

Minutes*

Senate Committee on Finance and Planning
Tuesday, October 23, 2012
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair pro tem), Dan Feeney, Catherine Fitch, Lincoln Kallsen, Kara Kersteter, Paul Olin, Richard Pfutzenreuter, Terry Roe, Michael Rollefson, Ann Sather, Kyle Smyth, Pamela Wheelock

Absent: Will Durfee, Gary Cohen, Susan Hupp, Ruth Lane, Fred Morrison, Gwen Rudney, Arturo Schultz, S. Charles Schulz, Thomas Stinson, Michael Volna, Aks Zaheer

Guests: Associate Vice President Terry Bock (Academic Health Center), Richard Johnson (Capital Planning and Project Management)

Other: Leslie Krueger (Chief of Staff, University Services)

[In these minutes: (1) discussion with Vice President Wheelock; (2) report of the chair pro tem; (3) update on the Biomedical Discovery District]

1. Discussion with Vice President Wheelock

Professor Luepker convened the meeting at 2:00, explained that Professor Durfee was out of town, and welcomed Vice President Wheelock to her first discussion with the Committee. He recalled that her predecessor, Vice President O'Brien, was a frequent visitor to the Committee; she and Vice President Pfutzenreuter spent much time with the Committee and were ex officio members, as is Vice President Wheelock now. The Committee, which represents faculty, staff, and students, is very interested in the work of University Services.

Vice President Wheelock thanked the Committee for the opportunity to talk with it and began with a brief overview of her professional background. She has taken, as she put it, a "non-linear" career path, primarily in the public sector, that has included work at the legislature, the City of St. Paul (including many redevelopment projects), Governor Ventura's office (as Commissioner of Finance), the Minnesota Wild, the Bush Foundation, and board chair and interim CEO of Minnesota Blue Cross/Blue Shield, and now to Vice President for University Services at the University. She said she knew she was interested in playing a leadership role in a large non-profit organization, where she could have a passion for her work, and did not initially think that the University's vice presidency would be that kind of position. She became more and more interested in the University, however, because she was attracted to the dynamism and vision of President Kaler. She also enjoyed working with Professor Tom Stinson, the State Economist, and she believes that how the University does is a bellwether for how the state does. She is also convinced that little has a greater impact on people's lives than access to a high-quality education. When she was interviewed for the vice presidency, she said she was struck by the passion that so many people had for the University.

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Vice President Wheelock provided the Committee an updated organizational chart of University Services and noted that much of it is Twin Cities-based and focused on facilities and public safety, but there are system-wide functions, such as security and capital planning. The goal is to help support and advance the University's mission.

There were a few surprises for her when she took the position, Ms. Wheelock related. When she was at the state, she saw the University receive a lot of money for capital projects and assumed that University buildings would all be in great shape—she has been surprised at the magnitude of the capital issues the institution faces. She noted the maps of the Twin Cities campus she had provided indicating by color code the overall condition of each building, and quite a number of them—more than half—are rated fair, poor (pink), or critical (red). She told the Committee she thinks about opportunity costs, and to deal with facilities issues will require strategic thinking because it will be taking money that could be used to do something else. Is the University using its physical assets in the best way to advance its mission? The institution probably has more space than it needs and some of the space is not what is needed—such space needs to be converted to an asset. Ms. Wheelock said she has spoken with Provost Hanson about how best to use the University's space assets to advance the mission, an approach that needs to be integrated throughout departments, but she is not certain about how best to do that.

This campus has the 2009 Campus Master Plan, Ms. Wheelock noted, which is a good land-use plan. But it should incorporate factors about where the institution expects to be in future years—those are what should drive facilities use.

Another surprise, Ms. Wheelock related, related to the fact that she started in mid-August, before classes started. She has been amazed by the complexity of pedestrian, moped, bicycle, automobile, bus, and other kinds of traffic. If one were to start over, one would design a campus that had more logical traffic patterns. She applauded Vice President O'Brien and Ms. Krueger for ensuring that the University has been a good steward of its resources as light-rail construction has proceeded and said she hoped that the extra investments in the stretch of the Central Corridor line through the campus will work. She added that with the closing of Washington Avenue and the constraining presence of the river and the railroads, it has been difficult to make traffic adjustments for the Minneapolis campus.

Within her first two weeks in the position, Ms. Wheelock said, she was surprised at the extent of the University's public safety responsibilities because there are so many young people who are on campus and for the first time responsible for themselves. It has a professional staff of 50 sworn officers and a cadre of student monitors to deal with problems, ensure safety, and respond to unpredictability. She said she was glad to see that the University had made such investments in public safety.

She has been trying to see as many people as possible in her first two months on the job, and that will continue. She has visited or will visit soon all of the non-metropolitan campuses. She has spent time with University Services staff and is meeting with the Twin Cities deans. It has been an invigorating experience so far, and has only had one frustrating day.

Ms. Wheelock said she is pleased to follow in the footsteps of Kathleen O'Brien, whom she has known from earlier professional experiences and who she believes was an extremely capable administrator. She has also come to know that there are many capable people in University Services. She invited Committee member comments and questions.

Mr. Rollefson noted that the president has issued the challenge of reducing administrative costs each year he is in office. He has been at the University for 26 years and has been reducing administrative costs every year. How will that challenge play out in University Services?

Vice President Wheelock said she was attracted to the offer from President Kaler because of his willingness to make such a clear pledge. They will need to revisit risk recalibration and pick up the pace on it. She said she was not surprised that the president had made the pledge and she is committed to it as well; when the University has reduced levels of state funding and students face increasing debt, the model is unsustainable and the institution must find opportunities to redirect funds from lower to high priorities. There is a culture at the University, and people are cognizant of and sensitive to the needs of students; the institution has to find a way to advance its mission and at the same time not make it unaffordable. She said she knows there have been significant savings in energy costs and there will be more with the new heat/power plant, and the University must continue to use HEAPR funds—of which there are never enough—to continue to improve energy efficiency. They are also looking at new technologies and business practices to improve procurement. They are aware of the challenge from the president and the need to meet it; it is a daunting challenge when the University has 29 million square feet of space—this is an expensive institution to maintain.

Professor Roe said that Auxiliary Services are driven more by market forces than other units at the University and said he believes they have contributed a considerable amount of money to the University. How does Vice President Wheelock see them evolving?

Ms. Wheelock said it is healthy to think of running those services like a business, being conscious of what customers want, and the services are aware that they must be self-sustaining. They build what they can support, although it may sometimes feel like needs are not being met. They have done a good job with the profit-and-loss statements and have been very responsible. They are run like a business but their rates are taken into account when the University considers the total cost of attendance, Mr. Kallsen said, and he pointed out that auxiliary services rates have increased at a slower rate than tuition.

Professor Feeney recalled that a former member and chair of this Committee said to a former president that what the campus faces is a shortage of dynamite and that there are too many buildings. Can University Services do anything about that? It also typically costs much more to retrofit a building than to build a new one.

There is the practical challenge of what to do with the occupants if the University decides to fix or renovate a building, Ms. Wheelock observed. Where is the swing space? (Staying in the space while remodeling takes place is not a good idea, even if it were possible.) That question is where integrated space planning makes sense—so there is swing space available. Another challenge is where to obtain the funds to work on buildings. Many of the improvements are funded by the University itself and many are funded by the legislature, but there is unfortunately not a lot of "sex appeal" in requests to the legislature to fix up existing buildings. It is the nanotechnology and cancer/cardio research buildings that capture attention and support. MnSCU is moving in the direction of asset preservation; that is more difficult at the University because some of its buildings would be extremely hard to remodel. Morrill Hall would be difficult to remodel and it probably won't happen. So the University must be judicious in what it decides to keep and what it lets go, and working through those choices is an ongoing process. They are also interested in being ready to go when the funds are available (e.g., in response to an off-year capital funding bill, which could happen in the upcoming legislative session); the University has a number of shovel-ready projects. It has to be thoughtful about its capital projects—but it also has to be opportunistic when necessary.

Vice President Wheelock said she also wished to applaud those who worked to get incentives aligned, such as having colleges think about square footage and the use of space in their budgeting process.

Professor Luepker recalled that Vice President O'Brien often spoke of 27 million square feet, and now Vice President Wheelock has referred to 29 million square feet. There are new buildings going up and not many are being torn down. Does the University have more space than it needs? Professor Luepker also commented that the University has worked on conserving energy and done quite well. About three years ago this Committee made a strong statement about the University approach to energy conservation. Professor Luepker also asked about the new jet turbine power generator: Has financing been attained and will it go forward?

Ms. Wheelock reported that there are approximately 29 million square feet in the University system, and of those, approximately 22 million are on the Twin Cities campus.

It will, Ms. Wheelock said, and because the University did not receive as much funding for the project as it had sought, the remaining cost will be internally-funded. It is, again, one of those projects that does not have a lot of sex appeal. The renovated plant will be a big contributor to meeting University energy needs in a cost-effective, sustainable way. There has been much work at the University around curriculum, research, and policy on sustainability; President Bruininks signed the president's climate control commitment in 2008, and the University has a lot of work to do to achieve those targets.

As for buildings, Ms. Wheelock said, the Armory, for example, is red (critical) on the map, and it has a lot of lead in it that will cost a great deal of money to remove, but it is a landmark. Many solutions will require dialogue and research in order to identify the best solution. The University does have a lot of square footage, and once the Biomedical Discovery District is filled, other space will have been vacated and it can be used as swing space while decisions about how it will eventually be used are made. People develop an emotional attachment to space, she observed, so it can be a challenging problem.

One challenge is transportation around three Twin Cities locations, Dr. Fitch commented. Where does she see opportunities to integrate parts of the campus more for faculty, staff, and students? The University is a collection of dissimilar parts, Vice President Wheelock commented, ranging from the Crookston campus to the Arboretum to Hormel to Itasca, in addition to the Twin Cities campus. As one talks about cutting administrative expenses, it is difficult to figure out what the University should compare itself to. There are few institutions that it can have comparisons with, when it also includes a medical school, a veterinary school, a hospital, research and outreach centers, and Glensheen. It is a remarkable place with many assets but a challenge to manage that many parts and feel connected. She knew there was an East Bank, West Bank, and St. Paul campus, but there is also the athletic complex and the health sciences south of Washington Avenue. Roads and transportation can make places feel more or less connected and said she hoped that students can prevail with the Metropolitan Council to make the University a free zone on the Central Corridor light rail. Ms. Wheelock said she does not know how the academic units program space for undergraduate and graduate programs, how they use and share it, and how they develop a sense of integration through informal mixing. That is outside the sphere of her decision-making, and University Services is here to be partners with those who wrestle with such issues.

Ms. Wheelock said she is aware that there have been discussions about the West Bank and St. Paul and supportive use for them, including recreational sports and residence halls. Those are great issues as long as the campus does not duplicate what it has and get beyond what it needs.

Professor Luepker asked Vice President Wheelock if she had dealt with cost pools yet (she had); the goal is to keep them as low as possible, he said. That is also her goal, Ms. Wheelock replied, as long as they can meet the expectations of their customers.

The Committee heard about Northrop Auditorium last year, Ms. Sather recalled. Has she been inside it to see how it is going? Ms. Wheelock said she has been on the Humphrey School advisory council and heard there about the aspirations for Northrop, as well as the complexities of dealing with it because it is so land-locked, which makes it a remarkable and rare example of ingenuity in renovating a complex building. Some of the drawings from the 1920s (when the building was built) were not accurate, so there were some surprises. It will be a phenomenal space when it is completed and it will be important to resolve any misunderstandings about space use before it is opened. It will be a fabulous asset for the University for another 100 years and she would like to see it as a collector of people (there is discussion about extended hours).

Professor Luepker observed that this meeting was being held in one of the poorest buildings on the campus. The University cannot control the legislature but it will have needs; will she be one of the sales people for the University's bonding-bill request and get Morrill Hall on the list? Ms. Wheelock said she has great respect for Mr. Rohloff's abilities [the University's lobbyist in St. Paul] but the work is not done by any one individual—it is a team effort. She expects to be part of that team. She said she did not believe that as long as Morrill Hall is used for administrative purposes that it will be on any list except possibly for decommissioning. Nor will the University build new space for administrators, instead putting its money into program facilities.

Professor Luepker thanked Vice President Wheelock for her comments to the Committee.

2. Report of the Chair Pro Tem

Professor Luepker reported that he had spent consider time in conversation with a reporter from the Wall Street Journal, who probably contacted him because the Committee reviewed vice presidential units while he was chair. The issue was rising college costs, an issue that brought the reporter to Minnesota because some view it as having high administrative costs. The reporter did understand the IPEDS data and how institutions classify differently.

Mr. Kallsen encouraged the Committee to look at the IPEDS data very carefully, and not to assume that they will tell the Committee what it wants to know.

3. Update on the Biomedical Discovery District (BDD)

Professor Luepker now welcomed Messrs. Bock and Johnson to the meeting to provide an update on the Biomedical Discovery District (BDD).

Mr. Johnson provided copies of slides containing the building floor plans and site plan for the new Cancer/Cardiovascular building. He also provided views of the construction status in various parts of the building. He noted that the building has the largest mechanical/electrical package in the Twin Cities, totaling \$60 million, and commented that research-intensive facilities are very expensive. They are winding down on construction at this point and expect to certify occupancy for the research commons area in February, to be sure that everything works properly, and to certify occupancy for the remainder of the building in mid-March. They are a little ahead of schedule and within budget; if there are contingency funds remaining, they may be used toward the fourth project, Microbiology.

Mr. Bock reported that the Microbiology program planning effort is being led by Professor Ashley Haase and included faculty members from across the Academic Health Center. They are working with a design group to focus microbiology efforts by being interdisciplinary and inter-professional, pulling people into a common facility. Mr. Johnson said they expect to have a predesign by the end of the

year. And at that point, Mr. Bock continued, they will have a better idea about the size and cost of the facility that can be built. They are trying to maximize resources because the Microbiology facility will be connected to Cancer/Cardio and can take advantage of a core infrastructure, can have more dry-lab facilities that are less costly to build than wet-labs, and so on, so Microbiology will look like a building comparable to Cancer/Cardio. Mr. Johnson reported that they hope to begin construction in 2013 and open the building in 2015. It will have four floors, and they pre-invested and pre-built in Cancer/Cardio to serve the entire district, including a lobby, seminar rooms, a chiller, and so on. Much has already been paid for.

Professor Roe asked about the number of people who will be moved into Cancer/Cardio and what will become of the space that they will be vacating. Mr. Bock said that Cancer/Cardio will have about 35 PIs, 17 from the Cancer Center and a similar number from the Lillehei Heart Institute and the Department of Integrative Biology and Physiology. What has changed over time is more senior faculty members with larger research programs are moving in. About 85% of the lab space is assigned; the rest is for recruits.

There will be space freed up in the Cancer Research Center, in Hasselmo Hall, in Moos Tower, and in the MCB building, Mr. Bock said. They are looking at a number of options; the cardio and cancer programs are retaining some of the space and they have a long list of space requests from the AHC schools, so they have candidates for it. The Medical School is interested in identifying space for upcoming recruits (e.g., the chair of Medicine, a major appointment, because they need a very strong medicine department if they are to have a strong medical school. It can be assumed that a new chair will ask for faculty positions and research facilities. A last option, because a number of the facilities are old, will be about the extent to which they can move units out of space so buildings can be torn down, as part of the University's strategy to reduce the number of building square feet. This is a work in progress, Mr. Bock told the Committee, and they will have a better idea by the end of the year.

Mr. Rollefson asked if building costs have declined since the buildings were approved. Mr. Johnson said that when Mortenson, the contractor, estimated the costs, they included almost no escalation. The prediction is that costs will go up some because of pent-up demand and increases in labor contracts. So there have not been huge savings, Mr. Rollefson asked? That is difficult to tell, Mr. Johnson responded, but he said he is sure the University saved a significant amount of money with no escalation clause in the contracts. Mortenson subcontracts about 80% of the work and there were substantial savings because the subcontractor contracts came in below estimate. Mr. Bock added that because of good project management they have preserved much of the contingency fund so that money can be reallocated to the Microbiology facility.

Vice President Pfutzenreuter said that the interest rate saved the state money on its 75% investment in the project as well. Of the \$292 million total funding for the BDD, the state provided \$219 million and the University provided \$73 million. The University is issuing the bonds for the entire project. So the University is responsible for the \$73 million, Professor Luepker asked? Mr. Pfutzenreuter said the state provided an appropriation for the \$219 million. Professor Luepker asked how much it will cost to maintain the facilities, given this is "the most complex mechanical system in the Twin Cities." It will not be cheap to maintain; do they have an estimate of cost and where the funds will come from? Will the costs be in the general cost pool? Mr. Pfutzenreuter said that in the University's budget model, the occupants of the facilities pay the debt service and operating costs. The costs can come up in the compact discussions; if the president judges that the units cannot pay the costs, the University would have to come up with money to help. Absent that, however, the units pay the costs.

The original idea was that there would be many new faculty PIs in the facilities who would bring in new grants, Professor Luepker recalled. Now the facility is being populated with current faculty who

already have grants and occupy space. Mr. Bock said that as they renovate space, there will be new hires in the units, but in the short term there will not be as many as originally planned (which saves money in faculty lines and set-up packages). As they look at financial projections, they will incorporate these considerations in the operating costs of the Medical School and AHC. Mr. Pfitzenreuter said that the debt costs will begin to show up in the Medical School budget next year—and that some have already started.

Professor Luepker thanked Messrs. Bock and Johnson for their report and adjourned the meeting at 3:35.

-- Gary Engstrand

University of Minnesota