Minutes[*]

Senate Committee on Finance and Planning
Tuesday, December 2, 1997
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Jean Bauer, Cynthia Gillette, Gerald Klement, Leonard Kuhi, J. P. Maier, Richard Pfutzenreuter, Jane Phillips, James VanAlstine, Susan Weinberg

Regrets: Catherine French, Charles Speaks

Absent: Stephen Gudeman, JoAnne Jackson, Robert Kvavik, Peter Robinson, Joby Sebastian, Shenoa Simpson

Guests: Georgina Stephens (University Treasurer)

[In these minutes: reorganization policy; insurance; the 1997-98 budget, with emphasis on options for dealing with the projected shortfall]

1. Reorganization Policy

Professor Morrison convened the meeting at 3:20 and inquired if Committee members had any comments on the Policy on Reorganization that had been forwarded to it from the Committee on Educational Policy. The intent of the policy, Professor Morrison summarized, is to recognize that there will be changes in the organization, to accommodate it, but to require that the Senate and its committees have some say in what happens. Following brief commentary, the Committee voted without dissent to concur in the SCEP recommendation of the policy to the Senate.

2. Insurance

Professor Morrison then recalled the discussion with Mr. Johnson about insurance coverage and how claims could affect departments adversely. He said it was his sense that there had been several sentiments expressed by Committee members: that responsibility should be attributed to individuals or units causing the liability, that automatic attribution of claims to departments was excessive and unfair, and that departments should have some say in whether or not a claim will be settled rather than litigated.

Following a suggestion from Ms. Stephens, it was agreed that Professor Morrison would draft a letter outlining the Committee's concerns, circulate it by email for comment, and then send it to the Senior Vice President for Finance and Operations in order to permit Ms. Jackson to make a response.

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[*]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.

3. The 1998-99 Budget

Associate Vice President Pfutzenreuter distributed handouts and explained that there would be a presentation to the Board of Regents at their meeting next week about the preliminary outlook on next year's budget; he said he would appreciate receiving comments on the presentation. He then reviewed the presentation, with a series of printed copies of slides. Among the data of note:

-- The University's base appropriation, from 1996-97, was approximately $461 million; it increased by about $80 million in 1997-98. Of that $80 million, $51.5 was in recurring funds and $28.5 was in non-recurring funds. That means the base recurring for 1997-98 was about $512 million ($461 plus 51.5). For 1998-99, there will be about $7 million in new recurring money and $15.8 million in non-recurring money.

-- Of the $51.5 million in RECURRING funds for _1997-98_, 53% went for faculty and staff compensation; the remainder was for facilities, academic programs, state specials, and other items. Of the $28.5 million in NON-RECURRING, 26% went for technology infrastructure, 32% for academic programs, and the rest in smaller chunks for computer system redesign, state specials, compensation, facilities, and so on.

-- Of the $15.8 in NON-RECURRING money available for _1998-99_, there are nine needs already identified, including $1 million for AHC technology transfer (per a legislative rider), $5 million for enterprise systems, $4.5 million for graduate assistant tuition remission deficit, $1.4 million for the Architecture building (by prior agreement), $2.3 million for conversion of recurring to non-recurring items, and various other smaller items, for a total of $15.5 million--or all but about $300,000 of the available non-recurring funds.

-- The preliminary estimate of recurring expenditure needs (outlined in the last set of the minutes of the Committee) include $30 million for compensation (both general increases for all and faculty-specific increases), $8.5 million for facilities costs and debt service, $4.5 million for supply and expense increases, and $5 million for other prior commitments/other needs. These total $48 million.

-- Available funds (to date) to meet this $48 million in needs include the $7 million in new recurring funds from the state, $6.3 million in central administrative cost reductions, conversion of $2.3 million in recurring to non-recurring items without significant risk; these items total $15.6 million, leaving $32.4 million (of the $48 million) that is not funded.

-- Possibilities for obtaining the additional $32.4 million include new revenue, internal cost savings, modification of budget needs, one-time options, and new state support (the University has requested $13 million for faculty salaries).

Committee discussion over the next hour touched on many points; what follows are some of the highlights.

-- The Governor has said the lack of money to fund salary increases is the University's own fault, and that it should have escrowed the funds. What is the University's response? There must be a reasoned response to this charge. Mr. Pfutzenreuter said he would inquire which of the items upon which the University spent the $51.5 million in recurring funds should have not been funded? The compensation increases? Paying for new buildings that came on line? Preventive maintenance? Supporting academic programs? It was said that the University must simply explain that some expenditures were mandated or unavoidable (e.g., building maintenance, state specials) and some were absolutely high priority (e.g., compensation), and that the choices had to be made.

-- Who authorized all these new buildings? The regents and legislature, in the past. The Committee has repeatedly asked where the money would come from to operate and maintain the buildings; the administration said the money would be found, and it ended up coming from academic programs. The Committee is justified in saying "OK, but not again." The operating funds for buildings should be identified in the capital request, and the funds appropriated, rather than the University being forced to find operating funds after the fact. These are not trivial amounts (several million additional dollars annually). Every two years the University asks for new buildings, receives them; it asks for operating costs, and the legislature says "no." Then the University asks for more buildings. It should learn not to do that (or, alternatively, it should get the legislature to make a commitment to increase the budget for building operation when it approves the new building).

The purpose of imposing the 1/3 debt service, and the reason the legislature does not fund building operating costs, is to send the message that the University should be more miserly in what it asks for and should seek smaller or no new buildings. But the University keeps asking for buildings and does not receive operating costs, so the money comes out of the operating budget. The legislature has implicitly told the University not to build, but it keeps doing so.

-- Unless buildings are taken down, operating costs will increase. And renovation adds costs, even if not new square footage. Committee members discussed building costs, and the possibility of leaving new buildings unopened, for some time.

-- One thing that did not help was that the legislature, literally after midnight at the end of the session, changed $9 million in funding from recurring to non-recurring funding.

-- In those instances when a building is closed, the savings are a credit to the facilities charges; they are not a windfall to Facilities Management.

-- The President spoke with FCC about faculty salary comparisons, and suggested that perhaps a different comparison group might be appropriate (such as using the top group of public institutions); he is apparently uncomfortable using the top 30 research universities. No matter the comparison group, the University is at or near the bottom of the list.

-- When compared on tuition, the University is cheap compared to the top 30 (because that list includes many private institutions with very high tuition rates). The general increase of 2.5% in tuition is institution-wide, but any individual student might see increases of either less or more than that, depending on the program in which he or she is enrolled.

-- The increase in student credit load (which would increase revenues by $1.2 million) cannot be mandated, and while there is evidence that student credit loads are rising, one is uncomfortable placing the phenomenon on a list of how to solve recurring funding problems. Students may also rush graduation before the conversion to semesters. Freshman are also being urged to carry 15 or more credits per quarter, in order to graduate in a timely fashion.

-- It is also true that ICR funds are increasing, but again, that cannot be mandated. But the money can be used to cover costs.

-- The option of "modification of budget needs" appears to be addressed exclusively to faculty: reduce the salary increase from 8.5% to 7%, or reduce it to 6%, or (for all employees not covered by a contract) delay granting the increase by three months. If the faculty salary increases are cut, the University should not any longer represent that it is trying to get to the middle of the top 30 comparison group. This would not be a good option.

-- Cutting other recurring expenditures should be considered; the University should think about not doing some things any more. That will happen to some extent with the cost reductions in central administration, but could be explored further.

-- The units were instructed to budget 1.4% for an assessment for enterprise system costs; the costs were later reduced, so the assessment was cut to 1.2%. If the assessment were not made, there would be $5.2 million saved: central administration would not collect the money from the units, and could leave the money in the units, to be used to help fund costs. There would then be, however, no source of funds for the enterprise systems. (Although there is a proposal to begin funding the expenses with non-recurring money.)

-- Would there be any benefit to the students agreeing to a one-time tuition surcharge of 4% to help make up the backlog of facilities or other costs, if they could have a written guarantee that it would not recur, and would not be willing to do so if there would then be additional bonding money sought for new buildings, again creating demands on resources.

A 4% tuition increase would not begin to "make a dent" in the needs, it was said; a 24% surcharge would be needed, to which no one would agree. Moreover, the capital request the University has made IS going to increase operating costs in the future, as well as additional debt service. The only way to avoid this is to not have a capital plan (which then leads to having bad buildings and no facility for molecular and cellular biology).

But the problem is that the University is investing in buildings for academic programs, not in the programs themselves, which will lead to having empty buildings that the University can rent out.

-- The University could decide not to return the $6 million from Piper, Jaffray, to the endowments that lost the money.

-- In terms of the money from the sale of the hospital, some will be used for enterprise systems, some reserved for legal liabilities, some is reserved for Academic Health Center space needs. The Regents will be receiving a full accounting of the disposition of those funds.

-- The faculty keep focusing on faculty salaries because they are the item that is always squeezed at the end of the budget process. Over 8-10 years, the result has been a decline in the NRC rankings and salaries at the bottom of the top 30.

-- None of the possible solutions include a 1% reallocation, whereby units would have to fund 1% of cost increases from their own resources. That would total about $7 million.

-- Balances grow year after year because departments overestimate their needs; last year saw a growth of $37 million. There are a variety of reasons for the increases, but how much of them are due to the budget process itself? It is hard to ferret out why these increases are occurring, but it appears that some recurring funds are put away each year and not spent. It could also be structural, in the way that lines are allocated. $37 million would take care of a lot of problems; if the balances continue to go up at that magnitude, the approach to budgeting has to be examined. There needs to be incentives to budget accurately--but IMG will encourage units to build balances. Another difficulty in trying to assess the situation is that balances are in 30,000 accounts across the institution.

The current balances (not including sponsored research) are $265 million, and they are budgeted to spend $57 million--which will not all be spent. A study several years ago of balances revealed that they were used for capital expenditures for equipment, debt on internal loans, capital expenditures for facilities, and other items (e.g., faculty set-ups). Almost all of these were reasonable, and it would be hard to identify which could be assessed and which not. One possibility would be to assess the increases.

Any approach to the balances that proposes to take them will lead to units spending them as fast as possible.

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It was agreed that Professor Morrison would draft a position statement for the Committee (to be circulated by email for review), and that the statement would then be presented to the Senate Consultative Committee to take up with the President. The problems are known; the Committee must say that certain solutions are acceptable and that others are not.

Mr. Pfutzenreuter said he remained optimistic that the University would receive the $13 million it has requested in support of faculty salary increases.

Professor Morrison adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota