Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 20, 2003
2:15 - 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Prince Amattoe, Jean Bauer, Stanley Bonnema, David Brown, Charles Campbell, Tom Gilson, Gary Jahn, Thomas Klein, Joseph Konstan, Michael Korth, Brittny McCarthy Barnes, Richard Pfutzenreuter, Thomas Stinson, Terry Roe, Sue Van Voorhis, Warren Warwick, Susan Carlson Weinberg, Michael Volna

Absent: David Chapman, Tim Church, Robert Cudeck, Abu Jalal, Tim Nantell, Kathleen O'Brien, Daniel O'Connor

Guests: Michael Berthelsen (University Services), Brian Swanson (Office of Budget and Finance); President Robert Bruininks, Executive Vice President and Provost Christine Maziar; Linda Woock, Leslie Koidahl (Office of the Controller)

[In these minutes: (1) report of the capital projects subcommittee/discussion of capital budgets; (2) subcommittee appointment on athletics; (3) congratulations; (4) the budget (at length); (5) summer meetings; (6) payments/reimbursements to employees]

1. Report of the Capital Projects Subcommittee

Professor Speaks convened the meeting and turned to Professor David Brown, Chair of the Capital Projects Subcommittee, for a report.

Professor Brown began by saying there are two capital budgets: one is for repairs and maintenance, which is being presented here; the second the subcommittee will consider in June, which is the legislative request for major capital improvements across the University. The capital budget for next year is about $40 million, the funds are in hand, and the money comes from local units, retrenchment and reallocation, etc. The subcommittee did not review all the details of the budget because they are not experts and accepted them as appropriate and necessary.

The subcommittee will ask more detailed questions about the second cluster related to maintenance of buildings, funding of units raising funds for buildings, and so on.

Mr. Swanson explained that the administration brings to the Board of Regents each year, in May and June, the capital budget--the money the University intends to spend the following year. The funds must be in hand for the capital budget. This year's budget is smaller than normal and has dropped since the report to the subcommittee because some expected gifts did not show up. This budget does not require state approval, Professor Speaks asked? It does not, Mr. Swanson said.

[*] 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 represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

The budget will be amended if the legislature passes a bonding bill before it adjourns this spring, Mr. Pfutzenreuter added. The budget also changes during the year as projects need to be funded or funds become available.

Does the capital budget involve any debt service, Professor Speaks asked? It is all cash, Mr. Swanson said.

What is the timeline for the capital request, Professor Speaks asked? There is a draft of the 2004 request, Mr. Pfutzenreuter said, and is being completed quickly because the preliminary request will be presented to the Regents in early June. The request, which focuses on repairing what the University has and on controlling debt costs, will be about $165 million, of which $141 million will be in Higher Education Asset Preservation and Renewal (HEAPR) funds. The most the University has for in HEAPR funds in the past has been $80 million, of which it has received about $35 million. The advantage to HEAPR funds is that they carry no debt service for the University. But the final request is not due until October/November, so there will be time to discuss it and make changes, he said.

What happens when the legislature asks about the consequences of NOT building something, Professor Brown asked? The only thing the University can do is give legislators a list. The University provides a list with specific dollars for each project, Mr. Swanson said. Mr. Berthelsen said the University still ends up talking about the programs in the buildings and the amount of money the University will spend, so it can say a program will remain in substandard facilities if a request is not funded. The University is also doing a facilities condition survey, he said; it has had data for roofs, buildings, windows, etc., in a database, but now is including mechanical systems, elevators, heating/ventilating/air conditioning, plumbing, and so on for all buildings on the campus. This information will help to support the request and provide an idea where the University should be investing its capital funds. It will also inform the University when costs will come due.

Professor Campbell asked about the capital items that were vetoed by Governor Ventura. Some are in the 2004 request, Mr. Pfutzenreuter said, and some may be provided if the legislature adopts a bonding bill this spring. If it does so, the funding for the Translational Research Facility will be first on the list because it was the Regents' number one priority. The University is, however, also trying to have other items included in any bonding bill.

The capital request will go to the Regents in September, so the Committee will need to meet early to review and comment on it.

2. Subcommittee Appointment

Professor Campbell next reported that he and Professor Speaks had been informed by Professor Art Erdman, Chair of the Advisory Committee on Athletics (ACA), that ACA intended to form a subcommittee on funding and strategic issues for the Twin Cities athletic program. Professor Erdman suggested that this Committee (Finance and Planning) should have a representative. Professor Campbell said that the Committee could recommend someone who, in turn, could also be ex officio on this Committee. He said he would like to nominate Professor Speaks to serve.

Professor Speaks left the room while the Committee discussed the appointment. The Committee voted unanimously in favor of asking Professor Speaks to serve on the subcommittee. When Professor Speaks returned to the room, Professor Campbell congratulated him and thanked him for agreeing to serve.

3. Congratulations

Professor Campbell then said he would find it difficult to imagine any committee chair doing a better job than Professor Speaks has done, and noted that the Committee is losing him because of Senate rules that do not permit continued service. Professor Speaks has made tremendous contributions to this and other committees and the Committee thanks him for his work. The Committee gave Professor Speaks a round of applause. Professor Speaks thanked Committee members for their support, noted that this was his 12th year on the Committee, and said he had enjoyed serving as chair for the past three years.

4. The Budget

Professor Speaks turned now to Mr. Pfutzenreuter to begin presenting data on the University's budget. Mr. Pfutzenreuter distributed two handouts with columns of data.

The first handout divided costs and revenues into three tiers: required/critical financial obligations, necessary investments, and base appropriation reduction. The "Required/Critical Financial Obligations" included such items as fringe benefit cost increases, utility inflation, new building operations, debt/leases, data network/financial system, and so on. "Necessary Investments" included investment in academic directions, investment in student goals, and a 2.5% general compensation increase. The "Base Appropriation Reduction" reflect the reduction in the state's appropriation (including the provisions in the final bill that improved the University's position by about $6 million per year). [The numbers presented at this meeting were subsequently revised and presented to the Faculty Consultative Committee; the revised figures and the discussion will appear in the May 22 FCC minutes. These minutes contain only the discussion of the general budget issues.]

The President and the Executive Vice President joined the meeting at this point.

The second handout showed how the University would deal with the "budget challenge."

-- One item was a re-estimation of costs including fringe benefit rate changes, debt, utilities, and new building operations. The reduction in debt and new building operations reflects refinancing some debt, the fact that the University has not sold as much debt as had been predicted, and some buildings are not open.

-- The data table will reflect faculty/staff contributions (by higher health care payments and frozen salaries) to the budget problem; it also reflects student contributions through increased tuition. There will be a limit on the increased amount of money any individual is required to contribute to health care, Dr. Maziar reported; no one will be asked to pay more than 2% of their salary.

-- For central and support units, the proposed 2.5% salary increase will have to be funded from unit resources through retrenchment.

-- One of the items that accomplishes savings is a reduction in travel and related costs. Professor Speaks cautioned that the University must protect the ability of younger faculty to travel to conferences, searches, and guest speakers. The President agreed and acknowledged that department supply and expense budgets have been whittled away, but he said he believed it an important public statement and the reductions remind people to look at those budgets to see if travel can be reduced. He promised he would try to ensure that academic interests are not damaged by the reductions. The University arranges travel on an ad hoc basis and has not used the potential leverage of its large purchasing power, Dr. Maziar added.

-- The "wage thaw" in 2004-05 assumes a 2.5% salary increase. The President said he told the legislature he would not support a two-year freeze and that he will try hard to avoid it. Dr. Maziar related that when she testified before the legislature, she made the point that when the economy and market improves, the private institutions will be in a position to move fast and will pick off faculty members. Professor Speaks recalled that he did an analysis after one of the salary freezes in the early 1990s; the time it takes to catch up from a salary freeze is anywhere from seven to ten years. Four out of the ten public institutions in the Big Ten plan a salary freeze for next year, Dr. Maziar reported. While it appears there has been a "thaw" at the state for next year, that was to protect the collective bargaining process--but there is no money to negotiate salary increases, Mr. Pfutzenreuter said.

-- The standard increases for a promotion will continue, the President said. In most fields, faculty who are promoted are given an extraordinary merit increase as well, so if one is promoted in the wrong year they are caught. That recognition needs to be made up in a future year. The annual review is MORE important in a year when there are no salary increases, Dr. Maziar said, so there is a written record to go back to when future salary increases are delivered. The teaching award salary increments will also be continued, the President said.

-- There is need to see the cumulative impact of the cuts, Dr. Bruininks said; the numbers are very large in some units. Dr. Maziar added that the University will have done a lot of work to meet the budget challenge without falling apart.

-- It has been a challenge to get to July 1, the President said. The University must also rethink its strategy with respect to the state and state funding. He said he is already out making the case that the University is not like just any college or university and that it has a unique profile and makes unique contributions to the state. It is possible to model what the University would look like with declining state funds; the model could follow that of Michigan or Virginia--but that will not work at Minnesota, the President emphasized. That would put the University in the middle of the pack among research universities and it would sink out of the top group. The University has to take its licks now and be in a position, in the future, to make stronger arguments and talk about tradeoffs. Those arguments could be made now but they will not change the outcome, the President said; they must be made going forward.

-- Dr. Maziar said that it is her impression that in contrast to the last time the University suffered from a budget problem like this one, the University is in a good position to argue for its distinctive mission in providing research and graduate and professional education. The last time it could not really make those arguments because it had let the quality of its undergraduate program slip. Now it can talk about that program. The different mission also makes both the cost profile and the values of the institution different from other places.

-- Professor Konstan said it was difficult, in the numbers provided, to find the percentage of cuts that were not across the board. Some cuts were pushed down to the units, which IN THEORY were not across the board, but it would be helpful to have data. He also said he worried that each year the University says there will be tremendous pain--and then it manages. It does too good a job, he said; there are no cries of pain, so no one will listen to it. The program cuts hurt, Professor Roe said; the administrative cuts are seen as fluff. Nor does anyone outside care about the wage freeze or the increased cost of health care for employees, Professor Speaks pointed out. There also does not seem to be much concern about increased tuition costs for students, Mr. Pfutzenreuter added. And not about program cuts, either, Dr. Maziar said--until it hits a program important to THEM. Once the cuts are described it will be recognized that the $25 million rescission caused a lot of pain, Professor Campbell said, because there will be increased class sizes and decreased attention to students. Dr. Maziar said she prefers to talk about lost opportunities--the University missed the opportunity to pick up some of the best new faculty.

This general subject needs a longer conversation, Dr. Bruininks said. There will be targeting in the budget. He said he wants to be careful about describing the impacts while at the same time not having an alarmist effect on students at the same time the University is raising prices. There is need for a discussion about what to do over the long term and at the same time the University must manage its communication dilemmas.

-- Professor Speaks said he wanted to be on record about one concern. Of the NEW tuition revenues, the new IRS money will be subtracted from the total and then the remainder will be split 85% to central administration and 15% to the college. The amount of anticipated increased tuition revenue has been set, however, so if a college were to increase enrollment by 10-15%, it would keep 100% of the additional tuition income. There would be an educational cost paid for increasing enrollment that way. How will this be monitored, he asked?

The cost depends on capacity, Dr. Maziar replied. The administration has set enrollment targets for all colleges and will be watching enrollments (although there is always an error rate in achieving the target). If they see an increase in enrollment beyond the error margins, they will have a talk with the college. This is also not a zero-sum game, the President pointed out; admission of additional students in one college has an effect on other colleges. Dr. Maziar added that they have refused to permit increased enrollment in some colleges because of lack of capacity; in other colleges they have allowed it because there is capacity. One worries that there could be non-random error, Professor Speaks said.

-- Will there be a summary provided internally about program changes, Mr. Klein asked? Absolutely, the President said; there must be. The list is in his office, Mr. Pfutzenreuter said, and they are sorting through the information; it is not public yet because there are ongoing discussions about the changes. The result will be shared broadly when they are complete. The President said that some actions had to be taken when they were (e.g., the Extension Service changes reported in the media) because of contractual obligations. Had the University taken this step last year at this time there might have been legislative riders; this year he lobbied hard against riders and the Governor supported the University's position and made sure that legislative leaders knew of his position.

-- On the one hand, the University needs to keep tuition rate high in order to balance its budget and keep the institution strong and avoid even deeper cuts in the second year of the biennium, the President said. At the same time, the University needs a budget strategy that makes sense in the new environment--and that is something that should be talked over during the summer and fall. At the same time that tuition is increasing, the University is budgeting an additional $1.5 million in the financial aid pool for low-income students.

When the University finishes the capital campaign, the President told the Committee, he wants to make fund-raising for scholarships and financial aid a high priority. The University will also provide matching money.

-- The President said he had no problem with the statement the Committee submitted about the Twin Cities intercollegiate athletics program. He said he wanted to reduce the institutional commitment even more than planned. They will try to endow athletic scholarships, which would help to make intercollegiate athletics more self-supporting (and all of the money from those scholarships go into academic programs as tuition income, he noted).

-- The University needs to try to grow the dollar supply, the President said. It is in a HIGHER tuition/HIGHER aid environment, and he said he was not sure the state could thrive if it adopted a HIGH tuition/HIGH aid approach to funding higher education.

-- With respect to program cuts, the University must also focus on the impact on access, the President told the Committee. The state is not expressing great concern about the cuts in the Extension Service or about the wage freeze, but the necessary tuition increases are the University's strongest argument for public support, along with the research mission.

-- The University needs to think about its inventory of assets and using them wisely, the President said. The Regents are not interested in selling land, for example, or assets that might increase in value in the future. That is fine, he said, but there can still be a conversation about using those assets more productively (e.g., the land in Rosemount).

-- The President thanked the Committee for its work. He said it has been a tough year but that he felt good about the University focusing on the right issues and having civil conversations. Professor Speaks said the President should feel good because there was no uproar and there seems to be an understanding of the wage freeze and other changes--if what he is hearing is correct. The University will have to work hard to create the future it needs and deserves, the President said. The respect for the University in the state is very high because it is managed well; it is in a good position to argue for its future. In the face of the salary freeze, creative units must find ways to help support faculty work, Professor Speaks told the President. The President promised he would talk a lot with the faculty about these issues over the summer.

Professor Speaks thanked the President and Executive Vice President for joining the meeting.

-- Mr. Pfutzenreuter next reviewed the projected revenue increases from tuition and University fee increases. He said the University would hold harmless students with need.

-- The Committee discussed non-resident tuition increases. If non-resident rates continue to increase at a double digit levels, the number of non-resident students may decline. Has the tuition committee contemplated a flat rate increase for both resident and non-resident undergraduate students, rather than percentages? For example, the tuition increase could be $1200 per year for resident and non-resident undergraduate students, instead of 14.8%.

-- The budget will be balanced at the end of the first year of the biennium through the use of one-time dollars in order to avoid doing greater harm to units. The second year will see additional reductions as well as revenue increases so the University budget will be in balance at the end of the biennium.

-- There is no proposal to increase the IRS tax for units that are not tuition-generating, Mr. Pfutzenreuter told the Committee. He noted that there are two IRS taxes: one for academic units and one for auxiliary units; the rate for the latter will not change.

Professor Speaks thanked Mr. Pfutzenreuter for reviewing the numbers with the Committee.

5. Summer Meetings

Professor Speaks warned Committee members that there may be a need to convene during the summer; either he or Professor Campbell, the incoming chair, will keep people informed.

6. Payments to Employees

Professor Speaks next welcomed Michael Volna, Linda Woock, and Leslie Koidahl to the meeting to discuss a change in how employees are reimbursed or paid, including for travel. Mr. Volna recalled that he has spoken in the past with the Committee about systems automation; the University has put a lot of financial transactions on Financial Forms Nirvana. Up until now travel reimbursement could not be, but it will be converted to FFN and the change will affect a broad cross-section of employees.

Ms. Koidahl explained why the form for reimbursement is being converted to FFN, including the fact that it will allow one person "up the ladder" to approval travel and entertainment expenses.

Individuals must still print and sign a form, however, unless one is also a preparer, who has authority to sign electronically. Professor Konstan pointed out that in research, one can do most things electronically; the University could follow the same process here. The difference in the routing process for travel documents is because of the IRS requirements in relation to payroll, the Committee was told; the University must have a signature on a paper document before it can process reimbursements or else there may be tax consequences to both the University and the employee. The technological advantage is lost if people must print, sign, and mail something, Professor Konstan said. Ms. Weinberg agreed and questioned Mr. Volna about what advantage there is to the FFN process if a department must ALSO prepare a document and send receipts to his office. Departments are being asked to take on additional steps, she maintained.

The Committee was unable to finish the discussion of this item because it had to vacate the room; Professor Speaks apologized to Mr. Volna and said the item would be placed on the agenda at a future meeting. He promptly adjourned the meeting at 3:05.

-- Gary Engstrand

University of Minnesota