Minutes*

Senate Committee on Finance and Planning
Tuesday, September 20, 2009
2:00 – 3:45
238A Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Jennifer Dens, Steen Erikson, Lincoln Kallsen, Kara Kersteter, Lyndel King, Thomas Klein, Judith Martin, Fred Morrison, Paul Olin, Richard Pfutzenreuter, Gwen Rudney, Terry Roe, Michael Rollefson, Karen Seashore, Warren Warwick, Aks Zaheer

Absent: David Chapman, Joseph Konstan, Kathleen O'Brien, Thomas Stinson, Michael Volna

Guests: none

[In these minutes: (1) capital plan; (2) budget framework; (3) committee business]

1. Capital Plan

Professor Luepker convened the meeting at 2:00 and turned to Vice President Pfutzenreuter and Mr. Kallsen to discuss the capital plan.

Vice President Pfutzenreuter said there is, at present, no revised six-year capital plan but it has been scheduled with the Board of Regents in November. One reason it has been delayed is because there are discussions underway about how much additional debt the University will issue to support capital projects. The financial rating agencies include the assets of the University's foundations, and the assets of the foundations have decreased in value, so affect the financial ratios the agencies use. The University's ratios are still positive, although not as much as they used to be, but the loss of asset value means the University may need to be more conservative in issuing debt.

Professor Roe asked if UMore Park is part of the capital plan. The University has created a limited liability corporation (LLC) to manage UMore Park and there will be a Memorandum of Understanding between the University and the LLC. That MOU will severely limit the ability of the LLC to go into debt. It could issue debt, but will not have the flexibility to do so independently. Mr. Pfutzenreuter said he is involved in the discussions and no activities or discussion ever envision large capital projects at UMore Park.

Is there any sense the University's credit rating is endangered, Professor Martin asked? There is not, Mr. Pfutzenreuter, nor is there any risk to the State's rating. The University's rating is Aa2, but within that classification it has moved from "positive" to "stable"—as have most institutions of higher education in the country.

Are the foundations in better shape now, Professor Martin next asked? She recalled that the Committee received a report last spring. They are, in general, Mr. Pfutzenreuter said, and they are also not in the equities market at this point, in order to protect the assets. They were down about 25% at the end of the year.

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* 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.

There is a 2010 state capital request, Mr. Pfutzenreuter continued, and he distributed copies of it to the Committee. The amounts are in millions of dollars; the list is rank-ordered.

100.0	Higher Education Asset Preservation and Replacement (HEAPR) (system)
36.5	Folwell Hall renovation (Twin Cities)
10.0	American Indian Learning Research Center (Duluth)
80.0	Physics and Nanotechnology (Twin Cities)
10.0	General laboratory renovation (system)
5.5	Itasca facilities improvements (statewide)
242.0	

The HEAPR funding is always first, Mr. Pfutzenreuter commented.

The Finance Department of the State is working on new debt-management guidelines for bonding, and will call for bonding equal to no more than 3% of budgeted revenues. If a bonding bill were to total about $700 million, the University would receive about $105 million, because it typically receives about 15% of the bill. The legislature and Governor, however, face a problem, because debt service hurts the financial situation in the next biennium, and the state is already projected to be $5-7 billion in the hole.

The operating and debt service for these capital projects would peak in about three years, at about $6 million per year, Mr. Pfutzenreuter said. It does not include much program expansion. Will there be debt going away, Professor Morrison asked? The University retires about $35-40 million per year in debt service, on average, Mr. Pfutzenreuter said. Is the University doing any refinancing because of low interest rates, Professor Roe asked? The University is happy with 4.06%, Mr. Pfutzenreuter said, and some of the debt is below 4%. The interest rate on some debt may be lowered, but they need to be careful because there are liquidity issues.

What is the University's debt service, Professor Roe asked? Debt service to operations is about 3%, Mr. Pfutzenreuter said. The University is above Moody's median of 2.6%, and he can return later to the Committee to talk about debt capacity. The question of debt is a budget issue, not a capacity issue, Mr. Pfutzenreuter told the Committee; the University could borrow more, but where will the money to pay the debt service come from?

How is the priority list determined, Professor Luepker asked? At the end of the day, the President decides, Mr. Pfutzenreuter said. He decides from a list that comes from the vice presidents and deans.

Professor Martin noted that the Bell Museum is now off the list. Does that affect the College of Design goal of getting its departments together? It does, in effect, Mr. Pfutzenreuter said. The President did not want to ask for the money a third time and see the appropriate vetoed again.

Mr. Klein asked if the question of asset disposal had come up when there are short-term gaps in the budget. For example, could selling the golf course cover short term gaps in cash? Not in a meaningful way, Mr. Pfutzenreuter said; the University will receive money from gravel mining at UMore Park, but only when the construction industry picks up, and even then it will not be a large amount of money each year.

2. Budget Framework

Vice President Pfutzenreuter next distributed copies of a handout with information about the budget parameters for 2010-11.

The net result of the appropriations and gubernatorial unallotment is that the University, in law, will have $627.3 million for 2010-11. That is $75.3 million less than the base appropriation going into the biennium. But it represents a slight increase ($3.9 million) over the actual appropriation for the current year (2009-10).

The expected increase in resources is as follows (in millions):

3.9	State appropriation increase
46.9	Tuition increase (7.5% but bought down with federal stimulus funds for MN undergraduates)
(6.0)	Tuition revenues set aside for the deans
32.5	Recurring internal reallocation (2%)
(12.2)	Reallocation investment set aside for the units
13.7	Non-recurring reallocation (to cover for hourly employees the cost of the extra pay period, a one-time cost)
78.8	Total

The reallocation investment set aside for the units will be recurring if the cuts made in the units are recurring. Mr. Klein asked if this means the units get to keep the money they generate from cost savings above the minimum specified by the administration. They do, Mr. Pfutzenreuter said; they will be required to identify 2% in cuts, but the administration will only claim 1.25%. Units will retain savings above the 1.25%. He said he did not know if all units would actually be able to make the 2% cuts.

The expected investments/challenges are these (in millions):

22.0	Compensation
4.0	Founders tuition program (as tuition goes up, so does this cost)
12.8	Facilities operations (an estimate from a year ago and it may come down)
26.3	Contractual obligations, strategic initiatives/contingency
13.7	Non-recurring obligation (the 27 pay periods)
78.8	Total

The $26.3 million includes $11.6 million in one-time unallocated federal stimulus funds, out of the total of $89.3 million the University received. Some of that money will go into the pool for college compacts.

There are risks to the resources and investments, Mr. Pfutzenreuter cautioned. One cost will be fringe benefit recovery, which goes up and down each year because of the way the federal government requires that they be calculated and paid. This could be an additional $14 million expense. The additional $3.9 million from the state could disappear because the University could face another state budget cut. The projected state appropriate, mentioned above, is $627.3million; the lowest it could go would be about $591 million in order to remain in compliance with the federal stimulus law, but that could mean an additional cut of $35 million. The State has $38 million in budget reserves; the next economic forecast will be in November; Mr. Pfutzenreuter said he hopes the state picture improves. He pointed out that if the University does see another cut, and fringe benefit costs are $14 million, the money proposed to be left for the colleges could be at risk and it is unlikely there would be many new investments.

Professor Martin asked if the base budget for the next biennium is the $591 million. It is not, Mr. Pfutzenreuter said; it will be flat. But the 2011-13 biennium "is a mess." The budget could be reduced below $591 million in 2011-12, once the stimulus funds are gone and the law has expired.

Professor Morrison inquired if the $32.5 million in non-recurring reallocation is really being used by units only for non-recurring purposes or is it being used by units in a way that creates future obligations or expectations. Mr. Pfutzenreuter said his office has told the units to use the funds in a way that does not create tails; it is a mix of funds, mostly non-recurring.

What part of the compensation item is contractual or bargaining-unit related, Professor Seashore asked? The unions have already settled their contracts, Mr. Pfutzenreuter said. What part of the $22 million is fungible, Professor Seashore then asked? Most of it, Mr. Pfutzenreuter said. So the University could decide not to increase compensation, Professor Seashore concluded.

In response to a comment from Professor Luepker, Mr. Pfutzenreuter said it is likely they will have to use some of the $26.3 million identified for contractual/strategic initiatives/contingency funds for the non-recurring fringe benefit charge. But he also expressed the hope that the facilities operations costs would be lower than projected a year ago.

The $11.6 million in unallocated stimulus funds have been held because of concern about another budget cut. If there is not cut, the money can be used for one-time investments. He reported that Ms. Tonneson reported to the Regents on how the $89 million in stimulus funds have been used, and Vice President Mulcahy reported on how funds are being used on the research side of the house. Professor Zaheer inquired if the $11.6 million could be used to cover the fringe benefit costs; Mr. Pfutzenreuter said the federal funds come with a lot of reporting requirements and must be used to create jobs, so it is unlikely the University could use the money for that purpose.

Professor Zaheer asked if the 2% compensation increases funding is safe. Mr. Pfutzenreuter said the President has made it clear he does not wish to see salaries frozen for two years in a row. The money is safe now, but if the Governor cuts the University's funding, the budget framework will have to be reconsidered.

Professor Roe observed that the 7.5% undergraduate tuition increase is being mitigated in the short run by stimulus funds. What about graduate students? Does the University assume it will have the same number of graduate students even with increased tuition rates? Mr. Pfutzenreuter said that Provost Sullivan has reported to the Regents about the impact of tuition increases on graduate students; he did not have the information. Mr. Kallsen pointed out that about 92% of entering Ph.D. students have assistantships, so they do not see the tuition increase, the departments do.

How high is the budget cliff, Professor Morrison asked? The University will lose $50-80 million in stimulus funds. Given the proportion of the state's budget that is allocated to the University, and given the deficit the state faces in the next biennium, the University's share of budget cuts from the state could reach $125 million. So the total cut could be $175 million. Mr. Pfutzenreuter agreed and said he did not know when the situation would change. He said he is pessimistic about the ability of the state to ever give the University more money. Moreover, the University's expenses increase by a predictable $80-90 million per year because of fixed costs—buildings, salaries, investments, scholarships, etc.—with a cut in state funding, there is a real problem.

How does the University compare with Big Ten schools on salaries, Professor Zaheer asked? It is in the middle of the pack, Mr. Pfutzenreuter said.

Ms. King recalled that there was a report on new ways to finance the University; is that report available for the Committee to look at? Mr. Pfutzenreuter said that he and Vice President Rosenstone chaired the committee that produced the report and it will be provided to the Regents in October—and brought here after that. The report does not offer solutions but is intended to rally people to understand the magnitude of the problem.

Professor Zaheer said he had heard that the University of Michigan told the Michigan legislature it would use state funds to reduce resident tuition below market; if the legislature did not provide the funds, the University would not provide a tuition break for in-state students and would charge market rates. Professor Seashore pointed out that Michigan has two Research I universities with very different histories, one of which is more open-access and the other more elite. A state with two research universities is in a different situation.

Professor Luepker thanked Messrs. Pfutzenreuter and Kallsen for the report.

3. Introductions and Committee Business

Professor Luepker next asked Committee members to provide greater introductions of themselves beyond position and department.

Following the introductions, Professor Luepker commented on the way the Committee conducts its business. There has been a tendency, he said, for people to report, for the Committee members to ask questions, and then for the chair to say "thank you." The charge to the Committee directs it to give advice on matters. In order to do that, it needs to (1) receive reports in advance of the meeting so they can be gone through more quickly, and (2) and ask that those bringing reports also provide questions on which they wish advice. And (3) there needs to be follow-up; the Committee needs to ask, in a semi-structured way, what happened.

Professor Roe suggested that it would be helpful, for the two mini-retreats the Committee has scheduled for October and December, to have a sentence or two in advance indicating what the Committee hopes to accomplish or learn. The point is to go into more depth on the issues (financing the future and health-care costs), Professor Luepker responded.

Committee members discussed the consultative process and how it would conduct its business during the year, after which Professor Luepker adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota