Minutes*

Senate Committee on Finance and Planning
Tuesday, September 28, 2004
2:30 - 4:15
238A Morrill Hall

Present: Charles Campbell (chair), Rose Blixt, David Chapman, Steve Fitzgerald, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Michael Korth, Ian McMillan, Cleon Melsa, Diane Parker, Richard Pfutzenreuter, Terry Roe, Charles Speaks, Alfred Sullivan, Susan Van Voorhis

Absent: Calvin Alexander, Arthur Erdman, Daniel Feeney, Joshua Jacobsen, Kathleen O'Brien, Thomas Stinson, Kate VandenBosch, Warren Warwick, Michael Volna

Guests: Senior Vice President Robert Jones, Professor Martin Sampson; Associate Vice President Michael Perkins

Other: H. Jeanie Taylor (Office of the President)

[In these minutes: (1) the Rochester campus; (2) small project construction costs; (3) the biennial request; (4) Regents' policy on direct sales of goods and services]

1. The Rochester Campus

Professor Campbell convened the meeting at 2:30, noted that the first item was a discussion of the financial investment in the Rochester campus, and asked for a motion to close the meeting. The motion was made, seconded, and voted unanimously.

The Committee discussed with Senior Vice President Jones, Professor Sampson, and Mr. Kallsen the financial commitments the University has made to the Rochester campus, the history of the University's involvement, the programs offered, the organization of the Rochester Center, and the political aspects of the University's presence in the Rochester area.

Professor Campbell thanked Dr. Jones and Professor Sampson for joining the meeting.

2. Small Project Construction Costs

Professor Campbell next welcomed Associate Vice President Michael Perkins, Capital Planning and Project Management (CPPM), to the meeting to discuss small project construction costs.

Mr. Perkins brought apologies from Vice President O'Brien, who was unable to attend the meeting because she was involved in negotiations about the visit of filmmaker Michael Moore to the campus. He told the Committee that small projects (ones that cost less than $2 million) make up the largest share of the work of CPPM in terms of volume, although not in dollars. The biggest challenge is

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how to do small projects effectively and efficiently. It is these small projects, he observed, that touch the most people at the University.

Mr. Perkins noted that CPPM handles strategic and tactical planning for the University's facilities, they prepare designs and specifications, and with unit approval, carry out construction. Their vision is to improve the reputation and rebuild confidence in the CPPM process. Over the five fiscal years 1999-2003, the University had $1.2 billion in new construction; they had a variable track record and received criticism in the media. When Vice President O'Brien came to the University, she began to rebuild CPPM because the University needs the capacity to handle big and small project management. Mr. Perkins reviewed the five quality standards that CPPM wants to be measured on. One issue is the number of claims (that require mediation, arbitration, or litigation); there was a significant backlog of claims when he took office; most of them have been settled. In fiscal year 2004, with over 1000 projects, there were no claims, so they appear to be on the right track.

There was about $225 million in construction during 2003-04. The total included major projects ($183 million) as well as expenditures for mechanical/electrical/plumbing, waterproofing/tuck pointing, design, roof replacement, elevators, window replacements, etc.

Professor Roe inquired what category remodeling a lab for a newly-hired faculty member would be. That would be new construction, Mr. Perkins said, because it is adding value for some period of time (in contrast with, for example, replacing a chiller, which simply keeps a facility usable). He reported that during the last fiscal year there over 300 small projects; there is also a category of "do it" tickets, small projects that do not require design work or subcontractors that are handled with in-house staff. There were 3960 "do it" projects totaling about $6.6 million that are not included in the construction summary he distributed to Committee members. While 90% of the dollar volume of their business is in 10-12 large projects, small projects often require almost as much time as the larger ones.

They are trying to get consistency in project delivery, Mr. Perkins said; he is trying to develop one process for all projects that can be communicated to all, one that people agree on is economical, and that meets the quality standards by which CPPM is to be measured.

Mr. Perkins asked Committee members for their experiences with recent project management. Ms. Blixt said she had been involved in five or six projects, all of which were under budget and on time or early and that the people were wonderful to work with. Professor Speaks commented that one's experience can depend on who one gets for project manager; he worked with one who also brought a project in under budget and on time. Mr. Perkins said these were good to hear; when he talks to people, the responses are more balanced; some are very critical while others are very positive.

Ms. VanVoorhis asked why, if CPPM waterproofs 2-3 areas of a building, but not other areas that are a problem, why not the whole area? Otherwise it seems they are wasting money. Mr. Perkins said it was a very good question to which he did not have a good answer. He would ask the same thing—why not do the whole area?—and the answer is usually because of priorities for funds. The Committee discussed the problems of Williamson Hall. Water is a big challenge at the University, Mr. Perkins said, and much of it is contaminated because of the once-heavy-industrialized area that surrounds the University. They must deal with mold, for example, and a considerable amount of space has been taken off-line because it is not habitable. They are trying to deal with Williamson but will never be able to solve the problems completely (and it may be that the best solution will be to tear the building down). The architectural community is undertaking a sustainability initiative: identifying how to develop buildings that last longer and that when they are torn down, the materials can be re-used rather than dumped in a landfill. In the 1970s the University was a leader in earth-sheltered buildings; no one knew what the problems would be. He said he has told the architectural community that he wants people standing by the University when problems in new kinds of construction emerge.

Professor Speaks suggested that one addition to the many tables of data on project costs would be to code the funding source. These kinds of data do get out and can create questions.

Mr. Perkins suggested that Committee members review a handout he provided to see the processes they use for small projects.

Mr. Fitzgerald commented that a number of the items on the construction list were for classrooms because the University has not made good progress on life-cycle maintenance of its facilities. The list would be shorter if it had. Or it might be five times longer, Mr. Perkins commented, if they received all the money they needed for the work to be done.

Professor Campbell thanked Mr. Perkins for joining the meeting.

3. Biennial Request

Professor Campbell welcomed Senior Vice President Jones back to the meeting to discuss the University's 2005-07 biennial request.

Dr. Jones distributed copies of a handout summarizing the request; he noted that it had been prepared for the Committee and that the request is not yet in final form. The final version will be on the web in a few days, Mr. Pfutzenreuter reported.

In April the President charged the working group developing the biennial request to protect the base budget and to make a strong case for an increment in the support to the University. They have developed core principles that have guided the request this year:

-- it should emphasize a long-term 50/50 financial partnership with shared responsibilities to maintain the University's competitiveness and advance academic priorities

-- it should advance the critical needs of the University while acknowledging the state's overall budget context (i.e., a project deficit of about $1 billion)

-- it should emphasize the unique importance of the University in research, education, and outreach to the long-term economic viability of and quality of life in the state

-- the University will be responsible (through reallocation, tuition, and new revenues) for faculty and staff base compensation increases, maintenance of the facilities infrastructure, inflationary support costs, and selected academic and service investments

-- the State will be responsible for new funding for critically important research to strengthen the impact and productivity of the University in areas essential to the state's economy and quality of life, for funds to attract and retain top faculty, staff, and students, for funds for investment in the infrastructure to sustain outstanding research and education

-- it will assume a critical level of state support to promote student access to an affordable, high-quality education

The University is requesting $42 million in new funds from the state in 2005-06 and an additional $42 million in 2006-07; the University, in turn, will commit to identifying $15 million each year in internal reallocation and will generate $27 million in additional tuition revenues, for a total increase of $84 million in 2005-06 and an additional increase of the same amount in 2006-07. The handout identified investments the state is being asked to support (biosciences for a healthy society, attracting and retaining talent for Minnesota's future (both students and faculty), creating and sustaining essential research and technology infrastructure, and 21st Century technology).

Committee members spent time discussing with Messrs. Jones and Pfutzenreuter the implications of the proposed request and possible reaction by the legislature. One point made several times was whether it was wise to suggest a 50/50 financial partnership for the long term, because the state has invested more than 50% in the past and it should not be assumed the state will never increase its support in the future. (Or it could be read as an attempt to stop the slide in support, Professor Roe commented, in order to forestall further efforts to privatize the University.) Committee members also discussed the reallocation item, with several urging that it cannot be across-the-board taxes (which is not sustainable for the long term) but rather cutting low priorities (which can be). There has been no decision about how the University would reallocate, or if it would take the hard road and cut programs; for that discussion, Vice President Pfutzenreuter observed, there need to be others in the room. Professor Campbell commented that this proposal puts the cart before the horse, which the University has often done in the past: it makes a decision (to reallocate) and then later figures out how to pay for it. Dr. Jones pointed out that it would be unwise for a number of reasons to say what would be cut. Professor Speaks agreed; his worry, he said, is that no decision would be made after the fact, either.

Mr. Pfutzenreuter noted that there could be NO new money from the state this year. The request makes it clear what will NOT happen if there is no money, and what will happen with tuition. The University will not say that it will take care of these items without new state funds. Professor Konstan asked if the University had ever considered a broad-based marketing effort, a campaign to the citizens of the state in a way that legislators would pay attention to. The request, for example, is essentially asking for about $10 per person in new funds for the University for the next biennium, and XXX is what they are getting in return. He said he was no expert in this kind of effort but suggested that some of the items in the request might not appeal to most people in the state. The request language is addressed to 50 people, not 5 million. Professor Konstan also asked if there had been any discussion about reducing unfunded mandates from the state that would allow the University to free up funds internally; that would not cost the state money and would allow the University to move forward. This led to a brief discussion of the University's constitutional autonomy and the question of what mandates might be eliminated.

Professor Campbell had to leave the meeting during the discussion; Professor Roe had assumed the chair and he now thanked Dr. Jones and Mr. Pfutzenreuter for the discussion.

4. Regents' Policy on Direct Sales of Goods and Services

Mr. Pfutzenreuter next distributed copies of a substantially revised policy concerning sale of goods and services. He told the Committee that all Regents' policies are being reviewed in light of the delegation of authority policy; many of the financial policies have been cleaned up but there are a few, such as this one, that are still being worked on.

This is almost a complete revision of the existing policy, which was last revised about 30 years ago, Vice President Pfutzenreuter explained. The draft recognizes what units are doing and provides approval from the Board of Regents. Units have opportunities to generate revenues through the sale of goods and services, and are encouraged to do so, but they must also be mindful of the private sector and not compete with it. The last point can be a very fine line. The policy specifically excludes tuition and fees for instruction ("regular, extension, evening, or continuing education") and practicums, outside consulting or service and other activities separately regulated by the Board of Regents, student organizations, and fund-raising.

Mr. Klein suggested that inclusion of the word "extension" had the potential for problems. Mr. Pfutzenreuter noted again the policy excludes fees for instruction; he observed that it sets guiding principles for those who must make judgments. The Committee discussed the inclusion of the term and concluded that it could perhaps be eliminated from the policy.

Mr. Fitzgerald noted that there is a Regents' policy concerning leasing space, barring leases to anyone other than a non-profit or University-sponsored group. The University does rent to employees for such things as weddings, Mr. Pfutzenreuter said, and they are considered external sales. Are library services (loans, copies, etc.) external sales, Professor Konstan asked? They are. Are non-instructional fees (e.g., lab access fees)? They are not. Are residence halls external sales? Some of these are tough, Mr. Pfutzenreuter responded. Professor Konstan wondered if the policy should exclude sales to faculty, staff, and students; Mr. Pfutzenreuter said he is an external customer when he purchases a parking contract.

The Committee discussed the position of Internal Service Organizations, which charge for services but are not allowed to make a profit and whose rates must be approved.

Professor Roe thanked Mr. Pfutzenreuter for the presentation and adjourned the meeting at 4:30.

-- Gary Engstrand

University of Minnesota