Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 1, 2013
3:00 – 5:00
238A Morrill Hall

Present: Russell Luepker (chair), Gary Cohen, Dan Feeney, Catherine Fitch, Jennifer Gunn, Karen Ho, Samantha Jensen, Lincoln Kallsen, Kara Kersteter, Jill Merriam, Fred Morrison, Paul Olin, Richard Pfutzenreuter, Gwen Rudney, Ann Sather, Arturo Schultz, Pamela Wheelock

Absent: David Fisher, Laura Kalambokidis, Jahon Rafian, Terry Roe, S. Charles Schulz, Michael Volna, Aks Zaheer

Guests: Suzanne Smith (Capital Planning and Project Management); Carla Carlson (Executive Director, UMore Development LLC)

Other: Jon Steadland (Office of the President)

[In these minutes: (1) draft committee statement n student loans; (2) draft committee statement on the budget process; (3) 2014 capital request; (4) UMore Park; (5) federal government shutdown]

1. Draft Committee Statement on Student Loans

Professor Luepker convened the meeting at 3:00 and announced first that with pending Congressional hearings on bank cards and students, he has invited the Student Senate Consultative Committee to join a future meeting of this Committee to express its views about the University's contract and relationship with TCF Bank.

Professor Luepker then turned to the first of two draft Committee statements, on student loans, and invited comments:

> The committee reviewed the increasing student loan burdens in the professional and graduate programs. In many cases these loans exceed $100,000. While undergraduate loans and costs have occupied the headlines, the cost of professional and graduate education has also grown to unsustainable levels leading to career decisions and job choices which may not be in the public interest.
>
> The committee discussed the debt issue with the deans of the Law School and Business School and leaders of the Academic Health Center. Some schools are using increased scholarship aid to ameliorate this problem. However, in the Health Sciences, where the loan burden is the greatest, officials felt loan burden has not affected applications or the desirability of careers in the Health Sciences.
>
> Nonetheless, the committee views with concern all students' loan burdens and the implications for providing professional and graduate education to meet the needs of the State of Minnesota.

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

The Committee recommends current data on loan burden be collected and provided for all the graduate and professional programs to understand the extent of this problem.

Committee members offered suggestions.

-- Professor Cohen said it is not clear to whom the data requested in the last paragraph would be provided. Professor Luepker agreed and said he would clarify the point; he also noted that Vice Provost Kohlstedt has indicated that this discussion should also be extended to graduate students because it is not an issue limited to the professional schools.

-- Professor Olin (Dentistry) said that the schools have the data; what they don't have are data about the effect of loan burdens on career choices. Professor Luepker agreed and recalled that Ms. Wright from the Office of Student Finance had provided the Committee with data on the income levels required to pay off loans of various amounts. Professor Olin said the schools could be asked to survey their graduates about the effects of loans on their career choices. The Committee heard from the professional school deans that the situation was not terrible, but then one reads a report in the press, for example, that Minnesota ranks near the bottom in the availability of pediatric dentists.

Professor Luepker asked Professor Morrison (Law) if this is an issue for law graduates. Professor Morrison said that it is not now, because there are not as many job opportunities and graduates will take what they can get. It was an issue earlier, when there were more jobs and graduates did not want to take public-sector positions. He said he did not know if Medical School graduates have the option, as Law graduates do, to be relieved of loan debt if they work for 10 years in the public sector. They do have some loan reductions in certain jobs, Professor Luepker said.

Professor Gunn said that the statement implies that Law and others are using increased financial aid to ameliorate student debt, which is the effect of financial aid; she said she would like to know the views of the professional schools about the purpose or strategy for deploying financial aid funds. Is it to reduce debt or to attract the best students? There have been articles in the news lately about institutions using financial aid to attract the best students—and freezing out low income students as a result. Professor Ho agreed and there is a correlation between aid and test scores; test scores correlate with being middle- and upper-income.

Professor Ho added that the Committee should receive data on the kind of debt students are incurring; is it high-interest loans or loans that can be deferred?

Professor Feeney said he believed that Dean Friedman said something he (Professor Feeney) did not understand, that loan debt was not affecting career choices. He thought the data suggest that Medical School graduates are making career choices based on debt, and that graduates are going into specialty practice because they make more money and can pay their loans. There is a predicted shortage of pediatricians and family doctors that may be a result of loan burdens, but those are what the country will need.

-- Professor Luepker inquired if there are any data on graduate students, or are the fields too different? Professor Cohen (History) said he has not seen data but reported that in the CIC schools, almost all graduate students are funded by fellowships or assistantships, although they may carry loans from their undergraduate education. He said he does not hear graduate students talking about taking out new debt—which may not be wise in any case, given the job market.

Ms. Kersteter said that it probably varies by field. In Economics, for example, the department can support students all the way through to their Ph.D. In Anthropology, students receive 5 years of funding—but the degree takes about 7 to finish, and she has the impression that graduate students do take out loans. The issue is worth looking into, she said.

-- Mr. Kallsen said that his office has the data on loans and reminded the Committee that while many graduate students receive fellowships or assistantships, there are about 7,000 graduate students who do not. Ms. Kersteter pointed out that resident graduate tuition is about $15,000 per year.

-- Professor Luepker commented that the Star Tribune recently reported that 14% of student loans are now in arrears by 270 days or more, so graduates have not made payments for the good part of a year. Professor Rudney reported that one new metric for the assessment of teacher-training programs is the default rate on student loans.

Professor Luepker said the Committee will return to the topic.

2. Draft Committee Statement on the Budget Process

Professor Luepker asked Committee members to review and comment on the second draft statement:

> The committee views with concern the current sequencing of the annual budgeting process. Administrative support units (revenue consuming) go first in the budgeting process starting each fall, followed in the winter by the collegiate units (revenue producing). This seems to us a backward process since the administrative units' primary goals should be support of the collegiate units in their missions of research, education and service. It would seem more appropriate for the "mission-centric" collegiate units to determine support needs and budgets first – or perhaps simultaneously -- with the administrative support units whose goals should be to help them achieve their missions by adjusting to their needs. In the current system, the result appears to be decreased investment in colleges and decreased flexibility as their expenses are already fixed and their ability to generate income, unlike administration and cost pool services, depends on forces external to the University.
>
> A system with simultaneous negotiation of budgets with similar instructions deserves consideration. The committee recommends the President initiate these changes as part of his administrative excellence effort.

The Committee has discussed this in a past, Professor Luepker recalled, and expressed concern that vice presidential and support units go first in the process.

Vice President Wheelock said that while she has only been here a short time, she has had a lot of experience in budgeting. The draft statement contains the presumption about the advantage of timing, but that has not been her experience here. She has been surprised by the amount of work required to produce a budget on a timetable that relies on legislative action and that must be presented to the Board of Regents. She does not feel that her unit had an advantage because it went earlier in the process; the administrative units start when they do because they must: they do not need legislative action, but that is information that other units need and it doesn't come until later in the budget year. It has not been her experience that going early has disadvantaged academic units.

Professor Cohen suggested refining the language of the statement. Which part of the process concerns the Committee, that some are going first in the decision-making process rather than that some start budget preparation and submission earlier? That the administrative and support units have decisions before the colleges do?

Professor Luepker said there is the perception among academic units that service units have an advantage by going first; he said he does not know if that is true, but it is the perception. Professor Cohen's point is correct: administrative units set their budgets and then academic units must deal with those budgets when setting their own. Professor Cohen asked whether that means then that the cost pools are set by the time the colleges prepare their budgets.

Mr. Kallsen reported that the budgets are all approved at the same time. The fall process leads to preliminary decisions about administrative budgets but the president and vice presidents can revisit those decisions later.

Professor Luepker commented that his college (Public Health) receives about $7 million in O&M funds and pays cost-pool charges of about $15 million. The college has no control over the cost-pool charges and must find the money to pay them. It may all be a matter of perception, but what would be the disadvantage of having all the units—academic and administrative—on the same schedule and meeting the same deadline? Mr. Kallsen said that Professor Luepker should pose that question to Vice President Pfutzenreuter; from a workload perspective, the staff responsible could not handle all the units at once. Ms. Merriam commented that it is often even difficult to get meetings arranged for the budget hearings; the provost would be stretched thin if all the meetings were scheduled in the fall. In addition, she said, the colleges would not know their costs, which is a reason to do the administrative units first so that their costs can be known.

Professor Gunn inquired how, if the mission should be driving costs, administrative budgets can be determined before the academic budgets.

Vice President Wheelock said this topic needs a broader discussion about when the parameters are set for academic unit budgets. This is a bigger question than just timing. It costs to heat buildings, to clean and maintain them, for example, and she does not see how the institution could change costs that need to be covered. Professor Morrison said that cleaning can be done at level A, B, or C, and the support units can choose what that level will be, which then requires academic units to change their programs to level A, B, or C. That, at any rate, is the perception. The only way to deal with it is to do the budgets simultaneously, but it is a difficult question, he agreed. There is the perception on the academic side of the house that it receives the residual of the budget; that may or may not be true, and it would be interesting to know if administrative budgets are reduced during the process or if the preliminary budgets become final.

Professor Ho said that the discussion is not about intent, but order does create a structure that has effects and the Committee should look at it.

Vice President Pfutzenreuter said he has heard this discussion since the current budget system was introduced and believes it to be a red herring. One example is spending for information technology: the vast majority is in the colleges. The only reason the administrative units go first is because there is not enough time or staff to deal with 50 units in six weeks. The order could be changed, which be acceptable to him, if that would affect the perceptions. He said that he found it offensive to describe administration units as "revenue consuming" when there is a large amount of administration in the colleges—it is not all in Morrill Hall.

Professor Luepker agreed but said that the statement did not say that all the units are in Morrill Hall; they are scattered across the University. He said the Committee would return to the statement in the future.

3. 2014 Capital Request

Vice President Wheelock provided information about the timeline and content of the 2014 capital request. The timeline is as follows:

-- September 13, 2013 Board of Regents review of the 2014 State capital request
-- September - October 2013 Legislative Tours
-- October 14, 2013 Board of Regents approval of the 2014 State capital request
-- January 15, 2014 Governor's capital investments recommendation deadline
-- February 25, 2014 Legislature reconvenes
-- May - June 2014 Board of Regents action on FY 2015 capital budget

The request is as follows (dollar amounts in millions):

Location	Project	Total	State	UofM
System	HEAPR	100	100	--
UMTC	Tate Science/Teaching Renovation	85	56.667	28.333
UMTC	Microbial Sciences Res Building	45	30	15
UMC	Wellness Center	15	10	5
System	Research Lab Improvement Fund	18	12	6
UMD	Chem Sciences/Advanced Matls	36	24	12
Total		299	232.667	66.333

Vice President Wheelock noted that about 75% of the University's funds for capital improvements come from the state, so they are absolutely critical. The University has prepared a significant request to the governor and legislature for 2014; it represents the first year of the six-year capital plan that the Board of Regents adopted.

At an institution where one-fourth of the buildings are over 70 years old, the HEAPR funds are extremely important, Vice President Wheelock explained, because they allow Facilities Management to replace roofs, bring buildings up to code, comply with ADA rules, maintain the infrastructure, and otherwise protect the envelop of the building. The HEAPR funds are system-wide and they do have a list on how the funds would be invested. The contents of that list could change, depending on how much money the University receives, because some items are large.

Vice President Wheelock offered a few comments on some of the projects. Renovation of Tate would upgrade space for part of Physics and Astronomy and permit Earth Sciences to move into it. The Microbial Sciences project would be on the St. Paul campus and allow greater collaboration between CBS, CFANS, and Veterinary Medicine. The Crookston Wellness Center was originally built in the 1920s and badly needs updating. The laboratory improvements would include, at a minimum, bee research, the CBS greenhouse, and for invasive aquatic species research. The Duluth Chemical Sciences facility has been moved from 2016 to 2014 because it is a core program for UMD that has had recognition and is in demand but that is limited by its current facility.

The Bell Museum is a top priority for the House committee chair, Vice President Wheelock noted, and is under consideration. That project is on the six-year capital request. In response to a question from Professor Morrison, Ms. Wheelock said the Bell Museum project would cost $47-50 million.

Historically, the University receives about 13% of bonding bills. If a bonding bill were to total $850 million in 2014, for example, this would be an aggressive request.

Professor Cohen recalled that the Committee has in the past had a lively discussion about the future of the Mayo building and the problems with it. He could not recall if the conclusion was that it is hopeless to fix or hopeless to obtain the funds to replace it. What are the plans, he asked? Vice President Wheelock said parts of the roof are currently being redone. Mayo is of significant size, about 900,000 square feet, and it would take a substantial amount of money to replace it. Some parts of it are in better condition than others. One big problem is staging: moving departments in order to renovate space. The six-year capital plan proposes $65 million in 2016 for Academic Health Center repurposing, which would be needed for several purposes and would allow vacating space for renovation, but there is no perfect solution for Mayo; its improvement will be phased.

Professor Cohen said that the (library storage) caverns are full and library storage is at a premium, but the libraries cannot stop acquiring materials. There has been talk about an additional cavern; where is that discussion at? Vice President Wheelock agreed that there has been talk about another cavern; the six-year capital plan proposes funding for the libraries and collections. Right now the University is using some prime real estate for materials that do not need to be immediately available (whether books or bugs), and it needs space for activities that are more central to the mission. The funds in the six-year plan will help distinguish between what is needed for immediate access and what is not, and begin to develop or renovate facilities to adjust accordingly.

Professor Gunn asked where the plans for new intercollegiate athletic facilities on the Twin Cities campus falls in the capital plan. Athletics has released a plan for $190 million in facilities, Ms. Wheelock said, and they are to be paid for through fund raising. Once they have the funds in hand, the building will go through the capital planning process. Ms. Smith noted that the information presented today was only about the capital request to the state, not all of the University's capital projects.

Professor Cohen asked if it would be appropriate for the Committee to express an opinion about the priorities in the bonding request. It could, Professor Luepker said, but the request has already been presented to the Board of Regents. He asked Vice President Wheelock to bring the six-year capital request to the Committee and explain how the priorities are set.

4. UMore Park

Professor Luepker asked Vice President Pfutzenreuter and Ms. Carlson to provide the Committee with an update on UMore Park.

Vice President Pfutzenreuter began with background on UMore Park. The University received about 7800 acres of land in Rosemount after World War II from the federal government; the land had been the location of the Gopher Ordnance Works, a smokeless gun powder manufacturing facility. 2800 acres make up the Vermillion Highlands, which will be deeded to the State of Minnesota as part of the arrangements for a state contribution to the funding of TCF Bank Stadium. So there are about 5,000 acres that make up UMore Park.

The Board of Regents in 2006 directed the administration to maintain the land as a whole, intact parcel, prepare a concept master plan, and make the land ready for development. There has been a great deal of work since then, including broad engagement with the community, to make it ready for development. There was considerable pollution and concrete left behind from the Gopher Ordnance Works when the University received the land, but there is also substantial value in the sand and gravel on the site. The University has signed a 40-year mining lease agreement with an operator. Sand and gravel are not transported long distances, so the demand depends on local construction. The University has also engaged in a number of other activities to abate pollution and position the land for development.

The University is thinking about the process to identify a master developer for the property, Mr. Pfutzenreuter related, because the University will not be the developer. UMore Development LLC, a University company, for which he serves as CFO and Ms. Carlson as Executive Director, is responsible for planning and development at UMore Park. A developer agreement would be approved by the Regents and the LLC. Development would take place in stages and is a long-term process. Development activities are based on the goal of getting a good financial return from UMore Park for the University.

Professor Feeney said that at one point then-Vice President Muscoplat talked about UMore Park as a community, etc. Is that still the concept? Ms. Carlson said that the recent Alternative Urban Areawide Review—a broad assessment of infrastructure needs based on population density over the next 30 years—includes multiple uses—commercial, industrial, residential, retail—so all are possibilities. The developer would have a point of view, based on the market, and the local jurisdictions' view will be important. The University is not building a city there, Mr. Pfutzenreuter said; it is a vision, but not something the University is expert at doing. The master developer and attention to the market will be critical.

Professor Feeney asked if the University will retain ownership of the land. That is an open question, Mr. Pfutzenreuter said, and depends on the best deal for the University. The University has ownership of the land in The Grove and receives $150 per year per residence; that is not the kind of deal it will be looking for. Professor Morrison said that selling the land would be a good choice for a short-term solution to balance the budget but that it would be a bad choice for the long-term interest of the University; the question is how to balance the two and that needs discussion. He said it is one of the few parcels of land where the University could do 75-100-year leases and have something renewable three generations from now. Mr. Pfutzenreuter agreed that it must be the best deal for the University and noted that the Board of Regents has established a legacy fund for money from UMore Park. His view, Professor Morrison said, is that if the University had not sold the land-grant lands that it received under the Morrill Act, it would not have a budget problem because it would have long-term leases.

Professor Cohen asked about contamination of the site; Ms. Carlson said that the results of the recent remedial investigation concluded there is no contamination that is a threat to public health. Mr. Pfutzenreuter noted that the University has done considerable sampling on the site, so it knows where the problems are.

Professor Schultz asked if it remains part of the vision that any University functions would continue at UMore Park. Vice President Pfutzenreuter said there is no plan for University facilities. He is trying to avoid use of any University funds to develop the property unless the expenditures are key to the mission. The market will play a role in determining the amount of revenues that the University will be able to obtain from UMore Park, over time.

Professor Luepker asked if the recent problems with research on UMore Park land had been resolved. There is important agricultural work taking place there, Ms. Carlson said, and that will continue. There is room to relocate agricultural research plots, if necessary. She also noted that the

University retains research rights in Vermillion Highlands in perpetuity, and 1,000 acres of the 2,800 acres are identified for agricultural research.

Professor Luepker asked about income from the sand and gravel and from a developer. Ms. Carlson said that after initial production commences they expect $3-5 million per year to the University, depending on the market, from sand and gravel. Mr. Pfutzenreuter said they do not yet know on the development side. The income will all go into the legacy fund once expenses have been covered.

Ms. Jensen asked how long the mining will take place. Ms. Carlson said that the lease agreement is for phased mining over 40 years, although sand and gravel quantities could be sufficient to extend mining beyond that term. It is the last large area near in Twin Cities that has sand and gravel.

Professor Olin asked if there is any agriculture revenue from UMore Park. There remain some leases to local farmers and others, Mr. Pfutzenreuter said, but those are being phased out due to other activities on the property. Income from leases is relatively small.

Vice President Pfutzenreuter offered one final observation: both local and national developers are knocking on the University's door to express interest in UMore Park. He is optimistic that the University can succeed in getting something going that will put money into the legacy fund.

5. Federal Government Shutdown

Professor Luepker asked Vice President Pfutzenreuter to comment on the implications of the shutdown of the federal government for the University.

Mr. Pfutzenreuter said that he does not believe the University will feel much effect in the short term. Units are not shutting down nor are any being told to lay anyone off. Pell grants are paid and grants.gov is open, and so on. The administration is encouraging everyone to stay on track and conduct business as usual, and any short-term problems can be bridged.

Dr. Fitch asked if there has been any communication to people paid on federal grants. Mr. Pfutzenreuter said there are various pieces of information going out so people should be informed.

The crisis that worries him more, Mr. Pfutzenreuter said, is the possible showdown over the debt ceiling. If the debt ceiling is not increased, then the federal government will ration who it pays.

Professor Morrison said he has heard on several occasions that while the President has no power to print money (paper money is issued by the Federal Reserve), it is not illegal for the President to mint coins. The U.S. Mint could mint a $1-trillion-dollar platinum coin and deliver it to the Federal Reserve System and ask for cash. Then there would be no debt ceiling crisis.

Professor Luepker adjourned the meeting at 4:20.

-- Gary Engstrand

University of Minnesota