Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 11, 1993
3:15 - 5:00
Dale Shephard Room, Campus Club

Present: Irwin Rubenstein (chair), Karen Geronime, Virginia Gray, Michael Hoey, Thomas Hoffmann, Julie Idelkope, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Jason Schmidt, Thomas Scott, Mary Sue Simmons, Susan Torgerson

Regrets: David Berg, William Gerberich, Craig Kissock, Jeff von Munkwitz-Smith, Paul Sackett

Absent: Carl Adams, Karen Karni, Fred Morrison

Guests: Associate Vice President Robert Kvavik

Others: Ken Janzen (Regents' Office)

[In these minutes: planning questions and schedule; University's bonded indebtedness and limits thereon; the capital request]

1. Planning

Professor Rubenstein convened the meeting at 3:15 and distributed a paper laying out the status of the planning process. He pointed out that there have been four questions added to the original list of "strategic questions" posed in the original document distributed earlier. There is also a set of issues and related questions, grouped into four clusters, that the planning process will need to address as a means to answering the strategic questions. One of the original strategic questions, having to do with enduring hallmarks or institutional character of the University, will be taken up in the context of the University's mission statement rather than the planning process.

Professor Scott then observed that the issues list has been grouped into clusters because some like to approach them as "what we do," "whom we serve," "where we serve," and "how to serve." The objective is to get to one list of questions, with as much agreement as possible on its contents. The list will be important, Professor Rubenstein emphasized, because it will color the rest of the process and will be used for decisions, so it is important that faculty, staff, and students scrutinize it.

One notable element missing from the lists has to do with physical facilities and technology, which should be included under the "how we serve" cluster, said one Committee member. Capital investment is on the agenda of this meeting, and the University has a major investment in labs and buildings and facilities--which is what distinguishes the University from institutions whose primary mission is teaching. For example, it was pointed out, the decision over 30 years ago to acquire land on the West Bank rather

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than along University Avenue was a major strategic decision--and it had a large impact on where the center of the University would be and on the investment in facilities.

Another Committee member said there are two groups missing from participation in the planning process: alumni and those in the community involved in a major way with the University (e.g., clients and donors). The University is depending more and more on such people for support and good will, and their representatives should be brought in at key points in the process. Professor Scott responded that the external consultant being used is to contact a number of external groups, including employers, alumni, donors, and the government--there is an effort to do a great deal with these groups. One group that is of particular interest is the large number of graduates who are NOT members of the Alumni Association--what experiences did they have that have led to them not becoming members? One student member of the Committee, later in the meeting, commented that people get angry when they cannot get their degree because of such things as class scheduling problems; they may work two jobs while in school, attend for six or seven years without ever feeling part of the University--and will not be inclined to give money back after they have left.

It was agreed that support for interdisciplinary research and teaching is a "what," not a "how."

Campus master planning has not been part of the Committee deliberations thus far; Ms. Simmons reported that it is on the agenda of the Facilities Management Subcommittee.

Asked if there were issues of interest to students, such as the number of resident/non-resident/foreign students, one student member said the experience is richer if there are more non-resident and foreign students. Another said she agreed completely with the point about physical facilities falling apart; in order to learn, students need functional places.

Professor Rubenstein commented that after this meeting the list of issues would be reworked and distributed as widely as possible; there must be closure on the list by the end of June. The list as agreed on will be the basis for data-gathering, focus groups, visits with clients, and assessment of academic strengths and weaknesses--which will become part of the data used to answer the strategic questions. The answers, in turn, will lead to strategic initiatives or goals for the whole institution.

Discussion turned to the role of the University in the Twin Cities and to the role of the University as the only Ph.D.-granting institution in the state. One issue with respect to Ph.D.s is how active the University should be in "protecting its turf." With respect to its role in the Twin Cities, the question is both for the University and for the state; the state has moved a long way in expanding Metropolitan State; it is not clear if the legislature has approved it becoming a four-year institution, although it does seem that Metropolitan State INTENDS to do so. The University should probably say something about the change, Professor Scott suggested.

The state has a big investment in University facilities on the Twin Cities campus, one Committee member pointed out; would it be wise to spend additional dollars to build another one? But on the other hand, he said, is the University prepared to handle all of the students in the Twin Cities who are expected to seek four-year degrees? Professor Scott concurred; he noted that Metropolitan State would have to change from its mission from providing non-traditional education--but the University would face in the near future 6,000-7,000 new traditionally-college-age students (the "boomer echo").

The University is losing out to local colleges in its offering of adult education, one Committee member said; there are no MA programs for an adult learner to obtain a degree in a reasonable period of time. That is not only true at the graduate level, added another Committee member; undergraduates have a hard time getting their degrees in a reasonable time because they cannot get the right classes or times. The problem has been somewhat alleviated by hiring additional TAs, but then the student is not getting professorial education, even in 5-XXX level courses--so one either plays with the schedule or accepts all TAs. These resolve themselves to the question of whether or not the University should be a 12-hour-per-day-every-day institution, rather than offering Continuing Education and Summer Session.

This is a "whom we serve" issue, akin to the expansion of the practitioner-oriented Masters degrees. Another way to look at it, said another Committee member, is as "market share," and what has been lost could be regained. Looking at it as market share is an answer, not a question, opined another Committee member. It may be that the University cannot afford to be in certain markets, or does not wish to be; that should be explicitly recognized without apology. If the strength of the University is research, then certain programs may not fit. And the decisions need to be made parallel to other decisions--if the University intends to offer MA programs, then there will be fewer faculty to offer undergraduate education; if undergraduate education is to be emphasized, then perhaps the Ph.D. will not.

In a closing colloquy before the next agenda item, one Committee member inquired if semesters would be considered as part of the planning process, because if collaboration is to be increased, it would be easier, especially for the Medical School, to be on semesters. Other Committee members pointed out that the Law School moved to semesters by itself, and there is no reason to think that the Medical School could not do the same. And in the case of many institutions with which the University shares common interests, they are on quarters (e.g. Washington, Wisconsin).

Professor Rubenstein promised that the strategic questions and planning process would appear again soon on the Committee's agenda.

2. The Bonding Debt Limit

Professor Rubenstein next welcomed Mr. Paschke to explain the nature of bonding authority and debt limits, issues intimately related to the University's capital request.

Mr. Paschke began by explaining that there are two common ways to finance capital improvements: state legislative funds (raised through State general obligation bonds) or University funds (raised through its own bond sales). In the case of state funds, as of 1990 the legislature has required that institutions pay 1/3 of the debt service each year for physical facilities; for a $21 million building, the University is required to pay one-third of the debt service--and that $7 million becomes part of the University's total indebtedness. In the case of University funds, there must be an internal source identified to pay the debt service, and all the indebtedness appears on the University's balance sheets.

At present the University has $314 million in debt (both legislative and its own obligations). On average, Mr. Paschke reported, the debt is amortized over 20 years. The next two years will see the debt rise to about $445 million. This is a large increase, and has led to concern that it could have an impact on the University's bond rating. Right now it has an AA rating and the highest possible short-term rating. Mr. Paschke said he was concerned about the ability of the University to manage the debt as it goes forward. The University tries to keep its interest rate as low as possible while also preserving its ratings;

at present the University is paying about 4.5% in interest costs. If it exceeds its debt capacity, and its ratings are lowered, its capital costs will increase and the number of markets in which it can sell bonds will be curtailed (at present the University can sell basically anywhere there is a market).

It is difficult to identify a precise number at which the University will have exceeded its debt capacity; it is a best estimate and depends on market reaction and the rating services. If the ratings were to decrease, the University could see an increase of $2.5-3.0 million in its debt service costs.

The capital plan requires bonding beyond the amounts the University has already incurred (and, in his judgment, the University is at its debt limit now). He has alerted the Board of Regents to the issue, he said; the University can increase its debt with its capital plan, but there will likely be increased costs because it may appear to the market that the University has exceeded its debt capacity.

Asked if the University's debt rating had ever fallen below what was seen as desirable, Mr. Paschke said it had not; until recently, the University had only rarely used its bonding authority. There is nothing wrong with debt, he pointed out, but there are limits and costs to it. Is $445 million the right number? It is probably close to the limit. The current debt service expense is roughly $14 million per year (4.5% of $314 million). One of the difficulties in the current budget process, Dr. Kvavik noted, is that there will be new buildings coming on line, with their accompanying University debt service obligation, for which funds have not been identified.

Mr. Paschke clarified, in response to questions, that the University refinances its debt to achieve the lowest rate possible, so older debt is not at a higher interest rate, and that the payments are both principal and interest.

Mr. Paschke also confirmed that if no new indebtedness is incurred, the University's total bonded indebtedness will peak at $445 million in 1995; it then drops slowly over the next few years, declining to $374 million in the year 2000. Asked about retiring some of the debt early, Mr. Paschke explained that all of the debt is related to individual projects, and the units would have to come up with the funds to pay down the debt on the facility.

One anomaly, Mr. Pfutzenreuter noted, is that the State Universities, for example, also have to pay the one-third debt service--but their debt is on the State books; the University is hurt by having separate books. Even more problematic is that the legislature is considering subjecting fire and life safety improvements to the one-third requirement, which it has not done before. Also touched in the conversation were the fact of the University's older physical plant, the legislature's desire to stop being inundated with millions of dollars of capital requests, and the University's greater flexibility (vis-a-vis the other higher education systems) in obtaining funds for capital purposes (physician practice plans, revenues, NSF, etc.).

Mr. Pfutzenreuter said there has not been legislative reaction to these issues, but only that the University has indicated that it wishes to raise them in the near future.

Professor Rubenstein thanked Mr. Paschke for his explanation.

3. The Capital Budget

Professor Rubenstein next asked Associate Vice President Kvavik to review the capital budget with the Committee. Dr. Kvavik said the administration is asking the Board of Regents to take four actions:

-- To accept the FY1994 Capital Improvement Program and to direct the administration to continue to develop and refine the program for the period covering the next six years (assess needs, which now exceed $800 million).

-- To reaffirm the prior year capital expenditure authorization (for technical reasons related to the fact of a new capital budgeting process).

-- To approve the FY1994 Capital Budget. The University will spend about $125-130 million in the next year, Dr. Kvavik reported--a number that surprised him very much. Without an institutional perspective, one does not realize the total amount of money being spent as a result of decisions in many places.

-- The FY1994 Capital Request, which totals about $94.5 million (and assumes that $10 million in external funds will be identified for the Basic [Medical] Sciences Building).

Dr. Kvavik briefly reviewed the principles that guided the development of the 1994 Capital Request and also noted that the Capital Improvements Advisory Committee has a set of guidelines to assess the merit of projects. One question that remains is how to integrate the capital and operating budgets so that they do not have a negative impact on each other (such as the question of bonded indebtedness capacity).

Dr. Kvavik then identified the various types of funds used for capital projects and the different kinds of capital expenditures it makes (routine maintenance, repair and replacement, capital asset preservation and replacement, and capital budget projects--that extend the life or enhance the value of a facility; the sources of funds vary by project). Plant funds are simply the accounts used to pay contractors; when a commitment is made to a capital project, the money is transferred into plant funds. Plant funds provide an opportunity, Dr. Kvavik noted; if all of the funds are not used on a project, the legislature has authorized the University to use them on another project authorized in the same year.

The Capital Request of $94.5 million asks the Board of Regents to authorize the administration to seek that much money, but it assumes that the fire and life safety item and one other small item will not be subject to the one-third debt service requirement. It also asks for authorization to seek funding for the Carlson School of Management and the Archives facilities, but with conditions (although the legislature has not, in the past, accepted the proposals the University is prepared to make, which is that they should be exempt from the one-third debt service requirement--CSOM because the University's one-third would be raised from private funds, the Archives because it would be a state-wide resource).

Asked if the University had sought support for the Archives facility from other institutions, Dr. Kvavik said that many organizations endorsed it (the Minneapolis Public Libraries, the Minnesota Historical Society, the State University System, the Immigration History Center). All of these organizations would be able to use the Archives facility for storage, and would not then have to seek funds for new facilities of their own. Construction of the Archives facility is critical for the University as well, because the renovation of Walter Library will be much more expensive if University Archives are not moved out first.

Dr. Kvavik summarized the principles that led to the creation of the document before the Committee. He also said that in the future internal funds would be used to bring a project to the point of design/build so that when funds are obtained, the building will be built. He also said that in terms of major remodeling versus new construction, there is a sense that there will be a sizeable capital appropriation next year and that the emphasis will be on preservation rather than new construction.

Looking at the specifics of the document, one Committee member observed, it appears that the needs of professional schools are advanced more rapidly than are those of the liberal arts. Dr. Kvavik said the source of the funds makes a difference; in the case of the Law School, for instance, the expenditures will be approved only if it can raise the money; the same is true for the Humphrey Institute. His own view, in the case of CSOM, is that it could help to address the needs of the humanities; if CSOM were to obtain a new facility, in part with private funding, then the Management and Economics building would be freed up for humanities departments.

Asked questions about student services, Dr. Kvavik said that in his view that if the earth sciences facility were to be obtained, and Pillsbury Hall vacated, Jones and Nolte can be closed, Fraser can be demolished, and a one-stop service center can be created for students. He agreed with the observation that this would be a big improvement for undergraduate student life. Until recently, he pointed out, no one served as the advocate for classrooms, and then Academic Affairs took on that role; by the same token, no one has served as the advocate for student space. A specific year for the consolidation of student services has not been projected because the source of funds to accomplish this consolidation--which could amount to $30 or 40 million--has not been identified.

Asked if there are things that can be done NOW to improve student services, rather than waiting five years for a building, Dr. Kvavik said there are, even though eventually the services should all be together. For example, there may be a lot of records stored in Williamson that could be moved to a remote site (since there are automatic reading devices), so that additional space could be obtained. The availability of services by electronic means (such as registration from home via computer and the automatic program audit), space needs might also be reduced.

Professor Rubenstein complimented Dr. Kvavik on the report. One problem remaining, Dr. Kvavik pointed out, is that there is not yet a corresponding process on the operational budget to which to attach the capital budgets, so the relationship between the two remains fuzzy. There will also be improvements in the information contained in the capital budget in the future, he reported. Mr. Pfutzenreuter also observed that the University does not know the amount of departmental funds that are going into capital improvements; it will take some training for people to identify and budget those funds accurately.

Professor Rubenstein thanked Dr. Kvavik for the report.

The meeting was adjourned at 5:00.

-- Gary Engstrand

University of Minnesota