Minutes[*]

**Senate Committee on Finance and Planning**
**Tuesday, April 9, 1996**
**3:15 - 5:00**
**Nolte Library**

Present: Fred Morrison (chair), Thora Cartlidge, JoAnne Jackson, Kathy James, Karen Karni, Patrice Morrow, Richard Pfutzenreuter, Peter Robinson, Doris Rubenstein, Craig Swan, James VanAlstine

Regrets: David Kittelson, Gerald Klement, Charles Speaks, Steven Thelen

Absent: Craig Dexheimer, Allen Goldman, Roger Paschke

Guests: Dennis Cabral (Academic Affairs)

Others: Thomas Gilson (Office of Planning and Analysis)

[In these minutes: The budget; future financial planning and projections]

**1. The Budget**

Professor Morrison convened the meeting at 3:30 and turned to Mr. Pfutzenreuter to lead a discussion of the budget.

Mr. Pfutzenreuter referred Committee members to the 90-page document that had been mailed to them the previous week. He made the following points about it:

-- The budget follows the financial plan adopted previously by the Board of Regents, except in compensation, where much changed.

-- It avoids a structural imbalance. Much of the money appropriated by the legislature for 1996-97 will theoretically revert to the state at the end of the biennium; the budget identifies one-time money that managers should not build into base operations unless they have a plan to deal with its loss.

-- There is $1.4 million more money for need-based financial aid and $750,000 more in merit-based financial aid; the former is intended to mitigate the impact of tuition increases for needy students.

-- The compensation increase differs from the plan, which called for a 2.89% non-recurring allocation for salaries. The budget allocates 1% in non-recurring funds; any recurring salary increases will have to be decided on by the vice presidents, chancellors, and provosts, and funded by reallocation

[*]These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

in the units. The cost of a centrally-allocated 3% increase in salaries and fringe benefits is $26 million; with the 1% in non-recurring funds being provided centrally (about $5.6 or 5.7 million), a $20 million reallocation will be required to deliver 3% in salary increases. That amount could be reduced, depending on how the provosts and chancellors use the $5.4 million in transition money. There is an opportunity for units to appeal, on the grounds they cannot afford to provide salary increases.

Asked about the other 1.89% in non-recurring funds that were not allocated for salaries, Mr. Pfutzenreuter said the money was divided between administrative process redesign and transition funds allocated to the provosts to bridge financial difficulties.

Civil service and bargaining unit employees will be paid according to their salary plan; in the case of the latter, it varies by unit; the increases will not be centrally funded, explained one Committee member. Faculty and P&A employees may or may not see salary increases, depending on the provost; these increases will also not be centrally funded. The provosts and chancellors will receive an allocation of a non-recurring 1% of the salary base to fund all salary increases. This is in essence a cut in the base budget of 3% to 3.5%, depending on the salary increases.

Except for the most diligent and aware faculty, said another Committee member, few are aware that the salary allocation process is based on lowering the number of employees at the University. If they knew, there would be discussion of whether to forgo salary increases in order to bring younger people on the faculty. A 3% increase is derisory, although more than provided over the last few years. Why is it not common knowledge that salary increases require a reduction in employees? Mr. Pfutzenreuter said he said through more than 50 budget hearings with deans and provosts, and most left the impression they had communicated with their faculty on this. All should know, it was said, that to get a raise, someone will have to be fired or a line left unfilled.

-- The budget provides a "soft landing" at the end of the biennium; $30+ million has been identified as one-time money, so units should not lock it up in recurring expenditures.

Some of this soft money, observed one Committee member, is funding that is technically soft but that has been happening over and over, such as library acquisitions and facilities maintenance. The University cannot do without them. It would be helpful if a list of the soft items could be provided to the Committee; some of these items are essential.

-- The O&M budget increases by 4.3%; most of the activity is in tuition. Tuition has been broken into two components. One is a revenue increase of 7.5%, which includes two policy changes: a change in the tuition band and a change in the base registration fee from $30 to $60. With these changes, revenues will increase by 7.5%, or about $11.3 million. The second component is special adjustments beyond the 7.5%, with the additional revenue going to the unit that requested it. Several units have asked for such increases, including Morris, Law, Architecture and Landscape Architecture, and Pharmacy. Moreover, on the Twin Cities campus, the continued transition to common upper division tuition means there will be more money directed to CLA and Human Ecology. Mr. Pfutzenreuter referred Committee members to a table outlining the impact of the tuition changes by unit and level of enrollment and by number of credits enrolled for. For example, although there is no such thing as the "average" student, a student enrolling for 14 credits on the Twin Cities campus would see a 6.1% increase.

Committee members discussed whether or not the continuation of the move to uniform tuition rates, in order that tuition not drive a student's decision on what program to select, will increase the subsidy of IT students by CLA students. It was noted that all colleges receive a subsidy, but some receive a smaller subsidy than others. The cost to the University per credit hour taken is higher in IT than CLA, however, but the tuition is the same. Some additional revenue is going to CLA, it was noted. What this means is that CLA students have been paying more and getting less; now they will pay more and get more, although there is some question whether what more they will get will equal what more they are paying.

A bigger issue, said one Committee member, is if the University moves to Responsibility Center Management, where does it start? This is a real issue, and could work to the permanent advantage or disadvantage of students, depending on what unit they are in. The Committee agreed that it wished to see the instructional cost study again, as soon as it is available.

-- There will be a few volume changes; CLA and Human Ecology expect to receive additional money because they will teach additional classes.

-- The upper level of the band for Graduate School tuition will now be 12 credits rather than 15; this will put a cap on tuition remission for graduate assistants. Enrolling for 13-16 credits will cost $380 more than enrolling for 7-12 credits.

Most graduate students enroll for 7-12 credits, it was reported, and that is considered to be full-time. The cap at 12 credits, observed one Committee member, is related to the appointment of graduate assistants and the amount of work they can be expected to do while also taking courses. There should also be an adjustment for students on fellowships, who can take more credits because they do not have teaching or research obligations; for them, tuition remission should go to 16 credits. Who pays for that tuition remission? That issue has not been thought about, Mr. Gilson reported; they will look into it.

On the issue of graduate assistant salaries, increases will be up to the deans, although the bottom increases, so anyone being paid at the lowest rate will have to increase salaries. While these salaries will also receive a 1% non-recurring allocation, recurring funds to pay these increases will likewise have to come from reallocation.

Tuition is only one part of the cost of going to school; how much will the cost of instruction increase because of new fees? It will be difficult for a freshman to know how much it will cost to go to the University.

-- The $9.1 million in central administrative reductions have been taken from the units.

-- There is no significant news about the state special appropriations, except in the $8.6 million for the Academic Health Center. It is not clear if those funds are recurring (there is no legislative language indicating if they are or not), and $6.6 million of the money is being held by the state pending certification by the Board of Regents that there have been changes in the personnel policies. Ten percent of the money is contingent on progress in the rural physician program at the Duluth School of Medicine. Mr. Pfutzenreuter said it was thought prudent to hold the $6.6 million until after the Board takes action.

How often has the University been saddled with this kind of contingency, asked one Committee member? Has this ever happened before? Mr. Pfutzenreuter said it has not, but it could be a preview of what is coming in the future. The current budget contains $5 million to be granted if performance measures are achieved, but the measures are ones the University can likely meet so the money was included in the budget. It is less certain the University can readily meet the contingency in the AHC appropriation, so the funds are not being included in the budget. The contingency is worrisome.

-- There is good news on the Indirect Cost Recovery funds; $5.5 million will be added to the formula allocations to units. They have been conservative in estimating ICR funds, but since the federal government has agreed to an increase in the University's ICR rate from 40 to 47%, and since there has been an increase in grant funding, the ICR revenue forecast is up. (From the perspective of principal investigators, pointed out one Committee member, the increase has not been positive thus far.)

-- The central reserves are not in good shape; the projected ending balance for the 1996-97 fiscal year is $15.3 million (the goal is to have $40 million in reserves). That balance is predicated on the sale of land; if that does not occur, the reserve balance will be even lower.

-- There is considerable pressure to add technology fees all around the University. CLA is proposing a charge of $45 per quarter.

These fees are simply more tuition, maintained one Committee member, and a way for colleges to increase tuition. The unit that levies the fees receives 100% of the money, Mr. Pfutzenreuter said in response to a question. Duluth has a significant number of course fees and has been directed to re-evaluate its policy.

How do the tuition increases compare with other Big Ten schools, asked one Committee member? Mr. Gilson reported that they have no firm information on what other institutions are doing; an informal survey earlier in the year suggests that the University's increase will probably be above the midpoint, although the other schools are struggling with the same problems as those that face the University. One Committee member recalled seeing data suggesting that average tuition on the Twin Cities campus was 103% of the average, but in terms of the best of the Big Ten schools, Minnesota was at about 97%. One complication, Dr. Cabral reported, is that a lot of institutions have fees as well, and it is difficult to tease out all the charges in order to obtain comparable data.

Higher fees might be more palatable if some of the money were directed to financial assistance; is that the case now? It is not, Dr. Cabral said, and is prohibited. Fees must be across classes, and students seem to accept fees that go for special expenditures that they can see the results of. What is somewhat alarming is that fees will be used to cover budget shortfalls, something the Regents do not want and the administration will not accept.

At Crookston, it was noted, the fees are $300 per quarter on top of tuition. In their case, it may be understandable. Another Committee member observed again that it is hard for a student to figure out the cost of attendance with all these fees, and to obtain financial aid. To the extent the University is trying to meet needs, these fees must be cut down. The administration has been restrictive, Mr. Gilson pointed out. Except in the case of technology fees, it was rejoined.

These fees are like tuition, one Committee member repeated, except in the case of Crookston, where students are essentially buying a computer on the installment plan. In the case of access to student labs, however, it is tuition. But IT students want specialized equipment, Dr. Cabral pointed out, and voted to pay for it through fees. One Committee member asked that the original fee proposals be provided to the Committee, in order that the Committee could learn if students had been consulted on or favored the various fee proposals from the colleges.

One Committee member inquired how the cost of Internet access and email is being funded; another said it is through such things as increased telephone charges. Just as Parking pays for transit, observed another Committee member. Those sources do not cover the costs completely, reported another Committee member; the University is struggling to meet computing needs. Computers could be replaced every four years, so technology fees are adopted in order to help keep up with technology.

Access is an ongoing problem, Dr. Cabral commented; the demand cannot be meant. There are colleges that cost the University a lot more than other units, in terms of technology, Mr. Pfutzenreuter reported. There will be a decision to provide a certain level of access, and if people leave their machines on all day, that will cost those units money.

One Committee member asked, vis-a-vis the central reserves and land sales, that the Committee hear from the Real Estate Advisory Committee on the criteria to be used in selling land.

It was agreed the Committee would revisit the budget documents at an upcoming meeting.

**2. Financial Planning Framework**

Professor Morrison then asked that Mr. Pfutzenreuter turn to the Financial Planning Framework, which he described as "scary."

Mr. Pfutzenreuter said he prepared the Financial Planning Framework (hereinafter FPF) as part of the University plan, and has tried to draw attention to the financial projections. He noted wryly that he often gets the job of saying that the sky is falling, and he does so here. The University is NOT bankrupt, he said, but it is hiding bankruptcy behind bad buildings, lousy technology, and poor wages.

He has tried to look forward three years in this financial planning model, and built in certain trends and strategic issues, outlined on one of the pages of the handout (i.e., no increase in state support for public higher education, tuition increasing faster than inflation, pressure on entrepreneurial activities to generate new revenue, compensation costs will continue higher in college and administrative budgets if not corrected, technology investments are critically inadequate, facility renewal continues to fall short of goals, new strategic program investments are working but a small component of overall spending, significant systems improvements are required between 1997 and 2001, loss of patient income will continue to be a problem in the AHC, the potential for legal liabilities exists, and central reserves are nearly exhausted).

One thing he noticed in budget hearings, Mr. Pfutzenreuter commented, is that compensation costs in units are increasing. That is the result of retrenchment, pointed out one Committee member; departments cut short-term dollars. This is getting to be a crisis, Mr. Pfutzenreuter said; in one college, salaries and fringe benefits are 90% of the budgets. Committee members pointed out that this is true in many departments.

Mr. Pfutzenreuter quickly reviewed the sources of funds that support education and general expenses (38% from state funds, including state specials, 16% from private gifts, grants, and contracts, 7% from educational sales and services, 20% from federal grants and contracts, 16% from tuition and fee income, 2% from investment earnings, and 1% from all other sources). He then noted a graph showing that between 1990 and 1995, state support for education and general expenses went from being the primary source of support to a smaller percent than federal, private, and other sources (38.7% from state funds versus 45.6% from federal, private, and other sources). Tuition has remained a relatively stable 15% of the revenue; tuition has gone up, but is not a larger percent of total revenues. The budget increases have been funded from other sources.

This means, observed one Committee member, that the University is now a state assisted rather than state supported institution. Mr. Pfutzenreuter concurred with the observation that if the graph were carried back before 1990, it would likely show state support at much higher levels in the previous decade.

Mr. Pfutzenreuter then reviewed the projections for state funding, noting that the provisions of House File 1856 call for the 1997-98 budget to be reduced substantially, but that the Department of Finance projections have added 3% per year for inflation to the original HF1856 figures, and that it is likely the numbers will be closer to the DOF projections. Even that figure is less than the amount the University currently receives. The general prognosis, he concluded, is that state funding will be flat.

He then turned to expenditures, and explained four options he had developed for the three fiscal years beginning 1997-98. All of the options build on the 1996-97 approved budget. He assumed state funds would be level, salaries and fringes would increase at 4%, utilities would increase 4%, and inflation would be 3% for other expenses. Asked if his assumptions included taking buildings off line, he explained that he did not look for SOLUTIONS to problems; he was simply trying to define the investments necessary. Figuring how to get there, if at all possible, comes later.

One Committee member asked where the assumption of 4% for salaries and fringes came from. Using that figure means it has been decided the University will not tackle the problem of uncompetitive salaries in the next biennium. Mr. Pfutzenreuter responded that he was making no decisions; his point is to engage the discussion about priorities, because the University cannot afford all of them. He chose 4%, he said, as an attempt to increase salaries 1% to 1.5% above inflation.

Option A includes the 1996-97 base spending plus:

-- (salaries, utilities, inflation as noted above)
-- new building operations = $3 million per year
-- custodial standards = $4 million per year
-- preventive maintenance = $5 million per year
-- additional debt service
-- other one-time expenditures of $56 million
-- one-time cost to rebuild central reserves = $25 million
-- one-time technology investment = $57 million (the total of unit requests; some of these are

currently being paid by fees)

Option B includes Option A plus:

-- $13 million per year in ongoing technology costs
-- $146 million in technology infrastructure, over three years
-- $45 million in administrative process redesign (systems costs in human resources, student systems, grants management, financial management)
-- $20 million per year potential impact on the AHC from patient income/practice plans (at present the practice plans put $45 million into the Medical School)

Option C includes Options A and B plus:

-- $46 million per year in facility renewal (required to stay abreast of the growth of unfunded liabilities)
-- 6% per year in increased financial aid/scholarships
-- Severance/buyouts offset with savings
-- 2% real growth in academic instruction, research, and outreach
-- $20 million per year in training (2.5% of payroll)

Option D includes Options A, B, and C plus:

-- Assumption of $120 million per year facility renewal to meet U2000 goal of decreasing the backlog (The Option C item of $46 million per year only prevents a further increase in the backlog)

One Committee member noted that the 4% was a figure chosen by Mr. Pfutzenreuter while the $146 million for technology infrastructure was identified by another group; since there are different sources for the numbers, they should be discussed. At 4% per year for salaries, there will not be anyone left at the University who can use the $146 million in infrastructure!

Of the $45 million to the Medical School from the practice plans, it was noted, about $30 million is for salaries and $15 million is part of the Medical School budget. If the practice plan income declines, the salaries of physicians as well as the Medical School is affected.

The University has two assets, said one Committee member: buildings and the faculty. The quality of the University depends on the faculty it can attract. To make this depiction symmetrical between human and physical capital, improvement to salaries should be built into the projections.

Mr. Pfutzenreuter then explained the impact of the four options. Option A requires a recurring adjustment (either through increased revenues or expenditure changes) of $129.3 million, or 9.4% of spending. The corresponding amounts and percents for Options B, C, and D are 182 million (13.2%), 260.2 million (18.8%), and $318 million (23.0%). The upshot, he said, is that the University cannot realistically afford any of the options and it is not clear what to do now.

The way the numbers are laid out, one Committee member noticed, the expenditures on buildings are roughly ten times the expenditures on people.

Mr. Pfutzenreuter said the University must decide what to invest in and what strategy it will use in order to do so. On facilities renewal, for example, the University could decide to go to the legislature in 1998 and ask ONLY for money for facilities renewal and nothing for new buildings. This proposition appeared to have concurrence of several Committee members. Can the University afford more buildings, he asked? That is concern about the campus master plan, added another Committee member; it is oriented to additional construction. The University should think about LESS square footage and buildings coming down. (The text of the report, one Committee member pointed out, speaks to pruning, removal, and a reduction in the number of buildings, where possible.) There should be no new buildings, and space opened up where old ones are torn down.

Mr. Pfutzenreuter said he was not confident that the legislature can resist the urge to build new facilities. There was discussion during the session about ways to finance facility renewal without using state funds. The problem is so huge, however, that no one can figure out how to tackle it. He also said he regretted the contrast between buildings and salaries, and added that there has to be a strategy to address these problems. One choice is to request funding for renewal only.

Since this planning document deals with options the University cannot afford, commented one Committee member, it may as well include improving salaries and fringe benefits as well. Another Committee member said that salaries and fringe benefits should be changed in either Option A or B. It should be easy to calculate what it would cost to bring the University to the goal identified in the Compensation Working Group report adopted by the Senate; recollection at the meeting was the figure was about $50 million in recurring funds.

Asked if there were any assumptions made about faculty ages and retirements; does the model assume the replacement of all faculty who retire? Mr. Pfutzenreuter said he had made no assumptions in that respect, and that issue may be one way to deal with the financial problem. That, it was pointed out, is how the University HAS been solving the financial problem.

Professor Morrison said the Committee would pick up this issue at its next meeting.

He then said it has been suggested the Committee should say that all proposals for budget adjustments and for college closings and mergers must receive full discussion before any decision is made. There is a concern that some issues could be "taken off the table" before they are discussed; if that is true, then in the future other such items could be removed from discussion. The Committee agreed that Professor Morrison should send a letter to the Board of Regents requesting the opportunity for full discussion before decisions are taken.

Professor Morrison then adjourned the meeting at 5:10.

-- Gary Engstrand

University of Minnesota