MINUTES
SENATE FINANCE COMMITTEE

January 15, 1987
3:15 - 5:20
Regents Room, Morrill Hall

Members present: Carl Adams, William Boylan, Jim Clark, Andy Collins, David Hamilton, Wendell Johnson, Gerry Klement, Ron Kubik, Tom Scott, Phil Shively (Chair).

Guests: Vice President Roger Benjamin, Assistant Vice President David Berg, Mary Bilek, Acting Associate V.P. Ed Foster, Vice President David Lilly, Barbara Nelson, Director of Investments Roger Paschke, Daily reporter Mike Peltier.

1. The minutes of December 4 were approved.

2. Use of profits from University service enterprises.

Vice President David Lilly stated two budgeting assumptions: (1) the shortfall in University funding will be with us for the near future, and (2) we must make sure that all our economic activities serve to further the University's objectives. The service enterprises include the Bookstores, Printing and Graphic Arts, Laundry, Parking, Transportation, and others. The administration would like to funnel the year-end profits from all of these ($1 to 2 milliion per year) to the Provost, who would direct the funds to University priorities. Units could not aim for no profit, because that might result in a deficit. Vice President Lilly called the plan a form of retrenchment and reallocation. He sought the general concurrence of the Finance Committee that this was an appropriate move.

Professor Shively said that the Finance Committee would want to exempt the Bookstores from the plan at this time because the Assembly Steering Committee has just asked the University Bookstores Committee to consider policy changes which would encourage book-purchasing and book-retaining among students by such means as offering a rebate or discount on textbooks. He pointed out that Transportation and Parking also has an Assembly advisory committee on its operations.

Professor Scott raised the question of whether any given service ought to be subsidizing a different budget item. He remarked too that budgeting a reserve fund for each unit provides for meeting its future needs.

Dr. Foster said that managers must be given incentives to run their operations efficiently. But at the same time, Vice President Lilly sets quality

Professor Hamilton commented that the Health Sciences bookstore, at least, stocks only texts and a narrow range of trade books. He hoped for some diversity. Vice President Lilly said each bookstore has a different operating premise; he would look into the Health Sciences bookstore.

On Professor Shively's call for an SFC opinion, the Committee offered its general support for Vice President Lilly's Plan (but excluding the bookstores) to pool these several units' year-end profits and put them under the Provost's control to meet general expenses according to University priorities.

3. Commendations to Vice President Lilly.

Professor Scott voiced his appreciation to Mr. Lilly for providing heat in the Washington Avenue Bridge corridor. Professor Shively thanked Mr. Lilly for taking the initiative on extending the favorable faculty mortgage plan to tenure-track faculty and probationary academic professional staff (See item 6).

4. The Program Budget.

Vice President Benjamin said the "program budget" is a way to use the planning process in the coming years to change and improve the University, which incremental budgeting cannot accomplish. Anything we can do to move from annual budgeting cycles to longer term cycles and to link budgeting with academic planning is a good idea, he told SFC.

Academic Affairs has presented the design to the colleges in the planning documents, and invited them to try using it this year; Academic Affairs intends to have it generally used next year. Associate Vice President Foster distributed copies of the relevant pages including an illustrative table.

Dr. Foster commented that the planning process, from the departments on up to the president, has all worked fairly well; however, there has been no review at each level to see if people have done what their plan stated. A program budget is a device for categorizing expenditures in the same way as one's plan is organized, hence it monitors what we said we were going to do. Vice President Benjamin said once the agreements are reached on units' plans, Academic Affairs wants the ability to track expenditures so as to see how the academic plan moves forward.

Professor Hamilton praised the use of a long-term budgeting plan for the important flexibility it will allow. However, he added, the plan assumes predictability, which cannot be assured where research is concerned. You must be ready to move as needed when something new emerges as extremely important.

Professor Adams commented that long-range resource planning need not be linked to the programmatic structure. Most units that he has seen try it run into complications because they are contributing to several programs. He said there are good ways to look at issues that give you valuable insights, but he doubted we would want to manage or reorganize along the same lines we choose to look at things.

Professor Scott asked whether much flexibility could be achieved since personnel costs consume most of the budgets.

Dr. Foster gave a hypothetical example of a unit monitoring a change. A foreign language department decides to change its focus from grammar and speech to literature. The department must meet its commitments to its faculty. The department requires to faculty to keep track of how they spend their teaching time; the department can then keep track of the purposes for which its dollars are going.

In sum, the budgeting exercise enables the unit to keep track, once it's decided what it means to do, of how much it is doing it.

Mr. Clark asked what the Provost would do when he finds that a unit is not on its intended track. Dr. Benjamin said you reward good management and punish bad management through employing the range of incentives and sanctions available.

Other planning questions. Profsesor Shively asked how different definitions of "program" will be resolved at the University level. Dr. Foster said that question is being postponed.

Dr. Foster said there is additional information Academic Affairs will want from budget records; for example, expenditures on faculty development, both campus-wide and University-wide.

Professor Hamilton asked how the administration is dealing with the issue of having two colleges with very similar missions, i.e., Biological Sciences and the Medical School. Dr. Foster said the Provost's Task Force is asked to look at common fields in the University across colleges. It will look at biological sciences in every college to see (1) whether priorities are consistent, (2) if anything falls between the cracks, and (3) if there are frictions that need to be resolved at a central level. The same, he said, is true of all cases of similar programs in different colleges.

Professor Boylan thought that for the program budgeting concept to be effective, faculty would have to be kept well informed as to how priorities are going to shift and how funds are actually being spent, so they will adapt as needed.

5. Permanent University Fund (PUF)-Endowed Chairs.

Dr. Benjamin distributed copies of a one-page summary on PUF commitment by college and campus.

Dr. Benjamin reported to SFC that in November he had asked his assistant, Mary Bilek, to review the chairs so as to see how much of the PUF was committed and whether the matches were shaping the University in the optimum way. He found generally a positive set of developments.

For each instance where a college has received permission to seek to raise matching funds for a specified chair, the administration assigned a category from one to five. One means the matching money is already in the department's hands, and two means it is nearly all there. Ratings of three and four mean the fund -raising is less far along; five means achieving a match is improbable. $65 million of PUF is committed to one's and two's and has already been given out. The administration intends to stick to its initial authorization of at least one chair for every college and each coordinate campus. Counting these brings the total to at least $76.82 million. The $49 million of Permanent University Fund which the University asked the legislature to release to it has grown in a few years, as invested by Vice President Lilly, to $80 million.

There are certain further needs which must be met within the Campaign. Vice President Benjamin will see to it that the following chairs are added: 6 in the Humanities, 6 in the College of Biological Sciences (including an interdisciplinary chair listed under the Graduate School), 2 in Education, and 2 in particular parts of IT. To realize the objectives of the Minnesota Campaign, the vice president said, we must realize our own highest priorities. We must ask our deans to make sure the proposed chairs are consistent with the highest priorities. And we must manage the fund to achieve a total of $90 million or more. All the promised and committed chairs will require that sum. Because the administration has authorized units to seek matching funds totalling $100 million, and the total value of the fund is $80 million, Academic Affairs will withdraw permissions on a selective basis; it may later reissue some. Some of the professional schools will be asked not to draw down on the PUF for awhile, he said.

The Campaign has grown faster than expected, a very happy state of affairs. The campaign total at the end of 1986 was $202 million; PUF chair matches were in at $25 million.

Graduate School chairs clarified. $6 million of the $8 million shown in category one is for the McKnight-Young Professorship. Some of the rest is for interdisciplinary chairs. A faculty member cannot have tenure in the Graduate School.

Although Vice President Benjamin would prefer for PUF interest not to accrue in a college until a chair is actually filled instead of, as now, transferring the PUF share to the college account as soon as the proposal to try to raise an outside match is approved, that apparently cannot be changed.

In response to a question, Vice President Lilly said the University could not ask the state to add on to the present grant allowing use of the Permanent University Fund. However, he said, we should begin right now to point out to the state how wonderful this campaign has been because when the next campaign starts, it won't have the benefit of the PUF income to launch it.

6. Extending the Faculty Mortgage Program to tenure-track faculty and to probationary academic professional staff.

Professor Shively distributed copies of Vice President Lilly's draft of a letter to go to the proposed new eligible category of staff. Professor Shively explained that last year the University redirected $20 million of its endowment fund to invest in faculty mortgages which could be offered for ½% to 1% below the market rate. Initially the program was approved for all tenured faculty and all academic professional staff on continuing appointments. The Investments Office has now determined that use of the $20 million fund can safely be extended to tenure-track and probationary AP's too.

The Faculty Consultative Committee this morning considered and approved the extension and requested the Finance Committee's views on it, as well as on whether other uses, such as equity loans, should also be made of the fund. Mr. Paschke told SFC that any further extension would not be feasible given the size of the fund.

Professor Hamilton commented the extension would provide an enormous recruiting tool in a period when a fair number of faculty will be replaced. Vice President Lilly confirmed that it is specifically designed to help with recruitment.

Mr. Clark asked how the margin would be affected if interest rates were to climb dramatically. Mr. Paschke replied that the break for users under the University's program would probably become even more favorable.

Mr. Clark asked whether the new intended set of users would behave differently. Mr. Paschke replied he anticipates that more people in the new group will use the plan and that the mortgages will tend to be smaller. He reported that the Investments Office has recycled $25 million of mortgage certificates so far. (Refinancing up to the total of one's current mortgage is also allowed.) In response to Mr. Klement's question, Mr. Paschke said that both the risk group and the size of the fund keep the University from extending it any further than the current proposal.

Vice President Lilly inquired whether there could be any implication at all of the promise of tenure when a tenure-track faculty member took out such a mortgage. Suppose such an individual then did not get tenure? Professor Shively replied there would absolutely be no such implication.

Professor Shively announced that the Faculty Affairs Committee would also discuss the proposal.

<u>MOTION</u>: <u>Professor Hamilton moved the Finance Committee support the sending of Vice President Lilly's letter to the new group. The committee was unanimous in its support of the motion.</u>

The meeting adjourned at 5:20 p.m.

Meredith Poppele,
Secretary