Minutes*

Senate Committee on Finance and Planning
Tuesday, August 16, 2011
1:00 – 3:00
238A Morrill Hall

Present: Russell Luepker (chair), Sarah Chambers, Will Durfee, Lincoln Kallsen, Kara Kersteter, Judith Martin, Fred Morrison, Kathleen O'Brien, Richard Pfutzenreuter, Michael Rollefson

Absent: None counted for a summer meeting

Guests: Lyndel King, Paul Olin (outgoing Committee members)

[In these minutes: (1) budget update; (2) draft report; (3) agenda items for the year]

1. Budget Update

Professor Luepker convened the meeting at 1:10 and turned to Vice President Pfutzenreuter for a budget update.

Mr. Pfutzenreuter recalled that when the administration went to the Board of Regents with a provisional budget for FY12, they assumed the worst case outcome in state funding ($520 million per year, down from $591 million in FY11). The outcome of the special session was an increase in the appropriation to the University, to $545 million per year, or $25 million more than the worst-case projection used for the provisional budget. The allocation decisions presented earlier to the Regents did not include the additional $25 million, so the allocations to academic units could improve. The Regents have reserved the right to review and approve any changes in allocations greater than 1%; this change is about 4%, so the Board must approve decision about how the $25 million will be allocated. The President and senior leaders are now reviewing how to approach the $25 million.

It is important to understand that if the University commits all of the $25 million to recurring expenses in the first year of the biennium, there will be nothing available the second year (FY13). So the administration, Mr. Pfutzenreuter related, is considering how to balance the expenditures over two years. But there are significant problems to be dealt with in FY12, and the senior officers will provide advice to President Kaler on how they might be addressed. There are some units in the Academic Health Center that have seen a 100% cut in funding (Medical Education and Research Costs, or MERC) that were direct appropriations to the University through the Department of Health and Human Services, not through higher education. Dentistry saw $2 million in funding eliminated; the Academic Health Center saw an additional $1.8 million eliminated, $500,000 of which went to Dentistry. Residency programs in hospitals were sharply cut (or reduced to zero). The University will likely use some of the $25 million to address these reductions, but will probably not allocate all of the $25 million in FY12.

There are risks on the horizon, Mr. Pfutzenreuter cautioned, so there is reason for the University to be careful. There could be a double-dip recession; state revenues are not holding up; and there are federal cuts that the University needs to assess because some units will be stressed by federal reductions.

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So the University will try to fix some of the problems the legislature created, but there are also pressures to use some of the money to reduce tuition increases. The University cannot change the fall-semester rates because financial aid packages have already been set, but there could be one-time reductions in the spring. Moreover, if the University is able to reserve some of the $25 million, it may not be necessary to increase tuition (for resident undergraduates) as much as has been projected (5% for each year of the biennium). But with the uncertainties, the institution will be careful.

One question that must be addressed is the budget framework for FY13, Mr. Pfutzenreuter said (for example, will there be salary increases?).

Professor Durfee noted that President Bruininks made public statements to the effect that if the cut to the University were less than the worst case, some of the additional funds would be allocated for tuition remediation and some for other things. Mr. Pfutzenreuter said that President Bruininks had advocated using one-third of any increase for tuition and financial aid, one-third to address FY12 problems, and one-third to address issues in FY13. The net result will probably be close to those proportions, although there may be less than one-third for FY12 because they may want to save money for FY13.

At the start of every fiscal year the University believes it has its budget set, Professor Luepker observed, and does not plan for givebacks—but they have been occurring. That is another reason not to spend all of the $25 million, Mr. Pfutzenreuter said. The legislature used a lot of one-time money to reach a budget agreement, and there is not much of that kind of money left, so if state revenues decline, there will have to be cuts. It is important to make the point that this is not a $25-million windfall, Professor Durfee said; it represents cutting the University a lot--rather than cutting it really a lot.

Professor Luepker asked Mr. Pfutzenreuter what he sees about salary increases. President Bruininks persisted in trying to obtain them, but the University has nonetheless seen freezes and pay cuts. Salaries are the University's single biggest expense, Mr. Pfutzenreuter observed, and they will revise the budget framework for FY13 to model a 2% salary increase for those on O&M funds (which is about half of the University's employees). Such an increase would cost $30-40 million. Given the last three years, he said he did not know if the University could take another year with no compensation increases—its competitors are not freezing salaries. Even at the state, there are step increases, so it is not a "hard" freeze on salaries.

Are they looking at layoffs, Professor Luepker inquired? Or will the University downsize through attrition? Mr. Pfutzenreuter said they were not hearing about any widespread layoffs of any size. Academic units appear to be handling cuts through the early-retirement program and attrition. Vice President O'Brien reported that in University Services, which saw a 5% budget cut, there will be fewer employees but the vast majority of the reduction will occur through attrition and voluntary layoffs. There will, for example, be about 50 fewer custodians.

Mr. Pfutzenreuter pointed out that even if all of the $25 million were available the second year of the biennium, costs will still increase (e.g., debt, leases, etc.). They are currently inventorying expected cost increases to determine which are fixed and which are discretionary.

Professor Luepker asked Professor Morrison (connected by telephone) if he had any questions. Professor Morrison said he had no issues with the immediate future; his concerns, he said, are about problems that loom further out.

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

2. Draft Report

Committee members reviewed the draft report on the review of vice presidential units. Professor Luepker said he had presented the report to the Faculty Consultative Committee and received suggestions; he also said that the Committee would look at units in the Academic Health Center once the report of the Executive Steering Committee is released.

The Committee agreed that Professor Luepker should make any additional edits he believed appropriate, following this discussion, and send it to the Faculty Consultative Committee for discussion.

3. Agenda Items for the Year

Professor Luepker reported that he had talked with Vice Presidents Pfutzenreuter and O'Brien before the meeting about issues that they believe should come before the Committee during the upcoming year. Next year will be no different with respect to budget issues (compensation, tuition, fringe benefits, and so on). He said he thought about having a retreat so that the Committee can look at future budget issues and where things are going.

Professor Morrison said he has been amazed that since the federal debt-ceiling bill was passed, everyone seems to have relaxed. The bill provides for a super-committee to develop a way to meet the budget-reduction target, which Congress must pass by December. There is, he said, only a very low probability that that will happen. In the event that it does not, there is an automatic mechanism for making cuts that comes into play that imposes reductions on defense spending and discretionary domestic spending (some areas are protected, such as Social Security). It is possible that Christmas will arrive and this machinery will start moving—and no one will know how to stop it (Congress and the President must agree to do so). The University collects more money from the federal government (about $800 million) than it does from the state, almost all of which comes from discretionary non-defense domestic spending. The question is, how much will be cut? One may believe that his or her program is valuable, but there will be a lot of programs that will have aggressive defenders. If there is a 1% cut, or $8 million, the University can probably work around it. If there is a 10% cut, $80 million, it is not clear how the University would handle it.

In addition, the state receives a lot of federal funding and will lose a lot when the automatic cuts go into effect. Where will the state get the money to make up for that cut? It can't eliminate all the programs that federal funds support, so there will be an even bigger hole in the state budget going into the next biennium.

What is unknown is whether the cuts will be a trivial number or a big number. Professor Morrison said he is worried because everyone seems to be ignoring the issue and hoping that the super-committee will solve the problems.

Professor Luepker said it is important that this Committee raise these issues before any cuts hit because it will help the campus think about the options. The Committee can bring in people to help it think about these events (e.g., the State Economist, Professor Stinson, as well as faculty and administrators). Professor Morrison suggested the Committee also talk with Ms. Riggs, the University's Washington representative.

Another topic that will be coming will be the report from the Academic Health Center, Professor Luepker told the Committee. The Committee should look at it because the AHC is so large compared to most colleges; the report deserves more than an hour, so a retreat that includes the senior officials from the AHC may be appropriate.

Professor Martin said that given the universal challenges to higher education in all states except North Dakota, and the emerging discussion in *The Chronicle of Higher Education* suggesting that a number of research universities will not survive into the second half of the 21st Century, the Committee might ask if Minnesota will be one of the survivors.

Professor Durfee said there should be a continued discussion of student fees, which is related to the cost of education, and the allocation of costs between tuition and fees. This is also related to the question of differential tuition.

The Committee will also continue its review of administrative units with discussions with two of the units in the Provost's office, Undergraduate Education and Graduate Education, Professor Luepker said.

Mr. Rollefson commented that the fixed cost increases the University faces each year have grown significantly since his University employment began 25 years ago—they now increase automatically by about $50 million per year. He suggested the Committee look at the unavoidable increases in fixed costs (for example, by bringing new buildings online).

Ms. Kersteter suggested the Committee might look at compensation and what the University's competitors are doing. It was agreed that this would more appropriately be an issue for the Senate Committee on Faculty Affairs.

Professor Chambers suggested the Committee have a discussion about long-term financial planning, Professor Luepker thought that that is an issue that should be discussed with the President and said he would invite President Kaler to a meeting.

Professor Luepker adjourned the meeting at 2:20.

-- Gary Engstrand

University of Minnesota