

Minutes*

**Senate Committee on Finance and Planning
Tuesday, May 23, 2006
9:30 – 11:00
510 Morrill Hall**

Present: Fred Morrison (chair), Steve Fitzgerald, Thomas Klein, Joseph Konstan, Judith Martin, Ian McMillan, Richard Pfutzenreuter, Susan Van Voorhis

Absent: None for a summer meeting

Guests: Julie Tonneson, Office of Budget and Finance

[In these minutes: (1) transition to a new chair; (2) the capital appropriation; (3) the 2006-07 operating budget; the 2008-09 biennial request]

1. Transition to New Chair

Professor Morrison convened the meeting at 9:30 and announced that this would be his last meeting. As of next Thursday, he told the Committee, he will be interim co-dean of the Law School, so it is no longer appropriate for him to chair a Senate committee. Professor Martin, the chair-designate for next year, will assume the position a month early. He thanked everyone for being supportive and interested in the business of the Committee. He also expressed thanks to Vice President Pfutzenreuter and Ms. Tonneson for being so helpful to the Committee.

2. The Capital Appropriation

Professor Morrison next asked Mr. Pfutzenreuter if he could provide a final summary of the legislative action on the capital request.

Mr. Pfutzenreuter reported that the University ended up with less money for HEAPR (Higher Education Asset Preservation and Renewal, building maintenance funds) than expected; it had requested \$80 million but received only \$30 million. One factor was that HEAPR funds appropriated in 2005 have not yet been fully committed. There was full funding for the business school requests for both Duluth and the Twin Cities and a new bioscience building. The University did not receive funding for the Science Teaching and Student Services building (which would replace the Science Classroom Building at the end of the Washington Avenue Bridge). The Senate approved the proposal for a separate bioscience bonding authority; the House did not because one committee chair was concerned about giving up authority for bonding in future years. The proposal did receive general support, however, and the University intends to renew the request.

It appears that the decision to fund the new football stadium did not really affect the University's other capital appropriation. The legislature prefers to spread projects around the state and there were only six projects of more than \$25 million. Unfortunately, the major items on the University's request are expensive, so the legislature could not just take out \$5 million for other projects; it had to take out the \$62

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million for the Science Teaching and Student Services building in order to fund other projects around the state.

Mr. Klein asked if there appears to be any pattern in the funding for the University and MNSCU. Mr. Pfutzenreuter said there is not. Professor Morrison noted, however, that funding for items that already have significant private support appear to be able to jump higher on the list; both the University's business schools and one at Mankato had such support and were funded. The presence of private funds, he speculated, could in the future be a feature in affecting how quickly the state funds a project.

Mr. Pfutzenreuter commented that in addition to spreading projects across the state, there is a correlation between the cut in Local Government Aid (LGA) funds and the number of bonding projects that come to the legislature because local governments are strapped for funds so seek state support. Those projects, in turn, may crowd out other items that would normally be included in state bonding. The failure to raise the gas tax also meant there was need for considerable extra money for roads and bridges, which also takes up state bonding capacity. He said the University is not likely to fare better in its capital requests until the state comes to grips with local bonding issues, because the University's projects tend to be expensive. The environment would also be different, Professor Morrison commented, if the same party had a majority in both houses of the legislature, which would require less horse-trading between the caucuses.

3. The 2006-07 Operating Budget

This is the second year of the biennium, Mr. Pfutzenreuter observed, and the 06-07 budget was previewed with the Board of Regents last year; the budget that is now being proposed is very compatible with what the Board was told. There will be a few changes. The Board will be asked to approve a \$12.50 fee increase for freshmen and sophomores effective Fall, 2007, which reflects the agreement on the stadium funding plan. One class at a time will see the fee added so that only students who will benefit from the stadium will pay the fee.

The total budget, including all funds, will be about \$2.8 billion (the state will provide 20.3%, tuition and the University fee 19.9%, sponsored research 19.6%, gifts and endowments 9.5%, and other sources make up the remainder). The proposed investments will be in compensation, academic priorities, facilities, student services and support, technology, the libraries, and other obligations. The total new spending obligations total \$75 million, with \$35.9 million for compensation, \$15.6 million for academic priorities, \$8.2 million for facilities, and so on.

There are three components to the compensation increase. One, a competitive compensation pool (\$6 million in recurring funds were committed last year and another \$6 million will be added this year; these amounts have been distributed with the budgets to the units). Two, general compensation increases (at 3% plus fringe benefits). Three, all-University award programs, which have been raised on an annual basis to reward performance. On the last, Professor Martin suggested that thought should be given to equalizing the amounts given to those who have been given the distinguished teaching awards; those who received the award in earlier years receive less money than those who receive it currently.

Academic priorities will be for biosciences and research, a competitive interdisciplinary grant pool (\$1.75 million), leadership transition (e.g., the new Morris chancellor), and other initiatives. Facilities require the traditional expenditures: utility inflation, new building operating costs, debt and leases, and service improvements. Student services and support includes merit- and need-based undergraduate aid, graduate and professional education support, and service improvements. Technology expenditures are proposed for imaging and storage, technology-enhanced classrooms, and security. The

amount for technology declines for next year, from \$5.2 million to \$3.3 million. Professor Martin inquired where the campus stands on classrooms; Mr. Fitzgerald said about 80% have the required technology but that they must now sustain them.

Tuition and the University fee for undergraduates will rise 6.5% on all campuses. Crookston and Morris will have the same tuition and fee for residents as for non-residents; for Duluth and Twin Cities, the non-resident tuition and fee will rise only slightly. Graduate and professional tuition and fee increases vary by school, dependent primarily on market considerations. Mr. Pfutzenreuter said the University tries to address high tuition and fee costs for those going into certain fields (e.g., rural medicine, public defenders, etc.). In some cases the resident and non-resident charges are being brought closer together in graduate/professional programs because they are becoming non-competitive in recruiting outside Minnesota. The University also considers the total cost of attendance; for the Twin Cities, that number will increase by about 4.2%--less than the tuition and fee increase because some costs have decreased and others are not projected to change.

4. The 2008-09 Biennial Request

Although the legislative session just finished, it is time to begin developing the 2008-09 biennial request, Mr. Pfutzenreuter said. In mid-June directions will come from the state finance office; the University is not bound by those instructions but does look at them carefully. They will work on the request over the summer, bring a conceptual discussion to the Regents in the fall, and seek final Board approval in November. There may be need to be nimble, depending on the outcome of the November elections. Mr. Pfutzenreuter reviewed the timeline for the request through adjournment of the legislature next May.

The University has organized its request in the past in a variety of ways: by object of expenditure (compensation, facilities, etc.), by functional expenditure (research, instruction, etc.), by University themes (biosciences for a healthy society, attracting and retaining talent, etc.), and it also pays attention to the Governor's priorities and to legislative priorities. Ultimately, however, the request will reflect the University's needs. Developing the request also includes making tradeoffs: between a higher and lower state request, higher or lower tuition increases, the number of requests/initiatives, and the extent to which part of the request proposes internal reallocation. Professor Martin asked about the Board's view on further tuition increases; Mr. Pfutzenreuter said there is more concern at the legislature, which sees tuition increases as another tax increase on a specific group. The Board is likely to share the concern.

There are key questions to be addressed about the request, such as past strengths and weaknesses, what the compelling messages are, what the core principles are, the balance between state support and tuition, consistency with strategic positioning, priorities for new state funding, and the extent to which the University should consider reallocation as part of the request. President Bruininks has charged Senior Vice President Jones to convene a small working group to start thinking about the biennial request in the near future.

The state may have money to spend next year, Mr. Pfutzenreuter said, because the state's economy is hyper-sensitive to more people working—and there are more people working. Professor Morrison said, however, that additional revenues may be eaten up by LGA and property tax relief, health care, and K-12 education. Mr. Pfutzenreuter affirmed that the request would build on the strategic positioning effort; he also expressed agreement with Professor Martin's sentiment that perhaps there could more focus on academic issues now that the stadium question is settled.

Professor Morrison noted that the Regents were having a budget hearing this afternoon and he was one of the speakers. He said he proposed to speak in favor of the proposed budget unless the Committee objected. It didn't.

Professor Martin asked if the Committee could have a discussion about the new budget model; Mr. Pfutzenreuter said he would be glad to have it during the summer.

Professor Morrison adjourned the meeting at 10:30.

-- Gary Engstrand

University of Minnesota