Minutes*

Senate Committee on Finance and Planning
Tuesday, April 16, 1996
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Thora Cartlidge, Craig Dexheimer, Kathy James, Karen Karni, Gerald Klement, Patrice Morrow, Roger Paschke, Richard Pfutzenreuter, Peter Robinson, Doris Rubenstein, Charles Speaks, Craig Swan, Steven Thelen, James VanAlstine

Regrets: David Kittelson, JoAnne Jackson

Absent: Allen Goldman

[In these minutes: the budget, including bits and pieces on graduate student fringe benefits, the Academic Health Center, tuition, RCM; future financial planning]

Discussion of the Budget and Future Financial Planning

Professor Morrison convened the meeting at 3:25 and noted that the Committee had run out of time at the previous meeting to discuss the budget and the financial projections Mr. Pfutzenreuter had prepared. This meeting will be a chance for the Committee to catch its breath, pursue questions, and set future agendas.

One Committee member inquired what the response of the administration would be to the request by Regent Keffeler for financial information if the proposed 7.5% tuition increase were reduced to 5%? Mr. Pfutzenreuter said Regent Keffeler had asked questions about the revenue loss if tuition were only to increase 5% (for undergraduates in Twin Cities day school, at Duluth, and in CEE), and how the shortfall would be made up. For the Twin Cities and Duluth, the revenue loss would be about $2.5 million. The administration will have to assess how the shortfall would be spread, and will provide information to the Board. (One possible target would be the increase in financial aid; if $1.4 million is provided to offset for needy students the 7.5% increase, presumably less would be needed if the increase were 5%. Other possibilities might be higher tuition increases for other students or a decision not to take on additional capital debt and thereby reduce debt service.)

Another Committee member asked that Mr. Pfutzenreuter carry a question back to the President and the provosts. The budget document says there will be salary increases, except as otherwise directed by the provosts. What have the provosts directed? The document may be misleading, because the President said there would be 3% increases or what the provosts decide; some provosts may decide there will be no salary increases. The Committee needs an answer to this question, probably from the President himself.

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One Committee member commented on the relationship between tuition income and Responsibility Center Management (RCM). The issue is time consistency, it was said. Everyone believes the University will go to RCM, the signal has been sent, and there have been meetings about tuition and enrollment. What happened as enrollments increased or decreased more than projected? What will happen next year and thereafter? There were enrollment targets, with promises to units that they could retain revenue from higher enrollments. If RCM is not adopted now, there will be an incentive for colleges to suppress enrollment, so they get more funding by increasing enrollment by larger amounts after the change to RCM.

Mr. Pfutzenreuter noted that there is a tuition working group, under the RCM Strategy Committee (the latter of which is chaired by Professor Morrison), which is working on attribution of tuition revenues when the change is made to RCM. This problem of incentives is one the group is aware of, he assured the Committee, and they will try to neutralize the effects of such behavior. By the same token, it was said, central administration must be fair to the colleges.

Professor Morrison explained that there will be a comprehensive document on RCM placed before the Committee this spring, and there will be review again in the autumn before any action is taken. Mr. Pfutzenreuter said they have been working for a couple of years to get the fairest possible tuition attribution model. He said the possibility of game-playing with the base rates is being taken into account, and added that the administration is not out to suddenly readjust a unit budget--the point is to be as fair as possible.

The Committee then discussed the funding of graduate assistant fringe benefits, and the lack of central funds available to cover the increased costs of those fringe benefits. It is not understood that where decisions are made can have an impact on the whole institution. These rates are affecting the funding of graduate students in a way that is not in the best interests of the University. The changes being proposed are moving in the wrong direction, and the result is a economic basis for reducing the number of graduate students. Mr. Pfutzenreuter agreed that what should and should not be considered institutional problems is very confusing.

In response to a query about fringe benefit costs for graduate assistants at other Big Ten institutions, it was said that the costs are about the same; the question is how they are paid and what budget the charge shows up on. In some institutions, the tuition benefit is carried on a grant; in others, the remission of tuition is not budgeted at all, so not charged--although that has an impact on the University's overall budget, since the income is foregone.

This is related to RCM, Mr. Pfutzenreuter said, because it has to do with attribution of net and gross tuition and who is responsible for controlling the tuition waivers. One Committee member asked that the RCM review group consider providing options to the principal investigators and department heads, such as giving assistantships without tuition remission, or to scale the remission; it is not always the case that a department cannot recruit good students without tuition remission. That would mean, said another Committee member, that admission would no longer be need-blind.

Another issue the Committee should take up, it was said, was the financial issues in the Academic Health Center (AHC). It was recalled that the Committee had heard a presentation on the Medical

School, and still needs the answers to questions it posed in that discussion. One hears different things about base salaries in the AHC; they appear not to be the same in each college, or department, or even for individuals in the same department. It was agreed that such a discussion should take place. On a related subject, it was also agreed the Committee should have another update on what is occurring with respect to the Hospital, after the May Board of Regents meeting.

The Committee turned next to future financial planning; Mr. Pfutzenreuter distributed a handout of some working papers to help clarify the numbers that are contained in the four options he presented to the Committee the previous week. He emphasized that he had not tried to SOLVE the problems, only to identify the level of the problem and to start discussions on what the solutions might be. It may be that some investments may have to be jettisoned.

Something not identified as a problem will not be talked about, pointed out one Committee member. It appears that there is ten times as much money directed to buildings as there is to salary improvements for the faculty. Mr. Pfutzenreuter responded that while building costs are projected at up to $346 million (depending on what options are selected), salary costs are about $200 million if salaries were increased 4% each of the three years covered by the projections. He also pointed out that the facilities expenditures do not bring buildings to state of the art; the custodial services, for example, are what would be provided in a class B office building, not a class A building.

The numbers assume more money is needed for improvement of buildings that is needed for improvement of people, it was emphasized. If all these are impossible numbers, why not include the same amount of improvement for people? One concern is that there is supposedly a compensation policy at the University, adopted by the Senate; that policy notes that faculty salaries are behind the institution's peers and calls for increases at the rate of inflation plus two percent until the goal is reached. Increases of 4% are not inflation plus 2%. It may be that increases will have to be segregated by employee group, Mr. Pfutzenreuter explained, something he did not do in his projections.

It was noted by one Committee member that Option A required recurring adjustments of $129 million, or 9.4% of the budget, with salary increases at 4%. Mr. Pfutzenreuter commented that Option A was what he describes as "patch and repair." Both Options A and B seem minimal, observed another Committee member. B contains significantly more technology and systems work, while A pays the bills and includes some technology and some facility work.

A general concern about these options, said one Committee member, is that while Mr. Pfutzenreuter is careful about how he talks about the options, others may not be. These are choices, and one choice is not to do A or B or C or D. No one denies the University faces difficult choices, but these options make it look like there is no way out and that they could require decisions that are bad for the University. Had he been here ten years ago, he probably could have made the same dire projections, but the last 5-10 years have not been disasters. One must be concerned that these will be taken the wrong way by some, and that the problems as defined as having no solutions. That conclusion must be rejected; to say that there will be a $1 billion negative cash balance at the end of 1999-2000 is not a solution.

Mr. Pfutzenreuter acknowledged the danger. If one takes the performance measures for facilities, it is clear that expectations are out of line with what the University can afford. It cannot afford $120 million per year for facilities needs. (Alfred Nobel invented the solution to some of the facilities problems, interjected one Committee member.)

Asked what the plan is, Mr. Pfutzenreuter said he must go to the Board of Regents in July, and hopes to have some strategies for dealing with at least part of the problem. Another part will be the legislative strategy, and another to assess what the University can realistically expect to accomplish. After that the biennial request will be prepared, and provosts and chancellors will be given some idea of what kind of retrenchment and reallocation will be required.

The University will not allow a $1 billion negative balance happen, Mr. Paschke assured the Committee emphatically. There are a lot of issues to be dealt with that will require a lot of interaction; he said he does not know what the answers will be.

The interactions must include this Committee, Professor Morrison observed. One concern is that each year for the past several, the 2% reductions were passed on to colleges and departments but there was no planning for dealing them. They include unfunded salary mandates or across-the-board reductions. It may be, given the Regents vote last week, that is the only way the University can operate. It may be that the University will have to decide which of the elements in Options A-D it can do, add up the numbers, and pass retrenchments to the units. If that is the case, the units should be told that they will have 10% less money and should think about that as they make hiring and curricular decisions. The University, moreover, never thinks seriously about decommissioning buildings; it TALKS seriously about it, but it never DOES it.

These numbers say the University needs to be a smaller institution, Mr. Paschke said; it has been becoming smaller by 2-3-4% reallocations each year. The alternative is to plan the reduction strategically.

Questions were next asked about the revenue assumptions. Tuition is projected at 3% per year; one could assume that 7.5% increases would lead to fewer students. Mr. Pfutzenreuter said he only assumed inflationary increases, but acknowledged that part of the solution to the difficulties could be higher tuition increases. Is it realistic, it was then asked, to assume a zero increase in state support? Mr. Pfutzenreuter said he considered that a very real possibility; if the University can retain its current budget (a good part of which is now intended to be non-recurring), it will be doing well.

The University has no increase in its operating budget but has an ice sheet forced on it, pointed out one Committee member; even though those are different budgets, what is wrong with communication? Why is the University not able to make the case for what it needs and what it does not? What he has learned about the bonding bills, Mr. Pfutzenreuter said, is that it is an opportunity for pork barrel politics. The more choices the University provides, the more the legislature can pick and choose items. Part of the solution, in the future, may be to offer no choices, to say that the University ONLY wants money for facility renewal--and to stick to that position.

If the University becomes smaller, what about the likelihood that the legislature will then reduce correspondingly state support? Mr. Pfutzenreuter said he has heard nothing in the legislature to suggest that would happen. The University is making too good a case for its needs; the legislature will not provide new funding, but it has given no indication it will cut back funding. There have been cuts made when there are no salary increases three years out of five, it was pointed out; another Committee member observed that the legislature will say that is the choice the University made, not the legislature. Appropriations have gone up, Mr. Pfutzenreuter pointed out, although not enough to keep up with inflation; the only group keeping up with inflation is prisoners.

What "kills us," said one Committee member, is debt service and operating costs that are not funded, so they come out of the O&M base. The basic sciences building and the Carlson school facility will cost $3 million per year. And there are more buildings coming on line, Mr. Pfutzenreuter observed.

Mr. Pfutzenreuter cautioned the Committee that these projections are not the opening salvo in some kind of campaign; he said he had to take pains to explain that to the Governor recently. The other choice is to hold back the numbers and not talk about them. The $1 billion shortfall will not happen, but there are a lot of investment needs that have to be met; those that are essential will have to be met by retrenchment or by increasing revenue. It is a beginning, responded one Committee member, not a salvo, because it isn't being fired across anyone's bow.

Apropos the comment about getting smaller, said one Committee member, the University must be careful to cut units that have a high average cost and low marginal revenue; if it cuts units with low average cost and high marginal revenue, it will make the picture look even worse than it is. There must be careful thought given to WHERE the University will get smaller, it was said, while also keeping units that are what the University is about.

The Hospital transaction is doing that, Mr. Paschke responded; it is 20% of the University involved in a high-risk business.

Is there a potential for conflict in that undergraduate programs are revenue producers while many graduate programs are not? CLA is a medium cost college while Morris is high cost, said another Committee member; in this sense, RCM could be helpful, because it will require examining how the state subsidy is allocated. The question will then be how much does the University want to support something.

If one wants to make the University smaller, and couple it with RCM and units generating their own revenue, that will push the University smaller in terms of square footage and employees but larger in the number of students. And smaller in research visibility, it was added. Without discussion of what one wants the University to be, these will drive decisions. These will be market decisions at their worst, with the awful aspects of market decisions.

There will also be little public discussion of the information technology used to deliver education, said one Committee member. Another offered the opinion that the number included in the projection is inflated, and rather than being in Option B, they should be in Option G or H. That is the kind of refinement that is needed, Mr. Pfutzenreuter agreed.

The University ought to consider a range of possible options. It would also be helpful to include increased compensation in one of the options, as well as alternative tuition increases, less compensation, distance education possibilities, so there is a menu to choose from.

It was then agreed that the recommendations of the Capital Improvement Advisory Committee (CIAC) should be brought to the Committee. Mr. Pfutzenreuter observed that the performance measures with respect to facilities are reflected in the numbers he included in the options. His concern is that with unrealistic performance measures, there will never be success in meeting them.

One Committee member said that when it comes down to rank-ordering items on the capital improvement list, there is no reference to academic plans; they are based, instead, on the persuasive ability of the administrators the CIAC talks to. The CIAC should NOT implement academic plans, but the two CIAC chairs agreed the plans should bear more directly on the choices. One possibility might be to change the membership balance on the CIAC, it was suggested; at present, there is only one faculty member on it.

Having no more business, Professor Morrison adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota