Minutes*

Senate Committee on Finance and Planning
Tuesday, December 11, 2001
2:15 – 4:00
238A Morrill Hall

Present:	Charles Speaks (chair), Prince Amattoe, Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, Stephen Gudeman, Gary Jahn, Wendell Johnson, Michael Korth, Elo Charity Oju, Richard Pfutzenreuter, Kent Rees, Rose Samuel, Michael Volna, Susan Carlson Weinberg, J. Peter Zetterberg
Absent:	David Chapman, Daniel Feeney, Eric Kruse, Terry Roe
Guests:	Executive Vice President and Provost Robert Bruininks; Robert Crabb, Director of Bookstores
Other:	none

[In these minutes: (1) tuition reduction for children of employees; (2) non-resident tuition; (3) structure of the biennial request; (4) faculty salaries; (5) flat tuition; (6) annual financial report; (7) bookstore prices; (8) capital projects subcommittee]

1. Discussion with Executive Vice President Bruininks: Tuition Reduction for Children of University Employees

Professor Speaks welcomed Drs. Bruininks and Zetterberg to the meeting, noted that they had three topics to talk about, and invited them to take them up in any order they wished. They started with the proposal for tuition benefits for the children of University employees.

Dr. Bruininks began by saying that the subcommittee of the Senate Committee on Faculty Affairs that produced the report on the tuition benefit proposal did a good job. He reported that he had raised this issue with the CIC provosts recently; the benefit is available unevenly across the CIC. There is not a lot of support for the proposal in the administration; he does not support it. It is not that it is a poor idea, but it is an unequal benefit: some employees can use it, some cannot. The proposal is based on the assumption that the tuition benefit would be a recruiting tool; Dr. Bruininks said he did not believe the data could demonstrate that that was so. There are other tools that will have more of an effect; the University has a good set of benefits compared to the market and is in a challenging position with respect to MAINTAINING that set of benefits, much less adding a tuition benefit.

He also does not support the proposal because it would be the worst possible timing to adopt it; it would send the wrong signal to the general public as the University faces trade-offs on tuition (a 20-year trend). As he checked around the CIC, virtually all of the institutions are recommending substantial

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tuition increases; he said he could not imagine the University saying it will raise tuition by double digits and at the same time announce it will give employees a tuition benefit.

Dr. Bruininks said he was somewhat uncomfortable delivering this message because the subcommittee did a good job.

There are other ways to strengthen faculty and staff benefits that have a better return relative to the cost, Dr. Bruininks maintained. For example, people are much more conscious about the long-term effects of investing for retirement; changing the retirement plan (to eliminate the waiting period, for example) will be a more effective recruitment tool than a tuition benefit.

Dr. Bruininks said he had not changed his mind on the tuition benefit proposal and does not see it happening in this fiscal environment.

Ms. Oju asked which employees the proposal would have a negative effect on. Dr. Bruininks said it would have no impact on employees whose children were already through college or who had no children--which is why, he added, this Committee in the 1970s voted not to recommend a tuition benefit. In addition, Dr. Zetterberg said, it is a benefit that would more likely be used by employees with lower salaries than those with higher salaries; a lot of children want to go away to college and if the parents can afford it, they let them do so. So it would be uneven as a benefit in that way as well.

How does Ohio State handle these questions, Professor Speaks asked? Dr. Bruininks said he did not know. If they implemented the benefit years ago, it would have been cheaper than it is now. Once established as a benefit, it is difficult to remove. Senior people at other institutions will say that if they did not have the benefit now they would not add it, but they will not try to take it away. When the University is struggling to keep the core benefits for all, such as health care, it cannot add a tuition benefit.

Mr. Rees said that there are two benefits that benefit all employees: retirement and health care. Those should be looked at most closely, and perhaps transition to retirement. Those are more equitable for all employees. They are also better in terms of developing the workforce, Dr. Bruininks said; if there were a certain amount of money available to spend on benefits, one way they could be spent would be to help low-income employees gain access to optional benefits, such as the transition to retirement.

Even health care is unevenly distributed in its value to employees, Ms. Weinberg pointed out; one pays the same whether one has a large family or only a spouse/partner to cover. Has the University ever considered a cafeteria benefit system? It has many times, Dr. Bruininks responded; he suggested the Committee invite Vice President Carrier to talk about the subject. The increased flexibility in health care choices has given employees some choice they did not have before. Even with its uneven value, health care is vital to the workforce and the University must pay attention to it--and to the retirement plan. He added that because the University has now separated from the state plan it may be able to consider a more flexible benefit plan.

Ms. Oju recalled that Dr. Bruininks said it would be a challenge to maintain the University's benefit system. What criteria does he use to decide which should have priority? Cost matters, Dr. Bruininks said; more fundamentally, one must start with a value-based decision: which benefits are most important? Health and welfare benefits come first, and then a decision about what the University and the employee should pay. He would start with the value of enhancing the well-being of the workforce; the more something affects the entire workforce, the more it should be supported.

It is not just cost, Dr. Zetterberg added; to adopt this benefit would be a political nightmare for the University. The University operates in a fishbowl and this would be a very visible action. The legislature would not like it; this would be a hard sell with the legislature and public in a good year; it would be extremely difficult right now.

Ms. Weinberg noted that MnSCU already has this benefit; the University could make the point that it is comparable to what MnSCU has. The legislature is largely unaware of that benefit, Dr. Zetterberg said. It would certainly come up in the discussion, Ms. Weinberg said, and it would not seem like such a big deal when MnSCU already has it.

One attribute of all job descriptions these days is managing dilemmas, Dr. Bruininks said. There is no right or wrong answer here but there are trade-offs. It is important that the University not appear self-serving. This is NOT a bad idea, he emphasized (some things ARE and can be dealt with accordingly), but it would be better to spend time on other issues.

2. Discussion with Executive Vice President Bruininks: Non-Resident Tuition

Which the Committee promptly did. It turned its attention to the issue of non-resident tuition. Dr. Zetterberg distributed a table showing tuition revenue by campus, student level, and residency status. He said that there is a misperception about University tuition rates: the residential undergraduate rate is higher than that at many institutions but the non-resident graduate rate is lower than many of the University's peers. Non-resident tuition has been eliminated for the Crookston campus and will be eliminated at Morris as well.

The President has spoken about eliminating non-resident tuition entirely, Dr. Zetterberg recalled, but he (Dr. Zetterberg) is not sure there is any compelling reason to do so on the Twin Cities campus. The deans want more non-resident students, but the Twin Cities campus already has more non-resident students--about one-third of the enrollment--than most similar institutions (more than Michigan, Wisconsin, or the California schools). There are two reasons for this. First, a big campus in a small state must rely on non-resident students to get the student body it wants (unlike, for example, California, Texas, Pennsylvania, and Illinois). The top 10% of high school students in Minnesota may total 6,000 students, some of whom will go elsewhere, so the University must go elsewhere. Second, Minnesota has eight reciprocity agreements (most institutions have none). The count of non-residents includes students from reciprocity states. At the graduate level, many institutions similar to Minnesota have many non-resident students.

Dr. Zetterberg said he has not seen evidence that the University would benefit by eliminating non-resident tuition. Non-resident tuition totals about $20 million per year.

Why did the President want to consider eliminating non-resident tuition, Professor Speaks asked? Because with advances in information technology destroying traditional boundaries, the University could be at risk if it maintained non-resident tuition. If all institutions were to eliminate it, that would be acceptable for the University; if the University acts alone, there could be problems. Iowa, for example, would see Minnesota's elimination of non-resident tuition as "an act of war" and it would force Iowa to take action to counteract Minnesota's decision.

Part of the reason for the discussion of non-resident tuition may have come with the concept of the hybrid university, Ms. Barnes speculated; it could be part of becoming a more national university, drawing more people from across the country, like Wisconsin. It is difficult to compare Minnesota with California, where there is an automatic admission system for the top 10% of high school students. The biggest difference between Minnesota and California is 25 million people, Dr. Zetterberg said. The main argument in favor of non-resident tuition is that the parents and residents have been supporting Minnesota higher education for years, through their taxes, and deserve a break on tuition. He said he still finds that a compelling argument. There may be isolated technical or community colleges that have abandoned non-resident tuition but he said he does not know of any four-year institutions that have done so.

Would not eliminating non-resident tuition require large increases in residential tuition in order to hold tuition revenue constant, Professor Speaks asked? Dr. Zetterberg said the legislature might provide funding (e.g., $20 million) to make up the difference--but it might have given the University the $20 million anyway, which it could have used for other purposes.

This issue will need more discussion in the future, as higher education becomes more national and international, Dr. Bruininks said.

Professor Campbell said that when one talks about the hybrid university, Michigan is the model. Does not Michigan derive a substantial amount of non-resident tuition revenue as a way to support itself? It does, Dr. Zetterberg affirmed; essentially the tuition at Michigan and similar schools is what one would pay at a private university. Non-resident tuition is part of the revenue model of the hybrid university, Professor Campbell concluded. Dr. Zetterberg noted that the President's views about non-resident tuition preceded the development of the hybrid university model.

The University exists in a connected world, Dr. Bruininks observed, but as it builds programs across institutions, it must struggle with different tuition rates. Eventually there may be a European Union approach to tuition.

This will be an issue with the legislature, Dr. Zetterberg predicted. MnSCU will continue to seek elimination of non-resident tuition; if it is allowed to do so, the University would have to decide if it also wished to do so. Doing so could destroy the existing reciprocity agreements, he said, which is worrisome.

Discussion turned to tuition waivers. Dr. Zetterberg noted that non-resident tuition is waived for all graduate assistants with a 25%-time or greater appointment. What about the waivers for undergraduates, Professor Speaks asked? That is part of the University's recruitment strategy, Dr. Bruininks said; it includes some students of color and some high ability students, Dr. Zetterberg told the Committee, and includes all campuses.

The Committee has no position on non-resident tuition, Professor Speaks commented, and has not discussed it, but thought it should hear about it since eliminating it has been mentioned. Dr. Bruininks said that the University will have to keep up with discussions but right now it is better staying where it is.

3. Discussion with Executive Vice President Bruininks: Structure of the Biennial Request

The third issue for the day is whether it would be wise for the University to prepare a biennial request, including a proposed tuition rate, and let the legislature buy down the rate increase (as is done in California). The University always makes the case that if the appropriation is lower than what is requested, tuition increases will have to be considered. The University could argue the other way, by proposing a large increase in the rate and giving the legislature the option to buy it down.

Dr. Zetterberg said the University could think about this approach but he thought it would be a bad strategic mistake. The legislature could say it would not give the University the money it requested--and freeze tuition besides. A good thing about the Minnesota legislature is that it does not try to control the University's tuition; such a strategy could invite the legislature to do so. The University has more than 100 tuition rates, and while most interest is focused on the undergraduate rate, the University does not want the legislature to "fix" tuition.

The current model also allows the University to make the case for its needs, Dr. Bruininks said. If tuition is proposed to increase only a modest percentage, given good levels of state support, the University can talk about competitive salaries and improving undergraduate education, for example--all parts of the cost of the University no matter how the budget is framed. It would be unwise to miss the opportunity to make the case before the legislature for the more complete needs of the University (and it only has about 4 hours per session). Dr. Bruininks said he favors the approach currently used, which allows making the fullest case for the University.

Is anyone in the administration arguing that the University should use the California approach, Professor Speaks asked? There is always someone making that argument, Dr. Bruininks said. It is a useful debate; there is no magic formula for making a legislative request. On the subject of California, Dr. Zetterberg added, it looked like California would come out of the last legislative session very well; it turns out that Minnesota did better than California.

Professor Speaks said there seems not to have been one message from the legislative about the recent tuition increases, either positive or negative. That could change, Dr. Bruininks said; there was a spike in costs but also an increase in financial aid. If there are shifts in policy there could be complaints. It is incumbent on everyone to pay attention to costs and revenues.

4. Discussion with Executive Vice President Bruininks: Faculty Salaries

Dr. Zetterberg next provided copies of a report on the distribution of faculty salaries during the current year. This report, Professor Speaks said, should also go to the Senate Committee on Faculty Affairs.

The faculty salary distribution last year, with two pools of funds and a limit on the number of faculty who could be awarded increases from the second pool, there should be a substantial number of faculty who received significant raises, Professor Campbell said. It would be helpful to see data on the number of individuals who received increases of 10% or more. Dr. Zetterberg said he could provide the data, although noted that the increase targeted fewer Twin Cities faculty than it did faculty on the other campuses.

Then some units did not follow the rules, Professor Campbell commented. Dr. Bruininks said that the salary instructions had been changed to guidelines, with a strong suggestion that the second pool be used for special merit, but with the understanding that the circumstances in particular units could affect whether or not the plan was followed in a strict fashion. It seems that the more flexible messages were received more rigidly than intended. Several members of the Committee expressed surprise at learning this flexibility had existed and said they did not know that. One individual said he was told by his unit head that he had no choice and neither did the head. Units were strongly urged to follow the guidelines, Dr. Bruininks reiterated, but some units said doing so would not make sense for them and were left to decide how to deliver increases. He said that the institution is collecting more complete data to learn from what happened.

Professor Speaks said he assumed that after the faculty salary subcommittee brings a recommendation to this Committee and the Committee on Faculty Affairs, they will have a recommendation for salaries for next year.

5. Discussion with Executive Vice President Bruininks: Flat Tuition

Dr. Bruininks suggested that the Committee wait on discussing flat tuition until it receives an analysis from Dr. Zetterberg. Professor Speaks accepted the suggestion.

6. Annual Financial Report

Professor Speaks turned next to Mr. Pfutzenreuter to lead a discussion of debt management and capital financing. Mr. Pfutzenreuter said he did not have a presentation ready; when he does, it will link to the Annual Report for the University. He asked to reschedule the discussion and to review today the Annual Report.

Mr. Volna then walked Committee members through a series of tables of data that recounted the University's total assets, cash and temporary investments, accounts receivable, property/plan/equipment, total liabilities, accrued liabilities, long-term debt, fund balances, current fund revenues, current fund expenditures, a summary of compounded annual investment performance, and information on new accounting and reporting requirements.

The summary was that the "balance sheet is strong, despite a rough year, fund balances remain strong, revenues and expenses continue to grow in key programmatic areas, management is committed to successfully implementing required future changes, financial staff is strong and positioned to support the institution in the future."

Committee members had few comments on the information.

7. Bookstore Prices

Professor Speaks welcomed Mr. Crabb to the meeting now to discuss book prices. He recalled that he had discovered at the start of fall semester that students in his class could go on-line and buy the two texts for the course much more cheaply than they could at the University bookstore. One question, Professor Speaks said, is about his obligation to inform students of this option.

It is an excellent question, Mr. Crabb said. Textbooks traditionally are not discounted and sold exclusively through college stores; they were usually sold at the retailers suggested price. That is no longer true; the standard in the college bookstore industry now is to add a standard mark-up of 25% from the invoice.

About two and one-half years ago Varsitybooks.com started in Washington, D.C., to compete in the college book industry (it was like Amazon.com, which was NOT in the college book business, but in trade books, a different business). Amazon.com margins are 45-50%; the margins on textbooks is about 25%; Amazon stayed out of the college text business because the margins are too low. Even with 45-50% margins Amazon is struggling, losing anywhere from $100 to $700 million per quarter. They are the bellwether: they got in early, grew, and are still not able to make it work.

Varsitybooks.com was modeled on Amazon and advertised books at 40% off. Very few of their books, however, carried that deep a discount. They did a shopping basket of books for University courses and found that the discount on average was 6-8%; moreover, Varsitybooks.com could only fill about 25% of orders.

Another firm started in the same business, Bigbooks.com, with a lot of advertising and millions of dollars in Wall Street funding. They also were trying to take business away from the college stores. Both are gone, out of business.

Mr. Crabb said he checked Amazon before coming to this meeting. In the last few weeks it has pulled back on discounting. Both Amazon and BarnesandNoble.com looked like they would be competing with college stores with their discounts; in both cases, since September, that is no longer the case.

Why did the two dot.com companies fail, Professor Speaks asked? His view, Mr. Crabb replied, is that the margins on textbooks are too thin; once one discounts from the 25% mark-up that college stores charge, the profit margin is down to 10 or 15%. The companies can't make enough money. Amazon is unable to succeed with 45-50% margins--and they have had a long time to try to figure out how. He said he imagines that the dot.com companies hoped to negotiate preferential prices from the publishers but were unsuccessful.

Ms. Samuel asked how much of the failure was due to the fact that students were not interested? That was probably a big part, Mr. Crabb said, even though they did a great deal of advertising.

Ms. Barnes recalled that she once worked for Varsitybooks.com and tried to convince her fellow students that it was a cheaper way to buy books. It was not, she said, she could not get students to buy from them, and buying on the web violated the tradition of going to the bookstore. In addition, often one could not get the specific edition needed for a class. She herself bought books at the university bookstore while working for Varsitybooks.com because it was easier and cheaper.

It also helped that the University bookstores went on line, Ms. Samuel added. They did it as a competitive matter, Mr. Crabb explained, and the first semester they offered free shipping.

Will another dot.com text seller try to get into the market, Professor Speaks asked, or is it pretty much a dead issue for at least the next few years? Mr. Crabb said he thought it was a dead issue for the near future. The two companies that were in the business were able to do what they did because they had a lot of Wall Street money behind and they advertised a lot; the ventures lost millions of dollars--and Amazon still is losing millions.

One service the University bookstores offers to students is a look-up option; they link a student's X.500 ID with the student data base that contains the courses he or she has registered for and provide a list of the books required for those courses. With the competition from Varsitybooks.com, the University bookstores turned this option into e-commerce. In Fall, 2000, they had about 5,000 e-commerce orders, about $1 million in business, the biggest use of e-commerce of any college bookstore in the country. Many students, however, would print out the list of books and bring it to the bookstore to buy. University bookstores never lost market share when Varsitybooks.com and Bigbooks.com were competing with them; if pricing were that important to students, presumably they would have.

Mr. Amattoe asked if the bookstores are still in the e-commerce business and its cost. After the first semester of offering free shipping, Mr. Crabb said, the bookstores added shipping costs in order to cover their expenses ($4.99 plus $150 for each book ordered). Students are better off coming to the store, he observed, but they continue to receive about 2,000 e-commerce orders per semester. They thought the number would be higher, but the shipping costs must be a deterrent. They do continue to provide students with a list of the books for their courses.

Mr. Amattoe also asked about the buy-back policy. Mr. Crabb explained that if they know they will use a book the next semester, they will pat 50% of the current new book price if they need copies, and sell at 75% of new book price--they use the same mark-up on used books that they do for new ones. If they do not need the book or do not know if it will be used again, they do not buy the book for themselves but instead for wholesalers (or the wholesalers will come and buy the books themselves). Typically the wholesalers will pay 0 to 25 or 30% of the new book price.

8. Capital Projects Subcommittee

The Committee next reviewed a list of possible members of the capital projects subcommittee, and authorized Professor Speaks to begin making calls to solicit membership.

Professor Speaks adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota