

Minutes*

**Senate Committee on Finance and Planning
Subcommittee on Capital Projects
Tuesday, July 20, 2004
2:00 - 4:00
238A Morrill Hall**

Present: (SCFP) Charles Campbell (chair), David Chapman, Thomas Klein, Lincoln Kallsen, Michael Korth, Ian McMillan, Cleon Melsa, Kathleen O'Brien, Diane Parker, Richard Pfutzenreuter, Terry Roe, Charles Speaks, Kate VandenBosch, Warren Warwick, Susan Carlson Weinberg

(SCP) Art Erdman (chair), Susan Carlson Weinberg, Brian Swanson

Absent: None counted for a summer meeting

Guests: Senior Vice President Robert Jones; Associate Vice President Michael Perkins, Chris Frazier (Office of the Executive Associate Vice President)

Others: Jon Steadland (Office of the Board of Regents); H. Jeannie Taylor (Office of the President)

[In these minutes: (1) biennial request; (2) six-year capital plan; (3) large capital project approval process]

1. Biennial Request

Professor Campbell convened the meeting at 2:00 and welcomed Senior Vice President Jones to lead a discussion of the planning for the biennial request. He accepted a motion to close the meeting, which passed unanimously.

Senior Vice President Jones reviewed the discussions that have been taking place to frame the biennial request and identified the principles that have been developed. He noted the groups that have been appointed to lead the discussions, including an over-arching administrative group that is working with the President and a strategy group (which includes faculty) that has been meeting weekly to develop the outline of the request; the latter group has been consulting widely. He described the strategy that the two groups are considering in approaching the state.

Vice President Pfutzenreuter described in more detail the conceptual framework that has been proposed. He noted that the amount the University eventually receives will depend in part on the revenue forecasts. The biennial request principles will be brought to the Board of Regents in September; the Board will review and act on the actual request in October and November. He also said that it is likely the Board will include a request for capital projects that were not acted on in the 2004 legislative session.

* 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 represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

Committee members discussed with Dr. Jones and Mr. Pfutzenreuter various elements of the strategy being proposed and planning for various possibilities.

Professor Campbell thanked Senior Vice President Jones and Mr. Pfutzenreuter for their report and comments.

2. Six-Year Capital Plan

Professor Campbell turned next to Vice President O'Brien and Associate Vice President Perkins to begin a discussion of the six-year capital plan.

Vice President O'Brien began by explaining that capital planning effort is a partnership effort that includes Vice President Pfutzenreuter, Executive Associate Vice President Al Sullivan, and herself. Ms. Frazier is at the meeting to report on Dr. Sullivan's behalf and Mr. Swanson is present to report on Mr. Pfutzenreuter's behalf (Mr. Pfutzenreuter had to leave the meeting to go to the Capitol for a meeting with the Department of Finance).

Ms. O'Brien distributed a handout of several pages that included a chart of the capital improvement planning process as well as the capital plan itself (including the lists of potential projects being sought for 2004--now 2005--2006, and 2008). The Regents will adopt the six-year plan later in the year. That plan (Stage 1 is review of the potential projects) she related, is driven by academic program needs and by facility conditions. Stage 2 constitutes preliminary review and program analysis, and the major criteria include academic priorities, facility conditions, financial constraints, student experience, project logistics, and other considerations; the review and analysis is conducted by academic and financial staff.

At this point Ms. Frazier reported briefly on the compact planning process. The process has been in place since 1997 and is intended to improve the alignment between the University's goals and the investments it makes, but there are new elements to it. One element of the process includes identifying the impact of any programmatic initiatives on facilities and description of "other pressing space management issues (including classroom availability)." A new feature is "Major Capital Investment Priorities," calling on colleges to "identify and reconfirm the unit's highest priority facility needs for consideration in the six-year capital plan. **Beginning with this compact process, projects will not be considered for inclusion into [sic] the six-year capital plan unless the project has been included in the final compact for a college or unit**" (bold face in original).

Mr. Swanson spoke about the financial parameters of the plan. There are two parts to it: the state portion and the non-state portion. The original plan covered 2004, 2006, and 2008; it will now be revised to be 2005, 2006, and 2008. They will not yet make plans for 2010 because that is too far out. Vice President Pfutzenreuter will look at various factors to determine what the University might reasonably plan on for state capital appropriations in each of the three years of the plan. For the non-state portion of the plan, the biggest issues are how much money a unit has in hand, how much debt will be required, and the impact on the University's debt load.

Vice President O'Brien reported that the administration is now consulting on the capital plan. Do they plan to communicate with the deans and others, Mr. Klein asked? The "current process" page, with four stages identified, is a clear explanation of the process. Sharing it with deans, department heads, faculty and staff would help people understand the process and where they have opportunities to participate. It would be like a "you are here" sign in a large store that helps people figure out the process. Vice President O'Brien affirmed that they do intend to communicate with the deans and others. In the

past, they used the capital budget to identify projects costing \$1 million or more, Mr. Swanson said, but those projects are now also in the compacts. Ms. O'Brien said the University is trying to develop a disciplined and transparent process; it will be made available in pamphlet form as well as on the web so that all can understand it, but the full process of how a building is obtained is under development.

Professor Speaks asked if the 2004 capital request is in priority order and whether the President determines the rank-ordering. If so, he asked, who advises on that rank-ordering? The academic decisions are made between the dean and the senior academic officers, Ms. O'Brien said, and ultimately by the President. Vice President Pfitzenreuter, Vice Provost Sullivan, and she make recommendations for the other category, facility conditions. Both elements are incorporated in the six-year plan, which the President must finally approve. Is there any faculty committee participation, Professor Speaks asked? Vice President O'Brien responded that the capital projects subcommittee reviewed the plan, but inclusion of capital projects in the compact process adds a new element. Some colleges are more organized than others when it comes to the compact process, Professor Roe observed; does that affect the quality of the information available? Each college has its own culture and process, Ms. O'Brien said. The deans have been briefed and understand the importance of compacts to the six-year capital plan. What processes do the deans use, Professor Roe asked? He answered his own question by surmising that the process varies by college. Ms. O'Brien said that Vice Provost Sullivan could give the Committee a sense of the range and provenance of compact capital requests. Mr. Kallsen observed that the compact document is required to include a report on the consulting that took place in developing it.

What is the role of the subcommittee on capital projects, Professor Erdman asked? The administration wishes to consult with it at the start of the process, Ms. O'Brien said. Professor Speaks said he wanted to repeat a point he made at the last meeting. As everyone talks about capital requests, they always want to align them with academic priorities. Given that, it is strange that there is so little faculty participation in the process. He recalled serving on the Capital Improvements Advisory Committee (CIAC)--on which he was the only faculty member--that reviewed the capital requests from every unit. CIAC was replaced by a committee that had no faculty, so this Committee--Finance and Planning--created the capital projects subcommittee, but it is not clear that anyone listens to it. There must be a way to arrange for an important segment of the University--the faculty, staff, and students--to be listened to.

Professor Roe said he thought Professor Marshak's view was that there have been different attempts over time to do this, but that competing interests want part of the capital plan so there is no unified recommendation. As a result, the matter is turned over to the administration. The approaches in the past have not led to a recommendation that provides direction to the administration. Professor Speaks said he has heard that complaint and does not disagree. The CIAC evolved from the good-old-boys club to the point where every dean and vice president with a project had to have a written plan and an oral presentation that specifically linked the project to academic priorities. He said he believed the CIAC evolved to as neutral a process as it is possible to have and it worked until President Yudof said he did not want it. Professor Speaks said he believed the University was headed in the wrong direction in terms of development of the capital plan; he said he hoped that the subcommittee on capital projects could have an influence it has not had in the past.

This process decentralizes decisions more than in the past, Professor Roe observed, and some colleges take the issues to the faculty. Then the administration is the agglomeration problem. It would help if the subcommittee were to look at the compacts, Professor Campbell suggested.

There are two ways to get a building, Professor Erdman opined. One is to get on the six-year capital plan; the other is illustrated by the list of non-state-funded projects, which is to get a big donor.

Mr. Swanson said that any project, whether state-funded or not, and whether or not it includes a big donor, should be included in the compact. Vice President O'Brien agreed. When a project is on the non-state list, it is not expected to compete with state dollars. Once it is part of the plan, the unit is authorized to do a predesign and raise money for the project. After the predesign is complete and the money raised, the project moves to stage 4, which is approval and implementation.

Professor Erdman noted a number of AHC projects on the non-state capital list. He asked if one can assume that if a group comes in with a significant amount of money, it is more likely to get on the list even if that creates an imbalance on the list? Mr. Swanson said that projects on the non-state list tend to move independently of the others on the same list. They tend not to have an impact on each other and typically move at the speed at which dollars can be obtained. So there are two different ways of obtaining buildings that behave differently, Professor Erdman concluded.

Professor Campbell recalled that frequently one will see projects go to the top of the list without even being on the list previously; projects seem to just jump onto the list. There were times when a former Governor helped items jump onto the list, Vice President O'Brien pointed out. If the University found someone who would give the faculty-student share of a new football stadium, would it jump to the top of the list, Professor Speaks inquired? There is no football stadium in the six-year capital plan but everyone knows it is a priority. Vice President O'Brien pointed out that this is last year's list. Why should all these other needs, and the people behind them, work to get to the top of the list and the stadium not, Professor Speaks asked? It seems to be treated differently from all other capital projects. Vice President O'Brien said she was confident that the stadium was in the intercollegiate athletics compact and that it was not being treated differently, but she agreed that it is high-profile. There are also external pressures with respect to the football stadium, Mr. Swanson added.

Professor Campbell thanked Ms. Frazier, Vice President O'Brien, and Mr. Swanson for their comments and report.

3. Large Capital Project Approval Process

Professor Campbell turned again to Vice President O'Brien, this time in concert with Associate Vice President Perkins, to continue the discussion of capital projects, this time focusing on the approval process. In this case, Ms. O'Brien said, they wish to talk about changes in the process.

Mr. Perkins began by saying that his interest is in developing the best possible programmatic application of facilities. He made a presentation to the Board of Regents earlier in the month, and another to the deans, to suggest improvements in the capital planning process. The intent is to improve, simplify, and streamline the process.

Mr. Perkins explained that at present the Board of Regents receives a lot of information about capital projects. At present, they review design guidelines and schematic design for projects of \$5 million or more and for projects of \$1 million or more if they have external (visual) impact. They are proposing to keep the \$5 million threshold but to raise the other one to \$2 million, which would mean bringing to the Board those projects with the greatest priority and with the greatest risk to the University--which this Committee and Facilities Management would help to identify.

They would also like to propose a change in the design and construction process, Mr. Perkins told the Committee. At present only 2% of project planning funds are spent before a proposal goes to the Regents and the legislature. (In general, project planning funds account for about 10% of the total project cost.) They suggest instead that 15% of the funds be spent, so that schematic designs are completed,

before projects are taken to the Board and legislators. This would mean they would get much further into the process before a project is approved. For example, in a \$20 million project, Vice President O'Brien said, \$2 million would be for the cost of project planning, with about \$50,000 of that spent for predesign and about \$300,000 for schematic design.

Another change being proposed is to raise the threshold for capital projects requiring Board approval from \$100,000 to \$250,000 (which is the same level required for purchasing) or \$500,000.

Professor VandenBosch said she could understand the rationale for increasing the \$100,000 to \$500,000, but why the increase from \$1 to \$2 million for projects with visual impact? It is the same rationale, Mr. Perkins said, and relates to the level of detail provided to the Board. There are guidelines for the planning process that lead to presentation of thick reports to the Board to assure them everything is acceptable. This streamlines the process so that if a project is more than \$2 million, or if it deviates from the campus master plan, it will be brought to the Board for approval. Even if a project did not meet the proposed thresholds, Mr. Perkins said, he would bring it to this Committee and others for guidance if there were questions.

Professor Speaks observed that the six-year capital plan for 2004 called for \$189 million, but that does not include all the small projects that do not go to the Regents. How can the Committee give advice about what should be done that includes not only what is presented to the Regents but all that will be funded? The six-year plan is programmatic funding, Vice President O'Brien responded, not a budget list. The capital budget will be about \$44 million this year, without state funds; with state money, it would have been about \$220 million. Many of the items in the capital budget, she said, are not itemized in the general request such as HEAPR funds (asset preservation and renewal).

Professor Warwick asked what the advantages were to the proposed changes. The new cut-offs are higher than what would have been called for by the rate of inflation. Will there be more administrative efficiency? Will this take items out of common view? Mr. Perkins assured the Committee that removing some projects from common view would not mean they would not do their homework and the required due diligence. What the changes affect is the documents that are prepared for presentation; all projects receive the same internal consideration. The question is how best to use the Regents' time for oversight and evaluation of risk, Ms. O'Brien said. These proposals are designed to put regental focus on oversight and risk, not where there is no value added. Moreover, she said, they are required to bring quarterly reports to the Regents' facilities committee; they are suggesting that the reports be made twice per year so they can be done better and provide a more thorough information summary.

Mr. Klein inquired what the cut-off point for board involvement in capital projects is at American Express; Mr. Perkins said it was about \$5 - 10 million. Vice President O'Brien said that at Wells Fargo it is \$50 million. Mr. Perkins said that even with a simplified system, there will be 30-50 pages going to the Regents, but they will be spending more time on big projects; that does not mean his office will be spending less time on projects. He said he hopes that the result is less busywork.

Moving the schematic designs earlier in the process will mean doing them 12-14 months earlier than at present. It also means that if they spend 15% of planning money, rather than 2%, they will likely do a better job of planning a project as well as increase the chance for success as long as the University's priorities remain the same. Earlier schematic plans will also make it more likely they will be able to complete a project on time and within budget. There is the risk that the money will be spent but the project not funded, or not funded when expected, which would require that the designs would need to be updated later, but Mr. Perkins said he believed that is a risk worth taking, given the benefits. How would

the additional costs be funded? One possibility would be creation of a central fund that could be tapped, based on priorities from the planning process, or ask for pre-funding from the legislature.

Mr. Perkins said he has talked with a number of groups at the University about the change, and all seem to be enthusiastic about it. Once he is done, he will make a recommendation to the President. He asked Committee members if they had any additional questions.

Is it possible that because of very good planning, a \$10-million project might only cost \$9.5 million, Mr. Klein asked? Is the total budget spent or do savings reward good planning? This does happen, Mr. Perkins said, but it also happens that some projects are not as well-planned as they should be and require additional money. Mr. Swanson noted that there is a difference between state-funded projects, which are limited by the bond language, and projects funded in other ways. It may be that savings from some projects could be used to fund schematic designs, Professor Roe suggested.

Mr. Perkins noted that the first time a revised process could be used would be with the 2006 capital request, because it is possible that with the failure to adopt a bonding bill in 2004, and adoption of one in 2005, there could be a reordering of the priorities, so he would not want to do schematic designs for items in the 2004 request until a bonding bill is adopted in 2005.

If a fund to pay for schematic designs is created, the money will have to come from somewhere, Mr. Swanson observed. That is his question, Professor Campbell said; how much would be needed? It would need to be about \$2.5 million on a \$200 million request, but it would not be needed for all projects, Mr. Perkins said. Some of the projects (e.g., HEAPR funds) the University can do itself and would not need schematic design in the same way. Mr. Kallsen pointed out that the University is already spending money on schematic design, so it is really a question of funding mechanism. The fund would need to be replenished, Professor Campbell observed.

Vice President O'Brien thanked the Committee for learning about some rather "dry" matters, because they are nonetheless important. Professor Erdman said he thought the proposed changes were a good idea.

Professor Campbell thanked Mr. Perkins, Vice President O'Brien, and Mr. Swanson for joining the meeting, and adjourned it at 4:00.

-- Gary Engstrand