Minutes[*]

Senate Committee on Finance and Planning
Tuesday, January 30, 2001
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Stephen Gudeman, Wendell Johnson, Joseph Konstan, Eric Kruse, Elo Charity Oju, Richard Pfutzenreuter, Terry Roe, Cory Stingl, Susan Carlson Weinberg

Regrets: Daniel Feeney, Michael Korth, Jane Phillips, Rose Samuel

Absent: Leanne Baylor, Michael Volna, J. Peter Zetterberg

Guests: Professor Susan Brorson (Faculty Consultative Committee); Executive Vice President Robert Bruininks; Ms. Robin Dittman (Office of Budget and Finance); Associate Vice President Theresa Robinson (Auxiliary Services), Robert Crabb (University Bookstores)

Other: Sharon Olson (Office of the Executive Vice President)

[In these minutes: department deficits; report on the Budget Management Advisory Committee; allocation of ICR funds; response to salary letter; report on Coffman Union and a flagship bookstore]

1. Statement on Deficits

Professor Speaks called the meeting to order at 2:20 and noted that Professors Campbell and Konstan would be providing a draft statement on department deficits that the Committee might take up. Where would it go? He said he would raise the question with Professor Morrison.

2. Budget Management Advisory Committee

Professor Speaks now welcomed Executive Vice President Bruininks to the meeting to discuss the work of the Budget Management Advisory Committee (hereinafter BMAC).

Dr. Bruininks began by explaining the background to the creation of the BMAC. President Yudof appointed a task force to examine the University's budget system; the task force, chaired by Dean Steven Rosenstone, made recommendations in a number of areas and in particular about how to handle the costs of all-University services in a decentralized budgeting environment. The report was very good; almost all of the recommendations have been implemented or are in the process of being implemented. One recommendation was to form the BMAC, the membership of which includes two members of this Committee (Professors Gudeman and Speaks). He and Associate Vice President Pfutzenreuter also sit on it.

[*] 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.

Dr. Bruininks noted the list of recommendations (which can be found at www.evpp.umn.edu/budget/bmtfrpt.htm). Some dealt with the overall University budget framework, and along that line the administration continued assessments from last year to pay for all-University goods and services. There are three anchors to that approach: (1) the assessment for the Enterprise Systems, a mortgage payment for the overhaul of University business systems, which is assessed on payroll in all units and will last a total of seven years; (2) the IRS, an assessment against state funds, tuition, and ICR funds to cover University costs and services (e.g., debt, libraries, academic investments, etc.), and (3) local units have been required to fund a portion of faculty/staff compensation increases. Dr. Bruininks said he believed that item (3) is a principle that should be maintained.

In terms of compensation last year, the units provided $13.5 million, which surprised him, Dr. Bruininks said. All but three units met or exceeded the minimum salary increase proposed.

There will always be tensions around these issues, Dr. Bruininks said, and that is good; if the system made allocations without tensions it would be a bad system.

Dr. Bruininks then distributed copies of a discussion draft of a paper entitled "University of Minnesota Budget Framework," which he described as a work in progress. This represents work that the Rosenstone task force passed on to the BMAC. The document does not yet have a philosophy or goals statement and much work is yet required; he urged Committee members to send him comments on the paper. Eventually he would like to have something he can share with the University community that has grown out of several budget task forces.

Professor Konstan said it seems that in principle funds belong to the units but since the administration cannot run the University without money, it must either take back some of the funds or pass costs to units. How do other institutions handle this? Or does the University have different problems from its peers?

Dr. Bruininks said that the University moved to the Incentives for Managed Growth in 1996, and decentralized revenues to the collegiate levels that generate them. He said he has discouraged units from implementing IMG at levels lower than the college; there must be incentives built in, but if the system is pushed too far down there is a high risk that it will create perverse behavior. It must be a value-centered environment. Professor Campbell noted that the system is capable of producing perverse behavior on the part of the deans as well.

When the change was made in 1996 college budgets were held equal, Dr. Bruininks related, and revenues generated were then attributed to the colleges. What was NOT done was a careful projection of future costs to the University. It was thought that most all-University service costs (such as the technological infrastructure, the libraries, building operations) would be covered by the biennial request. That proved not to be the case; most funds in the biennial request are targeted (e.g., to compensation or programs). When the legislature receives a rational budget from the University, it funds some things and not others and the University receives anywhere from 40-75% of its request.

The model used in 1996 did not cover the cost of all-University services. Moreover, some of those costs increased much faster than the CPI (e.g., the libraries).

What do other universities do? They have all done the same thing: gone to a university-wide assessment. Dr. Bruininks said he did not know of one instance where that was not true. The assessments, moreover, cover not only all-University costs but also academic investments. He said he believed it in the best interest of the University to have dollars in play to help shape the intellectual future of the institution; this is accomplished through the compact process.

Professor Roe said that there is nothing in the concept paper on the University budget about implementation; he suggested that it be linked to the compact process. Dr. Bruininks agreed. He added that there also need to be a statement on reallocation. The Department of Finance (state) asked for a 2.5% reallocation ($15 million); the University needs to build a better tracking system for ALL reallocation. More than $40 million was reallocated last year, including the $13.5 million for salaries. The University reallocates by making targeted reductions and through assessments and through funds for retention of faculty. In addition, every dollar allocated through the compact process is leveraged by funds from the colleges--deans and faculty must rebudget from lower to higher priorities.

If these reallocations were more transparent it would be easier to make the case to the public that there are hardships created by budget reductions, Professor Roe observed. Dr. Bruininks again agreed. It is safe to say that the University reallocates $30 million per year or more. Does this include occasions when a department closes out one field and opens another, Professor Campbell asked? It does not, Dr. Bruininks said; Mr. Pfutzenreuter added that the University has no way to track those kinds of changes. The dean may not even recognize it, Professor Campbell pointed out.

Dr. Bruininks said the University does not yet have tools to track these kinds of changes but they do need to be part of compact plans. This kind of change is part of a longer-term focus because that is where the money is; if the tenured and tenure-track faculty do not think strategically about where to put money, they run the risk of putting it in yesteryear's programs.

This is a struggle at the Capitol, Mr. Pfutzenreuter said. There is a sense that the University moves vacant positions from Law to Plant Genomics; that is rare, but there can be changes within disciplines. When they try to explain those changes to lawmakers all they have is examples; they have no way to track them. If it were possible even to get an estimate for the colleges and big departments, Professor Campbell speculated, that could add another $10 million to the total reallocation.

Dr. Bruininks said the University has built in tracking mechanisms for the five initiatives that were funded by the legislature and has also done the same for the undergraduate initiative. They will track, account, and follow up so that everyone can see the amount that was invested and the way that funds were redirected. As well as FROM WHAT the funds were taken, Mr. Pfutzenreuter added.

The University will also try to track the revenue brought to the University by new initiatives, although that is tricky because perhaps the revenues would have come in anyway with a different initiative), including down to the level of individual hires. There is a need for better systems, he concluded, because whenever the University has trouble getting money, people want to know what it is doing with the money it has.

There are two other things that have been talked about, Professor Gudeman said--an "efficiency strike team" is one. Dr. Bruininks said they are behind where they hoped to be on this proposal, largely because they have been wrestling with so many other things they have simply gotten behind. The other is responding to the mantra that there is a lot of fat in the budget, Professor Gudeman said; he said he did not see it and the argument should be countered.

There is a problem when the University is compared with a place like Wisconsin, Dr. Bruininks agreed. It does not have the Extension Service and it has a large amount of foundation money that funds things off-budget that are built into the University of Minnesota's budget. It also does not have SYSTEM costs in its budget, which the University does.

Professor Speaks thanked Dr. Bruininks for joining the meeting.

3. Allocation of ICR Funds

Professor Speaks turned next to Mr. Pfutzenreuter, who apologized that he had to leave for a meeting with the President but said that Ms. Dittman would review the numbers with the Committee.

Ms. Dittman handed out a one-page summary of data on the allocation of indirect cost recovery funds between the central administration and the colleges. She recalled that when the University moved to IMG, a committee met to decide how to allocate ICR funds. It was decided that since ICR funds come to the University to cover costs related to the conduct of research born either by departments or the central administration, it was necessary to see which costs were born by which part of the University. That distribution was identified on the sheet and is what led to the decision to allocate ICR funds 49% to the units and 51% to the administration. She explained the data on the sheet.

Professor Konstan asked if centrally-funded units received more ICR funds when the amount of ICR funds increased. Ms. Dittman said they do not; the overages have been used for one-time expenses (e.g., the new grants management system). As a department generates more ICR funds, however, it receives more.

Professor Speaks recalled that the Committee wanted to look at these data because of a concern for the libraries and whether there was any possibility of rebudgeting some of the funds. He asked if Committee members had any recommendations; he asked if Vice President Kruse could give up anything. Mr. Kruse said he would be happy to do so if someone would tell him which services they do not want.

Professor Chapman said he sits on a college committee that looks at these same items and commented that to the extent Sponsored Projects Administration is "broken" it shifts costs to the colleges.

Professor Roe said one complaint he has heard is that these numbers are averages but that actual overhead costs vary by unit, depending on the mission, nature of research, and so on. In working with averages, some units are subsidized and some are taxed. Does she know the distribution of ICR costs around the average? Ms. Dittman said she believed Professor Roe was correct but she did not know what units subsidize other units. There is someone in Sponsored Projects Administration who knows the individual unit rates because when the rate is negotiated with the federal government it is based on data from function codes in the budget. The rate mixes CLA, the Medical School, IT, and so on; she agreed that research in the Medical School probably costs more than most research in CLA but said the funds are all pooled.

Committee members discussed the problems that arise when the amount to departments for administrative costs are capped but costs are nonetheless passed to the departments because of service problems elsewhere. Department budgets are not increased to cover these costs, Professor Konstan pointed out.

Professor Speaks thanked Ms. Dittman for providing the information.

4. Response to the Letter on Salaries

The Committee held a brief "no minutes" discussion of the President's response to the letter sent by Professors Goldstein and Speaks concerning faculty salaries.

The discussion led to a suggestion by Professor Gudeman that the Committee send a letter to the legislature about the effect of the Governor's budget recommendation. Professor Speaks agreed and said he would speak with Professor Morrison.

5. Report on Coffman and the Bookstores

Professor Speaks next welcomed Associate Vice President Robinson and Mr. Crabb to discuss the remodeling of Coffman Union and the proposal that the Bookstores be the major anchor tenant in the remodeled Union.

Ms. Robinson reported that since they last met with the Committee they have done a great deal of consulting. The remodeling of Coffman is a major project that lacked an anchor tenant to make the project work financially. The proposal is for a flagship bookstore that would bring more traffic to the Union, a bookstore of 40,000 square feet (Williamson is about 15,000 square feet) that would feel more like Barnes & Noble: a friendly place with easy chairs and a coffee shop adjacent. The plan is to consolidate the Williamson Hall, the West Bank and Health Sciences stores into the Coffman project. The St. Paul and Law School stores would continue to operate on those campuses.

Committee members posed a number of questions and issues.

-- How large is the West Bank bookstore? About 8,000 square feet.

-- How big is the Barnes & Noble at Har-Mar? About 50,000 square feet; it is one of the largest.

-- This is a recent proposal that was not part of the original plans for Coffman; why the change? The Coffman project is four or five years old, Ms. Robinson said, and the bookstores ALWAYS wanted the opportunity for a flagship store. The offer was made previously but turned down; when the budgets came back from contractors and the funds were insufficient, then the students supported the proposal.

-- What functions are students losing because of the 40,000 square feet being taken by the bookstore? The architect is working on that now. The food service is reducing its space needs, and there was always a proposal for an 8,000-square-foot bookstore, so the displacement will be less than the 32,000 square feet lost. Ms. Robinson added that the plan for another 8,000-square-foot bookstore was an act of good citizenship by the bookstores, because they did not NEED another small store on campus.

-- Where will the bookstore be? Where the existing Coffman Garage is located, about one-third of the ground level. The garage spaces will be replaced with spaces in the new East River Road ramp.

-- The bookstores are only proposing to add about 7,000 square feet to the original plan (40,000 proposed minus the existing 15,000 in Williamson, 8,000 on the West Bank, 8,000 previously planned for Coffman, and about 2,000 square feet for the Health Sciences bookstore). The problem with small bookstores is redundancy (e.g., for supplies), Ms. Robinson said; there will actually be much more space for books.

-- Are the students satisfied with a reduction in the food service space? They originally had too much space, Ms. Robinson said, and too many kitchens.

-- This is a critical element to the success of Coffman. With the rise of Internet book sales, is it possible to quantify the risk of the Union putting all its eggs in one basket? The bookstore will be more competitive if it is larger, Mr. Crabb said; UCLA has 70,000 square feet, Wisconsin has 63,000, and those are distinguished stores. They will be able to eliminate duplication in everything so there will be more space for trade, technical, and scientific books. It will be better in that respect than any store in the Twin Cities.

-- Is 40,000 square feet enough? Mr. Crabb said he believed so, although it will be a little tight, but it is prudent to keep the store at a reasonable size.

-- Have they estimated the unit cost of sales? They have; the costs should be lower, Mr. Crabb said. They have the opportunity to increase sales by $2-4 million and significant economies can be achieved. The net increase in space cost will be about $500,000 and they believe that with the increased sales and efficiencies, that cost plus more can be covered. There should be a better bottom line than at present.

The bookstores used to be a "cash cow" for the University, although did not provide large amounts of money; they were easy to run and there were no competitors and no e-commerce. The bookstores have cornered the market on textbook e-commerce (competitors have disappeared), but that costs a lot more money while not generating any additional book sales--e-commerce was a given whether or not the bookstores moved. They must close stores and will be a very solvent operation when they do; they will provide a limited amount of money to the central administration.

-- The profit margins on various lines of books were discussed.

-- Will this bookstore be adequate for the future? Ms. Robinson said she thought so and that she would be uncomfortable recommending a 75,000-square-foot store. The world is changing and e-books may eat into the business somehow, someplace, some time. But they believe they can always make a store this size work.

-- What about long lines for students if they are all in one bookstore? This allows one-stop shopping, Ms. Robinson pointed out, rather than requiring students to travel around to different stores for books for different classes. A bigger store will also allow more check-out lanes.

-- What is the University's plan for the space that the bookstores will be vacating? Ms. Robinson said the Health Sciences want the space; how the other space will be used was not known. Asked if the bookstores could recoup the investment they made in constructing the spaces currently occupied by the bookstores, Ms. Robinson said she had asked but will not get the money.

-- Do large bookstores on other campuses draw traffic from off campus? Some, Mr. Crabb said, but it is not terribly significant. It does expect to draw off-campus customers to its academic book departments. Parking for off-campus customers will be as convenient in the East River Road ramp as it has been for the existing stores. One-third of the 1900 spaces will be reserved for short-term parking.

-- The Harvard Coop draws a lot of outside customers because it is convenient to both a major train station and bus hub, Professor Konstan said; he noted that it had longer hours and asked if the new store would have easy parking and longer hours and offer an experience similar to Barnes & Noble, including with coffee adjacent? The plan is to have long hours, at least initially, Mr. Crabb said.

-- This is the Finance Committee, concerned about money; how did the bookstores come up with the $500,000 additional money for rent and utilities? Mr. Crabb said that the projections were based on data from 70 other college stores, data that contained great detail by product line. He used numbers for comparable institutions to project for the new store. He agreed to provide a copy of his report to the Committee.

-- What is the timeline on this project? It is very quick, Ms. Robinson said; the President has approved it and is comfortable with the consultation. It will probably move ahead.

Professor Campbell said this Committee should be consulted BEFORE the President approves a proposal. Professor Speaks said this was the first he had heard the President had already approved it. Part of the problem, Ms. Robinson explained, is that "the meter is already running."

-- The Committee should know about the front of the store. Mr. Crabb said he could bring in the boards picturing the new store.

Professor Speaks thanked Ms. Robinson and Mr. Crabb and adjourned the meeting at 4:10.

-- Gary Engstrand

University of Minnesota