Minutes*

Senate Committee on Finance and Planning
Tuesday, April 23, 2002
2:15 – 4:00
238A Morrill Hall

Present:	Charles Campbell (chair pro tem), Prince Amattoe, Brittny McCarthy Barnes, Stanley Bonnema, David Chapman, Daniel Feeney, Gary Jahn, Wendell Johnson, Michael Korth, Elo Charity Oju, Richard Pfutzenreuter, Warren Warwick, Susan Carlson Weinberg
Absent:	Jean Bauer, Robert Cudeck, Greg Fox, Cynthia Jara, Marvin Marshak, Terry Roe, Charles Speaks, Michael Volna, J. Peter Zetterberg
Guests:	none
Other:	none

[In these minutes: (1) 2002-03 budget plan; (2) new ex officio member; (3) Parking and Transportation principles; (4) ad hoc committee on accountability and support services]

Professor Campbell convened the meeting at 2:15, explained that he was serving as chair because Professor Speaks was out of town, and welcomed Professor Warren Warwick from the Medical School as a new member (starting July 1).

1. Review of the 2002-03 Budget Plan

Professor Campbell turned to Mr. Pfutzenreuter to lead a discussion of the 2002-03 operating budget conceptual framework.

Mr. Pfutzenreuter distributed copies of a set of PowerPoint slides and explained the information. Last year, he recalled, the administration presented the Regents with a two-year budget plan; usually the budgets are on a one-year basis, but last spring the administration also set the stage for the 2002-03 budget. It is that budget that is now going to the Board of Regents.

The preliminary budget plan called for investments in competitive compensation (3% for staff, 6% for faculty), academic initiatives, Medical School and health professional education, facilities (new buildings, increased utility expenses, and new debt service), and technology. The expected resources were $36.5 million in increased state funding, a 13.6% tuition and University fee increase, a $9 million increase in the tobacco endowment, and cost savings and other resources.

Since then the state appropriation has declined from a $36 million increase to a $12.4 million increase; there have also been additional cost increases of $10-14 million. The revised budget plan includes these goals, which the President presented to the Board of Regents: "retain consistency in

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overall investment strategy, protect neediest students from impact of tuition costs, support compensation increases for faculty [4%] and staff [3%], fund academic initiatives through compact pool, respond to new security needs and requirements [about $3.5 million in equipment and monitoring, and] maintain commitment to facilities for academic programs." The last item means open the buildings and pay the debt. The President said he does not want to sacrifice the funds for the compact pool, for nanotechnology, for the libraries, and so on.

There were several choices and strategies used in developing the revised 02-03 budget. It recognized the strong growth in research (so there are increased indirect cost recovery funds); administrative costs will be reduced (e.g., the administration will only fund ½ the compensation increase in central support units; one result, Mr. Pfutzenreuter noted as an example, is that he has given up an open position in his office); planned investments will be reduced or deferred (e.g., faculty salary increases will be 4%, not 6%); and the tuition increase will be higher than originally planned. In response to a question later, Mr. Pfutzenreuter affirmed that the compensation increase will include funding for fringe benefits, but pointed out that each unit will be expected to pick up a share of increased salary and fringe benefit costs proportional to the share of its budget that comes from tuition income.

The tuition increases will be as follows:

-- for 12 credits, an 18.8% increase
$4463 to $5303

-- for 15 credits, a 14.4% increase
$5002 to $5720

-- for 16 credits, a 10.4% increase
$5182 to $5720.

The 13-credit band tempers the increase for full-time students. The original planned increase was 13.6%; the increase now expected will be 16%. In terms of the proportional burden the students will share in increased costs, however, the students will pay less. Their portion of the $23.3 million cut in the state funds was 32%; their share of the new budgeted costs will be 23%, because of reductions and delays in investments and some new income and assessments. The new costs include item such as an upgrade to the PeopleSoft system.

In terms of comparison with peer institutions, given what is known about tuition and fee increases at other Big Ten Schools, it appears the University will retain its relative standing (fifth for undergraduate students, behind Penn State, Michigan, Michigan State, and Illinois).

The conceptual framework of the budget went to the Board in April; the review of the budget will take place in May and the approval will come at the June meeting. Mr. Pfutzenreuter said he would walk the Committee through the budget document, about 70 pages, at its next meeting.

Does the tuition band apply to all students, Ms. Barnes asked? It does, Mr. Pfutzenreuter said; the 13-credit rule, however, covers only to new students on the Twin Cities campus, Mr. Pfutzenreuter said, and not to professional or graduate students. The new tuition charges, however, will apply to all students. The 13-credit rule and the new tuition costs are two separate policies.

What happens to central reserves under this plan, Professor Campbell asked? Transfers from the reserves to O&M budgets will be reduced by $2 million (as reported at a previous meeting of the Committee) in order to help restore the level of the reserves. They are now at about $10 million; Mr. Pfutzenreuter said his recommendation to the Regents is that they should be about $20 million.

What about the Internal Revenue Sharing tax, Professor Campbell next asked? The plan last year was that the IRS tax would go from 3.75% to 4.6%, Mr. Pfutzenreuter said; the current plan is that it will go from 3.75% to 5.75% PLUS an additional .6% for academic units. The latter increment is a swap for network connections, which the units will no longer be charged for (the plan is that units will be held neutral in changing the network charges from a unit charge to a common good). There will also be an additional 2% IRS charge on O&M funds (state funds, tuition, and State Specials) that will be subtracted before the funds are delivered to the units.

The Enterprise tax will remain the same at 1.25%. On the current trajectory, the Enterprise tax will pay off the investment in 2007, at which time the University will have to face a decision about the financial system. Why does the PeopleSoft cost fall into the category of new costs, Professor Campbell asked? Is it one of those items the University does not believe it can ask the legislature to fund? About a year ago there was talk about when the University should purchase the next upgrade, Mr. Pfutzenreuter said; the University did its own upgrades on the CUFS system but that is more difficult with PeopleSoft because of new federal regulations. The need for the PeopleSoft upgrade came sooner than was expected. In the past, the University spent a lot of money on high-priced consultants to install new systems; it could have hired its own staff for about half the cost and build a core competency. Mr. Pfutzenreuter said that is what will happen this time, so there is a staff in place as the University moves toward installing a new financial system in the next 3-4 years. He said he wants to avoid what happened with PeopleSoft and consultants: the University was not prepared, so had to hire consultants. Not again, he said.

The cost of the upgrade is in the additional expenses, Mr. Pfutzenreuter explained, because although the University knew it would need an upgrade, the question was when. He said he is urging the enterprise group to look farther into the future to see what is coming. It did so and said the University needed the PeopleSoft upgrade. They will install it this summer in order not to delay other projects.

Must the University take every PeopleSoft upgrade, Professor Jahn asked? It can skip one, Mr. Pfutzenreuter said, but not two. He said he did not know what version the University is at right now.

Professor Feeney inquired if there has been a decision to allow new faculty to participate immediately in the retirement plan and to eliminate the two-year waiting period. Mr. Pfutzenreuter said he did not know; the Committee should ask Dr. Bruininks the question. There is philosophical agreement on the point, Professor Feeney said, but no agreement. Is it correct that the funds are in the benefit pools in the colleges? If the position is vacant, the funds are there, Mr. Pfutzenreuter said; the deans use the money for leverage for other purposes. Professor Feeney said the issue is one of recruiting new faculty; Minnesota is one of the few institutions that has such a waiting period; a faculty member working along side a P&A staff member might not have retirement benefits while the P&A staff member would.

2. A New Ex Officio Member

Following brief discussion, the Committee agreed that Professor Speaks should invite the State Economist, Professor Thomas Stinson, to be an ex officio member of the Committee. Mr. Pfutzenreuter commended the appointment and assured the Committee that Professor Stinson's presence would have no effect on his ability to speak frankly on budget matters.

3. Parking and Transportation Statement and Principles

The Committee next took up a draft statement that Professor Speaks had prepared for the Committee. The Committee also considered the "Basic Financial Principles" provided by Parking and Transportation. With respect to the latter, Professor Speaks suggested the Committee might wish to review and make recommendations about them. It was noted that these principles came from Parking and Transportation, are not University policy per se, and the Committee could make recommendations to the administration that they be changed.

The principles are these:

- -- Parking is self-supporting with no legislative funding;
- -- All costs—operating, indirect, and capital—are spread against the entire parking system;
- -- If central funding is used to subsidize parking costs, less money will be available for academic purposes;
- -- As low-cost surface lot spaces decrease and are replaced with higher-cost structural spaces, additional revenues will need to be generated to make the system cash flow;
- -- Parking revenues are used to support transit and other transportation alternatives; and
- -- Parking rates are based on facility type and their associated costs, with lot spaces least expensive and garage spaces most expensive.

Professor Campbell clarified that the meaning of the fourth principle is that Parking will not have a deficit.

The Committee discussed the costs being paid by parking (the pedestrian bridges over Washington Avenue, skyways, etc.) and why; the reason is that Parking has the money. The other choice is debt supported by O&M funds, Mr. Pfutzenreuter said, or O&M funds directly. Parking funds have been used for streets, gutters, curbs, even a child care center. Mr. Pfutzenreuter said he has tried to limit the use of Parking funds to projects related to transportation in some way. Professor Campbell said the Committee has seen excerpts totalling hundreds of pages from previous minutes of this Committee; the discussions on parking recycle every year and it is frustrating that nothing happens. Mr. Pfutzenreuter commented that strange things happen with the budget; only this year he relieved the bookstores of the obligation to pay the loan taken out to demolish Memorial Stadium (the loan is now being paid by O&M funds).

The Committee, after looking at the principles, concluded that some of them are NOT principles, and concluded it should draw up a set of PRINCIPLES and submit them to the administration. Professor Campbell said he would talk to Professor Speaks about doing so.

Parking has not controlled some of the expenditures made from parking funds in the past, Professor Campbell observed; the decision has often been made outside Parking. It will help to have clarification of principles, Mr. Pfutzenreuter said, but he cautioned against adopting a stricture that COMPLETELY limits use of parking funds for parking costs or the administration would not be able to support them. But he agreed that some restrictions would be in order.

Professor Campbell later commented that there is a continuum; where to draw the line is one issue; the revenue stream for Parking and Transportation is primarily parking revenues; as more and more projects are tagged on to Parking, the more parking costs increase. There is a sense that there is a great deal of elasticity in parking charges because of what downtown employees pay, but Professor Campbell said he doubted the accuracy of the sense because many downtown employers pay all or part of the cost of parking for employees. Another issue is whether there are alternative sources of revenue for Parking.

Professor Feeney noted that IF there is a football stadium on campus, and IF the University builds a 4000-car ramp for the stadium, it will have a projected operating deficit. Mr. Pfutzenreuter agreed that the financial pro forma (taking into account bus service needed from the ramp, holding students harmless for the costs, and so on) for the ramp suggests a $3 million deficit each year. He pointed out, however, that the new Riverbend Commons garage will not pay for itself, either; the costs will be spread across the system. No ramp pays for itself.

It appears that the University is accepting the proposition that it will pay for the ramp. The President and Board of Regents are aware of the proposal, Mr. Pfutzenreuter said, and have not said "yes" or "no" to it. Is the University SURE that it will not be liable if the Vikings were to leave town after the stadium were built, Professor Feeney asked? They will have to sign a 30-year lease with no escape clause, Mr. Pfutzenreuter said. Is the University comfortable with that, Professor Feeney then asked? He said he worried that the University could end up with a $500-million albatross and a ramp it does not want. Mr. Pfutzenreuter said he could not speculate what might happen in 20 years, but at present the proposal is that the University build the ramp and the state will build the stadium and provide the operating costs.

Ms. Barnes noted that a commitment is being made to protect students from the cost of the proposed ramp. What happens if there is a need for more revenue in the future; who will protect the students? The President and this Committee, Mr. Pfutzenreuter said.

Professor Feeney asked if there was anything new on LRT and whether it might go by the ramp. Mr. Pfutzenreuter said that no one is considering a northern route; it would be down Washington Avenue. Ms. Weinberg said it would go up Oak Street, so would come close to the ramp.

The Committee had a discussion with Mr. Pfutzenreuter about consultation. Mr. Pfutzenreuter pointed out that the Committee saw the proposed rate plan three months before it was approved and said that nothing had been decided--will be decided--until the budget for the University is approved. Professor Campbell suggested that the entire process of setting fees needed to be reconsidered.

Ms. Barnes agreed that a set of real principles needed development. She said she was puzzled by the fact that some things increased but others did not. Parking wants to encourage the use of the bus but increased the cost of bus passes. The current rate proposal seems almost random and abstract; there needs to be consideration of why people travel the way they do. Professor Campbell said there had been a parking task force report a few years ago; the Committee should revisit that report.

Has the Subcommittee on Twin Cities Facilities and Support Services looked at Parking, Ms. Weinberg inquired? It has not, Professor Jahn said; the Subcommittee takes direction on its agenda from this Committee. It was agreed that the Committee has already considered Parking in sufficient depth that it should retain the issue itself.

4. Ad hoc Committee on Support Services

Professor Feeney now explained that this Committee, jointly with the Faculty Consultative Committee and the Subcommittee on Twin Cities Facilities and Support Services, is appointing an ad hoc committee to look at issues of accountability and support services. He and Professor Martin decided that there should be initiatives from FCC, rather than having it serve only as a clearinghouse. He reported he is in the process of drafting a charge to the committee and identifying a chair.

Faculty and academic departments are held accountable but it seems that some auxiliary and support units are not. This is a morale issue with the faculty, Professor Feeney said; if they are evaluated, so should support services be. There was a 1989 report on support services, but it appears that many of its recommendations were not implemented; the report had some good ideas and it should be taken up.

The idea is not to drive a stake into anyone's heart, Professor Feeney said, but rather to bring ideas to the table.

Ms. Barnes suggested that the ad hoc committee include students and promised to provide Professor Feeney with names of student groups which could recommend students.

Mr. Pfutzenreuter said that "support services" is a broad term; what is included in Professor Feeney's definition? Self-supporting units? The Budget Office? Professor Feeney said he would include everything from Parking and Transportation to the Office of the General Counsel to University Planning; he does not have a fixed notion (and does not want to release the charge until he has a chair identified, because the chair will likely have some ideas about what to pursue). Professor Campbell suggested that Professor Feeney consult with Professor Jahn as well.

Professor Campbell adjourned the meeting at 3:45.

-- Gary Engstrand

University of Minnesota