

MINUTES

SENATE FINANCE COMMITTEE

August 14, 1986

1:30 - 3:00

300 Morrill Hall

Participants: Carl Adams, John Adams, David Hamilton, Paige Johnson, Wendell Johnson, Vice President Stanley Kegler, Gerald Klement, Acting Vice President V. Rama Murthy, W. Phillips Shively (chair).

Visitors: Fred Lukermann, Jud Sheridan, Eldred Smith, Maureen Smith, and several others.

1. The minutes of the July 22 meeting were approved with one correction: on page 3, the first sentence in the Consensus paragraph should state, "approval of a budget of about" (not "at least") "\$200,000."

Dr. Murthy reported that both budgets have continued to evolve and that he had invited Dr. Kegler to talk with the SFC about the Capital Request.

Schedule for Regents' consideration. The Operations and Maintenance request will be presented to the Regents for information in September and action in October. The Capital Request may follow the same schedule; if necessary it could go one month later.

2. The Capital Request.

Vice President Kegler distributed copies of "1987-89 Legislative Request: Capital Improvements" (material SFC members had also had a chance to study ahead of the meeting). He noted that appropriations sought in the upcoming biennium for new and renovated facilities total approximately \$114 million and that approval of planning money would imply future construction of buildings costing additional millions. Dr. Kegler then set out questions which continue to affect the capital request.

Unresolved issues (not all these items are listed in the current draft):

- Williams Arena (Phase III of remodeling: \$720,000). The Legislative Request Committee has not reached a decision because the massive request for new Recreational Sports Facilities (possibly eventually totaling between \$75 million and \$90 million) could include a new basketball arena with seating for 20,000. A report on that prospect was due in on August 15.

- Bierman Building (Addition to house coaches' offices: \$400,000). A major unknown affecting this decision is whether or not the football practice facility has been paid for.

- Walter Library (Schematics/Working Drawings for renovation: \$1,250,000). Project is under reconsideration because of strong arguments to add stack space in Wilson Library. If Wilson gets that enhancement, Walter will get only modest improvements such as air conditioning.

- Architecture (Schematics/Working Drawings: \$1.096,000). Proposal is to construct an addition so Landscape Architecture can be moved from the St. Paul Campus. Eventual construction cost estimate is \$12 million. Dr. Murthy told SFC he had had extensive discussions with the deans involved in this proposed change.

Constraints on new construction. The legislature has stopped appropriating funds for the operation of added space. Dr. Kegler said heating and cooling for just the new Electrical Engineering and Computer Science building, when completed, will cost an estimated \$1.6 million to \$2 million yearly. What will be the source of those funds? The University will try to persuade the legislature to change its position on this matter, but its optimism is tempered. The effect upon O&M budgets thus constitutes a hidden agenda affecting capital requests.

Vice President Kegler explained that neither a system-wide prioritization of the capital request nor a six-year plan was yet ready. He invited the Committee's questions.

In reply to Professor Shively's inquiry about the proportions of the request for new construction and for removal he said each is about 50%.

Professor Shively asked what the vice presidents consider as they prioritize across the system. Vice President Kegler remarked that there were in the past two criteria: academic items were ahead of non-academic items, and requests with a high priority at an early stage continued to have high priority in subsequent stages. However, now the criterion is the relationship of a request to a unit's program plans insofar as those plans are related to Commitment to Focus. The Recreational Sports Facility request, for example, is part of the effort to make the University more attractive to undergraduates.

Put another way, he said, the question is what parts of the University the president, working through the consultative process, wants to build. Biological Sciences is one of those parts; hence the request for planning monies for the CBS addition to accommodate Ecology and Behavioral Biology.

Professor Hamilton asked what is the consultative process in that example. Dr. Murthy stated that the central administration and the EBB department placed its request for the move to St. Paul in the larger context of the biological sciences and that altogether it became a high priority item. Professor Hamilton inquired how far consultation went in related units. Dr. Murthy noted that biotechnology had been under discussion for two or three years. He acknowledged that the dean of the Medical School had not been involved. Professor Hamilton argued that a unit on which a change would have a major impact should certainly be consulted.

Professor Shively inquired how the Senate Planning Committee is involved in the Capital Request. Dr. Murthy said that the Planning Committee had been only unevenly involved this year. He added that nearly all of the capital request items have been talked about for several years.

In response to further questions, he commented that Health Sciences' request to remodel space for the Basic Sciences took some 10 years to get into the legislative request because it had been the unit's preference to

have the new units (A-K) constructed first.

Professor Carl Adams asked whether any part of the Capital Campaign is directed towards buildings. Vice President Kegler indicated buildings are a very small part of the campaign; he identified the music performance laboratory addition to Ferguson Hall (University is asking the state to raise its matching appropriation from \$1.6 million to \$3.4 million), art gallery space, and one UMD project.

Mr. Klement inquired about the shift of the Repairs and Betterment item from the Capital Request to the O&M Request. Vice President Kegler explained that in successive sessions the legislature had repeatedly reversed itself on where repairs and betterment requests should be submitted. Last year the University joined with a large group of other state agencies to submit catch-up proposals which would have sufficiently increased the bases to take care of future R & B needs; none were funded. The Commissioner of Finance has decided the requests should appear in O&M requests. The University entitles the item "Repairs and Replacement." The legislature's reluctance to fund here has been especially frustrating for the Twin Cities University campus since it is the largest institution and it has the oldest buildings.

Mr. Klement asked about the additional 1% for art to be requested for facilities which have public traffic; Dr. Kegler explained that an executive order that all new state buildings include 1% of their construction costs to acquire art by Minnesota artists had replaced a law to that effect when the law was repealed. The University pleads exemption from executive orders, but has decided to request 1% for art; when cuts are required that will have to be dropped.

Mr. Klement then inquired about the background of the differences with the state over costs of operating new space. Dr. Kegler said that prior to 1985 there was no problem and the legislature appropriated what the University needed for maintenance, fuels, and utilities. In 1985 the legislature concluded that its policy gave agencies no incentive to save energy or become smaller. Consequently, the last appropriation included only a small fraction of the operating cost for new space and fuel and utilities deficit coverage. He predicted that that policy would haunt the University unless the policy were reversed. Professor John Adams asked whether there were any new thoughts on how to overcome the problem. Dr. Kegler said giving each unit its own operations budget is a technique which works well on a small, self-contained campus (UMC is a good case in point) but does not work well on a huge, complex, interrelated campus like the Twin Cities.

A brand new proposal is that as long as the University stays within the Minnesota Facilities Model the state would pay for the space; when the University exceeded it, the U would pay the difference. The University is indeed within the Model, he said, but the model counts some space which is unsuitable for the purposes needed.

Professor Hamilton urged that the University be very careful in its use of the Minnesota Facilities Model and noted that (1) there is a provision for quality of space but that hasn't been used yet, and (2) the model applies a snapshot in time and does not accommodate the future.

Professor Hamilton asked Dr. Murthy about the sequence of data gathering and prioritizing. Dr. Murthy said the University's Legislative Request Committee

gets the input from each vice president, and accepts it or cuts it down. He acknowledged that prioritization may occur before the data are fully prepared. Dr. Kegler noted that, for example, the request for an addition to Architecture is at this stage based only on a broad image of the square footage needed.

Dr. Murthy commented that requests are sometimes triggered by circumstances outside the University such as the opportunity for substantial gifts. In such cases the administration has to judge whether the project is pedagogically and programmatically sound, but does not judge its relative priority.

Professor Carl Adams remarked that he sees valid reason for the legislature's not wanting to pay for the operation of more total square feet. Dr. Kegler did not disagree, but he asked people to distinguish between (1) the cost of bringing new space on line and (2) the cost of operating existing space. The state of late has refused to make up the fuels and utilities deficit incurred in operating existing space. There has been an operating deficit in 9 of the past 10 years. On the other hand, the University has not made internal adjustments for higher energy consumption; for example, 355 air conditioners are added yearly.

Regarding new space, he said that some units are very short in the space they need. In many instances the University cannot eliminate what might be assumed to be excess space. Enrollments have declined substantially in Agriculture, yet the University has to keep all the programs intact.

Professor Carl Adams remarked that he suspected that overall we are not managing our University space well and that presumably the University can retire buildings just as well as add them. Vice President Kegler replied that the Minnesota Model shows the University short of space.

Professor Shively commented that the best place for the legislature to refuse operating money is to refuse to appropriate for new building construction, yet politically it cannot do that. However, it is relatively easy to refuse operating funds, so the University is punished financially for some projects which are outside its control.

Professor John Adams noted that the current issue of rising applications would have budget implications.

Senate Committee involvement. Professor Carl Adams said the Senate Planning Committee last year chose to restrict its attention to the planning process. He expressed a desire for an early meeting among the chairs of committees which have a role in the University's planning and budgeting processes (Planning and Finance in particular) to determine how each ought to fit in.

3. The Biennial Operations and Maintenance Request.

- Child Care. Dr. Murthy reported he had met the previous day with Child Care acting co-chair Anne Truax and others. The Child Care Committee members had arrived again at a \$300,000 budget but one which differed from what SFC had seen on July 22. A substantial part of it would launch a pilot program to subsidize approximately 120 needy parents, mostly single parents, who are students and who are ineligible for other child care assistance. Funding for a coordinator's office and marginal operational subsidies are also included. Dr. Murthy told SFC he regarded the parental subsidy as worthwhile and thought the project

warranted the \$100,000 over what SFC had recommended on July 22. He intended to recommend the vice presidents approve \$300,000.

Other biennial request items discussed. Dr. Murthy distributed copies of "Working Schedule #9" of the FY 1988&1989 Appropriations Request.

Vice President Murthy acknowledged that the vice presidents had not accepted the Finance Committee's recommendation to increase the request for anticipatory retention of faculty to 2% each year. The request is for a 1.7% increase, which would come to \$4 million each year.

Dr. Murthy told the Committee that the rank funding gap is \$25 million and that President Keller wants to make up just one-third of that in the upcoming biennium. Consequently, the rank funding adjustment item has been cut back considerably and will be reduced further until it totals between \$7 and \$8 million. Professor Hamilton pointed out that means retention of faculty would account for over half the total rank funding request.

Dr. Murthy said the vice presidents believe the University can persuade the legislature to appropriate funds to cover the fuel and utilities deficits; since these deficits have resulted in costs to units, there would then be some relief and opportunities. Professor Shively called attention to the changed consequences of this new strategy. Fewer discretionary funds are being sought in hopes the state will fund the fuel and utilities deficit, but that appropriation, if achieved, would still permit less flexibility.

Dr. Murthy expressed the hope that the University would succeed as regards the deficit (over \$4 million) and would also persuade the legislature to eliminate the Indirect Cost Recovery offset (\$8 million) for a \$12 million gain each year. Vice President Kegler added that, depending on the response the University gets regarding the fuel and utilities deficit, it might well adjust its capital request.

Professor Carl Adams commented that Indirect Cost Recovery is not entirely flexible money. Dr. Murthy termed it program money which goes particularly for new set-ups. (Approximately half goes to the Health Sciences and half to other programs). Professor Adams raised a question regarding the philosophy behind Indirect Cost Recovery and the rationale for its distribution since by definition it is supposed to cover real costs rather than do new things. (Members are referred to the minutes of the May 7 joint meeting of Finance and Consultative for a fuller discussion.)

Ms. Johnson asked why student loan matching would decrease and Dr. Kegler explained it is a fund the University is not able to use more fully because of the specificity of its purpose.

MATERIALS FOR AUGUST 27 SFC MEETING. Vice President Kegler provided the committee with a copy of the itemized request for the Agricultural Experiment Stations and the Minnesota Extension Service, which are the largest of the state specials. Copies will be sent to SFC members in advance of the August 27 meeting with Vice President Benjamin.

APPRECIATION TO DR. MURTHY. Professor Shively extended thanks on behalf of the Committee to Dr. Murthy who as Acting Vice President for Academic Affairs has met regularly with SFC over the past year. Members are glad he will continue in Academic Affairs as Associate Vice President.

The meeting adjourned at 3:00 p.m.

Meredith Poppele,
Recorder