will not win (parking rates will go up), but it can raise the issue of event parking and whether parking funds should be used to subsidize other projects, Professor Speaks said. It should not be required to subsidize projects beyond parking and transportation, Professor Feeney said; the definition of what can be subsidized seems to be expandable, Professor Speaks rejoined.

There is also a subsidy, Professor Marshak maintained, when the University takes a surface parking lot for a building; Parking is then forced to build a ramp, paid for by faculty and staff. The classic case is the Gateway Center, not a University building, which holds the University hostage by high rents, and then needs a parking ramp built.

Professor Speaks said that the time is not ripe for a statement on a ramp adjoining a new football stadium, but one can certainly raise questions about giving up 2000 lot spaces for 4000 ramp spaces that will carry a $3 million annual operating deficit, at a time when demand for parking may be declining. And there is the cost of the land, Professor Marshak observed; the University will be giving up acres of land for a stadium, for free.

5. Cost of Attendance Data

Professor Speaks next welcomed Dr. Zetterberg to the meeting and explained that over the past weeks there had been a group of faculty meeting with Mr. Pfutzenreuter on budget issues. One of the topics has been tuition. They need to look at tuition for the budget, but in terms of what students face, there is also a need to look at total cost of attendance. Mr. Pfutzenreuter suggested the Committee should hear from Dr. Zetterberg, which is why the item is on the agenda.

Dr. Zetterberg distributed copies of two tables, one listing the cost of attendance for undergraduate resident and non-resident students (assuming enrollment for 15 credits) at various peer institutions for the Twin Cities campus and one looking at graduate student cost of attendance. These are pretty good data, he explained, in comparing apples to apples; to the extent they are not a perfect comparison, it is because undergraduate tuition rates can vary within an institution. The data on cost of attendance take into account tuition and required fees as well as books/supplies, room, board, transportation, and "other," which is intended to cover personal expenses. The figures are for living on campus; at most institutions, 60-80% of undergraduates live off campus (except at the U of North Carolina).

The Twin Cities campus is not at the high end of the group, although it is above the mean. Here are the data for resident undergraduate students:

UCLA	16,556
Berkeley	16,501
Michigan	16,193
Penn State	16,094
Maryland	15,334
Illinois	14,912
Minnesota	14,240
Indiana	13,826
Ohio State	13,638
Colorado	13,613
Mich State	13,413
Texas	12,862
Wisconsin	12,529
Purdue	12,334
Iowa	12,082
Arizona	12,060
Virginia	11,591
N Carolina	11,307
Florida	11,234

At the graduate level, Dr. Zetterberg noted, the University is second-lowest in the comparison group for resident students and lowest in the group for non-residents.

Is there any way to compare or equate these numbers with state income, Professor Chapman inquired? It is not necessarily in the best interest of the University to be lowest in the group. Dr. Zetterberg said that Minnesota family income is higher than most states and the state also has a strong financial aid program. So the University is even a better bargain, Professor Chapman responded.

It is probable that undergraduate resident cost of attendance at the University could rise by $1000 next year, but that would be unlikely to have an effect on the University's relative standing in the peer group.

Dr. Zetterberg said he discovered that several of the public campuses (not in the Big Ten) have a fee for intercollegiate athletics that can raise as much as $7 million annually; students are then permitted to attend athletic events for free. This can lead to chaos if students line up to get tickets to a popular event, and could actually lead to a reduction in revenues if a sport would otherwise be sold out to public ticket-holders (who pay more than students). He expressed doubt that such a fee is the best way to raise revenue in athletics. Most of the private institutions include the cost of athletics in their comprehensive student fee, but at some places this is controversial and the institution may eliminate the support for athletics in the student fee.

What happens to the room and board estimates if a student lives off campus, rather than on, Professor Speaks asked? The change varies with the institution; at Minnesota, the cost is comparable.

Professor Speaks noted that the budget, which will contain any recommendations on tuition, will go to the Regents for conceptual outline in April, for discussion in May, and for action in June. There was talk about the impact on registration that a sizeable tuition increase would have; most registrations are completed in June, so it appears there will be little impact. But it will come during orientation, which will be bad public relations, Ms. Barnes said. The University has already announced there will be a significant increase, Dr. Zetterberg pointed out, so it will not be a surprise.

Professor Marshak inquired if anything like the situation in Wisconsin (where the University froze admissions in response to budget cuts) were likely to happen in Minnesota. Dr. Zetterberg said he doubted it.

Professor Speaks thanked Dr. Zetterberg for his presentation. He adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota