Minutes*

Senate Committee on Finance and Planning
Tuesday, May 1, 2012
1:30 – 3:00
142 WBOB

Present: Russell Luepker (chair), Sarah Chambers, Will Durfee, Catherine Fitch, Lincoln Kallsen, Kara Kersteter, Cody Mikl, Richard Pfutzenreuter, Terry Roe, Michael Rollefson, Ann Sather, Karen Seashore, Arturo Schultz, Aks Zaheer

Absent: Martin Caride, Susan Hupp, Ruth Lane, Fred Morrison, Kathleen O'Brien, Gwen Rudney, S. Charles Schulz, Thomas Stinson, Michael Volna

Guests: Professors Carol Chomsky, Nancy Ehlke, Michael Hancher, Sally Gregory Kohlstedt (Faculty Consultative Committee)

[In these minutes: (1) final budget framework for FY13; (2) workforce analysis and methodology issues in defining administrative costs; (3) long-term financial forecasting; (4) update from the chair on course "poaching"]

1. Final Budget Framework for 2012-13 (FY13)

Professor Luepker convened the meeting at 1:30 and turned to Vice President Pfutzenreuter to preview the final budget framework for next year, FY13. Mr. Pfutzenreuter distributed a handout with the numbers:

Resources	
Uncommitted State O&M	16,850,000
Planned O&M Carryforward from FY12	6,100,000
Tuition Revenue Increase	24,600,000
Unit Resources	4,250,000
Institutional Resources (non-recurring)	7,570,000
Total Incremental Resources	59,370,000
Investments	
Compensation (at 2.5%)	15,600,000
Student Aid	2,800,000
Academic Initiatives	33,990,000
Mission Support & Operations	6,850,000
Total Incremental Investments	59,240,000
Balance	130,000

* 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.

Vice President Pfutzenreuter offered comments on several of the items.

He recalled that President Bruininks' budget for the current fiscal year (FY12) was based on the legislative conference committee report that Governor Dayton subsequently vetoed, so the budget was built around a figure that was $25 million lower than what the University eventually received. President Kaler arrived at the University and decided not to spend the entire additional $25 million recurring in the first year, and spent only about $8 million. The "Uncommitted State O&M" funds in the first line are the remaining recurring funds from the $25 million, carried forward to FY13.

The Planned Carryforward of $6.1 million is available because some of the $25 million was used for non-recurring expenses.

The $24.6 million Tuition Revenue Increase is less than expected when original estimates were made last fall. In some colleges tuition revenues are flat or decreasing, so the amount is about $11 million less than originally projected. The result is that there is not as much recurring funding available as planned. (This flattening and the declines are in pockets, not general). They do not know if this is the start of a trend but they will keep an eye on it. The tuition increases for resident undergraduates will be 3.5%, for non-resident undergraduates 4%, and for graduate and professional programs generally 4% (some more, some less).

The Unit Resources are funds the administration is asking the units to reallocate or find.

The Institutional Resources are prior allocations and initiatives that the central administration has been responsible for and that are being reallocated for academic programs.

The Student Aid increase is mostly for merit aid, but the Promise Scholarships will also have an additional $2.3 million available because the "more expensive" students who've been receiving aid are graduating and the University is leaving the money in the program. This will result in approximately a 14% increase in awards for all students in the program.

The Academic Initiatives funds include both recurring and non-recurring funds.

The Mission Support & Operations fall in the "things happen" category: increases in contractual obligations, utility increases, the decline in the Glaxo royalty income for Ziagen, and so on.

Vice President Pfutzenreuter touched on some of the highlights in the proposed budget.

-- President Kaler's FY13 budget recommendation closely aligns with and takes steps toward achieving the goals he outlined in his State of the University speech:
1. Keep the U affordable for students
2. Rebuild the U’s excellent faculty, and invest in research infrastructure, technology, student aid and scholarships
3. Maintain a prudent budget structure that uses state resources responsibly and holds down costs

-- The budget holds tuition increases to 3.5% – most if not all of which will be offset for students most in need through a 14% increase in the Promise Scholarship awards.
1. The 3.5% increase is the lowest percentage increase in this century
2. Promise scholarships will increase 14% for all award levels (top award will increase from $3,500 to $4,000/year) – $2.3 million in FY13

3. Approximately 13,000 students systemwide receive the four-year scholarships (awarded to students with up to $100,000 family income levels)
4. $81 million of undergraduate student aid provided annually from University sources (roughly $19 million from the foundations and $62 million from other University sources)
5. Merit-based aid will increase by $2.8 million

-- The budget reinvests in the U's faculty and staff to continue to foster excellence in education and research while ensuring continued economic and other contributions to the entire state.
1. After three years of furloughs, wage freezes and increased health care cost burdens, it is time to reward faculty and staff for their hard work, dedication and sacrifice. The budget recommends a 2.5% compensation pool increase for employees, with $500 of that in the form of an across-the-board base increase for all faculty, P&A and civil service employees.
2. $34 million in new academic program investments (includes $23 million recurring and $11.1 million one-time funds); includes:
    -- $2 million (primarily faculty hires) for a multidisciplinary initiative in Informatics
    -- $4 million of investments in research infrastructure and distance learning technology
    -- Faculty are being added in areas of strategic importance—over $7 million of investment in additional faculty positions across 13 colleges and campuses.

-- Prudent budget management keeps costs low and responsibly utilizes state resources.
1. New investment in operations and support costs is held to $6.8 million or roughly 1/2 of 1% of the annual operations and maintenance spending base
2. Prudent budget management in FY12 provides $22.9 million (about 38% of resources) to meet FY13 budget needs
3. Redirecting existing resources from units ($4.2 million) and institutional funds ($7.6 million) addressed another 20% of operating budget needs
4. The budget addresses the U's need for and efforts toward operational excellence

-- This budget positions the University well to move forward in exciting and productive ways while recognizing that state budget resources continue to be strained.

Professor Luepker asked where the increase in STEM students appears in the budget. Most of that funding is in the current year's budget, Mr. Pfutzenreuter said; Mr. Kallsen added that there were funds provided to increase the number of STEM faculty members.

The budget does not build a reserve, Professor Luepker noted. Mr. Pfutzenreuter agreed and said the University is not building reserves beyond what it already has.

Professor Durfee inquired if the numbers would remain the same if there is no bonding bill this year. They would, Mr. Pfutzenreuter said; a bonding bill this year would have no impact on debt or operating costs in FY13. Those costs would show up in the FY14 budget.

Committee members discussed with Mr. Pfutzenreuter what the University would do if there is no bonding bill, given the necessity of replacing boilers.

Professor Roe commented that the University, like most organizations, depreciates its buildings and equipment, so every year there is a cost that the University tries to make up with tuition revenues, state funds, and so on. In its report to the legislature the University tries to tell a good story, but it does not explain how it is meeting its core mission and how covering depreciation without state support means opportunities foregone. Should the University rethink its reporting to the state? Mr. Pfutzenreuter said that in June the University will receive budget instructions from the state; after that the President and senior officers will rethink how to articulate the University's needs and explain the biennial request—which has to be in front of the Board of Regents in September.

2. Workforce Analysis & Methodology Issues in Defining Administrative Costs

Vice President Pfutzenreuter next reported that Mr. Kallsen and Vice President Brown are working on defining University administrative costs. It is a tough topic to get one's arms around, so they started the analysis with people and have done a preliminary workforce analysis. The vision and objectives for the study include defining the workforce in terms of what people do, defining operational overhead from a workforce perspective, identifying workforce areas needing further definition and exploration, and constructing metrics for understanding operational overheard. The goal, Mr. Pfutzenreuter said, is to get a methodology that all can live with.

At its core, this will be a job code study, Mr. Pfutzenreuter said. The study principles include: analysis at the system level, all funds, and all units; definitions and taxonomies that are robust and flexible enough to allow for changes in the future (e.g., over 200 job codes from 2001-09 did not appear in 2010); workforce changes will be viewed historically and against some volume ratios (e.g., enrollment and sponsored research have grown 30-40% in the last 15 years, so to some extent the institution will be benchmarking against itself); and the study must be replicable in the future.

There are two ways of counting people (and thus administration): by compensation or by headcount. The total compensation paid in FY11 was $1,968,534,783 and accounts only for people paid through the University (so, for example, it does not include University of Minnesota Physicians). On the 9th payroll of FY11 (October, 2010) there were 25,307 unduplicated headcount employees [using the 9th payroll of the fiscal year is the standard date used for such calculations] paid through 665 different job codes. In response to a question from Professor Durfee, Mr. Kallsen affirmed that the number includes graduate students but that it does not include undergraduate students, who go off and on the payroll on an irregular basis. This is the starting point for then peeling off those who it is agreed are NOT administrators, rather like peeling an onion, Mr. Kallsen commented: Once those who are not administrators are deducted from the compensation and headcounts, presumably those who remain are "administration" of some kind.

There are a number of other ways the University counts its employees, Mr. Kallsen explained, and those methods of counting will continue to be used for various purposes.

-- Public Employee Labor Relations Act (PELRA) categories
-- Faculty/P&A/Civil Service/Bargaining Unit
-- Job functions/job families
-- Benefit-eligible
-- Integrated Postsecondary Education Data System (IPEDS) reporting categories (federal)
-- Full-time equivalents (FTEs) with various methodologies

On the last, Mr. Kallsen commented that there is no agreement on the formula for calculating FTEs—there are several—so they cannot use FTEs in the study.

Mr. Kallsen turned to IPEDS data (primary functions/occupational activities), which are required by the federal government to be reported for any institution receiving any type of federal funds and which some argue are the data that should be used for this kind of study. The data are campus-based and allow for no sub-analysis. The taxonomy IPEDS uses does not meet the needs of analyzing operational overhead/administration (primarily instructional, research, or public service; other professionals, clerical and secretarial, executive/administrative and managerial, technical and paraprofessional, and skilled crafts), institutional comparisons are difficult (e.g., some include system offices, some have hospitals while some do not, and sponsored funding varies significantly). The data being used in this workforce study are the same as those used for IPEDS reporting—but they are sliced in different ways. Mr. Pfutzenreuter commented that IPEDS data are used by a variety of external groups to make comparisons of institutions, but this itemization of the weaknesses in the data suggests how inapt the comparisons really are.

Mr. Kallsen provided IPEDS data for 2001-2010 for the University and some of its peer institutions for the executive/administration and managerial category. Johns Hopkins is very confused, Mr. Kallsen joked, because its numbers for that category, for the ten years, were 1,492, 159, 93, 100, 98, 1,509, 741, 743, and 746. UC Berkeley's numbers were in the 500s to 700s, then dropped to 274 in 2009. Florida went from 463 to 636 in the last two years. Washington dropped from 930 to 432 and then kept the numbers in the 400s for the next six years. And so on. Minnesota went from 818 in 2006 to 2,239 in 2007, and the number has since fluctuated around 2,600-2,700. Mr. Kallsen expressed doubt that Johns Hopkins changed the number of its administrators so dramatically from year to year or that Washington cut the number in half. In the case of Minnesota, the increase was due to definitional changes made at the University in an attempt to report the IPEDS data accurately—the University certainly did not add 1,400 administrators in one year. But that 2,732 (in 2010) is a much larger number than the corresponding number for the peer institutions. (Only Harvard was close, at 2,335.) Nonetheless these numbers are used in national studies and make the University look bad, Mr. Pfutzenreuter observed.

Mr. Kallsen also noted a bar graph indicating the number of executive/administrative and managerial employees AND "other professional staff" as a percentage of total faculty/staff FTE (using IPEDS data for 2010) for Big Ten and other peers; by that measure, the University ranks about in the middle of the pack.

Mr. Rollefson inquired if those responsible for the definitions and counting at the University knew what the impact of the change would be. Mr. Kallsen said he believed so. There is now a much greater understanding of the importance of decisions about definitions and counting.

There are differences in counting people by the compensation method and the headcount method, Mr. Kallsen said. Compensation includes all compensation for the entire year, all employees, students, and anyone else receiving salary and fringe benefits, from all funds, but does not include compensation paid to employees from outside the University (e.g., UMP), and is assigned to the employing unit, regardless of internal transfers. Headcount takes a snapshot on the 9th payroll and assigns all employees to a "primary" job code based on a set of rules. The University's headcount changes every pay period, and includes graduate students and employees paid on that payroll, but does not include temporary or undergraduate employees. So, Mr. Kallsen pointed out, one is wrong every day if one says the University has X number of employees, because it changes constantly (about 0.25% to 1% between pay periods).

Headcounts vary over the course of the year, a point Mr. Kallsen illustrated with a bar graph. The number drops by 2000-3000 during the summer.

Looking at workforce by compensation, the $1.968 billion, it can be broken down by fund or by unit type, Mr. Kallsen said. Fund types are state O&M funds plus tuition plus state special appropriations (53% of the total, 12,659 employees), sponsored funds (19%, 5,213 employees), auxiliary units and Internal Service Organizations (8%, 2,080 employees), and other funds (20%, 5,348 employees). "Other funds" include clinical, work study, State of Minnesota non-sponsored, local government, Hatch funds, and a variety of other sources.

Unit types at the most general level are support units (24% of the total, 5,262 employees), Twin Cities academic units (67%, 17,366 employees), and coordinate campuses (9%, 2,601 employees). At a finer grain, the Twin Cities academic units include all the colleges plus a few others (Agricultural Experiment Station, Minnesota Extension Service, shared units in the Academic Health Center, and so on). Support units are all of the others (Academic Affairs and Provost, President's office, Equity and Diversity, Graduate School, Libraries, General Counsel, Student Affairs, etc.).

The result of compiling and analyzing these data has led them to propose a taxonomy of job categories, Mr. Kallsen reported, as follows:

Direct academic providers
Fellows, trainees, and students in academic jobs
Higher education mission support
Intercollegiate athletics

Facilities-related jobs
Organizational support
University leadership

The first four categories would be considered NOT operational overhead; the second set of three would be administration or operational overhead. Mr. Kallsen offered comments on the categories.

The "direct academic providers" would include tenured and tenure-track faculty serving in faculty roles, jobs providing direct instruction (e.g., adjunct professor, clinical professor, teaching specialist), jobs directly performing research, and extension educators. These people probably are not "administrators" in anyone's mind, Mr. Kallsen said. How are P&A employees dealt with, Professor Seashore asked? They are not using that categorization in this analysis, Mr. Kallsen said, they are using job codes, so direct instruction could include faculty or P&A employees. So some P&A staff are academic providers while others are not, Professor Hancher observed. Mr. Kallsen agreed and said that question could be discussed further, but that in any case changing one or two job codes from academic provider to another category would not affect the results very much.

Professor Durfee asked who did the categorizing. Mr. Kallsen said it was a group of staff members, two vice presidents, and the President and other executive leaders. The only pushback they have received on the placement of job codes in the categories is that one particular job code here and there may not be in the right place. Professor Seashore suggested taking the categorization of job codes to the deans because the practices might vary across colleges.

Mr. Kallsen said they also assumed that everyone would agree that "fellows, trainees, and students in academic jobs furthering their education" are not considered operational overheads. This category includes teaching assistants, research assistants, and fellows and trainees (medical fellows, veterinary interns, postdocs, etc.).

These two categories (direct academic provides and students/fellows/trainees) consist of 12,288 employees and 50% of the University's total compensation expenditure.

The third category of not-administration/operational overhead they suggest is "higher education mission support." Employees in this group fall into student services, health science support, and general mission support. Student services (student personnel worker, counselor, degree program adviser) are employees the institution would not have if it were not a university—other organizations would have employees in different categories. Health science support includes nurse practitioner, veterinary technicians, dental assistants, etc.

Professor Hancher inquired if there had been a lot of discussion about this category. Some might argue, for example, that health sciences support or student services are administration. Mr. Kallsen said they struggled with this category and agreed that one could make an argument that these employees are "institutional overhead." Would it matter if they were moved to that category, Professor Hancher asked? Not a great deal, Mr. Kallsen said; at the margins. What they have not considered in this study is how many such employees there should be. Vice President Pfutzenreuter said these are "but for" employees—but for being a university with a medical center, the University would not have them. This category does include people who have supervisory or managerial components but still work directly in the areas (e.g., pharmacy supervisor, head librarian, etc.—and the captain of the ship that the University maintains for work on Lake Superior).

The higher education mission support category accounts for 4,080 employees and 14% of total compensation.

The fourth non-administration category is intercollegiate athletics, Mr. Kallsen said, and they put it in a separate category because it didn't fit in any other one. The category includes everyone in the athletic departments on all campuses—coaches, trainers, etc.—so does include some administrators. On the Twin Cities campus, the 225 individuals in athletics are all paid from auxiliary funds.

Mr. Kallsen moved next to the three categories that might be considered "operational overhead." The first one of the three on the list, facilities-related positions, also causes problems because most people would probably not consider many of the employees in this category to be "administration," but it also includes supervisors. The category includes the skilled trades, buildings and grounds workers, facility operations supervisors (e.g., landscape maintenance, buildings/grounds supervisor), and other facility-related positions (e.g, project manager, engineer, environmental health and safety technician). Mr. Kallsen noted that the size and composition of this segment of the workforce is related to the size, age, condition, and complexity of the University's physical plant.

This category contains 1,309 employees and accounts for 4.3% of the total compensation expenditure.

The second administration category is "organizational support" and includes offices such as Human Resources, purchasing, information technology, audits, legal, policy, etc., as well as clerical staff and service/maintenance staff (e.g., child-care worker, locksmith, parking attendant). It also includes "coordinators" and professional generalists (e.g., associate to, analyst).

This category includes 6,518 employees and 24.4% of the University's total compensation. The funding for these positions comes from a variety of sources and these employees are sprinkled throughout the organization.

Mr. Kallsen provided the Committee with an example of a "deeper dive" into one category of "organizational support" employees, those in information technology. Systemwide there are 1,193 employees (headcount) in information technology. Of those, 359 are in the central Office of Information

Technology (OIT), and of those 359, 86% are doing information technology work and the others are providing clerical support, human resources support, etc. 317 of the 1,193 are in Twin Cities academic units, 381 are in other support units, and 82 are on the coordinate campuses. Mr. Kallsen commented that if one wanted to reshape how the University provides staff in information technology, one cannot look only at OIT. Nor can one say with certainly that people with the same job titles are doing the same work in all units, Mr. Pfutzenreuter added.

Mr. Kallsen provided a parallel "deeper dive" into the finance category, which includes Mr. Pfutzenreuter's office (Budget and Finance, in which Mr. Kallsen works) and the Controller's Office. There are 905 people in the finance category, of whom 89 work in the Controller's Office and the Office of Budget and Finance. 461 work in the Twin Cities academic units, 89 work on the coordinate campuses, and 266 work in support units.

The third category of administrative staff is "University leadership," which includes directors (assistant/associate directors, program/departmental director), academic leadership (dean, vice president, chair, head), and executive leadership (president, vice president, vice provost—50 employees). This category includes 1,148 employees and accounts for 6.1% of the University's expenditures on compensation. Of the 1,148 employees in this category, 964 are directors, about half of them paid from O&M or state special funds, and they "are all over the map," Mr. Kallsen commented.

Looking at an overview of the total University workforce from the compensation standpoint, the summary data are these:

Direct academic providers	35%
Fellows, trainees, and students	15
Higher education mission support	14
Intercollegiate athletics	2
Facilities-related jobs	4
Organizational support	24
University leadership	6

If one accepts the categories they've suggested, Mr. Kallsen concluded, about 2/3 of employees work directly on the mission and about 1/3 provides support.

Mr. Kallsen provided some historical information. Employee headcount since 2002 has not changed a great deal; it has increased 3.6% over the ten years. Benefits costs have increased twice as fast as salary costs. He also provided three simple ratios: students per employee, degrees per employee, and sponsored dollars per employee, all for the 10-year period Students per employee increased 10.9% 2002-2011; degrees per employee increased 28.2%. Sponsored dollars per employee increased 41.6%.

Professor Luepker expressed appreciation for the hard work in addressing the challenges and also said he could appreciate how the University's job classification system does not allow easy categorization. There appear to be many people with the same title who do a wide variety of jobs. Is Vice President Brown looking at these issues? There was talk about revising the entire system, which would be a huge project; is that still under consideration? Mr. Kallsen said that Vice President Brown is well aware of the issues.

Everyone at this meeting is aware of the recurring concern about increased administrative costs, Professor Luepker commented. Mr. Kallsen said that they can track the costs over time; one major question is whether the one-third/two-thirds split is right. Another is whether the University can or should hold to that ratio. And that assumes everyone is properly classified, Professor Luepker observed.

3. Long-Term Financial Forecasting

Vice President Pfutzenreuter turned next to long-term financial forecasting, a subject that has been before the Board of Regents and this Committee for a number of years. It is difficult to do, he said, but the Board is interested in seeing it done. They have constructed an elaborate and sophisticated forecasting model, and they can put in data and generate predictions, but they need agreement on a timeline. He outlined the projections that would be provided to the Board over the next eight months.

Vice President Pfutzenreuter reviewed with the Committee one possible set of numbers that that could be used to make forecasts for FY14 and FY15 and for FY2016-18. For example, one can forecast no change in state appropriations or one could forecast an annual increase. (Or a decrease.) They can make certain predictions about growth in tuition revenue and changes in enrollment, about sponsored funding, and so on. Similarly on the cost side, they can make assumptions about salary cost growth, fringe benefit cost growth, the number of faculty members, academic investments, reallocation, etc. They will fill in the blanks and take the results to the President, the Foundation, and others, for review in June. They will also, in June, take the President's FY13 budget and carry it forward with certain assumptions, and will do that every June.

Professor Roe inquired if the forecasting model has been in place long enough that they can see how the projections fit the data? Mr. Kallsen said it does a great job when the University is 75% of the way through the fiscal year. Where the model misses is on predicting out-year academic investments. Mr. Pfutzenreuter said they will make projections every year and will update the six-year projections every other year, and will build in the University's biennial request to the state in order to show the Board of Regents the effects of the request.

Professor Chambers inquired when, as they make projections, they look at demographic trends, how best to serve certain populations, when new fields are coming, and so on, and how do those factors interact with the projections? Mr. Kallsen said that they worked with the Enrollment Management Committee that was co-chaired by Vice Provosts McMaster and Schroeder to try to understand the changes they were identifying. They can deal with demographics at the undergraduate level but they do not have the capacity to make projections based on what might happen in 200 graduate programs.

Professor Chomsky said that in terms of the workforce, the "buckets" in which employees are placed does not matter as much because they are trying to answer the question of whether the University has too many administrators. The question that is not answered, inside or outside the University, is what all the people do. What does it take to run an academic institution? It is not just teaching, and some of the most important functions are things like facilities management and student services. It is not so much the bucket that people are in as explanation of what people are doing. Mr. Kallsen agreed and observed that the ratios among various groups of employees and students vary widely by college; perhaps that is acceptable but the question can be asked.

Professor Luepker thanked Vice President Pfutzenreuter and Mr. Kallsen for their report.

4. Update from the Chair on Course "Poaching"

Professor Luepker reported that he has pursued the "poaching" issue as requested by the Faculty Consultative Committee. He has spoken with many people, including deans, and it appears that poaching may be in the eye of the beholder. He said he may ask some people to join the Committee and work with Vice Provost McMaster to develop a way to measure any poaching that may be occurring.

Professor Seashore suggested thinking about a different way to handle, financially, core courses in liberal education. Perhaps those could be courses that do not belong to a college and tuition revenues from the courses allocated based on how much the colleges contribute to the courses.

Professor Roe wondered how much deans would know about poaching. There are a number of departments in a college, and deans don't know about all the curricular changes, nor should they. The Committee might likely receive better information from the departments. Professor Luepker said the point was well taken. The deans have provided him information, have been very forthcoming, and he will bring the information to the Committee. He said he does not have a solution, he has just been gathering information.

Professor Seashore commented that at some point this could become an academic-freedom issue. It would be a non-issue altogether if money were not involved, Professor Luepker observed. Professor Chambers said that liberal-education courses are different from the other courses departments and disciplines offer for majors. There need to be rules about all of this and they should be faculty-driven to the extent possible, Professor Luepker concluded.

Professor Luepker adjourned the meeting at 3:00.

-- Gary Engstrand

University of Minnesota