Minutes*

Senate Committee on Finance and Planning
Tuesday, July 24, 2012
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair pro tem), Gary Cohen, Susan Hupp, Lincoln Kallsen, Richard Pfutzenreuter, Michael Rollefson, Ann Sather, Arturo Schultz, Michael Volna, Aks Zaheer

Absent: none counted for a summer meeting

Guests: Vice Provost Henning Schroeder; Andy Hill (Office of Information Technology)

[In these minutes: (1) graduate program funding metrics; (2) committee business; (3) 27 pay periods; (4) enterprise system upgrade project]

1. Graduate Program Funding Metrics

Professor Luepker convened the meeting at 2:00, explained that Professor Durfee was out of town and asked him to chair, and welcomed Vice Provost Schroeder. He recalled that Vice Provost Schroeder had joined the Committee about six months ago, and when he was asked about what the next round of funding for graduate programs would look like (for 2012-13), he indicated that decisions had not been made. The Committee is interested to learn what the metrics will be and what developments have taken place.

Vice Provost Schroeder said that little had been decided since his last meeting with the Committee, given that a new provost has taken office. Much of what is being done, or was planned, is being revisited. He has had one meeting with a group of deans (and there will be another with an expanded group) to talk about what has been successful in the decentralization of graduate education over the last two years—and what has not been successful and might be re-centralized. But for 2013-14, nothing has been decided, for the sake of predictability; he said he would not support doing again what was done for 2012-13 because there won't be enough new data to warrant the work (the metrics developed for 2012-13 relied on ten years of data, so adding one more year would not add very much information). There may be a committee, with representatives from all colleges, to look at the metrics, but for now no decisions have been made. [Immediately subsequent to the meeting a decision was made on July 25; the memo attached to these minutes went out to the college deans.]

Dr. Schroeder surmised that having the college deans in charge of distributing money to graduate programs would remain in place for 2013-14 and most likely thereafter. But the reforms are continuing.

There are also no decisions on additional metrics, Dr. Schroeder told the Committee. One possibility that has arisen, apropos of process, one that was suggested by former Provost Sullivan, was to use the compact process to make decisions about graduate education. The deans can talk about what they are doing and perhaps request money for graduate programs and for graduate students. Although

* 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.

graduate education has been part of the compact process recently, it will be subject to more focus in the future and in a more meaningful way. That is one way future funding decisions could be made.

Professor Cohen recalled that Vice Provost Schroeder has raised for discussion the question of the sharp reduction in tuition charges for graduate students once they are ABD and asked whether there should be more level tuition charges during a graduate student's career at the University. He said he has heard nothing about the proposal recently; there was lively debate about it at the time, and in his part of the University the change would cause chaos. Is it still the goal to even out tuition charges?

Dr. Schroeder said he has a meeting this week with Provost Hanson to talk about the report of the task force on financing graduate education, including tuition charges. The question is whether tuition charges follow educational goals or tuition charges drive educational goals. He said he is sure that whatever proposal is made, there will be consultation with each college so that it can make the case for or against a change, and it may be that there will be different models in different colleges. In fact, the report of the Graduate Student Financing Task Force outlines the impact of the proposed tuition models for the different colleges and their graduate students.

The change would have a very different impact on units with shorter or longer graduate-student completion times, Professor Cohen pointed out. Dr. Schroeder agreed. The idea is not to change the total cost, he said, but to change the tuition structure so that, for the purposes of charging their costs to grants, for example, students are not so expensive at the beginning of their career when they are taking course and so much cheaper at the end because their cost is only thesis credits—and so that they are not pushed to complete their oral prelims as soon as possible so they can be put on grants at lower charges to the grant.. Would a degree in CLA become more expensive, he asked? It could be if steps were not taken to prevent it, Professor Cohen said.

The change would radically change budgeting for some departments, Professor Cohen continued, and would create short-term chaos. They would need to time to implement a change so that it is not lethal. The University has done some things in the last ten years but did not anticipate the consequences, and sometimes academic programs paid dearly as a result. Dr. Schroeder assured Professor Cohen that they would take into account the impact on programs of any proposed change in the tuition structure.

Professor Cohen added that it is not just revenues that are affected; the change would also affect costs and have an impact on undergraduate instruction.

Professor Zaheer asked if it is correct to say that the block grant represents only a small percent of the cost to educate a Ph.D. student. In the Carlson School it is about 2%. Why would they move graduate education into the compact process if such a small part of the cost is controlled by the Graduate School? That is turning back the principle of decentralizing graduate education. Dr. Schroeder said the block grants are $4.5 million, for 16 colleges; the last round of allocation decisions was based on quality metrics that required a great deal of work. Many departments maintained that a lot of faculty time was needed in order to allocate such a small amount of money. If the right incentives and framework are created, it would be possible to put more money into the process. The idea of including the $4.5 million in the compact process is that doing so would save time and avoid rankings and data aggregation every year; the allocations would be based on proposals made in the compact process. Whatever other dollars the Graduate School controlled would be independent of the compact process.

Is there a reasonable expectation that there will be more money, Professor Zaheer inquired? Compared with the amount of money peer and aspirational peer institutions put into graduate education—which is difficult to measure—other institutions appear to put a great deal of money into it independent of grants, Vice Provost Schroeder said. The University has a ways to go to catch up with places like Berkeley and UCLA and several of the CIC schools. He said he does not know if there will be additional funding, but given the aspirations of the University, there will have to be. The amount of money that colleges invest into graduate education independent of funds from the Graduate School might increase too.

In response to a query from Professor Luepker, Dr. Schroeder affirmed that no changes are contemplated for 2013-14 but said that by the following year there may be something new in place with more metrics or it may be appropriate to create a system that works for the long term. This is important, Professor Luepker commented, because programs do not accept graduate students for just one year.

Professor Luepker went on to observe that when a dean comes to a compact meeting, he or she brings many issues to the table. He said he worried that if graduate education is submerged in the compact process, and the dean believes, for example, that new space or something else is more important, he or she might agree to cut graduate fellowships. The compact process is a trading process. Dr. Schroeder said he could see the point but said that there have been three rounds of compacts and each year graduate education takes more time because the colleges are in charge of it and deans are held accountable for it.

Professor Luepker thanked Vice Provost Schroeder for joining the meeting.

2. Committee Business

Professor Luepker reported that the continued discussion with Vice President Friedman and Associate Vice President Bock about administrative costs and organization in the Academic Health Center had to be postponed until early in fall semester. He reminded Committee members to review the materials they provided last spring and develop questions for the upcoming discussion.

Professor Luepker also reported that he had had an exchange of messages with Professor Cramer about 27 pay periods. Professor Cramer observed that in years when there is a 27th pay period, faculty members on B (9-month) appointments receive exactly the salary in their appointment documents while those on A (12-month) appointments (faculty, most P&A staff, and most Civil Service staff not in a bargaining unit) receive an additional paycheck, or the equivalent to about .35% per year each of the 11 years between 27 pay periods. Professor Luepker said he still did not fully understand the issue but he is aware there is angst about it. He turned to Mr. Volna to lead a discussion.

3. 27 Pay Periods

Mr. Volna distributed a handout and used it to explain what the administration is proposing to deal with in the fiscal years with 27 pay periods.

Mr. Volna began by reviewing the background. The University uses a biweekly payroll approach, resulting in 26 pay dates per year. A bi-weekly payroll approach results in a 27th pay date every 11th fiscal year, which results in some "extra" pay for salaried employees and expense above base-level budget for departments. In FY13 dollars, each payroll costs approximately $75 million (from all funds). The last year with 27 pay dates occurred in FY10.

The issues are these (only for non-sponsored funds; sponsors are only charged for the actual number of days people work on a grant):

-- Salaried employees received extra pay in 2010

> -- Appointment dates have been aligned with payroll dates, rather than University's fiscal year dates; appointment letters have had start and end dates that coincide with pay periods, not July 1 to June 30
> -- University policies and procedures do not clarify the definition of "annual appointment"
> -- Result - salaried employees were paid 27 checks based on biweekly rate for 26 pay periods, rather than on annual salary divided by 27

-- The 27th pay date creates a spike for budgeting and funding purposes

Professor Zaheer asked who was paid extra. Mr. Volna said it was only those on 12-month appointments. Those who are paid hourly are paid for their hours worked. What percent of employees are paid extra and what are the cost ramifications, Professor Zaheer asked. Ms. Tonneson said she did not know because that year, 2010, also saw pay reductions and furloughs. Mr. Volna said that he would provide the Committee with the number of employees who have 100% time, 12-month appointments (which would, for example, include the vast majority of P&A and non-bargaining-unit Civil Service appointments).

Mr. Volna reported that the president asked Vice President Pfutzenreuter to develop proposals and a recommendation on how to address the 27th pay period in the future. The work started in early 2011 and included representatives from Human Resources, the Office of the General Council, the Office of the Vice President for Research, Professor Oakes (former vice chair of the Faculty Consultative Committee), and a P&A representative. The group started out with goals and principles:

-- Implement a strategy for addressing issues created by 27 pay dates, prior to the next occurrence of the 27 pay date phenomenon (FY 2021)

-- Guiding principles:

- Fairness to employees
- Transparency (that is, clear to employees) and administrative simplicity
- Budgetary predictability
- Minimal financial impact to the University

Professor Hupp suggested that people need to be careful about the use of words. Did employees receive a "bonus" or were they paid less during the ten years between the 27 pay periods and then "caught up" in the 11th year? Are they receiving more than they should or is the pay "corrected" in the 11th year? That depends on how one looks at it, Mr. Volna responded. If "pay" is what one receives every two weeks, then salaried employees received the same as the prior year’s biweekly amount; but if "pay" is defined on an annual, fiscal year basis, then salaried employees received an additional pay check. So people do receive their full pay the entire 11 years, Professor Hupp concluded. Vice President Pfutzenreuter agreed and said that employees did indeed receive an additional check above the salary in their appointment documents. This is a large communication problem.

Mr. Volna turned next to the options the group considered. For salaried employees the options included: the status quo (deal with it when arises again in FY21); change the payroll divisor to 26.1; align P&A appointments with fiscal year start and end dates and divide the annual salary by the number of pay dates in the fiscal year (26 or 27); adopt a "split" approach for charging pay periods that span two fiscal years to mitigate the spike in funding and cost. In the case of the last, it would mean charging payroll based on the number of days worked in each fiscal year, which is a common approach in sponsored research. With respect to the second option (the divisor of 26.1), Mr. Pfutzenreuter said that everyone would receive less. Professor Cohen pointed out that one would then have to be here for 11 years in order to make up the loss; Mr. Pfutzenreuter agreed and said that is why they are not recommending that option.

For hourly employees, Mr. Volna explained, the options are either the status quo or the "split" approach.

Their recommendations are these, Mr. Volna reported. For salaried employees, align appointment dates with the fiscal year dates, divide the annual salary by the number of pay dates in that year (26 or 27), adopt the "split" approach for pay periods that span two fiscal years, modify policies as needed to implement the change, and implement the recommendations beginning with FY14 (2013-14). For hourly employees, adopt the "split" approach, modify policies as needed, and implement it beginning with FY14 (2013-14). Hourly employees would see no difference in their pay. This change provides a seven-year lead before the next year with 27 pay periods, Mr. Volna commented, so will address most of the problems. For salaried employees on 12-month appointments, the biweekly pay will decrease during years with 27 pay periods, but the total paid in the fiscal year will be exactly the amount specified in the appointment document.

Why didn't the University do this in 2010, Mr. Rollefson asked. Because the General Counsel advised that there would have been a lack of adequate notice, Mr. Pfutzenreuter said. It was complicated. So everyone will receive what they were told they would receive, Professor Hupp concluded.

Mr. Volna reviewed briefly a table indicating how the "split" approach would play out over the 11 years from FY11 to FY21. The ten extra days that create the 27th pay period would have been accounted for over the 11 years, with an extra day of pay (or two in two years) in most years. The net cost of an employee to the department would remain the same in the 11th year. Departments will not accumulate funds over the 11 years.

Professor Cohen said the proposal "seems bulletproof": It is transparent, pay is what one is promised, departments are protected from spikes in cost, and there is sufficient time to issue letters about appointment dates. This avoids the mini-crisis every 11 years and it is fair to everyone. He said he found the "bonus" check offensive. If someone is told they will be paid $50,000, they will be paid that amount fair and square.

Mr. Volna said that he is now consulting on the proposal and will also take it to the next level of analysis: The systems perspective and policy and procedure issues. But he wanted to obtain a response to the proposal before proceeding; they now need to work through the details so it can be implemented.

Professor Luepker said he would take Professor Cohen's statement as a motion. The Committee voted unanimously in favor of it.

Three years have been lost, Professor Zaheer observed. That is true, Mr. Volna said, but there have actually only been two lost days thus far, something they will have to deal with. He is reluctant to propose adding back the two days into the computations for the split approach because of complications with federal rules.

Mr. Kallsen commented that the University will need to communicate to all those who have 12-month appointments that they will see a slightly decreased paycheck in those years when there are 27 pay periods. They will also have to change templates for appointment letters, Professor Cohen added. There are many details to be worked out, Mr. Volna agreed.

Professor Luepker thanked Mr. Volna for his report and recommendations.

4. Enterprise System Upgrade Project Overview

Professor Luepker now welcomed Mr. Hill to the meeting to discuss the Enterprise System upgrade project.

Mr. Hill began by explaining that he is Project Director for the Enterprise System upgrade project; he distributed copies of a handout and reviewed its contents with the Committee. The Board of Regents, he reported, has approved the expenditures for the project.

Mr. Hill noted the history of the enterprise system (PeopleSoft), beginning with implementation of the student and human resources (HR) systems in 1996-98, implementation of the financial system in 2008, and the various upgrades that have been made since 1998. The University purchased PeopleSoft because it was (and remains) a world leader in HR and student systems when the purchase was made in the late 1990s. But the HR system was not built for higher education, nor were the PeopleSoft systems generally built for institutions as large as the University, so the University has made many modifications in the systems—many of which have been incorporated in the new versions of the PeopleSoft systems. The product is now on par with, or superior to, the University's customized version, the current system and business processes are now more than a decade old and increasingly inefficient, and the new version will allow the University to take advantage of emerge technologies and new approaches.

Mr. Hill explained that the University must upgrade now because support for the current PeopleSoft versions ends December, 2012, although the University has negotiated "best effort" support through December, 2014. Without such support, and eventually without the upgraded versions, the University would not receive tax updates required for payroll, student updates required for financial aid, or security updates. It takes time to implement the upgrades, however, so the University (like a number of other institutions) will be making the changes over the period 2012-2014.

Professor Cohen asked if the University has customized the Enterprise Financial System; the original rhetoric, he recalled, was that it would not. Vice President Pfutzenreuter said the University has customized EFS; Mr. Hill explained that in the case of EFS, the University did so within the framework of the software, unlike what it did with the HR and student systems, when it actually altered the codes. The upgrades for EFS can be implemented because it was "smart customization," Mr. Hill said. They will also need to modify the new HR and student systems, but those modifications will also be within the framework of the software. Mr. Pfutzenreuter agreed that this will be "smart" customization that will make the processes better for the University.

Mr. Hill provided a plan overview, summarizing what will result because of the upgrades, including new functions that people have been looking for. He also described, for each of the three systems, the scope and value of the change as well as the risk if the upgrades are not implemented. The scope of the change for the student system is moderate, the value is high (especially for students), and the risk is critical. The scope of change for the HR system is high (it is being rebuilt from the ground up), the value is high, and the risk of not changing is high. The scope of change for the financial system is low, the value is moderate, and the risk of not changing is moderate, but the changes will make lives easier for people who use the system. The goal is to have everything in one place for students and also for PIs.

Mr. Hill then reviewed the specific elements of each of the three systems and what they do. He also reviewed the project governance, which includes an Executive Oversight Committee, an Integration Steering Committee, and functional steering committees for each of the three system upgrades. The timeline is to have the upgrades fully function by the end of 2014. Mr. Hill assured the Committee that the beta testing will be vigorous; they have 300 people on the team and are including end users. They are fully aware of the problems with EFS and have learned lessons from it, including, among other things, early engagement of end users, creating a team for the duration of the project, bringing in an implantation partner to develop skills and best practices and develop internal expertise, and they are focused on reporting and user interface from the outset. What has happened in the past is that there was a neglect of reporting and change management; those are a big part of this process. One of the executive sponsors, Vice President Pfutzenreuter, keeps asking if end users are engaged.

Have they polled peer institutions about what modules work well and which do not, Professor Zaheer asked? They have, Mr. Hill said; they are in constant contact with peers and there is a higher-education user group in which they participate. Professor Cohen asked if they have set aside funds for unexpected implementation issues. Part of the pain with EFS was spending a lot of money later on implementation. They have set aside funds, Mr. Hill said, and they hired Oracle Consulting Services to better prepare how to do the upgrades.

Vice President Pfutzenreuter next explained the project cost. The total is $83.5 million over four years, which includes a 15% contingency. The cost includes software, hardware, staffing (and backfilling positions when current staff are diverted to the upgrade process). The question is how to pay for the upgrades. The Enterprise Assessment is well-established and predictable, a reliable enterprise funding strategy that was first established in 1998 because the University was facing Y2K. It was created to recognize that all units should share in providing resources to meet institutional business needs and structured to provide a long-term self-financing program for funding enterprise needs. The assessment started at 0.7% in 1998, was suspended in 1999, raised to 1.0 in FY00, then to its current rate of 1.25% in FY01, and is based on total salary budget of the units. The assessment is projected to bring in approximately $12.6 million in FY12. Mr. Pfutzenreuter explained that the funds go into a unique account in his office and all revenues and expenditures are carefully tracked. The University has spent about $186 million from 1998-2012 on enterprise projects, but the assessment has only raised about $153 million, so the account is about $33 million in the negative. That is the way the account is supposed to work, Mr. Pfutzenreuter related: The University spends the money and recovers the expense over a long period. If it were not necessary to add the new $83.5 million in expenses, the assessment would end in 2017.

Of the $12.6 million raised from the 1.25% assessment in FY12, $1.9 million goes for general budget support, $7.5 million for retirement of outstanding enterprise debt, and $3.2 million for OIT expenses, Mr. Pfutzenreuter explained. All of this is consistent with University policy. They have realized that the $1.9 million for general budget support was a mistake; had those funds been preserved for the enterprise system costs, there would be a positive balance in the account. As it stands, there is a negative balance plus the need to pay the $83.5 million.

The current enterprise assessment will not support the additional long-range needs of the University's enterprise systems. Relying on the current assessment would mean the debt would not be retired until 2025—and that is too long, Mr. Pfutzenreuter said. They not only need to retire the existing debt and provide for the new upgrades, they also need to generate a positive revenue flow for future investments. The University will need additional funds before 2025. If they restructure the current allocations that presently do not go to debt reduction (the $1.9 million and $3.2 million) and raise the assessment to 1.75%, the debt will be paid off by 2019 and an additional $83 million will be generated by 2024 for enterprise upgrades that will doubtless be needed.

Mr. Pfutzenreuter reported that he created a group when the EFS problems became apparent, a group of high-level financial people, that serves as his sounding board. He met with them about the strategy of increasing the enterprise assessment; they suggested instead creating a unique cost pool to cover enterprise costs (the cost pools did not exist when the enterprise assessment was established). He said he would look at that option. The President and the Board of Regents know that the upgrades must be paid for and they have their eyes on 2024. The Board has approved the budget, so the project will go forward.

Professor Luepker thanked Mr. Pfutzenreuter and commented that as he has looked at the materials related to the project, he also wondered why there has not been a cost pool for enterprise systems. This should be considered. A cost pool would also bring a transparency to the process that does not exist with the enterprise assessment, Mr. Pfutzenreuter observed.

Professor Cohen said he understands that there is really no competition for Oracle (PeopleSoft) systems for large universities. Is that true? Largely it is, Mr. Hill said. Professor Cohen asked if there is any way to guess at what the University is paying because of monopolistic prices. Mr. Hill said that there are competitors and they have considered alternatives. One is more expensive, and Oracle has lowered its prices in order to respond to market forces.

Professor Luepker thanked Mr. Hill for his report, said the Committee would revisit the project later in the year, and adjourned the meeting at 4:10.

-- Gary Engstrand

University of Minnesota

* * *

Date: July 25, 2012

To: Twin Cities Deans
Timothy Holst, Associate Vice Chancellor for Graduate Programs, UMD
Claudia Neuhauser, Vice Chancellor, UMR

From: Karen Hanson, Senior Vice President for Academic Affairs and Provost
Henning Schroeder, Vice Provost and Dean of Graduate Education

Re: Fiscal Year 2014 Quality Metrics Allocation Plan

Throughout our consultation with deans, associate deans, and faculty regarding the next steps for the Quality Metrics Allocation Plan, two key points have emerged. First, it is important for planning purposes that colleges learn about allocation decisions as early as possible. Secondly, colleges want to have a voice in fine-tuning the list of metrics that will be used to determine funding allocations.

Given the agreement on these points:

- Allocations to colleges for FY14 will be the same as those for FY13. Colleges are now encouraged to develop and explicitly convey to their own units the criteria and metrics that will be used to distribute funding within the college. The attached spreadsheet shows the total allocation for each college.
- An extended metrics committee with one representative per college, except the Law School, will be assembled as soon as possible to discuss appropriate metrics for FY15 and beyond.
- The metrics committee will be chaired by Henning, and its recommendations will be submitted to the Provost by January 31, 2013.
- Broad consultation with appropriate groups-- including the Graduate Education Council, Senate Committee on Educational Policy, Faculty Consultative Committee, etc.-- is expected throughout spring semester 2013. In addition, the spring compact meetings with the collegiate units will include a focus on each college's quality criteria and plans for graduate funding.
- A final plan for FY15 Quality Metrics Allocation will be available by fall semester 2013.

Please provide to Henning (at gsdean@umn.edu) the name of the person who will represent your college on the metrics committee. We would appreciate having all names by August 15, 2012.

If you have additional questions, please contact Henning at gsdean@umn.edu. Thanks for your help and cooperation.

cc. Eric Kaler, President
Robert Jones, Senior Vice President for Academic Administration
Lendley C. Black, Chancellor, University of Minnesota - Duluth