Minutes*

Senate Committee on Finance and Planning
Tuesday, December 6, 2011
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Will Durfee, Catherine Fitch, Susan Hupp, Lincoln Kallsen, Kara Kersteter, Cody Mikl, Fred Morrison, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Michael Rollefson, Ann Sather, Karen Seashore, Michael Volna, Aks Zaheer

Absent: Gwen Rudney, Arturo Schultz, S. Charles Schulz, Thomas Stinson

Guests: Orlyn Miller (Capital Planning and Project Management); Vice Provost Gerald Rinehart, Amelious Whyte (Student Affairs)

Other: Carole Fleck (Office of Budget and Finance)

[In these minutes: (1) update on the six-year capital plan; (2) debt capacity; (3) committee business; (4) overview of the Office of the Vice Provost for Student Affairs]

1. Update on the Six-Year Capital Plan

Professor Luepker convened the meeting at 2:05 and turned to Vice President O'Brien to start a discussion of the six-year capital plan.

Vice President O'Brien began by observing that the University has had a six-year capital planning process in place for more than 20 years, and the plan is updated each year. Most items that get on the six-year capital plan do get done, although not necessarily in six years. The six-year capital plan is driven by the academic mission and academic strategic plan.

This year they "reset" the capital plan, with a new administration. They let the previous six-year capital plan "wind down" over the last two years or so, and with funding for the new physics building in place, that was the last major item on the previous six-year capital plan. With a new president and provost, it is time to stand back to identify the facilities needed for teaching and to carry out the other elements of the academic mission.

Vice President O'Brien related that she and Vice President Pfutzenreuter met with President Kaler to establish a process, and then met with academic units.

Mr. Miller said that with the previous plan running down, they vigorously approached the effort to capture the facilities needs of the colleges. They held meetings with 19 units, including all of the colleges and campuses (but for one, which indicated it had no facilities needs) as well as University Services, and collected 75-80 proposals for capital needs (projects of more than $1 million—and most of the projects are well above that amount).

* 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.

Vice President O'Brien said it is important to recognize that the six-year capital budget and the annual capital budget are all-funds budgets, so encompass more than just state funds. Projects can be unit-funded (e.g., with fund-raising), University bonds, and so on.

Mr. Miller said they asked the deans and chancellors to identify the larger strategic needs of their college or campus before they looked at specific projects; that request had a good response and reflected thought given to priorities. He said they were glad to see more intercollegiate discussions of facility needs.

The total value of the 75-80 projects is about $2.2 billion, which seems like a lot, but the University has invested $1.5 billion in buildings in the last decade, Mr. Miller reported. The scale of the projects is increasingly significant; $20 million is now on the low end, many are more than $50 million, and a number are over $80 million. There are also more proposals for renovation than for new facilities, and a number of the proposals for new buildings are replacements for existing buildings. Many of the projects include fund-raising and a number of them rely entirely on fund-raising. About 33 of the proposed projects are research-related, 35 are in the STEM teaching/research areas, 40 have student-oriented improvements (classrooms, recreational facilities, residence halls), 17 have active-learning components, and 22 help in space-utilization goals. Colleges are talking to each other more about interdisciplinary facilities and there appears to be, across the board, a different approach to research and instruction, Mr. Miller said.

The next step is to analyze the options to determine what items would be in the 2014, 2016, and 2018 capital requests, with reasonable parameters, Mr. Miller told the Committee. After that they would add other projects not dependent on state funds. There will be discussion with President Kaler early in 2012 on these matters.

Vice President O'Brien said that she would return to the Committee in January about the discussions with President Kaler, and the proposed six-year capital plan will be brought to the Board of Regents in February. As the deans and chancellors discussed overall needs for their programs, they also talked about consultation—the proposals for projects came in with substantial consultation.

Professor Roe asked if the Committee would talk about debt capacity. How does that come into play as a balancing factor? Vice President O'Brien said that as the University sets priorities and parameters for the scale of the capital budgets, they will be based on academic programs and on the question "how much can we spend?" It will also include an analysis of what must happen when (e.g., before English can move into Pillsbury Hall, there has to be space made ready for Earth Sciences). Vice President Pfutzenreuter tracks the question of debt.

Who is on the committee to select the winning proposals for the President, Professor Durfee asked? They will present all of the proposed projects to the President, the senior vice Presidents for System Academic Administration and for Academic Affairs and Provost, Vice President Mulcahy, and Vice President Friedman, Vice President O'Brien responded, and her office will provide support and information. The President and the academic vice presidents make the decisions.

Professor Zaheer asked if they expect funding from the units making the proposal. Is this a wish list or is it expected that the units will help to defray costs? Vice President O'Brien recalled that about 20 years ago the state began requiring the University and MNSCU to pay one-third of the debt service for capital projects (except for HEAPR funds). So the institutions "have skin in the game"; the requirement limits the appetite for capital projects. If a grant comes with funding for capital projects, that will affect its priority. They look at all sorts of funds and how to leverage them and they encourage units to bring funding to the table.

New buildings include new operating costs, Mr. Rollefson observed. How are those costs factored in? That is part of the process, Vice President O'Brien said. In the last decade, capital funding was about 55% for renovation and 45% for new construction. For example, Science Teaching and Student Services has slightly higher operating costs, as a replacement, but not as much as a new building. When various other buildings are decommissioned, that saves money. One point that President Kaler has made is that the University should focus more on renewal than new construction.

What is the reason for the larger scale of the projects, Ms. Fitch inquired? Because construction is more expensive? Do they expect to be larger? There is nothing unique about this set of projects, Mr. Miller said. A large part of the increase is due to inflation; another is because these are more sophisticated facilities. Moreover, renovating historical buildings is expensive. Research facilities are more sophisticated, but they try to balance the increased costs with more flexibility and increased use. And some of the buildings that need upgrading or replacement are large, such as Phillips-Wangensteen and Physics—the scale is expensive. One needs to think of some buildings as scientific instruments, Vice President O'Brien added, so there are technology and support requirements as well. They do benchmark across the University's peers in looking at what buildings to build and the costs per square foot—and the University is always right in the middle.

Are the proposals public documents that could provide an opportunity for commentary by the University community, Professor Durfee asked? Right now they are working documents, Vice President O'Brien said, and she would want to ask if they could be released. It would be desirable to do so, Professor Durfee said, in a spirit of openness, because right now it is a mysterious process to narrow the 75-80 projects down to a smaller list. Making the list public would provide an opportunity to engage the broader community in a discussion of priorities.

Vice President O'Brien questioned whether the process is mysterious. There has been considerable planning and consultation in colleges and campuses. The principles and process have been presented in this Committee regularly. She told the Committee "who," Professor Luepker said, but are there any criteria? Do they have a list of characteristics used to set priorities? There is a set of principles, Vice President O'Brien said; "what are they trying to achieve?" They look at the cost per square foot, operating costs, but first at academic program needs, which are the most highly-ranked programs or which have the greatest academic needs.

Professor Luepker thanked Vice President O'Brien and Mr. Miller for the report.

2. Debt Capacity

Vice President Pfutzenreuter next distributed copies of a set of slides and explained the forecasting model for debt capacity for the six-year capital plan. There are projects proposed, he said; the question is what dollars will pay for the debt service. There are two pieces to debt: what the University brings to the table (fund-raising, grants, etc.) and the state funds.

When the University goes to the state for capital funding, theoretically the state takes up a bonding bill in the even-numbered years, and in a typical year the bonding bill is about $1 billion. Also typically, the University receives about 15% of whatever bill is approved. So the University receives about $150 million every two years, and the requirement that the University pay one-third of the debt service constrains what is included in the six-year capital plan. One question is whether the University should simply seek its typical 15% or if it should ask for additional funding. What he will discuss today is debt capacity.

Vice President Pfutzenreuter reviewed with Committee members a number of tables of data and graphs outlining the University's long-term debt, the current amortization structure, projected debt issuance, and projected outstanding debt. He reviewed the letter ratings used by agencies to designate the University's credit quality (Aa1 from Moody's, AA from Standard and Poor) and the elements that go into establishing the ratings (student demand, financial statement analysis, state support, and management analysis). The University is in an excellent position, he said; all of the ratios used by rating agencies are very positive. He also reviewed the debt forecast model assumptions about state support, tuition revenues, enrollment changes, sponsored funding, and other revenues, as well as projected expenses.

Mr. Pfutzenreuter then referred to a bar graph projecting the projected debt from 2010 to 2018 and the theoretical projected debt capacity. The capacity exceeds the projected debt by a significant amount (e.g., about $1.25 billion in 2018, about $480 million in 2013). The University does not have a debt-capacity problem, he said, it has a source-of-payment problem, and that is a more limiting factor than debt capacity. He surmised that the University would never run its debt up to capacity because of the payment problem and because of the increased operating costs that would accompany all the new or remodeled facilities. This is all a balancing act, he said. Determining what is on the six-year capital plan and in the capital request is both a financial and an academic decision, and the President will ultimately merge the considerations to create the six-year capital plan.

The issue, Professor Roe concluded, is not how expensive the house is but how big the house payments are.

Professor Durfee asked where an additional $50 million in debt payments for new/renovated facilities from a 2012 state capital request might come from. About half of the proposed projects and debt are from auxiliary units, Mr. Pfutzenreuter said; such as the bookstores, residence halls, parking and transportation, and food services, Ms. O'Brien added.

Professor Zaheer asked if the rating agencies include the assets of the foundations. They do, Mr. Pfutzenreuter said, but he calculated debt service capacity both with and without relying on those assets; the debt capacity without counting foundation assets is lower. Does the University have access to those assets, Professor Zaheer asked? Maybe if it went into bankruptcy, Mr. Pfutzenreuter said, which won't happen.

Professor Morrison observed that these rating agencies are the same ones that rated Lehman Brothers AAA, using the same methods, about 48 hours before it went into bankruptcy.

The ratings seem dependent on state funding, Professor Seashore commented, but it is eroding. For institutions that are losing state funding even faster than the University of Minnesota, what happens to their debt capacity? Mr. Pfutzenreuter said he did not know. Professor Seashore said that state funds are a wild card; if the University's rating is downgraded, it will cost more to borrow money. Mr. Pfutzenreuter said that the difference in cost of borrowing between Aa1 and Aa3 is minimal. When one hears about rating changes for Greece and Italy, those are large changes, Vice President O'Brien said, whereas any changes to the University's rating would be minimal.

Professor Roe recalled that last year Mr. Pfutzenreuter had said the University tries to maintain a ratio with the state debt capacity. The state does its own debt-capacity analysis, Mr. Pfutzenreuter said, and it tends to be about $1 billion over two years. The Governor may say that the capacity is about $775 million next year and in the off year another $250 million.

Sponsored funding is a big part of the University's budget but it could take a hit in the federal budget process, Professor Roe pointed out. Have they done a sensitivity analysis? Mr. Pfutzenreuter said they simply used the existing trends, and small changes in the various revenue streams do not affect debt capacity very much.

Professor Luepker thanked Vice President Pfutzenreuter for his report.

3. Committee Business

Professor Seashore asked if there are financial implications in the Size, Scope, and Mission report (e.g., enrollment caps for transfer students).

Mr. Kallsen said that Vice Provosts McMaster and Schroeder have the information and said the Committee would need to have the facts about the entire enrollment-management plan and how they translate to a financial outcome. There is modest growth in enrollment predicted for the Twin Cities campus. Students all pay the same but the cost of providing their education is not, Professor Seashore said.

And there are distribution problems, Professor Morrison added. There could be growth in one area but at the same time two other areas are starved for funds.

The deans thought that question was not adequately addressed, Professor Hupp said.

This is a major break from the budget model, Professor Morrison said, and represents a move back to the days of Senior Vice President Infante, when everything was controlled from Morrill Hall. If there are limits on enrollment in some colleges, that affects the amount of tuition revenues available to those colleges. Limits on enrollment in some colleges will affect the amount of tuition revenues available to them, without necessarily changing their costs. Some colleges will see growth and others will see a loss—but will still have the same costs, so the University will either have to redistribute state funds or it will be forcing the "losing" colleges where enrollment is capped to cut courses and faculty lines. Has that been thought out?

Some cost-pool numbers are student-related, Professor Luepker observed, so would not increase where enrollment is capped, but some cost-pool charges are not student-sensitive. It is not just cost pools, it is also operating costs, Professor Morrison said. And if student-related cost-pool charges are decreasing for a college, then so is tuition, Professor Luepker said. Mr. Kallsen said that both rate changes and enrollment changes have been taken into account in the report.

The financial decision-making processes need to ask about the report, Professor Seashore reiterated. Professor Durfee said the Committee should ask Vice Provost McMaster about the rationale for the caps, the increases in STEM enrollment, and how the recommendations will play out.

Professor Luepker agreed to invite Vice Provost McMaster to a meeting of the Committee.

4. Overview of the Office of the Vice Provost for Student Affairs

Professor Luepker welcomed Vice Provost Rinehart to the meeting as part of the Committee's continuing discussion of vice-presidential and vice-provostal units.

Vice Provost Rinehart provided the Committee with information about the mission, the organizational structure and staffing, funding, the categories of service, and a report on the units that make up the Office for Student Affairs (OSA). He also provided sample metrics used to evaluate the units. Mr. Rinehart explained the activities of each of the many OSA units, after which he and Committee members had a discussion.

-- *How do they benchmark staffing levels with other institutions?* OSA at Minnesota does not include units that are typically included at other institutions (e.g., dining, housing); they collaborate with those units. In other cases, where Minnesota has one staff member, its peer institutions typically have 2-4 people.

-- *Is the reporting structure the same at similar institutions?* It is split about 50/50 between reporting to the provost and reporting to the president. That has been changing; it used to be that many more student affairs offices reported to the president.

-- *The ability of OSA to pick up new programs and ideas is impressive; why are there so many offices with just a few people? It seems odd to have 200+ people in one unit and 1 or 2 in another. Have they considered shifting people around, in order to continue in their role as an incubator of student engagement?* OSA has established “clusters” for smaller units to share ideas and ensure coordination.

-- *Does it make sense to have counseling separate from Boynton Health Service?* It does not, and the question has been asked before. If they could find a facility to locate both together, they would most likely do so.

-- *One reason tuition has gone up, it is said, is because of students receiving more and more services. OSA here seems lean. Where are the services that are causing tuition to increase?* Mr. Rinehart recently served on a national panel on "country clubs and spas" at colleges and universities. He said the University must be competitive in facilities but some of them elsewhere in the country are "over the top." There is a point where that must stop. Some OSA units and activities are funded by student fees and can obtain additional funds if students perceive their value. At most private institutions, these services and facility costs are usually embedded within tuition. OSA is very aware of increasing costs.

-- He also noted that money from the University’s Coca-Cola contract ($1.1 million per year) is used to support a wide range of student activities.

-- *The number of services provided by OSA is overwhelming; it appears that if an idea comes up, an office is established. Is there an effort to rationalize services and offices? How is a decision made to close something or consolidated to make it more efficient? The smaller areas are invisible to students and if the proliferation of small units is confusing for students, there is a problem.* Mr. Rinehart indicated they do not create programs overnight, but they try to be nimble and adjust position responsibilities (not add new staff) as student needs change and new opportunities develop.

-- *It is not easy to find where to go if one is interested in something, such as service learning or student engagement or placement. There are gaps in the information available about the connection between OSA activities and academic units. Is that why OSA offices are bigger elsewhere?* Mr. Rinehart said he did not know, but adding to the picture is the fact that there are student-affairs functions in most of the colleges (e.g., leadership programs, student organizations, and student government). OSA does not generally duplicate the activities of the colleges (e.g., counseling, health services, and recreational sports have no collegiate counterparts), but it can supplement them and offer additional opportunities and areas of involvement.

-- *How do they know they are doing a good job? How does student feedback rate compared to other institutions?* Internally, student feedback and evaluation of services are part of the funding requests submitted by units supported by Student Service Fees. In addition all units within OSA track student satisfaction or other relevant measures associated with their services or program. Another approach, which allows external as well as internal, college-to-college comparison is the use of the National Survey of Student Engagement and similar assessment instruments. On these surveys the University does not stack up as well in some areas compared to our peers, and OSA wants to contribute to improvement. They will not be sure they are doing a good job until the University's student responses are as good as or better than those as at Wisconsin, Michigan, and Ohio State in areas such as academic/personal support, active learning, student-faculty interaction, and engagement in enriched educational experiences. *How will they accomplish that?* By looking, for example, at "best practices" such as the level of service for students provided by the Carlson School. While "success" may be defined somewhat differently for a liberal arts student than a business student, all students should be aware of opportunities for engagement in impactful learning experiences.

-- *It seems that OSA is not able to control efficiency and effectiveness of the student experience completely because there must be interfaces between it and college offices. But OSA does a phenomenal job.*

Professor Luepker thanked Vice Provost Rinehart for his report and adjourned the meeting at 4:05.

-- Gary Engstrand

University of Minnesota