Minutes*

Senate Committee on Finance and Planning
Tuesday, April 6, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Cynthia Gillett, Wendell Johnson, Gerald Klement, Eric Kruse, J. P. Maier, Terrence O'Connor, Richard Pfutzenreuter, Jane Phillips, Terry Roe, Susan Carlson Weinberg

Regrets: Peter Robinson, Charles Speaks, J. Peter Zetterberg

Absent: none

Guests: Associate Vice President Stephen Cawley; Bob Baker (Director of Parking and Transportation); Professor David Hamilton (Grants Management)

[In these minutes: issues associated with telecommunications; parking and transportation for the St. Paul campus at the onset of Fall Semester; capital plans and bonded indebtedness; grants management oversight reports]

[Note: J. P. Maier's name has been inadvertently omitted from the list of Committee members present at the last several meetings.]

1. Networking and Telecommunications Service (NTS) Rates and Issues

Professor Gudeman convened the meeting at 3:15 and welcomed Associate Vice President Cawley to discuss NTS rates.

Mr. Cawley explained that he could not bring rates to the Committee because they have not been determined; they require more central administrative discussion about such items as coordinate campus data lines, Internet2, and the student modem pool). The decisions about these items will affect telecommunications, voice, and data rates. He said he would bring back the rate proposals to the Committee in the near future.

What he could report, Mr. Cawley said, is that long-distance rates have gone down. They have been "freed up" in compliance with the requirements of OMB Circular A21, so that long-distance charges are not subsidizing other costs. In addition, there will be a new long-distance contract, which should reduce rates by another 33%, which will put them in the range of 8 cents per minute.

Voice and telecommunications rates went down dramatically last year; they also no longer subsidize any other activities. The telephone system is about 13 years old and paid for, so there are only inflationary increases on maintenance costs. There will be change in the longer term, however, when the

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

University must replace the system. They are now looking at the market, trying to determine when a new system should be purchased; it will probably be in the next two or three years. Depreciation of the cost of the new system will have to be included in the rates, which will mean they will increase noticeably. As a result, Mr. Cawley said, they are being very careful in considering the system they will select. (It was not possible to simply continue depreciating the existing system, in order to accrue funds for a new one, because the A21 guidelines do not permit doing so.)

In response to a query, Mr. Cawley agreed that the most reasonable option would be to keep the current vendor and purchase the low-end system. Even that, however, would cost $10 - 12 million, which would have to be spread out over users. The University wants more than just a telephone system, however; it wants an integrated voice and data system. It is not clear that the appropriate product is yet available.

Mr. Cawley then commented on data connection types, of which there are two. One is the etherjack, which is supplied by NTS and is in the wall; the other is the private network connections, which the department manages and owns. Early on, most departments ran their own LANs; now the connections are about 50/50 etherjack and LAN. Last year there was a big increase in etherjack connections, which leads to a reduction in charges because the fixed cost is spread over a larger number of users. By the same token, there has been a decline in the number of LAN users, which has meant an increase in rates because the fixed cost is spread over a smaller number of users. These factors could drive usage rates.

In general, NTS operating costs are largely salary-driven, and since salaries are expected to increase by about 3%, costs should not increase significantly next year. Vendor costs are up, and the size of the modem pool has been increased, so there will be some increases to reflect those costs. (There will be many new 56K modems, which only new lines can support; most home telephone lines cannot, which is an issue for U. S. West.)

A question was asked about subsidizing student use of the Internet (the first 50 hours per month are free for students). It was noted that the University is pressing for placement of more course materials on the web; without student access, would they not end up paying more? Mr. Cawley said he thought it very important to subsidize student access. Average student use now is about 30 hours per month; about 10% went over the free 50 hours. The decision to move to 50 free hours per month did not have major cost implications for NTS, and solved academic problems for students, but the increasing cost of the modem pool requires a decision about funding.

One Committee member inquired when or where the decision will be made about the student modem pool; Mr. Pfutzenreuter noted that the cost of $1.6 million was funded from soft money this year, and will probably be so funded again next year. The question will be what to do over the long term. The budget will go to the Regents in June; the decision will be made in May.

Professor Gudeman thanked Mr. Cawley for joining the meeting, and promised that he would be invited back when he had information about rates.

2. Semesters and the St. Paul Campus

Professor Gudeman now welcomed Mr. Bob Baker to the meeting to discuss the arrangements that have been made with the officials of the State Fair vis-à-vis the starting of classes the day after Labor Day.

Mr. Baker distributed a handout itemizing the facts and the arrangements that have been made. He reported that there have been four meetings with State Fair officials about parking and transportation, and they are close to being done with the negotiations.

Highlights from the arrangements are:

-- The transitway will be in full use the second day of classes; the first day buses will go to Energy Park Drive, and then be routed through town to the St. Paul campus and back.

-- The Fairgrounds and Earle Brown Center parking lots will not be available until the third day of classes. The University may use parking lots on the NE corner of the Fairgrounds the first two days of classes; Parking will provide a free shuttle bus service from the lots to the St. Paul Student Center.

-- University Police will control intersections around the St. Paul campus on evenings and weekends.

-- Parking in University and public parking lots will be restricted to University faculty, staff, and students prior to 9:00 during the State Fair.

It was suggested that Mr. Baker notify the University community if it is expected that the commute to the campus will be increased.

Professor Gudeman thanked Mr. Baker for his report.

3. Six-Year Capital Plan; Building and Bonding Issues

Professor Gudeman invited Messrs. Kruse and Pfutzenreuter to join the Committee at the table.

Mr. Pfutzenreuter began by explaining that they would NOT be presenting the six-year capital plan, because it is not ready. They could, however, review the 2000 capital request and the parameters that are being given thought with respect to the University's debt capacity. He noted that the capital plan is prepared by the Capital Improvements Advisory Committee; it prepares a one-year implementation plan and a five-year look out at the future, which will go to the Regents in May for review and in June for preliminary approval, with final approval of the capital request in the fall.

Turning to a handout, Mr. Pfutzenreuter pointed out that the University now has about $850 million in capital projects in play. Of that total, 55% comes from the state, 25% from University debt, 10% from departments, 6% from gifts, and 4% from auxiliary units, and includes such items as student fee funding for the Coffman renovation, parking ramps, and the 1/3 University share of debt service for new buildings approved by the legislature.

Mr. Pfutzenreuter next drew the attention of Committee members to a table showing historical and projected bonded indebtedness data for the University, 1990-2003. There are two categories of such debt: the University's share of state bonded debt and general obligation University debt, with total debt level varying slightly between $300 and $375 million each year up to 1998. Beginning next year, however, there will be an additional $330 million in general obligation debt, to be paid for over the next 20 years. $200 million in bonds have been sold, and another $120 million are to be sold.

One issue is how much more in debt the University should go. This is a sizeable increase over prior years, but there is additional capacity. Moody's has assigned the University a very good rating.

The current status is this: the University developed a 4-year capital plan for 1998-2000, rating agencies approved issuance of the $330 million in bonds, $277 million of that $330 million is committed to projects, and the 2000 capital request is the second phase of the 4-year request. There is need to develop a new capital plan for 2002 and 2004, rating agency review should take place again, the University's additional debt capacity is limited (to perhaps $30 - 50 million, although there is no precise limit). It is clear the University cannot make another large increase in debt like the $330 million, when one considers the cost of both debt and building operations. Future state requests will require that the University pay 1/3 of the debt, and current capital plans significantly exceed resources; it will be necessary to control expectations, since academic needs alone total nearly $600 million. Both academic and non-academic projects will compete for limited resources.

One Committee member inquired if it was possible to look at the debt cash flow as a percent of the University's total cash flow, and to compare it with the same measure for other institutions. Mr. Pfutzenreuter said it is, but he did not have the numbers with him. The State of Minnesota, he commented, does not allow debt service in excess of 3% of non-dedicated receipts (e.g., tax revenues). The University does not use such a standard, but watches a variety of measures. Mr. Pfutzenreuter agreed to ask Ms. Stephens to assemble the data.

Mr. Pfutzenreuter outlined the elements of the University's debt as it relates to the capital request and possible future capital requests, and provided the Committee with a list of the projects which make up the $277 million that has already been committed. In addition to the anticipated $43.5 million in additional debt that would come with a projected 2000 capital request, of the total $330 million, there would be a remainder of about $9.5 million in contingency funding.

One Committee member noted that there were no funds identified for public and traffic improvements to the second phase of the Coffman remodeling, but the students approved fees based on such funding. If the federal funds that are being sought do not become available, will the students hear a presentation next year about the need for additional funds? Both Mr. Kruse and Mr. Pfutzenreuter said it was not their intention to got back to the students for additional funding, but they would not make guarantees.

Asked if revenues for operation of new facilities are identified, Mr. Kruse commented that there is an operating budget for every building, and the legislative request includes funds for both renovation and new construction. The intent is that funding will not be taken from other maintenance budgets to fund the increased operational costs of new or renovated facilities, but if the legislature does not provide the funds, they will have to come from somewhere or the University will have to operate and maintain facilities in a less-than-ideal manner. Mr. Pfutzenreuter said that $8.3 million has been requested for new building maintenance, and they are trying not to degrade service across the campus.

One Committee member wondered why there is so little federal money in the capital budget, when HUD funds and pork barrel funds seem to be available to other universities. The University does follow up on those opportunities, Mr. Pfutzenreuter said, but it was pointed out that the University does not pursue them to the same extent that other institutions do.

Mr. Pfutzenreuter said the 2000 capital request was expected to be approximately $189 million, with $128 million coming from the state and $17.5 million from fund-raising. The senior officers are looking at projects that might be funded, including looking at the academic priorities and those projects for which the University has already received planning money.

One Committee member said the Committee had requested information on the impact of a moratorium on new construction, in order to let the University buy down its debt and be in a better position by 2005. Will that information be provided? Neither Mr. Kruse nor Mr. Pfutzenreuter recalled the request.

The Committee then discussed briefly the role of the Capital Improvements Advisory Committee (on which Professor Speakes serves), and it was agreed that the CIAC report would be provided to the Committee.

Professor Gudeman thanked Messrs. Kruse and Pfutzenreuter for joining the meeting.

4. Grants Management Oversight Reports

Professor Gudeman next welcomed Professor David Hamilton and two colleagues from the grants management project, Ms. Karen Dewanz and Ms. Michele Gross.

Ms. Gross distributed to the Committee a handout containing copies of a number of the different sponsored research financial oversight reports that will be available, and she walked the Committee through the reports. One report that has attracted much attention is the "Sponsored Accounts in Deficit," of which there are a lot. Mr. O'Connor reported that there are about $3.5 million in overdrafts, an additional $1 million in uncollectible obligations, for a $4.5 million "issue." One Committee member pointed out that when he incurs expenses, the University may not bill for three months, and if he does not monitor the accounts himself, it would be easy to overdraft. Mr. O'Connor agreed that there are issues in billing and collection, which is part of the business process redesign effort.

Some deficits are not real, Professor Hamilton noted; there may be errors in encumbering, for example, and training is needed.

Other reports include Spending Rate of Sponsored Accounts, IDC Rate, Aged Pre-Award Accounts, Fixed Price Account Balances, Program Income, and Non-Salary Expense Transfer Activity.

Ms. Dewanz reviewed for the Committee the Agency-Specific reports, which are set up for NIH, NSF, and a generic form.

It was noted that anyone with an X.500 University email address (all non-student employees) can get access to these reports.

These reports are very useful, Professor Hamilton observed, because they actually let someone MANAGE their grant, which could not be done before. Mss. Dewanz and Gross have done an extraordinary job for the University, he said, and went far beyond their regular duties in helping to create these reports. They are much more user-friendly. The University owes them a large vote of thanks, he said. In response to a question about how this system compares with other universities, Professor Hamilton said Minnesota is at the cutting edge.

Asked if the system provides a way to fix problems, or only identifies them, Professor Hamilton said the system provides a way to address them.

Professor Gudeman extended thanks and congratulations and the appreciation of the University, and then adjourned the meeting at 5:05.

-- Gary Engstrand

University of Minnesota