

Minutes*

Senate Committee on Finance and Planning
Tuesday, April 6, 1993
3:15 - 5:00
Studio C, Rarig Center

- Present: Irwin Rubenstein (chair), William Gerberich, Karen Geronime, Virginia Gray, Michael Hoey, Thomas Hoffmann, Karen Karni, Craig Kissock, Jeff von Munkwitz-Smith, Richard Pfitzenreuter, Paul Sackett, Jason Schmidt
- Regrets: Julie Idelkope, Mary Sue Simmons
- Absent: Carl Adams, David Berg, Fred Morrison, Roger Paschke, Doris Rubenstein, Thomas Scott, Susan Torgerson
- Guests: Senior Vice President Robert Erickson, Professor Gary Gardner, Associate Vice President Robert Kvavik, Associate Vice President Susan Markham
- Others: Ken Janzen (Regents' Office)

[In these minutes: comments about the news reports on the Medical School; the six-year capital budgeting process; update on the budget]

1. Open Comments

Professor Rubenstein convened the meeting at 3:15 and, while awaiting the arrival of Messrs. Erickson, Kvavik, and Markham, inquired if Committee members had comments on recent events. Discussion turned to the recent articles in the Star-Tribune about the private practice plans in the Medical School. Several critical comments were made; representative among them were these observations:

- There appears to be a double standard at play; most faculty members cannot earn an additional \$50 from the University, if on full salary, but individuals in the Medical School face no such limitation.
- While the irritation is understandable, there must also be room for market forces in University compensation so that it can attract good people. What is objectionable is when one unit operates with a different set of rules, rules that are abused when faculty in low-ranked department is paid substantially more than its peers.

*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.

2. The Six-Year Capital Budget

Professor Rubenstein next introduced Gary Gardner, head of the Department of Horticulture and representative of the Committee on the Capital Improvements Advisory Committee. The six-year capital request is to be submitted to the Board of Regents in the near future, and the Committee will return to it again in two weeks; the discussion today is intended to be about principles, not a review of the contents of the request.

It must be understood, Professor Gardner related, that the University is just starting to define the process of setting the capital budget; it need not be seen as cast in stone, and there will be mistakes this first time through. The Capital Improvements Advisory Committee (CIAC) has completed hearings with each of the vice presidential units, although no plan has been prepared.

From the faculty view, this is an attempt to define a process in which they can participate, rather than see backroom deals being made. Capital projects have been a mystery to many, often worked out on the basis of funding availability rather than in the University's long-term interests. In addition, this capital process is an all-funds process, and it also includes identification of maintenance money, something that has been ignored in recent years.

The 6-year plan will be subject to change, because there will always be new items coming up, but the University can be straightforward in telling the legislature when changes have occurred, rather than stick to a set of priorities that may no longer be valid.

Associate Vice President Markham said this is a process that most organizations go through, so this is not reinventing the wheel. This effort tries to put the University on a disciplined budgeting system it has not had; in the past, most of the capital decisions were ad hoc. One of her major objectives this year has been to get all of the needs on the table as well as all sources of funding, including departmental funds. This process begins the public debate, she told the Committee, and it will include ALL capital expenditures, not just projects authorized by the legislature and funded through bonding.

The process also entails coordinating fire and life safety expenditures as well as Restructuring and Reallocation funds, Senior Vice President Erickson pointed out. Historically, one thing has been done to a building, and then another later. The University has also put money into buildings that should have been considered for demolition. This process will try to make the best use of available funds.

Associate Vice President Kvavik then distributed a draft of the format of the CIAC Six-Year Capital Improvements Plan and reviewed its contents with the Committee. He noted that the state is also reforming how it handles capital requests, and University will be well advised to adapt its process to that of the state as much as possible.

There are four different kinds of capital expenditure accounts [routine maintenance, repair and replacement, capital asset and preservation (non-programmatic deficiencies in buildings), and capital budget projects (major remodeling/new facilities)]. All funds must be identified and aggregated to create the all-funds capital budget if the University is to have a successful capital investment strategy and get the most "bang for the buck," Dr. Kvavik told the Committee.

The Six-Year Capital Improvements Plan has several objectives: to ensure capital investments are guided by academic plans and Regents' criteria; to create effective advocacy of capital projects through an open process; to make the most effective investments possible; and to integrate capital and operating budget planning.

Dr. Kvavik then summarized the review process that is proposed. The process will include a financial analysis (including revenues and the University's bonding capacity). With the requirement that the University fund 1/3 of the cost of facilities, and given the University's current bonded indebtedness, new debt might be taken on without affecting the rate of interest the University pays. Financial consequences must be informed both by bonding considerations and operating costs. The other major element of the review process is data collection on each project (requirements, conformance to the academic plans, outcomes, alternatives, conformance to the Master Plan, compliance with codes and regulations, cost budgets, supported versus non-supported space, and other Regents' criteria).

With this information, the CIAC then makes two recommendations for each project: Does it qualify for inclusion in the capital plan?, and, What priority should it be given? Dr. Kvavik then explained how priorities are set: first, new facilities and major remodeling are rank-ordered; then other projects are ranked by grouped; and for fire, life, and safety projects, there is no ranking but a recommendation is made for a sum to be available to be used to respond to emergencies and opportunities.

The CIAC must integrate the priorities received from the President, Vice Presidents, and Chancellors into a single document, consult with the Senior Vice Presidents about it, and then consult with this Committee and other groups. The result will be a six-year capital plan. Asked who decides the priorities, Dr. Kvavik said it would be the Senior Vice Presidents, in consultation with the President.

Asked about the development of a database, Dr. Kvavik reported it is being developed. It is hoped that after this first phase of the development of the capital budget, there will be a rolling plan into which these data can be incorporated. Deans and vice presidents will be able to obtain a printout showing the status of projects so that changes or deletions can be made. The existence of a common database should help remove the confusion surrounding the capital budgeting process, he observed.

If only limited bonding authority is available, how big will the list be? Mr. Erickson said it will be a big list; Ms. Markham pointed out that the University spends three times as much on capital projects as it receives from the legislature. That has been part of the historical problem--previously, the focus has been on the bonding authority for new facilities.

How will the University deal with priorities, one Committee member inquired, when a gift may come with strings attached, and perhaps require half of the funding from other sources? The University must decide, Professor Gardner pointed out, if it is worth taking the gift; would it compromise academic plans? The process, Dr. Kvavik added, allows questions to be asked about a project and to tie it to a capital request. For example, a facility for the School of Management has much broader implications because it would free up space and could take off pressure that currently exists on some East Bank projects. Mr. Erickson agreed; with any gift, the University must look at the total impact on the institution, such as the possible acceleration of plans or demolition. Many programs are now shoe-horned into sub-optimal space, with consequent higher operating costs. If these things can be fixed over time, the

institution will operate better.

One Committee member asked if the academic master plan will take space into account. Dr. Kvavik responded that when budget hearings are held, space should be part of the discussions. If a program proposes X activities, space needs should be included. If a program is to decrease in size, presumably it should require less space. And space costs should be part of the process, somehow, he said. Tying the capital and operating budgets together will make that possible. Mr. Erickson said it will also help to understand the TOTAL cost of operating a unit or activity. In addition, the University has in the past made capital decisions without making maintenance decisions.

Dr. Kvavik pointed out to the Committee that because this process will take a comprehensive look at the capital inventory, items that have fallen through the cracks in the past will now get attention. One example is classrooms--does the University have too many? Is efficient use being made of them? Are they in the right places? If a more efficient inventory can be done, perhaps some classroom space could be used for other purposes.

If one thinks about distance education, one Committee member pointed out, one could think about seminars between Minneapolis and St. Paul as a test. There is at present no facility to conduct them. There is a natural test site in the Twin Cities, including designing self-contained, user-friendly facilities an instructor can operate. It was noted that the most recent Senate bill contains \$18 million for distance education for the University, including funds to teach the faculty how to use equipment. As part of the classroom item, Dr. Kvavik reported, there is a placeholder for these facilities--as well as for study space.

This effort, Mr. Erickson commented, is in line with what they are trying to do with all parts of budgeting: to demystify it. This will permit the University to look at items as a community and to establish priorities.

This all sounds rational and logical, observed one Committee member, but the problem is that at the bottom line, many of these decisions are political: dollars are available from this source, the legislature is interested in this project--does the process build in a way to deal with political concerns, and to provide flexibility? Also worrisome, in the transition, is that a project, getting toward the top of the list, will be overwhelmed by one large item. Mr. Erickson said this process will not require waiting two years; it will be a rolling six-year plan with annual reviews. There must be opportunities to get things on the table, and there will be exceptions made. He said, however, that the term "exception" will be emphasized; the point is to have a fair and open process. Previously, with a big list, the legislature had a lot to choose from if it wanted to balance expenditures regionally.

Dr. Kvavik concurred; in the past, the capital bonding request might have included 50 items with a variety of information available on each one. That made the University vulnerable to second-guessing by the legislature. Moreover, the list changed a lot. The last session, however, the list was very short, and there were clear guidelines on information provided, so there was not much deviation from it. This process will open it up further (and with little deviation) and provide comprehensive information; if an item is taken off the list, one can see both financial and space consequences. The process could still be political, he concluded, but it will perhaps be more informed politics. If there is to be a process, Professor Gardner added, there should be no exceptions; however, changes at times may need to be made.

Ms. Markham told the Committee that the Board of Regents assumes it will adopt the capital budgeting process and approve the budget the first year. Once projects are approved, they will not need to be brought back to the Board for review, which will reduce costs and speed up construction. The Board, she said, takes this process seriously; once it adopts the capital budget, it has granted the authority to do the construction. The Board would have to approve any exceptions to the capital budget, as well, Mr. Erickson pointed out, and they would have to be serious.

The first capital budget, under this process, will consist largely of fire, life, and safety improvements and responding to the Americans with Disabilities Act.

3. Update on the Budget

Professor Rubenstein then asked Mr. Pfutzenreuter and Professor Gray for an update on the budget situation at the legislature. The Senate had taken preliminary action, and it was difficult to determine precisely what the implications for the University were. It appears to call for -0- tuition increases both of the next two years and assumes there is full state funding except for inflationary increases. The result, it was pointed out, will be no salary increases, if tuition is held to zero, there are few state dollars, and there are other expense increases that must be addressed.

It was noted that there has been a rider proposed encouraging the Board of Regents to emphasize teaching on each campus of the University; it was not clear what such a rider might entail. Other riders and legislative proposals, the status of which were uncertain, were also discussed by the Committee members.

The meeting was adjourned at 4:40.

-- Gary Engstrand

University of Minnesota