Minutes[*]

Senate Committee on Finance and Planning
Thursday, July 14, 2011
9:30 – 11:30
510 Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Sarah Chambers, Will Durfee, Lincoln Kallsen, Kara Kersteter, Judith Martin, Fred Morrison, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Michael Rollefson, Karen Seashore, Mandy Stahre

Absent: None counted for a summer meeting

Guests: Gary Cohen, Lyndel King (outgoing Committee members); Peter Radcliffe, (Office of Planning and Analysis), John Kellogg and Daniel Jones-White (Office of Institutional Research)

[In these minutes: (1) report of the chair; (2) budget data and decisions; (3) capital plan timeline; (4) comparative institutional financial data; (5) student fees]

1. Report of the Chair

Professor Luepker convened the meeting at 9:35 and reported that he will be presenting the draft paper on the review of vice-presidential units to the Faculty Consultative Committee later in the day. He will seek comments on how to move forward. The Committee also needs to take a look at the Academic Health Center as part of its review; the report of the AHC Executive Steering Committee has been delayed, so the Committee will take up the AHC when that report is issued. The Committee will also review two additional vice-provostal units.

He has received a message from Professor Scheman, President of the AAUP Twin Cities chapter, that there will be a review of the University's budget by a representative from the national AAUP office; Committee members will be invited to the presentation. (The AAUP has done such reviews of a number of university budgets.)

A little later in the meeting, Professor Luepker welcomed Mr. Mikl, a new graduate-student member, to the Committee.

2. Budget Data and Decisions

Professor Luepker turned to Vice President Pfutzenreuter to discuss how decisions were made for the 2011-12 budget. Vice President Pfutzenreuter said that he did not have the actual numbers yet because while Provost Sullivan shared general numbers with the Faculty Consultative Committee, President Kaler has not seen the proposed budgets yet, so the numbers cannot be provided to the Committee yet. He did, however, have an example of the decision process to help people understand what occurs.

[*] 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.

Mr. Pfutzenreuter provided data for the proposed 2011-12 budget for the College of Erewhon. The "Budget 5" group (under President Bruininks, later expanded to 6) consisted of Provost Sullivan, Vice Presidents Friedman, Mulcahy, Jones, and Pfutzenreuter, and Ms. Tonneson from the Office of Budget and Finance; this group has formulated the final recommendations to the President. Last year each unit (colleges and support units) was given a target of a 5% reduction; each provided information about the impact of the cut, where it would be made, and so on. For the collegiate units, the reduction in state funds became the framework for decisions, which were then revisited as the process went on. The focus, for the colleges, is on the net result, not just the change in the allocation of state funds.

In the example Vice President Pfutzenreuter provided, the college saw a decrease of $9.9 million in state funds, an increase in tuition revenue of $5.2 million (both rate and enrollment increases), uncommitted tuition revenue from 2010-11 of $6 million, increased fee revenue of $1 million, and increased indirect-cost income of $700,000. The net change in resources for the college was an increase of $2.9 million. There were increased costs for the college as well (new faculty, cost pool increases, fringe benefit increases, etc., totaling $3.7 million. The effective realized cut for the college was about $785,000, or -0.48%. Mr. Pfutzenreuter noted that the projected $70 million reduction in state funds has to come out of budgets somewhere, and most of it comes from the colleges.

Professor Cohen asked what percentage of tuition income goes to the colleges. All of it is attributed to the college, Mr. Pfutzenreuter explained. In the case of the College of Erewhon, they brought forward tuition revenues from last year (a number of units made conservative estimates of tuition revenue, so sometimes had more than projected, which they can now use this year). The college also had an approved increase in the college fee. The colleges can use the tuition surplus going forward, but it is always at risk because it could drop in the future (which is the reason colleges have reserves).

They went through this process of reviewing revenues and expenses for each of the academic and support units, Mr. Pfutzenreuter said. The average cut, by the method described above, to academic units was about 1.8% while the average cut to support units was about 5%.

Committee members discussed administrative costs with Mr. Pfutzenreuter. He said that he is discussing administrative costs with President Kaler, and will make the point that they have to be defined in order to be counted. Professor Seashore said that the faculty members in her college have good technical support—without which they could not teach—and she would not want to see that support simply classified as "administration." Professor Roe suggested that college administrative costs may be more opaque than central administrative costs. He asked what a central unit would do if it does not have the resources to cover a 5% cut—would it take out loans or would the administration take another look at what it does? They look at the units over and over, Mr. Pfutzenreuter said, and keep an eye on the bottom lines.

Professor Luepker asked whether it is implicit in this approach that the colleges that can generate more revenue will receive the larger cuts in state funds. Does this approach punish initiative? The academic leadership weighs the priorities and the impacts of cuts, Mr. Pfutzenreuter said. Is the decision based on priorities or because the dean said he or she could generate more money, Professor Luepker asked? It is those factors plus relative priorities, Mr. Pfutzenreuter responded; the academic leaders have a sense of the unit's needs.

This process is about reallocation across colleges on an annual basis, Professor Roe said. There should be a longer-term plan, with targets, so that there is reallocation gradually over time. Mr. Pfutzenreuter agreed with Professor Roe and said there should be an institutional framework behind a long-term plan, but the most fungible dollars are state funds and tuition revenue, so any cuts usually must come from them.

Professor Seashore commented that when she came to the University, there were long-term plans to reduce the size of her college. There were never plans to increase it, but there has been growth, both because of programs moving into the college when some colleges were dissolved and because of an increased number of students and programs. Was that the plan? Mr. Pfutzenreuter said that when the Provost reviews all the information for a single budget year, he has a sense of the unit's strategic plan, which affects decisions, but at the end of the day they have to build a budget. Professor Seashore said her question is whether strategic planning is driving budget decisions. It is, Mr. Pfutzenreuter said, but the University must also balance its budget. The new President and the Board of Regents have identified as a high priority a long-term plan and discussing the assumptions that should be built into it. State dollars remain extremely important, but there are activities/units on state funds that the University may have to decide will no longer receive that funding in the next five or six years.

Such as the Carlson School and the Law School, Professor Martin inquired? "Yes," Mr. Pfutzenreuter said, and it is being done incrementally. There could be a plan to move other units off state funds as well, although he said he did not know if the University would actually do that.

Professor Luepker said that what is implicit is that because the most flexible funds are now tuition dollars, a dean will want more of them, so will want to enroll more students at higher tuition (absent a big donor). Mr. Pfutzenreuter agreed.

One way to cap budgets is to impose enrollment caps, Professor Seashore observed. The only other source of new revenue would be sales or indirect-cost funds. But enrollment caps may not be as thoughtful an approach as what her college went through in the past, a planned change in the size of the college that led to smaller classes and an increase in the quality of the experience of the students.

These issues await direction from President Kaler, Vice President Pfutzenreuter observed.

Professor Durfee inquired if the only control exercised by the "Budget 5" is over the allocation of the state funds. All revenues are on the table, Mr. Pfutzenreuter said. But the Budget 5 can only adjust the level of state funding, Professor Durfee said. The Board of Regents approves the tuition rates, Mr. Pfutzenreuter pointed out. But the one handle the Budget 5 can tweak is state funding, Professor Durfee concluded. Or it can cap enrollment, Professor Seashore added.

Professor Luepker thanked Mr. Pfutzenreuter for the discussion and then asked him to discuss other matters.

Vice Presidents O'Brien and Pfutzenreuter described the shut-down planning that has been taking place, with a team that has met every two weeks. Professor Cohen asked what would happen to University investments (e.g., in the bond markets, and so on) if the federal government defaulted. Mr. Pfutzenreuter said he could not imagine what would happen if the federal government debt limit is not raised; he noted that Mr. Bernanke has said that every asset in the country will re-price. It would be an unmitigated disaster, he concluded.

3. Capital Plan Timeline

Mr. Pfutzenreuter next reviewed the timeline for the six-year capital plan. It started in April of this year and will run through March, 2012, which is when the Board of Regents would be expected to take final action on it. The consultation on the plan will take place in December 2011 and January 2012. Right now the plan is on a "soft pause," but now that President Kaler has taken office, the process will get in gear again. It is expected that the six-year capital plan will be grounded in the long-term financial plan and the University's debt-capacity plan.

The University has submitted a preliminary 2012 capital request, which is a carryover of projects already at the capitol plus three new projects, Mr. Pfutzenreuter said. The three new projects, Vice President O'Brien told the Committee, are ones the Committee has heard about in the past: The ambulatory-care clinic, the boiler project, and the renovation of Eddy Hall (which, in concert with work on Donhowe Hall, will allow both Williamson Hall and Fraser Hall to be taken off line and provide about $1 million per year of savings in operating costs). Professor Morrison suggested demolishing the annexes on Fraser Hall; Vice President O'Brien said it is the plan to do so and to preserve the façade.

Professor Durfee inquired if there would be any consultation with faculty groups before December-January. These projects come out of the compact process, Vice President O'Brien said, and to the extent there is consultation within the colleges on the compacts, that is where earlier consultation would have taken place. The consultation in December and January will be about how the pieces fit together. They expect, however, to report regularly to this Committee as they go through the process this summer and fall.

Professor Luepker thanked Vice Presidents O'Brien and Pfutzenreuter for the reports.

4. Comparative Institutional Financial Data

Professor Luepker next welcomed Dr. Radcliffe to the meeting to discuss comparative institutional financial data.

Dr. Radcliffe recalled that the Committee had recently discussed the data from the Delta Project, which purported to compare the subsidy for education and related expenses per student for flagship public research universities, and had inquired about other ways to compare costs with peer institutions, given that the Delta Project data were flawed in many ways. He said that his office has been trying to find ways to identify the impact of the presence/absence of different programs across institutions. One can have two institutions with the same programs, but differential costs per program and different enrollments, and have quite different average institutional costs.

Dr. Radcliffe gave as hypothetical examples two institutions with programs in Metaphysics (cost per student of $1000) and Alchemy (cost per student of $2000). One institution, with 75 students in Metaphysics and 25 students in Alchemy, will have an average cost-per-student of $1250. The other, with 50 students in each program, will have an average cost-per-student of $1500. There is a 20% difference. These kinds of differences are relevant when comparing institutions.

Using the Delta Project data, Dr. Radcliffe provided a table indicating the percentage of undergraduate, graduate, and first-professional students at the University (Twin Cities) and some of its peer institutions (Berkeley, UCLA, Michigan, Wisconsin-Madison, etc.). There are significant variations between the institutions in the percentage of students in the three categories. He also provided data on the cost per degree (all degrees, all levels) at those same institutions (also using Delta Project data), and the numbers vary widely, from a low of $51,500 at Nebraska-Lincoln and $51,595 at the University of Florida to a high of $132,657 at UCLA and $103,585 at Michigan. Minnesota is at $88,766. (Among the schools with the highest cost per degree, not in the University's peer group, are the University of Alaska-Fairbanks and the University of Nevada-Reno, primarily because they have low graduation rates.) These are the publicly-available data that the Delta Project works with, Dr. Radcliffe concluded, and they are not especially informative. They are "looser" than they should be—and those who run with them use them even more loosely.

Dr. Radcliffe reviewed briefly two equations his office developed to compare data for public research universities. Basically, education at the doctoral level increases the price, which is no surprise, but it is important because the University of Minnesota offers a great deal of doctoral education. What they get from the equations are predicted values for the University and its peers; the model is a closer approximation to the data for some institutions than for others. It predicts the University of Minnesota would be slightly cheaper than it is, but that difference can be accounted for because of the programs that students are enrolled in at Minnesota.

So someone could argue that the University should get rid of certain programs that are expensive, Professor Roe observed. And, as the only public research university in the state, the University does things for the state that are expensive, Dr. Radcliffe added. Moreover, Professor Cohen pointed out, there is no private research university in the state.

Dr. Radcliffe then noted two scattergrams with 191 points (public and private research institutions) in the data set. One plotted graduate students as a proportion of total headcount enrollment (X axis) and education and related spending per FTE student (Y axis); the other plotted percentage of employees in administration (X axis) and education and related spending per FTE student (Y axis). These two scattergrams suggest, as shown by the equations, that higher proportions of graduate education are associated with higher costs, but that higher percentages of employees classified as administrative are not related to higher costs.

In the case of the relationship between the proportion of employees in an administrative category and education and related spending per FTE student, Dr. Radcliffe said, where the University appears to be somewhat above average, this is an instance where the University's meticulousness about its employee-category data comes back to haunt it. He said he suspects the University has defined categories more precisely than many of its peers, which leads to more employees identified as executive, administrative, and managerial, and fewer in the more miscellaneous "other professional" category. A quick illustration is that the percentage of employees Minnesota reports in "executive, administrative, and managerial" is the highest in our peer group, while the percentage of employees we report in "other professional" is the lowest in our peer group. If one adds the two together, Minnesota is almost dead center among its peers. Given that the University moved a large number of employees from "other professional" to "executive, administrative, and managerial" a few years ago when IPEDS [the federal Integrated Postsecondary Education Data System] updated their rules, while most of Minnesota's peers do not appear to have changed much at that time, it seems likely Minnesota is "overly compliant" on the rules—to its detriment when those unfamiliar with the data look at them.

The upshot of the scattergram, however, is that there is no discernible relationship between the number of administrative employees and the cost per student (because the dots on the scattergram are all over the place). So, it was said, one can argue that administrators don't matter—or one can argue that there should be more of them! Professor Seashore commented that this scattergram makes it clear that these are garbage data; the results are counterintuitive, given what is known about other organizations. There are no economies or diseconomies of scale, Professor Roe agreed—there are things one must do to run a research university (e.g., dealing with federal regulations). The University is slightly above the line but the difference is not large. Dr. Radcliffe agreed.

Professor Luepker inquired if there are P&A staff members who teach. Both Professors Martin and Seashore assured him there are many such individuals. Dr. Radcliffe said that about 60% of the P&A staff are in the "academic professional" category, not "academic administrative," so they are carrying out activities related to teaching, research, and service.

Professor Luepker said that the original discussion was about understanding the approach used in making the comparisons. Reporters are only going to ask why Minnesota costs more and will not look at these graphs and tables. Vice President Pfutzenreuter and others believe the Delta Project makes unwarranted assumptions. To get valid comparisons, one would need to analyze the accounting data for each institution, which is not feasible to do, Professor Roe commented. Dr. Radcliffe agreed; institutions have different structures, accounting rules, and state laws, so comparing institutions one-to-one is very problematic. The simplest explanation for the differences between institutions is that some have much more education in more expensive fields.

The question is whether the education is worth the cost, Ms. Stahre said. The cost needs to be linked to starting salaries, job placement, and so on, Professor Roe said.

Professor Luepker noted that the Committee wanted to say something to the Faculty Consultative Committee and the administration about responding in a timely fashion to reports such as the one on the Delta Project data; where does the Committee stand on that question? Professor Roe, who chaired a small ad hoc subcommittee that worked with Dr. Radcliffe to produce the data for this meeting, said that Dr. Radcliffe had just completed preparing the data and they need to prepare a short subcommittee report.

Mr. Jones-White of the Office of Institutional Research said that part of the question is the model. They can develop more complicated models with more factors (e.g., 130) that fully explain the values. In that model, the University costs exactly what one would expect, given the sample of institutions used to develop the model. Dr. Radcliffe said that they could expand the pool of institutions—they used only the high-research institutions for the data presented today—and said that even the equations they developed are not great. There is a lot of "noise" in the data and would like to see if they can develop a model that better predicts values. They do have a model that predicts University expenditures per degree to the penny—but they are not sure that it is mathematically sound.

Professor Seashore asked if other institutions are doing these same kinds of analyses. Not many, Dr. Radcliffe said. Those in the field of institutional research and analysis have not grappled effectively with the problem of comparative cost data. This is an issue relevant to the University's peer institutions as well, Professor Seashore responded, and Minnesota is surely not the only place where the questions are being asked. It would be better if peer institutions were interested and did not have to rely on Delta Project data.

Finally, Dr. Radcliffe provided data from the Minnesota Council of Nonprofits. On average, about 12% of the costs of non-profit organizations in Minnesota are administrative. The University is at 12.9%, based on the academic administrative portion of the P&A category. That datum suggests the University is not out of line for non-profits.

Professor Luepker thanked Dr. Radcliffe for his presentation and said the Committee would look forward to the report from Professor Roe's subcommittee.

5. Student Fees

Mr. Kallsen brought to the Committee three items related to fees. One, a revision to the Regents' policy that deals with administrative, course, and academic fees. (The Committee reviewed this revision at an earlier meeting.) Two, a chart explaining the three categories of fees and summary of changes for FY12. Three, a three-page table of campus/college and durable-goods fees per semester for 2011-12. In the case of the three fee categories, 67% of course fees are not changing and 3% are decreasing, 71% of administrative/misc fees are not changing (application, orientation, transcript, etc.), and there are academic fee increases in four colleges and various changes in other collegiate/campus fees. Mr. Kallsen reported that several colleges requested larger fee increases than were approved. The University Fee has been eliminated and colleges are limited to a single collegiate fee which may only be assessed to students enrolled within that college. There has been some reform in fees, Mr. Kallsen concluded, but there is more to do, and they would like the views of the Committee, especially with respect to course fees.

Professor Luepker inquired if fees are increasing or decreasing as a percentage of college revenues. He noted Fitz's example of the College of Erewhon, which saw a $1-million increase in fee income. Even if it is a large college, with 10,000 students, that is $100 per student. Mr. Kallsen said that fees, like tuition, are increasingly replacing declining state support in the colleges.

They are also increasingly a substitute for differential tuition, which the University eliminated, Professor Seashore observed. One question that needs to be addressed is why colleges that have similar offerings (e.g., largely classroom instruction) have very different college fees.

Professor Morrison said that college fees are an unintended consequence of the University's budget model. College fees have become the way to increase the revenue of academic units. There are technology fees in some colleges and not others. Are fees general academic revenue? If so, they should be in tuition, he said. That leads to a problem: If some units are more expensive to operate than others, how do they obtain revenue when state support is decreasing? As that source diminishes, how do the colleges replace it? By inventing a fee. These fees need to be monitored and discouraged.

The question is whether the fees are related to cost, Professor Roe said. If they are, that accounts for uniform tuition and differential fees to deal with costs in the units. Do the fees reflect costs incurred? Mr. Kallsen said one small example is the College of Design, which must provide 3-D printers in its shops, and that expense is nowhere reflected in uniform tuition rates.

Ms. Stahre said that most fees on graduate-student bills must be paid out of pocket since stipends do not cover them. As fees are increased, they have to pay more out of pocket back to the University. Students are almost never told about an increase in collegiate fees—they just see the increase on their bills. Nor do students ever have a say in how these fees are used or even know where the money is going. There are serious communication issues between the college deans and students regarding budgets. Ms. Kersteter said that units can choose to pick up fees, but some do not.

Professor Durfee asked what the chain of events is for fee approval if a dean wants a fee. Mr. Kallsen explained that college fees come through the compact process, to the Budget 5, which makes recommendations to the President and the Board of Regents. In the case of course fees, there is an approval system; they must be approved by the dean's office and are reviewed by the central budget officers for reasonableness. If they appear unreasonable, they are referred to the Budget 5. The problem is that there are thousands of course fees, and different types of fees cover different things; some of them are within the spirit of the Regents' policy and some of them may not be. Professor Durfee said he disagreed with Ms. Stahre and suggested there needs to be a more strategic plan for fees.

Professor Cohen agreed that a bigger-picture approach is needed. If fees can be justified under the provisions of the Regents' policy, how does the institution deal with the impact on students? There needs to be a differentiation between graduate and undergraduate students and account taken of financial aid for the two groups. Assistantships for graduate students are not just for work—they are also financial aid. The question of whether the financial aid package for graduate students includes fees needs to be addressed.

Professor Martin recalled that Vice President Pfutzenreuter has argued for a number of years that fees and tuition should be in one place so there is no question what they cover. Tuition would be differential, Professor Roe commented. There is a policy discussion on that subject, Professor Martin said, because the University is creeping in that direction. Mr. Kallsen pointed out that 4,500 out of 18,000 graduate students have assistantships. Professor Luepker noted that there is now a co-pay with the Regents Scholarships; are employees also expected to pay fees? Ms. Kersteter said they are expected to pay fees out of pocket.

To sum up, Professor Luepker said, the finance office is trying to hold the lid on fees. Nonetheless, there seems to be no system and they must deal with the fees on a one-by-one basis and there are negotiations between a dean and provost. The Committee has heard that fees are alternative revenue sources, and are heading up, and they are a non-trivial part of collegiate income. He asked if the Committee should think about having a retreat with the goal of helping develop a system so the process is not so ad hoc and a response to cuts. Professor Martin suggested that Mr. Kallsen's office should develop data on course fees before the Committee has a discussion. Mr. Kallsen said that the college-fee discussion is ultimately an academic discussion with the provost and the academic officers. There will be a new provost who will have a lot to learn, and they have a lot of work to do on fees. He suggested the Committee take up fees and differential tuition once the transition to the new provost is completed.

Professor Luepker agreed it is a significant transition but observed that a time of transition can be a time to provide guidelines. This is not a system, it appears like thousands of little decisions. Can the Committee give advice to incoming people?

Professor Roe said there needs to be categories of fees that are linked to costs. That would remove the arbitrariness of fees. Some of the categories could be tied to differential costs. There are categories, such as campus/college fees, Mr. Kallsen said, although one can disagree with them. There definitely should be categories of course fees, he agreed, which would be easier to tie to costs than policy language can accomplish.

What the Committee can do is the let the new provost know that this is on the agenda and that the Committee is deeply concerned about fees. Professor Luepker agreed and said the Committee should proceed to develop suggestions to provide to the new provost when he/she arrives.

Professor Luepker adjourned the meeting at 11:30.

-- Gary Engstrand

University of Minnesota