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## Finance minutes 10/12/2011

Finance Committee

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## UMM Finance Committee Minutes-10/12/11

Members Present: Roland Guyotte (Chair), Pieranna Garavaso, Manjari Govada, Sara Haugen, Michael Korth, Reed Olmscheid, Lowell Rasmussen (via phone), Gwen Rudney, Andrew Sharpe, Laura Thielke, Timna Wyckoff, Mary Zosel

Members Absent: Janet Ericksen

Guests: Bart Finzel, Colleen Miller, Jean Valnes, Sheila Windingstad (Note taker)

Meeting was called to order by Committee Chair, Roland Guyotte. Introductions were made. Roland asked for comments on 10/4/11 minutes. Mary Zosel made a motion to endorse last week's minutes and Laura Thielke seconded. A vote to approve the minutes from 10/4/11 was unanimous.

1. Roland attended the Planning Committee meeting last week as a guest. The Planning Committee looked at potential building projects on the Capital Project list and ranked them in order of importance. Their recommendation is the Briggs Library/Student Center first and the Mall Buildings were ranked second.
2. Lowell described the information needed for the October 17, 2011 Capital Project submission due date to central offices at the University. The form requires a description of the capital project, justification, operating impact, timing, and identification of the funding source.
3. Discussion of the form (e-mailed out to Finance Committee members last week) included identifying space, needs, why it is put in a bonding request, the University's requirement to evaluate the bonding request across the system. The potential use of State bonds, with 1/3 of bond debt servicing being covered by the University, was discussed. We need to figure out how we'll cover the 1/3 bond debt servicing costs if we move ahead with the projects.
4. Pieranna asked where the funds to cover the 1/3 debt will come from? Is this the time to ask that? Lowell responded that it isn't a "cash up front" proposal, it's a bond issuance so that the 1/3 repayment will be made over a 20-year time period. A schedule of UMM's current bond debt obligations were handed out. As an example, UMM's debt servicing costs for FY12 are expected to be \$1,027,057. Capital projects planned for FY14 could take 2-3 years after project begins before we actually start repaying the related debt and some older debt obligations may have expired. Planning, drawings, construction, etc. take some time. The University will not authorize construction until they know we have money. By the time we have specs, drawings, etc. approved, some debt will have rolled off. Therefore, some debt can be replaced.
5. Timna asked if the debt that would be incurred as a result of the capital projects being discussed would be close to the payment for Science/Math & Student Center debt. Colleen handed out an amortization schedule for \$21,000,000 at 4.5% amortized over 20 years with 1/3 of the debt being the responsibility of the University. Lowell advised that the cost projections included in the FCNI (Facilities Condition Net Investment) schedule is a rough estimate. This is probably the worst case scenario (i.e., the \$21 million for the Library project is calculated using a rough cost of \$200 per sq ft.).

6. Financing the cost of capital projects is just one of the expenditures that UMM is facing. This is the first of many issues the Finance Committee will be looking at. Chancellor Johnson is also looking at the salary recommendations made last year and how to finance them as well.
7. Roland questioned if any of the proposed capital project expenditures are qualified for HEAPR (Higher Education Asset Preservation and Replacement) funding? Lowell responded that HEAPR funds are typically conditions or code updates such as fire alarms, elevators, sprinkler systems; but not for an entire construction project. We have to be compliant in how we use HEAPR funds and we want to be prudent as well (e.g., if HEAPR funds were used to install a sprinkler system in a building and then later major construction occurred in the same area of the building, it would not be a wise use of funds).
8. Bart asked what happens if we can't find funding for the projects included in the FY14 bonding bill request? Lowell responded that it's logical it would drop off the capital project list. Mary asked if there is a disadvantage to dropping off the list. Lowell responded that it is hard to get back on the list. Michael asked if the source of funds for debt service should be identified early. Lowell responded that we should first look at whether the estimated cost of the project is a realistic number or not.
9. Lowell commented that the numbers currently being proposed for the two projects are high (worst case scenario). Building costs for Imholte & the Welcome Center came in under construction cost estimates, so he's inclined to believe that the numbers should be adjusted and suggested limiting the Briggs Library/Student Center project to \$15 million. That would result in an annual debt service cost of approximately \$384,000. Limit the Mall Buildings project \$12 million, which would result in an annual debt service cost of \$300,000. There was discussion that the cost of debt expiring was still considerably lower than the debt service cost of the two proposed projects. Lowell reminded the Finance Committee that the annual repayment of \$700,000 for UMM's Approved Sequestered Deficit will end in FY16.
10. Michael inquired if we are asking for pre-design money or all of the money at this time? Lowell responded that we would need to ask for pre-design funds by January 2012 (approximately \$60,000 to \$80,000). That will allow us to get more accurate cost estimates for the project. Roland reminded the committee that the University will not be presenting UMM's requests to the State legislature for another year. Lowell reminded the group that this is the first of many funding decisions and we will be looking for a "slot" on the FY14 bonding request. It may not be until spring, or maybe not even until fall 2012 before we will need to give them a more accurate project cost. There are no guarantees the project will be approved, but is necessary to get on legislative docket.
11. Lowell's recommendation is to put a cap limit on both of the biennial project requests with a debt payment that might actually work (i.e., cap of \$15 million for Briggs Library/Student Center and \$12 million cap for the Mall Buildings). We could manage the bond payments with those numbers. The Mall Buildings project is 2 years behind the Briggs Library/Student Center project so we don't need to ask the legislature for it at this time, but we do need to get it on the University's list for FY16.
12. Andy asked if it is advantageous to do the pre-design work on both projects at the same time. Lowell responded that you would probably get a better deal, but there is a risk that two-year old plans may not reflect current building codes and other changes, so it is not practical to do both up front.

13. Timna asked if the Planning Committee minutes from last week are available. Roland will have someone obtain copies and distribute to Finance members when they are available.
14. Timna asked about requesting funds for the Green Prairie Learning and Living Center (GPLLC). Lowell responded that they are subject to a different source of funding. The revenue generated from renting units in GPLLC will provide a cash flow for the repayment of debt.
15. There are three types of capital project funding available to the University: State Bonds (1/3 debt), University issued bonds (e.g., GPLLC) and HEAPR (only certain items allowed). The University has been asking for more HEAPR funding each biennium. We typically receive \$1.2 to \$1.3 million.
16. Gwen asked if there are guidelines as to how much debt UMM should carry. Lowell responded that Fitz ultimately approves. Michael added that the University as a whole is rated based on its liquidity and that this is part of what determines our debt rating. Colleen added that University-wide debt information is included in the University's Annual Report which is available online.
17. Roland asked if there were any further questions for Lowell. We should discuss and have a motion regarding the proposed Capital Projects. Andy asked if we are trying to provide Lowell with a recommendation for this coming Tuesday. Are there consequences of spending money for pre-design work and then not moving ahead with the project? Lowell responded that we would be out the money. Timna asked for clarification if we are spending our own UMM money? Roland asked Bart Finzel to say a few words regarding the Briggs Library/Student Center as a worthy project? Bart expressed concern that if we don't move ahead, we'll be technologically obsolete by the time we get six to eight years out.
18. Andy Sharpe made a motion & Laura Thielke seconded to propose supporting a \$15 million Briggs Library/Student Center project and a \$12 million Mall Buildings project.
19. Michael Korth suggested an amendment to the motion to endorse putting both projects on the capital project request list in years proposed (FY14 & FY16) and initiating a pre-design for the library, but reserve recommendation with moving ahead with either project until we know more accurate estimated costs and identifying where the money is coming from in the UMM budget to support the debt.
20. Timna-Do we want to specify dollar amounts? Is it just as well to leave money out of the motion? Lowell responded that the dollar amounts are required by central to determine the scope of the project and Fitz will ask for them.
21. Gwen suggested that we add to Michael's motion the dollar amounts previously mentioned.
22. Michael Korth restated the motion, and Timna Wyckoff seconded, to endorse putting both on a request list in years proposed (FY14 & FY16) and initiating the pre-design for Briggs Library/Student Center, but reserve until we know where the money is coming from in the UMM budget. Targeted costs not to exceed \$15 million for the Library renovation and \$12 million for the Mall Buildings. Motion was voted on and approved.
23. Michael suggested that at the next meeting we talk about FY11 results through Period 913. Lowell is gone on 10/26/11, but Colleen can present the information.

Action for Sheila: Mary Huebner-please send Planning Committee minutes to Finance Committee

Meeting Adjourned. Next Finance meeting is Tuesday, 11/1/11 in Welcome Center @ 1:00 p.m.