

Minutes*

Senate Committee on Finance and Planning
Tuesday, November 19, 2002
2:15 - 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Prince Amattoe, Jean Bauer, Stanley Bonnema, Charles Campbell, Tom Gilson, Gary Jahn, Abu Jalal, Thomas Klein, Michael Korth, Kathleen O'Brien, Daniel O'Connor, Richard Pfitzenreuter, Terry Roe, Sue Van Voorhis, Warren Warwick, Susan Carlson Weinberg

Absent: Brittany McCarthy Barnes, Bruce Brorson, David Chapman, Tim Church, Robert Cudeck, Cynthia Jara, Joseph Konstan, Marvin Marshak, Tim Nantell, Thomas Stinson, Michael Volna

Guests: Associate Vice President Donna Peterson

[In these minutes: (1) new financial system; (2) implications of the election outcome; (3) football stadium; (4) University debt]

1. New Financial System

Professor Speaks convened the meeting at 2:15 and began by reading an email he had received from a faculty member in response to the most recent set of Committee minutes.

The correspondent cited an excerpt from the minutes recounting a discussion of a new financial system for the University: "Professor Campbell responded that the Committee has been told there is a moderate risk with the current system--but that there has only been one failure in the last two years. He said he agreed that the system must be replaced sooner or later but that he wanted to hear more about how the current system is not working before he would support any decision on a replacement." The faculty member then commented: "Could you pass on to Prof. Speaks with a copy to Prof. Campbell that I feel that Prof Campbell's point . . . is a very serious concern which was not answered by Mr. Volna in the committee hearings. It needs to be addressed before funds are spent on a CUFS replacement."

Professor Speaks reported that he is on the task force evaluating options for and making recommendations concerning a new financial system. The members of the task force had to sign a confidentiality agreement, so he cannot say a great deal, but he told the Committee that there has been no straying from the original plan. They are considering bids from vendors and are considering the consortium option. They are receiving financial information about both the vendor and consortium options and the process is still on track.

Professor Campbell and Ms. VanVoorhis both expressed interest in being provided with a list of the task force members, as had been promised at the last meeting. Professor Speaks said the list would be distributed to Committee members.

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Professor Campbell said he would also like assurances that there will be some kind of "environmental impact statement" equivalent about the cost of and impact on departments. He said he would also like assurances that people will be given an opportunity to try the system before it is installed, a broader group of people than the financial systems people seemed inclined to rely upon.

Professor Speaks noted that there are December meetings of the Committee; he said he would not ask Mr. Volna to meet with this Committee again until he has something to report--but that there will be information provided to the Committee. He also pointed out that if the legislature does not provide the funding for the new system it will not go forward.

2. Implications of the Election Outcomes

Professor Speaks welcomed Associate Vice President Peterson to the meeting to discuss the implications of the elections for the University. He said he would accept a motion to close the meeting for this and the next item on the agenda. Messrs. Amattoe and O'Connor inquired why the meeting should be closed; Professor Speaks explained that the Committee would be unable to discuss sensitive political and legal issues if the discussion were to be public. The Committee then voted unanimously to close the meeting.

A MINNESOTA DAILY reporter present asked that the minutes of the meeting record his protest at the closing of the meeting and said the Committee was violating Minnesota law regarding open meetings. [The reporter was informed that the Minnesota law does not apply to the Senate or its committees. He disagreed.]

The Committee then discussed the makeup of the Minnesota House and Senate and the role various individuals and factors will play in response to the University's biennial budget and capital requests.

3. Football Stadium

The Committee next moved, while the meeting remained closed, to a discussion of the present status of the negotiations between the University and the Vikings as well as the political situation in which the negotiations are taking place.

Professor Speaks noted that there will be an opportunity for members of the University community to express their views. The Board of Regents has indicated it will hold open hearings on the stadium issue for which people can sign up to make statements. There will also be a survey of individuals involved in governance (all Senate members, all members of all committees and subcommittees, the Council of Academic and Professional Administrators, and the Civil Service Committee); the survey, however, will only be sent if there is a Memorandum of Understanding between the University and the Vikings.

Professor Speaks thanked Ms. Peterson for joining the meeting.

4. University Debt

Mr. Pfutzenreuter next distributed a hand-out consisting of a set of PowerPoint slides that had been used in a presentation to the Board of Regents at its October meeting about the University's debt. He quickly ran through a number of complicated slides noting market data and the like; he noted that interest rates are at a historic low--the University has been issuing debt at a great time. He also noted that the peak in University debt service will be in 2004 and will decline thereafter (assuming no large additional debt is incurred).

Mr. Pfutzenreuter reviewed the determinants of credit rating and debt capacity. People want to know what goes into them, he said; there is no one number for debt capacity. The rating agencies use a number of factors (such as student demand, financial statement analysis, state support, and management analysis). The University's rating is a strong Aa, which is the second-highest rating possible. The University could issue more debt, he said, but the question is where the money would come from to pay the debt service. It is debt payment that is a bigger problem than debt capacity.

Comparison data for peer schools were also included; Minnesota compared favorably to the means of the group.

Mr. Pfutzenreuter noted that the Board of Regents has authorized \$787 million in debt; the University only has \$712 million in outstanding debt. Not all of the debt authorized by the Board has been sold because it has not been needed.

Finally, Mr. Pfutzenreuter noted a table plotting the reduction of the outstanding debt by year through fiscal year 2036. The debt level will no doubt NOT decline as the table suggests because the University will issue new debt, but it does portray the University's approach to debt: pay it off fast and recycle it. 87% of the University's current debt will be retired by 2020 but there will be a need for new or renovated buildings. Of the existing debt, about 50% is in auxiliary services (housing, parking, etc.) and 50% is centrally-supported (academic buildings, the steam plant, etc.).

Is the University close to the point where its appetite for capital projects, and its success in getting them, is creating a debt service that is so great it is harming the institution's programs, Professor Speaks asked? Once the University gets beyond 2004 the problem will be reduced, Mr. Pfutzenreuter responded, and there is not a lot of new construction planned at the central level. So unless there is a big jump in construction, the debt cost levels out and then begins to decline. Many perceive that there is a huge debt level, Professor Speaks said, but there will not be if there are no new buildings. Mr. Pfutzenreuter agreed.

About a year and a half ago the Committee told the President that it was concerned about compensation for faculty and staff, Professor Speaks recalled. The Committee was told, again, that compensation was the number one priority--and it remains the number one priority until reality hits the budget and the University must pay its fixed obligations and ends up with few options for compensation.

Will there be an increase in debt, Professor Roe asked? There is relatively light construction planned in the six-year capital request, Mr. Pfutzenreuter said, and the projected debt levels assume the construction in the six-year plan will occur. He said he saw nothing that would cause debt level to jump. The University has built all the housing and parking (except for the stadium possibility) that it needs for

quite awhile. And the six-year capital plan now includes unit fund-raising as part of the revenue stream for new projects, which reduces the University's projected debt level.

Would the proposal for new UMP clinics affect the debt, Mr. Klein asked? It could, Mr. Pfutzenreuter said. That will depend on who issues the debt. The capital plan summary incorporates the items in the current plan. Items such as the clinics that are not in the current capital plan are not reflected in the projected debt numbers.

The Committee then held a brief off-the-record discussion about possible uses of the proposed stadium for activities other than football. Mr. Pfutzenreuter noted that the six-year capital plans contained nothing that would fit into the non-football stadium space and it appears that it would be more expensive to use that space for other purposes than it would be to construct a free-standing facility. He noted that the proposed site of the stadium leaves room for future academic buildings.

Professor Speaks adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota