Minutes*

Senate Committee on Finance and Planning
Tuesday, March 8, 2005
2:30 – 4:15
238A Morrill Hall

Present: Charles Campbell (chair), David Chapman, Arthur Erdman, Daniel Feeney, Steve Fitzgerald, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Ian McMillan, Kathleen O'Brien, Diane Parker, Richard Pfutzenreuter, Terry Roe, Charles Speaks, Kate VandenBosch, Susan Van Voorhis, Warren Warwick

Absent: Calvin Alexander, Kendal Beer, Rose Blixt, Scott Fine, Michael Korth, Thomas Stinson, Alfred Sullivan, Michael Volna

Guests: none

Other: Leslie Krueger (Office of the Vice President for University Services)

[In these minutes: (1) budget forecast; (2) athletic financial matters; (3) long-term budget strategy; (4) Twin Cities campus master planning]

1. Budget Forecast

Professor Campbell convened the meeting at 2:30 and turned to Vice President Pfutzenreuter for a discussion of the budget forecast.

Mr. Pfutzenreuter distributed copies of a handout. The revenue forecast is up by $175 million. Current law allocates the entire $175 million: $25 million is restored to the budget reserve and $150 million goes to K-12 education (in a complex transaction). The net effect is that instead of a $700 million deficit, the state faces a $466 million deficit. Those figures do not include inflation. Steady growth in the GDP is expected through 2007. There are surpluses projected for the February and November 2008 and 2009 revenue and spending estimates.

How do things really look, after including inflation, Professor Chapman asked? The $700 million was really about $1.5 billion, Mr. Pfutzenreuter said. So the state is still in trouble, Professor Chapman commented. Yes, Mr. Pfutzenreuter said, unless it wishes to ignore inflation.

Professor Chapman also inquired if the under-funding of K-12 education and welfare programs would have an effect on the legislative response to the change in revenue forecast. It certainly will, Mr. Pfutzenreuter said.

Professor Campbell thanked Mr. Pfutzenreuter for his report.

* 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.

2. Athletic Financial Matters

Professor Speaks next reported on athletic matters that he had been asked to inquire about in his capacity as the Committee's representative on the finance subcommittee of the Advisory Committee on Athletics. In general, he said, he was impressed and that things look reasonably positive.

First, he had been asked about monitoring and supervision, especially financial, of booster clubs. Professor Speaks reported that "external auditors examine booster club activity; it is not an official audit, but substitutes for one," that "all spending that is specific to the athletics program goes through CUFS," that "for all spending on the clubs themselves, athletics co-signs the checks," and that "any expenditures on athletics programs must be pre-approved by intercollegiate athletics."

Second, he had been asked to inquire about financial information concerning the most recent bowl game in which the football team participated. He cautioned first that one should not pay a lot of attention to what one reads in the paper about what a great financial bonanza a bowl game is. The revenue from the game was $780,000; the expenditures for the game were $775,025, so the "profit" was $4,975. The largest expenditure was $431,184 in travel (air, ground, meals for team, staff, band and cheer squad); the second largest expenditure was $149,885 in coaches bonuses, as provided in the athletics department bonus policy.

Third, he was asked to report to this Committee on the financial situation for athletics for this year and next year. For this year, ending June 30, 2005, football revenue was $500,000 greater than budgeted, men's basketball has been less than even conservatively budgeted, and apparel/licensing has been about $400,000 greater than budgeted. While there is no precise projection yet of year-end balance, it is expected to be positive.

Finally, projections for next year: the department expects a $500,000 decrease in revenue, an expenditure increase of $1.2 million, so a projected financial challenge of $1.7 million. The challenge will be met by a combination of reduction in expenditures AND increased revenue. The department will not request additional subsidy from the University nor will it request forgiveness of the agreed-upon decrease in the central subsidy. If they have a new stadium by the 2008 football season they project a revenue increase of $3.5 million annually (from suites, clubs, sponsorships, ticket prices, and ticket volumes).

Professor Erdman recalled that last year athletics had a positive balance at the end of the year. Of the $1.7 million challenge, $400,000 is a reduced central administration allocation and $900,000 to fund sports that were saved a few years ago with external fund-raising: the external funds have been used up but the costs continue. Professor Speaks added that there is no discussion now about cutting teams; they have and will retain 25 teams. The focus for fund-raising is the football stadium and the goal of endowing all athletic scholarships. The department is following the President's lead on raising funds for student aid, Professor Erdman said, and endowing scholarships will eliminate one recurring cost.

Will the endowment cover the cost or just some of it, Professor Konstan asked? When originally endowed, the funds cover the entire cost, Professor Erdman said, but significant tuition rate increases have required that some funds be added to those that are already endowed.

What is the total athletic budget, Professor McMillan asked? About $50 million, Professor Erdman said. Are these shortfalls significant problems, Professor McMillan asked? The department is managing them and expects a positive balance this year, Professor Speaks reported. To him, manage means not end the year with a deficit and not ask for any change in the subsidy reduction. The shortfalls are about 5%, typical of what a number of support units had to absorb, Mr. Kallsen reported. Professor Speaks said it is his understanding that the athletic department administration believes it can handle the challenge.

This is an opportunity for the Committee to be sure that information reaches more people, Mr. Klein said: here is an organization in the University that is living within its limits in tough times and upholding standards expected of the rest of the institution. It serves as a model for others and the Committee should commend the department for sticking with its commitments. When former Vice President Tonya Moten Brown first provided the information about the financial status of athletics and the size of the institutional subsidy, he was outraged, Professor Speaks recalled; now, he said, he has a very high comfort level with the way athletics is being managed.

Professor Campbell thanked Professors Erdman and Speaks for their report.

3. Long-Term Budget Strategy

Professor Campbell turned now to Mr. Kallsen to present a discussion of the University's long-term financial strategy. This is Part I, Mr. Kallsen said; Part II is being presented to the Board of Regents this week and will be brought to the Committee in the near future. Mr. Kallsen distributed a handout with a number of tables and graphs.

The administration wanted a mechanism to look at the University's finances beyond the annual budget, Mr. Kallsen told the Committee. They did not want to get too far ahead of events at the Capitol so the discussion has been split into two parts; the first part is a review of the big revenue and expense drivers. The point of the exercise is to "improve understanding of the financial impact of strategic policy choices, changes in key external environment variables, and investment aspirations" and to "align and integrate financial projections with decision making processes" (e.g., strategic positioning, the biennial budget, the six-year capital plan, the annual capital budget, and the compacts). The "how" is to "provide decision makers a forward vision that projects the future impact of decisions and is flexible and adaptable to different assumptions." He reviewed a diagram illustrating how these various elements are linked and identified the elements of the two parts of the exercise.

The key assumptions initially were that the effort is system-level, looks at "education and general" revenues and expenses (that is, not sponsored funds, auxiliaries and internal service organizations), focuses on the major revenues and costs, and forecasts in the context of academic, operational, and capital plans (e.g., the Regentally-approved six-year capital plan). The Board, however, asked that sponsored research and auxiliaries be included, so they will be. Professor Roe asked what share of the revenues would have been excluded if those latter two items were not included. Mr. Kallsen said that auxiliaries total about $200 million and sponsored research about $500 million; the largest revenue sources for the University are state funds, tuition, and sponsored research, so the Board requested that the sponsored research be included.

Historical revenue trends are that there is a recent decline in state support, tuition has increased both in rate and volume, there has been a growth in the importance of external funds, and there have been declines in small but important revenue streams (i.e., important locally in units, such as private practice income in the Medical School). The handout included a graph of nine different revenue sources since

1994. They are about what one expects, Mr. Kallsen commented: state funds rose during the period through the early part of the decade and then declined noticeably; tuition revenue increased slowly and then dramatically over the last three years.

Professor Speaks asked if the graphs of state funds and tuition would be very different if the lines were plotted college by college; Mr. Kallsen said they would be. Tuition makes up nearly 72% of the revenue for CLA, Professor Speaks commented. Professor Konstan asked if the lines on the graph would be different if the amounts were plotted in constant rather than nominal dollars; Mr. Kallsen said they would. State funding in nominal dollars returned to the 1998 level but to an earlier level if calculated in constant dollars.

A histogram (with 1994, 1999, and 2004 data points) illuminated more starkly the changes in revenue sources. State appropriations have declined from 48 to 45 to 35%; tuition has increased from 21 to 22 to 29%; externally-generated funds (gifts and endowments, grants and contracts, external sales, ICR) has increased from 20 to 23 to 26%. (These are percentages of a total that does not include sponsored research or auxiliaries). The externally-generated category is becoming more and more important, Mr. Kallsen observed; tuition and state funds are core, but this category is growing in importance. Professor Konstan asked whether the funds are double-counted (e.g., a grant pays tuition for a graduate student; is the money counted both as sponsored income and tuition revenue?). Mr. Kallsen said he did not believe so but would have to defer to Mr. Volna for an explanation. He said that Professor Konstan was correct, the lines and numbers would change if items are double-counted, but even so the trends would remain: the University is less reliant on state funds and increasingly dependent on outside revenues beyond tuition.

There is also a small category of "other" revenues that has not in total changed significantly over the period that includes such things as the private practice income, direct federal appropriations, and the like.

Mr. Kallsen reviewed graphs of the various externally-generated funds and the rise in tuition and fees and also one that plotted student enrollment. There has been tremendous enrollment growth, he said—undergraduate enrollment is up 19.9% over the ten-year period and graduate/professional enrollment is up 31.2%. The University is running on marginal revenues over marginal costs, but the increases raise the question of how much the revenues can continue to grow on the volume side; his view, Mr. Kallsen said, is "not a lot."

A graph of the CPI and the HEPI (higher education price index) from 1961 to 2003 showed that the two remained about the same until the mid-1980s, at which point the HEPI increased at a faster rate than the CPI. The costs increased because higher education buys a different basket of goods from those in the CPI, Mr. Kallsen said, and because it is a heavily people operation. As personnel (salaries and especially fringe benefits) go up, so do costs. Higher education also has elements in its basket of goods that are unique, such as plant and capital costs, heavy infrastructure (utilities, greenhouses, etc.), and libraries. Professor McMillan asked why the two lines on the graph diverged in the mid-1980s. The HEPI increase was driven largely by health-care costs, Mr. Kallsen said—it is about then that they started to increase dramatically. Professor Roe said that the CPI shows the increased productivity effects in manufacturing; there have not been comparable gains in the non-manufacturing sectors of the economy. Mr. Kallsen agreed; he said universities cannot substitute capital for labor. Or substitute cheaper foreign labor for local labor, Professor Konstan added. Professor McMillan asked Mr. Kallsen if he expected the two lines to continue to diverge; Mr. Kallsen said he thought they would. Is that a problem, Professor

McMillan inquired? It is to the extent that universities cannot explain it, Mr. Kallsen said, which involves justifying tuition increases that are greater than inflation—and the need to do it in a 15-second sound bite.

"Education and General" expenditures at the University have increased on average about 5% per year, and the University rate of increase corresponds approximately to the increase in the HEPI. Facilities costs continue to grow in importance.

Ms. VanVoorhis asked if Mr. Kallsen has broken out expenditure and revenue trends by campus. There are significant differences between them, she observed. They are starting to work on that, Mr. Kallsen said.

Mr. Kallsen then turned to a pie chart illustrating expenditures by category. The percentage spent on compensation has remained about the same, he said, but the cost of fringe benefits has grown as a percentage of the compensation category. It could be that student aid money is also counted as salary dollars, Professor Konstan said; it is difficult to disambiguate the figures and there is a need to acknowledge if there is any double counting.

A histogram of facilities, utilities, debt, and repairs and renovation showed bars steadily increasing in height from 2000 to 2011 (based on the current six-year capital plan). The two largest costs are debt and utilities, Mr. Kallsen said, and the latter is a growing concern because they are projected to grow considerably. As a percentage of total expenditures, however, there has been no change in the total category, Professor Speaks observed. Professor Roe said the histogram reflects the comments of Dr. Curry about how critical it is that the University deal with space costs because they continue to chew up dollars.

Mr. Kallsen then briefly reviewed the "heat maps" with analysis of risks and impacts of financial projections in various areas. The next step will be to focus on (1) revenue sources that are both high risk and high impact: state funds, tuition and fees, non-sponsored grants and contracts, and ICR funds, and (2) expenditures that are high-risk and high-impact: utilities, fringe benefits, student aid, salaries, and facility repairs and maintenance.

Professor Campbell thanked Mr. Kallsen for his presentation and said the Committee would return to this subject in the near future.

4, Twin Cities Campus Master Planning

Professor Campbell turned next to Vice President O'Brien for a report on Twin Cities campus master planning. Vice President O'Brien distributed a handout and began by saying this would not be a one-time discussion nor would it be the last time the subject is discussed.

The Twin Cities campus master plan was adopted in 1996 after a two-year process; about two dozen faculty, staff, and students served as the advisory team. The plan had eleven guiding principles, included physical elements (buildings open spaces, etc.), viewed the campus as fifteen precincts and a corridor, and contained implementation recommendations. It was really a land-use plan, Vice President O'Brien said, comparable to city and county comprehensive plans. One of the original master plans for the University, of course, was the vision developed by Cass Gilbert, which set a template. The effort now will be focused on building a campus, not building buildings, on envisioning the way the campus works.

Research suggests that the way a campus is designed can contribute to the success of the academic enterprise.

One vision of the 1996 plan was to "engender pride in the people who study, work, and live on the campus and for those who visit it." Ms. O'Brien observed that the University learned during the years that Mark Yudof was president that investment in beauty and appearance matters and it affects the recruitment of faculty and students. The way the campus looks is important.

Vice President O'Brien reviewed the guiding principles of the plan and then discussed how to update the 1996 plan. About a year ago it was recognized that it had been nearly ten years since the plan was developed; it is supposed to be a living document and it was time to update it, recognizing that there could be a new football stadium, light-rail transit, a growing research community on the east end of the campus, and so on. In January, 2004, she convened a Master Plan Work Group with the charge to review the current plan and its development, consult with those who were involved in it, explore how other institutions develop master plans, assess the current plan, and make recommendations on revising the plan. The membership of the working group included her, Professors Judith Martin and Lance Neckar, Jan Morlock, Al Sullivan, Harvey Turner, and Lori-Anne Williams. The group addressed a series of questions (should there be a new plan or an update, what process should be used, what form should the plan take, should it be aspirational or a design, who will use it, what is it for, and when does the University make the transition to the new plan).

Following work last year, the Work Group concluded the 1996 plan should be retained and updated, should be linked and aligned to University operations across the campus, and should be used as a living guide, referred to frequently. They decided not to hire an overall consultant but to convene a master planning committee including faculty, staff, students, and community representatives, ensure broad consultation, and invest in the process. They may, Vice President O'Brien said, hire consultants on specific areas, such as traffic, but intend to rely more on faculty and staff expertise. The process will take about two years and will require some one-time money.

The components of the plan will include focusing on growing a campus, not building buildings, instilling the principles of sustainability, recognizing "the Mississippi River as a defining resource for the Twin Cities campus" and helping the state understand the critical importance of the river in the "web of life in this region."

Professor McMillan asked what an emphasis on the river would mean in practical terms. It would mean several things, Ms. O'Brien said. Before the recent renovation of Coffman, the University turned its back on the river and it was difficult to get to. As they surveyed faculty, they learned that many of them use the river for classroom instruction (geology, geography, architecture, etc.) and the second-largest intercollegiate athletic team (women's crew) uses it for practice and competition. The President believes there should be access to the river for the University community—it is a cultural icon and an international landmark. For the University to be perched above the river and not use it is a loss. In addition, all that the University does affects the river (e.g., storm runoff). As stewards of the environment, the University must manage storm water and plan campus operations to protect the river.

Professor Van den Bosch asked how ideas in the various precincts related to academic planning that affect campus master planning will get to the master planning committee and be taken into account. The master plan will need to incorporate ideas that appear in the compacts, Vice President O'Brien said—the University's leadership will decide the outcomes of the compact process, which will in turn guide the six-year capital plan. For those units that do not do compacts, how do they voice their concerns, Ms. VanVoorhis asked? They are using not only the compacts, Ms. O'Brien said, but also the Facilities Condition Assessment; units need to be sure their administrators bring issues to the central officers.

Mr. Kallsen said there is a revitalized interest in the campus master plan, not necessarily in the buildings but in the transportation and infrastructure issues—elements of the plan that usually do not have champions. The master plan has been very building-centric up to now. Vice President O'Brien agreed that there are significant issues in transportation and infrastructure. Mr. Fitzgerald said that it is important there be a linkage between the master plan and University operations that is consistent with the strategic planning process. Master plans are often strong on theory and short on application.

Professor Warwick said he liked the concept of the campus as a village, which Vice President O'Brien had mentioned, and asked about the possibility of building vertically along the river, on the cliffs. They are too steep to use, he said; has any thought been given to building on them rather than spreading the campus out? The University does not own the land along the river, Ms. O'Brien said, which is why it has built as it has. The ability to get to the river will be the subject of discussion but it is not likely the University can build up to the river bluffs because of land-use rules.

There are dilemmas of space, Professor Konstan said, the flexibility of space versus the customization of space. Buildings used to be built for a department and called by the name of the field; others are built as cubicles with walls that are easy to move. Some campuses have flexibility and lack customized space but they have no warmth in the buildings. Will the campus master plan address this issue? Space utilization is not part of land use planning, Ms. O'Brien said, but it is part of the budget model and strategic planning. If the University were being built from scratch today, it would not build 28 million gross square feet of space; the question is how to capture and design space for reuse.

A land-use question is the issue of smaller buildings that house one department versus large buildings that house several departments, Professor Konstan said. Campus master planning will identify 6-7 major themes that need attention, Ms. O'Brien said, but she does not know what those themes are now. She said she did not know if master planning would present an opportunity to advance space utilization or if another effort that is defined in strategic planning would do so. She did believe space utilization was a major issue that needs to be addressed. Mr. Klein said that without a discussion of the space utilization question in the context of the discussion with John Curry of MIT, space issues will gnaw away at the campus master plan. Curry's point was that space is a major investment for the University and that a more efficient use of space is an essential component of a plan for successfully operating in a time of tight financial resources.

Vice President O'Brien introduced her chief of staff, Leslie Krueger. Professor Konstan (who had taken the chair for the last half-hour of the meeting) welcomed her and then adjourned the meeting at 4:20.

-- Gary Engstrand

University of Minnesota