

Minutes*

Senate Committee on Finance and Planning
Tuesday, September 18, 2007
2:00 – 3:45
238A Morrill Hall

Present: Judith Martin (chair), Jon Binks, David Chapman, Darwin Hendel, Joseph Konstan, Kathryn Olson, Richard Pfutzenreuter, Justin Revenaugh, Michael Rollefson, Gwen Rudney, Warren Warwick

Absent: Rose Blixt, Steve Fitzgerald, Lincoln Kallsen, Thomas Klein, Mikael Moseley, Kathleen O'Brien, Terry Roe, Thomas Stinson, Michael Volna, George Wilcox, Aks Zaheer

Guests: Vice President Charles Muscoplat, Carla Carlson (Office of the Vice President for Statewide Strategic Resource Development)

[In these minutes: (1) 2008-09 budget; (2) Regents' Finance and Operations Committee work plan; (3) UMore Park; (4) committee discussion]

1. 2008-09 Budget

Professor Martin convened the meeting at 2:05 and turned to Vice President Pfutzenreuter for a discussion of aspects of the 2008-09 budget.

Vice President Pfutzenreuter first reviewed the timeline. Instructions went to support units early in September; by late November or early December support unit budget materials will be presented to the President for approval. After that the cost-allocation rates will be incorporated into academic unit instructions. Academic-unit instructions will go out in late December, meetings will be held in late January and February, and the President will present a recommendation to the Board of Regents in April for review and in May for action. This is an accelerated schedule, Mr. Pfutzenreuter said, because next spring the new Enterprise Financial System is scheduled to go online—and the same people who do the budgets are the ones who must be trained on the new system.

The budget planning numbers are these; Mr. Pfutzenreuter emphasized that they are for planning purposes, not etched in stone:

Investments (in \$ millions, increase over 2007-08)

3.3	student aid
34.7	general compensation (3.25% plus fringe benefits, subject to collective bargaining agreements)
15.3	facilities (new buildings, utilities, leases, debt service)
13.6	new investment pool
66.9	total

* 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.

Resources (in \$ millions, increase over 2007-08)

4.8	balance from 2007-08
14.3	new state appropriation
39.4	tuition and fees (based on a 7.5% tuition increase for all campuses and programs)
8.5	University internal reallocation
66.9	total

The internal reallocation figure is slightly higher than earlier projected in order to have an investment pool of sufficient size, Mr. Pfutzenreuter said.

Will the Regents support a 7.5% tuition increase, Professor Martin asked? They have been told it is part of the budget plans, Mr. Pfutzenreuter said. Professor Chapman suggested that 7.5% will be seen as quite high. Mr. Pfutzenreuter agreed but pointed out that for Minnesota residents the legislature provided funding to buy down the increase by 2%, so it will only be 5.5% (for students from households with an income of up to \$150,000). Professor Chapman said he was sorry to see such an increase in an election year; Mr. Pfutzenreuter said the other choices are increased state funding or less new investment.

Mr. Pfutzenreuter noted that no units are being asked to prepare a compact this year because they will only be done on a biennial basis, but units are being asked for a 1-2 page update. The University may have to revisit the years the compacts are prepared because the compact process is to inform the biennial budget process, compacts should be prepared the year the biennial budget is being developed; the compacts now are a year old.

The new investment pool is expected to be about \$13.6 million. Support and academic units are being allowed to request these funds and will be focused on compelling financial needs. The compelling case must fall into one of three categories: legal, contractual, compliance, or safety issues identified; start-up funding was provided in 2007-08; or an essential and critical need is identified. They will be pretty stingy because there isn't a lot of money; this second year of the biennium will be tight, Mr. Pfutzenreuter said. There is also a concern about the November revenue forecast.

Of the \$8.5 million in internal reallocation, some will be born by the support units. The support units will be expected (in the following target amounts) to achieve cost reductions or generate revenue that will reduce the overall cost of the pool; the "owners" of each cost pool will be assigned the responsibility to achieve the target amounts.

680,000	Senior Vice Presidents & Chief Financial Officer
360,000	Vice President & Chief Information Office (technology infrastructure)
470,000	Vice President, University Services (facilities, utilities)
125,000	Graduate School (graduate student services)
135,000	Vice President for Research (research administration)
220,000	Libraries
70,000	Dean and Vice Provost (student services, all students)
110,000	(student services, undergraduates)
30,000	(general purpose classrooms)

Mr. Pfutzenreuter clarified that these reductions would be expected after the 3.25% in salary and fringe benefit increases had been provided, so the actual increase in a unit might be less than otherwise expected.

What kind of diminution of services is likely to result, Professor Martin asked? They will find out when they meet with the units over the next couple of months, Mr. Pfutzenreuter said. It may be, for example, that University Services will achieve energy savings to make up part of its obligation, so there would be no reduction in services in that case. Professor Konstan asked about potential cost increases; Mr. Pfutzenreuter said the result will be increased charges to academic units, which they can cover with tuition, reallocation, or central administration can provide funds to cover the increases (a decision that would be made on a unit-by-unit basis).

Professor Chapman inquired of Mr. Pfutzenreuter if, based on his experience, this will be perceived as an austerity budget. Between the tuition increases and the cuts, it looks pretty austere to him, he said. Mr. Pfutzenreuter said it is austere. A \$13.6-million compact pool is not small per se, but it is small relative to the entire University budget, and the \$66.9 million in increased resources for next is lower than the usual average increase of about \$80 million. Salaries eat up a lot of the increased funds, and after paying legal, compliance, utility, and other obligations, the \$13.5 million is not a lot for an organization this size. Professor Martin said there is no sense of this coming austerity in the University community after all the discussion about how much support the legislature provided for the biennium. This will be a big surprise, she said.

Professor Konstan asked if there is any way to measure reallocation costs; is the University spending \$5 million in time from its faculty, staff, and administration to squeeze out \$2+ million in savings? No, but it is a lot, Mr. Pfutzenreuter replied. This is a model where everyone is squeezed every year, Professor Konstan said; the University is "in a juicer" so everyone both spends substantial time worrying about what to cut and then asks for something new to try to get funds back. One could imagine a system in which strategic cuts are made every five years or so, but without the slow drain on funds across-the-board, so there is some stability. This squeezing is not inherent in the budget model. Who would make the decisions, Mr. Pfutzenreuter asked? Professor Konstan said that it is within the President's prerogative to reallocate state funds, since all units are subsidized. It seems inherently inefficient to squeeze every unit every year. Professor Martin reminded Professor Konstan that while the University can get rid of a college, it cannot get rid of the faculty, who hold tenure in the University. It seems, however, that the University has closed units and not saved money, Professor Konstan said. He clarified that he felt the message coming out of the consolidations was that any savings were going back to the merged colleges, which may encourage them to save, but doesn't reap the ability to reallocate to strategies university-wide. Later, Professor Konstan asked whether the universities it seek to join--top public institutions like Michigan and Berkeley--share Minnesota's model of continuously squeezing units. Does this squeeze really lead people to think efficiently, or does it just add stress that saps productivity?

Mr. Pfutzenreuter said he had proposed the approach of putting the burden on the cost-pool owners. Last year they were told to talk to their customers; this year they have an obligation to reduce costs or find more productive ways to do business—and not, for example, by closing four libraries. At some point almost all at the University will say there is nothing more that can be done more efficiently, Professor Martin commented, and people may be close to that point now—and cannot respond in a rational way to directives for greater efficiency.

Professor Konstan said, apropos the schedule, that if the administration goes to the deans with the cost-pool numbers in late December and require a budget in February, how much consultation in the college can occur, especially when many people are not on campus? The biggest cost-saving a department can make, if it is doing a search, is not to fill the position, Professor Chapman said. Departments need to know now, because a lot of offers will go out in December and January. If the deans

do not have the message until late December, that will be too late, even though they may not want to fill positions.

Professor Martin recalled that the Committee learned last year that several major colleges have a structural deficit. The Provost said they would be fixed. Were they? There are a couple of colleges that have significant structural imbalances, Mr. Pfitzenreuter said, and a couple more that have workable problems. Are they fixed? No. The problems were addressed in the last budget but some will require multi-year plans to fix.

Professor Konstan related that his back-of-the-envelope calculation was that his department spent \$20,000 in faculty time debating whether to hire a faculty member into an open slot versus saving that slot to offset an uncertain upcoming cut. Multiplied across the University, that's a lot of research, teaching, and service not being done that could lead towards top-three status. "We may be spending more time and energy to find cuts than the resulting savings yield in gains. Would we be better off telling the legislature that our funding level doesn't let us do everything, and make a few substantial targeted cuts?" (Echoes sounded about the results the last time that was tried.) More generally, Professor Konstan asked, is \$8.5 million in reallocation providing more advancement of the University towards the top-three goal than the amount that University-wide agonizing, stress, and wasted effort over these cuts moves it away from the goal? Mr. Pfitzenreuter agreed that the University may be trying to invest too much in new programs or activities. Professor Konstan said it would be wonderful to use productivity gains to achieve the reallocation, but productivity gains often mean cutting service and transferring the burden elsewhere; eventually, there is little room left in units for substantial productivity gains. There is some room, Mr. Pfitzenreuter maintained.

2. 2008-09 Regents' Finance and Operations Committee Work Plan

Vice President Pfitzenreuter next distributed copies of the work plan for the Regents' Finance and Operations Committee and reviewed the items that would be coming to the Board during the next year.

The Committee agreed it wished to hear, at upcoming meetings, from Mr. Mason on an overview of the invested assets of the University, about new indebtedness, how the University's returns on its investments compare to its peers, and financing the future of the University.

3. UMore Park

Professor Martin turned now to Vice President Muscoplat and Ms. Carlson to provide the Committee with an update on the UMore Park plans.

Dr. Muscoplat related that they have been working on UMore Park since 2005; the goal is a University-founded community on part of the site (the northern part, about 5,000 acres). The southern part, called Vermillion Highlands, is jointly managed with the State Department of Natural Resources through 2032, by law. At that time, these 2,822 acres will be deeded to the state by the University. The University will retain research, education, and public engagement rights on the property in perpetuity. The University, he said, will thus not have its agricultural research land reduced by the development of UMore Park. In fact, there will be additional opportunities with this development to incorporate the research strengths across many units of the University as the proposed community unfolds.

Dr. Muscoplat reviewed the six activities that are currently underway through the University's UMore Park properties management team. (1) They intend to engage consultant team expertise to assist

in the master planning process for the 5000 acres. Other activities include (2) an academic mission task forces (integrating University research, education, and public engagement to add value to community and enhance opportunities for faculty and students), (3) aggregate resources (evaluate the gravel resources as a source of revenue), (4) comprehensive planning (with the City of Rosemount and Empire Township and Dakota County to update the plans for the Met Council), (5) site assessment (coordinating with the federal government on environmental inspection), and (6) Vermillion Highlands (jointly manage 2,822 acres with the DNR as a public-access natural area in perpetuity for research, education, and recreation and trails).

As for (1) and (2), no one has fully envisioned what a University-founded community is, Dr. Muscopolat commented, but there are about 100 faculty working on it through six academic mission task forces. The six are pursuing the broad areas of education, environment, energy, health, interdisciplinary opportunities, and transportation. If they do not bring the University to this community, it will be no different from any other suburban development. The Board of Regents has declared that the project should not proceed without academic programs as part of it. With respect to (3), the preliminary assessment is that there is \$65 million in proven reserves of gravel; a more intensive analysis of the geology is underway because it is important the University know the location, quantity, and quality of the gravel before it can begin development of the site. (4) is general land-use planning for the number of people, utilities, etc., that does not preclude University options. Part of the site is a former defense plant; (5) involves asking the federal government to assess what is underground; it is known there are miles of pipes and hundreds of tons of concrete. The assessment by the MPCA will be available next year. They are developing a master plan (6). The University and the DNR are jointly developing a master plan for the southern Vermillion Highlands, which will remain natural open space forever (6)

He has been asked a number of times how to pay for this, Dr. Muscopolat related; the goal is to make a lot of money for the University that would be captured in an endowment to support University's academic mission, but it must spend some money to make money. There is several million dollars set aside for UMore Park; there are options for funding, including the mineral rights for the gravel and hiring a developer to sell land, for example. He said he believes the University can finance the project, but at this point they have only a vision, not a plan.

Professor Martin asked if the expectation is that within 15-20 years some money would go towards the academic mission. Dr. Muscopolat replied that the Board of Regents has decreed that 100% of the money will go to the academic mission.

There are two good things about this idea, Professor Konstan said: it may help provide ways to fund the academic mission and it will provide an asset for research and outreach. But this feels like another Twin Cities suburb; has there been discussion of higher-density living? Professor Martin said there has; the community will consist of 20,000 – 30,000 people but they will not be evenly distributed because there will be green spaces as well. Will there be building for University use, such as graduate student housing (assuming transportation will be in place to the Twin Cities campus)? The Metropolitan Council transportation plan for 2030 has no transportation anywhere near UMore Park, Professor Martin said. The University must convince Dakota County that more than Highway 52 is needed; if there is to be functional research space at UMore Park, transportation is a huge challenge.

Dr. Muscopolat said he has talked with Dean Bailey about whether the University could develop a different educational system at UMore Park. The question is how to get there; it will not happen at the academic level without resources, such as research assistants and faculty lines. He said it will be important to get University experts involved. He said, however, he did not envision University campus-type structures for education and housing; it will be a place that integrates research, education, and public engagement into the fabric of the community. So it will not be a piece of the University there, Professor

Konstan concluded; given the Twin Cities real estate market; it would be possible to get a diverse community there and it could be made for apartment living—if the transportation issue could be solved. Professor Martin said the assumption is that some of the residential construction will be dense, but the University will not be able to get a developer until it knows where the gravel is. It is also possible, for example, that a University-managed daycare facility would attract people. Any plan can be futuristic and scholarly, Dr. Muscoplat said, but if it does not make money for the University, it will not be built.

Mr. Rollefson asked about the community of Jonathan, which was not successful. The problem was that it was way out in Chaska at a time when access was not easy, Professor Martin said, and did not become what was expected because of transportation problems. Transportation is critical.

The Stanford development is all leased; has the University thought about that, Mr. Rollefson asked? That is not likely, Dr. Muscoplat said, but if the University does not do SOMETHING with the land, it will lose, because there will be easements, eminent domain, etc. How much would be given up in initial resources if the University were to sell 60-90-year leases, preserving flexibility for the University, Professor Konstan asked? The land could be worth a lot more in 100 years. Dr. Muscoplat said he was not qualified to answer that question; a market-research and financing analysis will address it.

Professor Martin said that is part of the problem. This requires a major planning effort going forward because there will be about a million more people in the Twin Cities in the next 25 years, and it is not unreasonable to believe that some of them could end up in this area. The question is whether the University keeps some long-term control, Professor Konstan said, or just gets cash for its endowment now. There is a lot of benefit to the University to invest in real estate as a growth vehicle; the Harvards of the country are doing it. That is a political decision that the Board of Regents must decide, Professor Martin said, but the University does not have a good record as a landlord.

The University might likely keep ownership of the public and retail space, Dr. Muscoplat said. There would be 10,000 – 15,000 homes that would be paying taxes; the University could negotiate to own some of them so it would not be just a one-time real-estate transaction. But it is a couple of years too soon to know the answer to that question. If it is just like every other suburban community, there will be no price premium.

They are holding six public listening sessions, Dr. Muscoplat reported; the first one was the night before this Committee meeting and drew 115 people. The sessions are being well-publicized in Dakota County and the response at the first one was very positive. The University cannot make this work without local participation. Ms. Carlson reported they have reached about 250 organizations and are starting to develop relationships with them, to build foundations.

The big challenge is to have a University vision that is adventurous and visionary enough that it stretches beyond where it is now, Professor Martin said. UMore Park will not be built for several years but the University cannot get too far ahead of the community. It is necessary to be sure that the University can do something that reflects its ambition without looking like any other suburb. Dr. Muscoplat noted that there are about 40 faculty who do research at the Arboretum, so it is not impossible to have a site that is 45 minutes away.

Professor Martin thanked Dr. Muscoplat and Ms. Carlson for joining the meeting.

4. Committee Discussion

At what point should the University do things differently in the budget process or budget model, Professor Martin asked? This is usually discussed at the wrong level, Professor Konstan commented. It could be brought to FCC or SCC if they are interested; it would be worth hearing the President's rationale on why this is the right direction. It would be an interesting discussion, he said. Professor Martin said she would speak with Professor Balas and ask if FCC wished to consider the issue. She said she has been involved in many budget-related discussions in the last 5-6 years and there is not a lot of enthusiasm in the central administration for the central administration to be making all the decisions, but it is an appropriate question if things could be done differently. With respect to the top-three goal, if the University does not have the financial foundation to make it work, it is unwise to pursue the goal. Only the Academic Health Center has said what it needs to get into the top three, which is 500 additional faculty and new space for them. CLA could say that it needs 200 additional faculty but it has no place to put them. Ambitions may be outranking the ability of the University to achieve them.

Professor Konstan said it would help to identify what the top-five institutions do, whether they have continuing stress. If they have financial stability, the University is in a losing game.

Professor Martin adjourned the meeting at 3:40.

-- Gary Engstrand

University of Minnesota