

Minutes\*

**Senate Committee on Finance and Planning**  
**Tuesday, May 1, 2001**  
**2:15 – 4:00**  
**238A Morrill Hall**

Present: Charles Speaks (chair), Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeny, Stephen Gudeman, Wendell Johnson, Joseph Konstan, Eric Kruse, Richard Pfutzenreuter, Rose Samuel, Cory Stingl, Susan Carlson Weinberg

Regrets: Michael Korth, Elo Charity Oju, Jane Phillips, Terry Roe

Absent: Michael Volna, J. Peter Zetterberg

Guests: Pam Bader (Facilities Management)

Other: Cathy Gillaspay (Office of the Board of Regents)

[In these minutes: (1) cost structure of Facilities Management and the use of outside contractors; (2) the 2001-02 capital budget; (3) declaration on the need for tuition increases]

Professor Speaks convened the meeting at 2:20. Before turning to the first agenda item, he noted that Mr. Pfutzenreuter had requested time to talk briefly about the capital budget. He also reported that he would be speaking at the Regents' budget forum and would ask the Committee, later in the meeting, if he should speak for himself or on behalf of the Committee. Finally, he said that two items would be "heating up" about May 21-23: health benefits and the University's budget. There may be a need for an extra meeting on May 22 to take up these issues.

**1. Cost Structure of Facilities Management and Use of Outside Contractors**

Professor Speaks now welcomed Ms. Bader to discuss Facilities Management cost structure and the use of outside contractors.

Ms. Bader presented a series of slides to the Committee and reviewed their contents. (FM refers to Facilities Management.)

**Cost Structure of Campus Construction Projects**

**Scope of Campus Construction**

- Projects over \$750,000: 17%
- Projects from \$250,000 to \$750,000: 18%

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- Projects under \$250,000: 65%
- Note: Projects over \$100,000 require Regents' approval and funding in the capital budget.*

### **Project Delivery Process**

- Customer: Academic Department or Support Unit
- Facilities Management: Zone Office
- Design and Construction Services: Owner's Representative

### **Project Delivery Process – Design & Construction Services**

*The owner's representative's stewardship duties ensure that:*

- Facilities can be properly and cost-effectively maintained and operated
- Facilities are built according to University policies and standards
- Applicable building code and safety standards are addressed

On this item, Ms. Beader pointed out that one cannot compare home and University construction projects; the University builds to standards that reduce liability, risks to health and safety, ensures access, and so on. There are certain values the University holds (e.g., access) which can increase costs above what a homeowner would pay.

### **Project Delivery Process - Design & Construction Services**

Properly and cost-effectively maintained

- Balancing upfront capital investment costs with maintenance, operating and replacement costs
- Flexibility of space - consider future use of building
- University facilities are built with a 50 to 100 year life span

### **Project Delivery Process - Design & Construction Services**

*Follow University policies and standards*

- Adhere to University's *Standards & Procedures for Construction*
- Regents' policies
- Public procurement procedures and processes

### **Project Delivery Process - Design & Construction Services**

*Applicable building code and life safety standards are addressed*

- Require more stringent codes than in residential projects
- Fire/life safety systems (sprinklers, fire alarm, emergency generators, exiting)
- Universal design (accessibility)
- Building Code Official determines life safety and code upgrades based on project scope

Ms. Phillips said it would be helpful to be informed about how the involvement of the Building Code Official is triggered. A project can be underway, with no involvement from that office, and then suddenly there are requirements imposed by the Building Code Official that significantly (and unexpectedly) increase project costs. Units should know what will provoke the involvement.

### **Project Delivery Process - Who provides the service?**

*The following was shown in organizational chart format*

The flow of decisions is as follows:

Customer to  
Facilities Management Zone Office to  
Design & Construction

Work is done in the following categories:

For Maintenance & Replacement, it is FM Zone Staff

For New Construction & Remodeling, it is FM Construction or  
Prequalified Annual General Contractor Program (projects up to \$1 million) or  
Prequalified General Contractor Program (projects \$1 million or more)

Why cannot units go outside for construction projects? They can and do, Ms. Beader said. FM zone staff will do repairs; if there is remodeling or new construction of less than \$1 million, there are six prequalified general contractors (see II below) who can do the work. The list is updated annually; these contractors are generally used for projects in the \$50,000 - 60,000 range. They developed this list because they had a logjam in getting construction completed when units had to go through a whole process; this list means units can act more quickly and can select the contractor. For projects of less than \$10,000, FM will typically ASSIGN a contractor if the unit agrees. For projects of less than \$1 million, they usually seek bids.

#### **I. Prequalified General Contractors Program**

- Regional market general contractors
- Assured contractor is capable of performing work
  - experience
  - financial resources
  - workforce resources
- Safety record
- Litigation/claims history
- University values — (e.g. Targeted Group Businesses)
- Vendor Performance Program

#### **II. Prequalified General Contractors Program – Annual Contractors**

- Regional market general contractors
- Bonds and insurance requirements in place
- Assured contractor is capable of performing work
  - experience
  - financial resources
  - workforce resources
- Throughput — efficiencies in procurement process
- Economies of scale
- Identifies firms with good safety records
- Vendor Performance Program
- Targeted Group Businesses requirements

#### **FM Construction**

- Facilities Management's in-house unit
- Small- to medium-sized remodeling projects

- Saves time in procurement
- Familiarity with building systems
- Working relationship with departments
- Stewardship commitment
- Trained to work adjacent to hazardous materials
- Good safety record

### **Labor Cost Comparison**

FM Construction and Outsourced Contractors

*The following was shown as a chart comparison.*

FM Pipefitter: \$53.56/hour vs. Outsourced Pipefitter: \$63.24/hour  
 FM Carpenter: \$47.13/hour vs. Outsourced Carpenter: \$51.53/hour  
 FM Plumber: \$52.70/hour vs. Outsourced Plumber: \$66.43/hour  
 FM Sheetmetal: \$54.29/hour vs. Outsourced Sheetmetal: \$69.19/hour  
 FM Electrician: \$55.63/hour vs. Outsourced Electrician: \$62.55/hour

FM pays the same prevailing wage as outside contractors but generally charges out at a lower rate; FM does not have to make a profit and it has a tax advantage. That does not mean it will necessarily BID lower than an outside contractor.

Professor Campbell said that these wage differential raise the question of what happens to the difference. Are costs lower? Sometimes, Ms. Beader said, but there is no guarantee. Often use of the inside staff means a project needs to be done quickly and may involve moving a lot people around fast to accommodate construction. And if the work has to be done around people doing their work, that will take longer and cost more.

If a unit decides to seek a bid from FM for a remodeling project, for example, and decides the bid is too high, it can then seek a bid from an outside contractor. But the unit cannot go back to FM if the outside bid is higher. The construction business is not happy that the University has its own construction staff so the University agreed it would not compete with the private sector.

How do FM and outside bids usually compare, Professor Campbell asked? The outside bids are usually higher, although not significantly so, Mr. Kruse said. The FM group works more intensively with departments, Ms. Beader added, while the outside contractor must make a profit. The FM group cannot lose money but it realizes it is here to serve the academic mission of the University.

What part of the cost of a project is attributable to long-term goals such as use of minority and women contractors, building to 50-100 year standards, and so on, Professor Konstan asked? What of those costs should units be responsible for? And should the University reconsider whether it can invest in all of the values, given the low level of support? Those are good questions and FM is gathering data on them, Ms. Beader said. They will study what the University's construction standards cost and what could be saved in long-terms costs should they be changed. The University also goes beyond code requirements, Mr. Kruse said, and those requirements should also be included in an evaluation.

### **Total project costs (as opposed simply to construction costs) include:**

**Contractors:** general, mechanical, electrical

**Consultants:** architects, engineers, design team services, inspections, material testing

**Site Work:** site survey, soil borings

**University-Provided Services:** Owner's Representative, Building Systems Automation Center, telecom, utility investigation, utility outage assistance

**Permits & Fees:** building permits, sewer and water charges, project delivery services, advertisement for bid

**Hazardous Materials:** abatement, environmental studies

**Interiors:** furnishings, equipment, graphics, keys

**Miscellaneous:** moving expenses, relocation space, public art, cleaning, temporary construction utilities

As a general rule of thumb, Mr. Kruse said, non-construction project costs are about 1/3 of the total cost. There are also institutional values the University lives up to, Ms. Beader repeated, including access, environmental considerations, and so on.

### **Balancing the needs of all stakeholders**

- Academic Department or Support Unit
- Building Code Division
- Community Economic Development
- Department of Audits
- Disability Services
- Elevator Shop
- Energy Management
- University Architect
- Environmental Health and Safety
- Landcare
- Networking and Telecom
- Classroom Management
- Parking & Transportation
- Purchasing
- University Police
- Maintenance and Operations

All of these units receive copies of building plans and all want a voice in how a facility is built, Ms. Beader noted.

### **Challenges associated with construction at the University**

- Coordination of construction schedule with building use
- Special requirements (dust control, noise control, pedestrian detours)
- Infrastructure - minimize impact on critical utility needs
- Lack of parking and staging space
- Adherence to environmental regulations
- Minimize impact to University and neighboring communities
- Adherence to University values (e.g. TGB, universal design)

The University has made tremendous strides in getting minority and women firms in construction, better than it has in purchasing, Mr. Pfutzenreuter told the Committee.

In the current construction market, the University has had advantages, Ms. Beader commented, because of its long-standing partnerships with major construction firms and their commitment to the University. Both MnSCU and the state have complained they could not get contractors because the firms were committed to working on University projects.

## **Current Construction Market**

- Busiest construction market in 10 years
- Lack of general contractors, subcontractors and laborers to perform work
- Material shortages

Does the University have any trouble with companies doing asbestos removal, Ms. Samuel asked? Most prefer not to do it, Ms. Beader said, because of the long-term liability. The University has an internal asbestos abatement crew for small projects; the University trains its own people and has its own equipment; that is often the only way the work can get done. So the University takes on the liability that outside contractors will not, Professor Campbell observed. It does, Mr. Kruse agreed, but the employees are put through state-of-the-art training and provided the best equipment available; this is not an area where the University stints.

Professor Speaks thanked Ms. Beader for her presentation.

## **2. Capital Budget**

Mr. Pfutzenreuter distributed handouts concerning the capital budget. The budget will go to the Board of Regents for information in May and action in June. (The Board will also review and approve the annual operating budget, at two separate meetings in June, and will approve a preliminary capital request to the state for the 2002 legislative session.)

The capital improvement budget going to the Regents in May consists of funded projects that will be underway in the 2001-02 fiscal year. Mr. Pfutzenreuter reviewed the budget very briefly.

How is this different from the six-year capital plan, Professor Campbell asked? Mr. Pfutzenreuter explained that the Regents are provided a six-year capital plan each year, updated each fall. He itemized things:

- there is a major capital request in even-numbered legislative years; the June before that session (e.g., June, 2001), the Regents approve a PRELIMINARY capital request (the legislature wants a preliminary request during the summer so it can look at projects)
- EVERY year there is a capital improvement budget which spends money from a variety of sources on capital projects

Where is this Committee in the consultative process, Professor Campbell then asked? The capital request is tied to the six-year capital plan, Mr. Pfutzenreuter said, which the Committee has regularly reviewed; it looked at the 2002, 2004, and 2006 requests. The 2002 request projects and priorities have not changed since the last time the Committee reviewed it; the costs have. The plan needs to be brought back to the Committee, he said.

Professor Gudeman, reviewing the data, observed that about 25% of the capital projects for next year are financed through internal loans; whence that money and when is it paid back, he asked? The money comes from the University's equity pool of about \$35 million of unobligated funds, Mr. Pfutzenreuter said. Loans are made at 5.5 - 6%; as the loans are paid back by departments, additional loans are made.

What about capital costs for projects underway but not completed, Professor Konstan asked? When the capital budget is approved those projects are re-authorized, Mr. Kruse said.

What is the revenue stream to pay off University bonds issued to pay for capital projects, Professor Campbell inquired? The University's O&M funds, Mr. Pfutzenreuter said. They appear in the University's legislative request as part of debt service.

It was agreed that the Committee would take up the preliminary 2002 capital request at its May 15 meeting.

Professor Speaks thanked Mr. Pfutzenreuter for his report.

### **3. Declaration on Tuition Increases**

Professor Speaks next distributed copies of a proposed "Declaration on Need for Tuition Increases." He said he would make a presentation on May 4 to the Board of Regents; if the Committee concurred with the sentiments expressed in the declaration, he would speak on behalf of the Committee.

Committee members reviewed the draft and made a number of suggestions. A number of points were made in the discussion.

-- The declaration should be worded strongly on the point about needing to avoid retrenchment and the potential for hidden retrenchments. The internal taxes cannot be increased because departments are already sapped.

-- The issue is the University budget. In the past, there have been difficulties getting the members of the Board of Regents to accept the need for larger tuition increases. In addition to the PLANNED reallocation, a low tuition increase would lead to retrenchments as well.

-- One of the Big Ten universities is imposing a 5% tuition increase plus a \$500 annual charge; that would amount to a 17% tuition increase at Minnesota.

-- Mr. Pfutzenreuter explained that he was asked, at the legislature, what tuition increases would take to fund the entire request; he told legislators that it would take 38% increase to fund the entire \$221.5 million request--but that it would inappropriate to use tuition to fund some items because they are research-related.

Professor Speaks asked that any additions or changes be emailed to him by noon the next day; he would then ask the Committee to vote on any final language. [By Thursday, May 3, the Committee had voted to approve the appended resolution. The resolution was endorsed unanimously by the Faculty Consultative Committee on May 3.]

Professor Speaks adjourned the meeting at 3:30.

-- Gary Engstrand

University of Minnesota

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Declaration on Need for Tuition Increases  
Senate Committee on Finance and Planning  
May 3, 2001

The University is not likely to know the final appropriation that it will receive until later in May. Many predict, however, that the final appropriation for the University might not exceed \$90-100 million, and even the most favorable state funding outcome will prevent the University from investing in a few key initiatives that are of great importance to the state. What are our options for coping with a final appropriation that is far below the needs of the University?

1. The University can “live with what it gets,” which means that many of the important funding initiatives in Strengthening the Foundation, and perhaps all of the initiatives in Investing in the Future, will be sacrificed. Substantial underfunding will erode the foundation of the University and leave us unprepared to compete in important evolving areas. The University already faces significant challenges in recruiting and retaining faculty, growing class sizes in many disciplines, drastic cuts in library services, and an inadequate ability to address new and pressing areas of digital, medical, and nano-technology. The Senate Committee on Finance and Planning believes it would be irresponsible to fail to invest more fully in these important initiatives.

2. The University can retrench, either through targeted retrenchments, through increased taxes (the Enterprise and IRS), or through unfunded increases in charges to units (e.g., networking and telecommunication rates). Note that the Biennial Budget Request already commits the University to \$30.2 million reallocation, and reallocation involves retrenchment for some sectors of the University. Although there might be further program cuts that the University will consider, the Committee strongly feels that the current level of retrenchments, taxes, and charges have already cut the budgets of most units to the bone.

3. The University can increase tuition beyond the 3% each year that was pledged in the Biennial Budget Request, which some will say is “solving the University’s problems on the backs of students.” An increase in tuition beyond 3% each year is likely to be politically unpopular, but not necessarily as unpopular as increased class sizes, reduced advising, cancelled classes, and failure to maintain the technology and infrastructure that is needed to provide a quality education.

4. The University can elect some combinations of the above three options.

*The Senate Committee on Finance and Planning recommends that the administration and the Board of Regents raise tuition to the extent necessary to offset the shortfall between the state biennial appropriation and the necessary and urgent priorities of the University.*

In making this recommendation, the Committee notes the following.

- Many of the initiatives in the biennial request are essential to maintaining the quality of the University, and those initiatives contribute directly to the quality of education of students at the University and to the value of a University of Minnesota degree. It is incumbent on every generation of students, faculty, staff, and leadership to maintain and, when possible, increase the quality of the University for the next generation.
- A retrenchment beyond the pledged \$30.2 million reallocation, coupled with the potential for “hidden retrenchments” of the form noted above, will erode the quality of the University’s academic programs and undermine the University’s strategic initiatives.
- If students continue to register for the same number of credits, each 1% increase in tuition will generate approximately \$2.7 million in each year of the biennium.
- The University pledged to increase tuition by 3% in each year of the biennium, which will generate approximately \$23 million of new resources over the biennium. A 14%

increase in each year of the biennium will generate approximately \$89 million of additional resources over the biennium. *The Committee recommends that tuition be increased by at least 14% in each year of the biennium.*

- If tuition is increased by 14% each year, what will be the dollar cost to students? Resident undergraduate students who register for 15 credits per semester will incur an additional cost of \$310 per semester. The additional cost per semester for non-resident undergraduate students who register for 15 credits will be \$904. Any increase, however, will be partially offset by state financial aid because students would qualify for increased financial assistance.

It is regrettable that we are placed in a position whereby we must choose between hurting the University and adopting substantial increases in tuition. If we look at highly-ranked peer institution such as the University of Michigan and the University of California, we see that they have maintained their quality during periods of low public support. Michigan has become a high-tuition/high-aid university. California presents needed tuition increases to the state legislature, which then “buys down” a portion of the increase with a state appropriation. Notably, both institutions have been able to attract and retain high-quality faculty and students, provide access to students of all financial circumstances through financial aid, attain excellence in areas of emerging importance, and contribute greatly to the economic well-being of their respective states.

The Committee believes that the initiatives in the Biennial Budget Request are essential to the preservation of the University of Minnesota as a premier teaching and research institution, and we further believe that tuition must be increased by at least 14% in each year of the biennium to accomplish the University’s missions.