

Minutes*

**Senate Committee on Finance and Planning
Tuesday, November 20, 2012
2:00 – 4:00
238A Morrill Hall**

Present: Will Durfee (chair), Gary Cohen, Dan Feeney, Catherine Fitch, Susan Hupp, Kara Kersteter, Russell Luepker, Jill Merriam, Paul Olin, Richard Pfutzenreuter, Michael Rollefson, Ann Sather, Arturo Schultz, S. Charles Schulz, Aks Zaheer

Absent: Lincoln Kallsen, Talha Khan, Ruth Lane, Fred Morrison, Jahon Rafian, Terry Roe, Gwen Rudney, Kyle Smyth, Thomas Stinson, Michael Volna, Pamela Wheelock

Guests: Brian Swanson (University Services), Suzanne Smith, Monique MacKenzie (Capital Planning and Project Management)

[In these minutes: the capital request]

The Capital Request

Professor Durfee convened the meeting at 2:00 and welcomed Mr. Swanson to join Vice President Pfutzenreuter to discuss the capital request. He noted that capital requests are normally made in even-numbered years and that in the last capital request, the University asked for \$169 million and received \$64 million.

Vice President Pfutzenreuter observed that 2013 will not be a "normal" capital appropriations year, although it's not clear that there is a "normal" any more. The cycle in the past has always been that the legislative sessions in the odd-numbered years addressed biennial budgets and even-numbered years dealt with capital projects, but often in the odd-numbered years there are also capital projects approved. The state debt data suggest there could be a capital appropriation of \$175-200 million in the 2013 session. If there is an opportunity for a bonding bill, President Kaler believes the University should position itself to request funds. The Governor has sent no signal on what he would support and the legislature is still organizing itself and thinking about the biennial budget, but there could be attention to a bonding bill come January.

The Board of Regents does not meet in January so any capital request has to be approved in December, Mr. Pfutzenreuter related. The administration will provide a proposal for the Board to consider. The size of any state capital bill will of course be outside of the University's control, but the focus of its request will be HEAPR funding (Higher Education Asset Preservation and Replacement, which funds do not carry a requirement that one-third of the bonding costs be paid by the University). The second priority would be items that were requested but not funded in the last capital request; the third priority would be getting ready for projects in the 2014 budget (that is, planning and design funds that would allow the University to tell the legislature that it would be ready to go on the projects in 2014).

Professor Cohen asked what criteria are used to allocate HEAPR funds. Is there a ranking? Mr. Pfutzenreuter said they create a list, although a ranked list is not used with the legislature. Ms.

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MacKenzie reported that Facilities Management has a list that grows continually, and they look at those buildings with the worst Facilities Condition Assessment and at critical life/safety issues. Mr. Swanson explained that the funds are allocated by campus and they ask for priority lists based on the Facilities Condition Assessment, which is updated about every five years by an outside consultant. Those project requests go into a master list, at which point there can be some subjectivity in deciding based on the amount of money involved, the timing, and so on. There is a method to which projects are included. Roofs will always be high on the priority list, because if the roof goes, the building goes, Mr. Swanson said.

Are the deans involved and who makes the final call, Professor Durfee asked? Vice President Wheelock makes the final decision, Mr. Swanson said, in consultation with HEAPR Advisory Committee, Capital Oversight Group, and executive leadership.. She does make the HEAPR Advisory Committee aware of special problems that the deans or others may identify.

Professor Schultz asked how information flows in decision-making. Does Facilities Management's decision depend on the number of calls it receives? Mr. Swanson said that Facilities Management keeps the Facilities Condition Assessment for each building and can pull up a report on every building, reports that are used by a wide variety of groups. The committee also has access to a great deal of real-time data from people in Facilities Management working in buildings, Ms. MacKenzie added.

Mr. Pfutzenreuter reviewed the probably priorities for HEAPR funding, primarily facilities that were not funded in the past because of lack of money. Another priority would be lab and classroom renovations; another, as he mentioned, would be money to get ready for projects in 2014. Professor Hupp asked if the University would receive less money in 2014 if it does something in 2013 instead. Not necessarily, Mr. Pfutzenreuter said, although the University has been trending down in capital appropriations; in the past it was usually about 15% of the state's bonding bill while more recently it has been about 11-12%.

Mr. Rollefson asked if the amount of a bonding bill would be affected by the amount of state debt that goes off the books or if it is entirely a political process. Mr. Pfutzenreuter said the state pays attention to the amount of indebtedness it has, although the debt has been growing each year.

Professor Durfee asked if there will be projects for the St. Paul campus. They are in the 2014 column of the six-year capital plan, Mr. Swanson said, the first of two large lab projects because the St. Paul labs are outdated. The plan is that over 2014-16 there will be two new labs built to replace two existing labs, for \$40 million each of two years. The labs would affect Veterinary Medicine, CFANS, and Biological Sciences.

Professor Durfee noted that there has been discussion in his college (Science and Engineering) about offering introductory courses on the St. Paul campus; is that possibility part of the mix? Ms. MacKenzie said the focus so far has been only on the research labs.

Mr. Pfutzenreuter said that for an off-year capital request, the University may make a fairly robust request, given that it does not know how large a capital bill might be.

Professor Hupp asked about the average annual number of new buildings (or major renovations) at the University. Ms. Smith said that last year there were about eight; in the previous biennium, about five per year. The number varies in scale from facilities in the Biomedical Discovery District to the Chemical Engineering addition (which includes considerable private money).

Professor Cohen asked if the process of bringing in the consultant every few years to review capital renewal needs ever gets to the level of strategic assessment and planning, of addressing what the University really needs and can expect and where it will be in trouble. Institutions became aware of the problem of deferred maintenance; what is the strategic thinking about dealing with it using HEAPR funding? Mr. Swanson said the consultants' analysis would indicate "here's what you should spend to keep the buildings you have now at the condition they are in now"—and that amount is usually about twice what the University is actually spending. So the problems get worse and worse. The focus on requesting HEAPR funding from the state tries to address that gap.

Professor Luepker recalled that Vice President Wheelock had shown the Committee the map with buildings colored to represent their condition. This building (Morrill Hall) has among the lowest Facility Condition Assessment numbers at the University. What is the likelihood that it will be renovated? "Low," Mr. Pfutzenreuter responded. Professor Durfee said the administration would need to explain to the University community why the renovation is needed. Unless the external evaluators are simply dishonest, Professor Luepker said, this building needs to be renovated.

Professor Durfee asked about the heat and power project, an \$81-million project that the state has given the University \$10 million toward. Mr. Pfutzenreuter said the University has spent \$15 million thus far, including \$5 million in institutional funds, and has told the legislature that the University would not be back to request additional funds for the project and would fund it from its own resources. That remains the plan, although the status is not yet "go." The campus needs a new boiler for steam and this project is an opportunity to use the steam a second time to power a turbine. If the turbine is sufficiently large, it can significantly reduce the campus electrical costs over the life of the plant. The savings depend on the size of the turbine. The University will issue debt for the project and the debt will be paid through the utilities cost pool. So everyone will pay, Professor Luepker observed. They will, Mr. Pfutzenreuter said, but electricity rates will drop. The plant will also require fewer units of fuel, Ms. Smith added. And it will not use as much coal, Mr. Pfutzenreuter said, and uses gas instead; there has been some very sophisticated modeling done around the plant, and all the figures suggest substantial savings for the University.

Professor Durfee thanked Messrs. Pfutzenreuter and Swanson for the report and adjourned the meeting at 2:45.

-- Gary Engstrand

University of Minnesota