

Minutes*

Senate Committee on Finance and Planning
Tuesday, March 23, 2004
2:30 - 4:15
238A Morrill Hall

Present: Charles Campbell (chair), Brittney McCarthy Barnes, Stanley Bonnema, David Chapman, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Michael Korth, Yi Li, Cleon Melsa, Kathleen O'Brien, Richard Pfutzenreuter, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Susan Carlson Weinberg

Absent: Calvin Alexander, Daniel Feeney, Yi Li, Timothy Nantell, Terry Roe, Charles Speaks, Thomas Stinson, Michael Volna, Warren Warwick

Guests: Julie Tonneson (Office of Budget and Finance), Professor Carol Wells (Academic Health Center Finance and Planning Committee); Associate Vice President Michael Perkins

[In these minutes: (1) subcommittee charges; (2) biennial request working group, the University's financial structure, and proposed principles for the financial structure from the AHC Finance and Planning Committee; (3) campus master planning working group]

1. Changes in Subcommittee Charges

Professor Campbell convened the meeting at 2:30 and first asked Committee members to approve changes in the manner in which the three standing subcommittees are appointed. At present, the charges call for this Committee to make the appointments; the practice, however, for the last several years has been for the Committee on Committees to make the appointments. The changes call for recognizing that practice in the subcommittee charges, with the Committee on Committees to consult with the chair of this Committee once a slate of candidates to fill vacancies and a chair have been identified.

The Committee approved the changes unanimously.

2. Biennial Request Working Group and the University's Budget Structure

Professor Campbell asked Vice President Pfutzenreuter to assist the Committee in starting a discussion about the biennial request working group that the President has proposed to create.

The biennial request process gets rolling IN EARNEST once the University has a sense of the Governor's thinking, usually in June. The President, however, wants to start the process earlier. The 2004-05 budget will go to the Regents in May; in the meantime, a small staff group will meet later this week about putting together working groups to brainstorm about and conceptualize the 2005-07 biennial request. The President wants the working group to think about general principles. There are two issues, Mr. Pfutzenreuter said: Given that the budget forecast shows a sizeable problem in the next biennium, and the mood is apparently not to raise taxes, how should the request be positioned so that the University

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can not only ask for additional funds but also protect the existing base? The working group will be asked to articulate how to do that.

There will need to be two additional working groups appointed after the first one, Mr. Pfutzenreuter told the Committee. One will develop the details of the request; the other will develop support around the request, the communication strategy. He said he will talk soon with the President about identifying groups and getting charge letters drafted. The first working group needs to work fairly quickly, because in June the President and Regents need to begin talking to the community about the request. In September/October the Regents review/approve the request; it goes to the Governor after that and to the legislature in January.

Professor Campbell noted that the President has asked this Committee for questions to be included in the charge to the first working group as well as suggestions for members. Committee members had no immediate suggestions either for questions or members. Professor Campbell said that the people on the working group should be willing to challenge the operating assumptions that are usually made (and those assumptions, to be sure, are based on what the University typically knows about the situation and what the legislature might be willing to do or not do). For example, there is a long list of items for which the University needs more and more dollars (e.g., fuel, infrastructure) that the legislature has declined to fund. The working group should not assume too readily that those items cannot be funded.

It does not look like the next biennial budget will be rosy, Professor Chapman commented. What is his sense, he asked Mr. Pfutzenreuter? Will it be another tough round? Mr. Pfutzenreuter said he believes there will be three tough years: 2004-05 and the following two. The University could find itself taking additional cuts, Professor Chapman commented. Or stay flat, Mr. Pfutzenreuter added.

Mr. Klein said he recalled earlier committee discussions about decision-making in times of budget difficulties; it is described as bringing together vested interests, people put together to try to make decisions for the common good but with their own interests to protect. There is no guiding principle formed or much agreement, so the financial problem is usually passed into the lap of the administration without much useful guidance or prioritization. The likelihood of several years of difficult financial conditions may make this the time for a new way of financial decision-making, based on the University's priorities, but he said he does not see a willingness to define a new way of decision-making and go in that direction.

Professor Chapman said that the issues with teeth do not come up at this level. He said he can think of a number of questions that will arise when the working groups get into the work. In his view, the working group should just be appointed, without a lot of questions posed to it. There was also talk about bringing in outside people, Ms. McCarthy Barnes recalled; could those people deal with vested interests? When there is scarcity, it might help to bring in outside voices. Mr. Pfutzenreuter pointed out that the University does not use the biennial request process as a way to make budget cuts; he said he would like to see the biennial request and the annual budget processes kept separate. Even though, Professor Chapman observed, the State does use the biennial request as a way to cut budgets.

At every meeting, the working group should read aloud the University's priorities and mission, Professor Konstan suggested, or the inscription on Northrop Auditorium (Founded in the faith that men are ennobled by understanding, Dedicated to the advancement of learning and the search for truth, Devoted to the instruction of youth and the welfare of the state). Too often, these groups do not identify the paths the University wants to follow. Is there a document that could be provided to the working group--a presidential document, or a broad mission/vision statement, and not a set of initiatives? This

Committee consistently raises the question about whether budgets and biennial requests are consistent with the University's mission, Professor Campbell pointed out, a position that sometimes conflicts with what the University believes will be supported by the legislature. Professor Chapman said he would just as soon the working group got about its work; he said he trusts the President and the administration to be able to make quick position shifts between what the University seeks and what it believes it can obtain support for.

In terms of the overhead model, Professor Chapman asked how faculty participation would work. It is his sense, he said, that people who know what they are doing should develop something and then test it out on the faculty (e.g., this Committee). What works effectively, he asked? Mr. Pfutzenreuter said that the people in Morrill Hall may not know what impact a proposal will have, especially within the colleges; committees can help in that way. Representation from outside Morrill Hall also helps shape the outcome, he said. So participation later is more helpful, Professor Chapman asked? Earlier is also useful, Mr. Pfutzenreuter said, because it helps to define what should be in and out of the scope of proposals.

There have been earlier reports and groups, Professor Campbell recalled. The Budget Advisory Task Force, chaired by Dean Rosenstone, turned out a very good report; the President at the time was uninterested in it. He said he would like to see that process repeated, with people from different walks of the University brought together to provide their perspectives. The value is that average faculty can provide the view of how these higher-level principles actually filter down to the departments and faculty after being implemented (in various ways) by the deans. That perspective is very difficult to obtain inside Morrill Hall.

Mr. Pfutzenreuter said he was worried about taking on the structure of the University's budget, and the overhead model, right on the heels of the large budget cuts from the state. There have been some mechanisms put in place to deal with the large budget cuts that people could be reacting to. Professor Campbell reported that there is a book by the National Association of College and University Business Officers (NACUBO) about 25 years of lessons from Responsibility Center Management (what is called IMG or Incentives for Managed Growth at the University of Minnesota). There is much that one can find wrong with the system, he said, but is it in the system or in the implementation? He said it is perhaps possible to fix the system without going back to a centrally-controlled budget. His worry, he said, is that the pendulum is swinging back the other direction; he does not believe it would be a good idea to throw out the whole system, which is what some people want.

There are reasons to throw out a whole system, Professor Konstan observed; there are ample studies showing that any time one makes a change, people's performance improves, just because someone is paying attention. Keeping the existing model does not force people to think about what they value most; that is harder to do when one tinkers with the existing model. But he agreed that this is not a good time to throw out the current budget structure, unless there are new funds on the horizon.

One argument, Professor Konstan said, is that at public universities across the country (there are probably no data on this) are taking on many more administrative responsibilities because they have lost a lot of administrative support. It is not clear this is a problem, but if it is, it cannot be addressed except from the top. Professor Campbell said that different units, in the face of budget cuts, have taken diametrically opposite steps in that regard. Mr. Pfutzenreuter reported that in comparing the second half of 2001-02 with the second half of 2002-03, spending on academic support was down almost \$25 million. Units did not cut instruction, research, libraries, etc. They cut academic support.

Some colleges allocate funds differently, Professor VandenBosch observed. ICR funds may be distributed formulaically or on a case-by-case basis. Faculty perceptions have less to do with how funds are allocated to colleges than they do with how colleges allocate funds internally. Part of the mission of the working group should be to look at local experiments to see what has worked. Mr. Pfutzenreuter said that everything done in Morrill Hall stops at the colleges; it is up to the deans to make decisions within the colleges.

There is a need to attribute costs where they are incurred, Professor Campbell said. There is a lot of myth floating around; the working group (and this Committee) needs good data on which to base decisions. The working group should help devise ways to accomplish the appropriate data collection.

At this point Professor Campbell welcomed Professor Wells, representing the Academic Health Center Finance and Planning Committee, a group that has been working to develop a set of recommended budget principles for the University. Professor Wells said the AHC F&P committee has been looking at budget principles for a number of years; since it may be that IMG will be revisited, the committee thought it would suggest some principles the administration might use in evaluating it. Nothing is set in concrete; they simply thought these would be good areas of discussion as IMG is evaluated. The principles they suggest are these.

Budgetary Principles for a Changing Economic Environment

The University's budget model should . . .

Principle 1: Be accessible, predictable, and transparent

Proposed Actions

- use a one-year lag to determine central assessment base
- keep assessment rates stable
- eliminate multiple assessments on the same dollars
- use reasonable and well-understood measures to assess central costs
- ensure that data from which these measures are derived are available to units
- aim for administrative ease at the unit level
- make academic program subsidies explicit rather than implicit

Principle 2: Ensure the most efficient use of resources (e.g., staff, space, technology, equipment) at all organizational levels and avoid duplication of services

Proposed Actions

- align assessments with consumption of services (e.g. cost of student services based on number of students utilizing services; cost of HR, payroll, benefits based on number of employees; cost of accounting, budget and finance, SPA based on dollar expenditures; cost of facilities management services based on square footage of occupancy, etc.)
- provide incentives and demand accountability for centralized services to be cost efficient and cost effective and protect against the inappropriate shift of effort or fees to local units
- on an annual basis, align and justify increases in central service costs to demand for services

- provide cost/benefit analyses, at both the central and unit level, of proposed business practices and policies before they are implemented
- require local units that choose to do business in non-standard ways to pay the full cost of such choices (conversely, provide central financial support for only standard ways of doing business)
- provide incentives at the local level to support the generation of revenue and coordinate those incentives centrally to avoid duplication costly to the institution

Principle 3: Eliminate financial barriers that inhibit collaboration and interdisciplinary activities between academic units and create financial incentives to foster such activities

Proposed Actions

- develop alternative funding models for interdisciplinary education
- develop principled models for sharing ICR resulting from collaborative research across colleges and centers

Principle 4: Continue to allow for reallocation and investment in strategic priorities

Proposed Actions

- avoid across-the board reductions that erode the overall quality of the institution
- selectively reallocate funds to and expand investments in programs that are consistent with institutional priorities, even if other programs must be reduced or eliminated in scope
- resist historical practice of keeping units “whole” in a period of budget transition
- develop a rationale for use of state appropriation dollars and allocate based on defined institutional priorities

Principle 5: Fully attribute revenues to units generating them and allocate costs to units incurring them

Proposed Actions

- attribute all forms of revenue to units where generated, including 100% of ICR
- directly and explicitly recover overhead costs for each of the mission based programs: research, education, and service & outreach
- assess actual fringe benefit costs to units where they are incurred
- define space costs equitably, including debt service, and allocate to units occupying

Committee members brought different issues to their discussion, Professor Wells reported, but it does appear that IMG has benefited tuition-generating units more than those units that do not generate large amounts of tuition. The AHC, for example, does not generate a large amount of tuition; it has only a small number of students compared to the rest of the campus. AHC sees ICR as a problem (that is, the amount the AHC receives versus the amount it generates, and the amount on which it is taxed). Taxes seem to be spiraling upward and departments are worrying whether they can sustain themselves. That is one reason it is important to keep the rates stable; it is difficult to determine a budget when the rates keep changing.

These principles echo much of what this Committee has talked about over the years, Professor Konstan said. As an amplification on #1, he noted that departments train large numbers of graduate students; it is not just assessment rates but also other expenses that change so that one cannot predict costs. For someone hiring a graduate student on a grant, it is hard to predict the tuition and overall fringe benefit expense for five years, and the University cannot or will not offer an "up front guaranteed" price to allow effective planning.

There is a tension in the University's current budget model between (1) allocating, measuring, and billing for everything and (2) funding common goods that all receive and which are provided because it is not worth the effort of measuring and allocating costs. The University is split on this. It is not clear which works best, the micro-billing approach or the global approach. The Committee should look at this tension, but at the same time not eliminate incentives to be efficient.

Professor Wells observed that it is more difficult to hoard teaching space than research space. She said she has also just learned that the cost to hire a graduate student may go from \$33,000 to \$37,000 next year. She has just hired a junior scientist for \$33,000 (which includes fringe benefit costs) who will work 40 hours per week and do what she needs to have done. Professor Wells said she believes graduate education at the University is heading for a big fall and she is quite fearful about its future.

With respect to stable assessments, Professor Campbell said, he was an administrator a number of years ago and agrees that unstable assessments play havoc with setting budgets. But the University is in an environment where costs are going up; the administration will have to be very conservative if it is to promise not to make any quick changes in assessments--it will have to build reserves so that it is not caught short. The Budget Advisory Task Force was struck by how the University seems to be insuring at every level against every possible problem; there could be too much money in reserves and a way needs to be identified to get that money into circulation. Mr. Pfutzenreuter said the administration will move accumulated vacation and sick leave to a common good so that departments do not have to budget reserves for them. This change will, however, slightly increase fringe benefit rates.

Dr. Sullivan related that he also had served on the Budget Advisory Task Force and had also been an administrator for a number of years. As an administrator, he favored predictable budgets, but the world is not predictable. Who five years ago would have predicted double-digit tuition increases at the University for several years running? No one. That is an example of how the University tries to respond to an unpredictable world. What is needed is transparency and predictability, but the world does not always permit the latter.

Another challenge is that the models are lousy at predicting outcomes, Professor Konstan said. At present colleges are rewarded on the basis of inflow (tuition, ICR funds). If the University is serious about efficiency, it should not measure success by dollars brought in (in fact, colleges would make more money if students took more time to graduate because part-time students generate more income). What if one turned the evaluation around, so colleges did not receive money for bringing in more students or research but for outcomes (students graduating, research). It would be difficult to identify the measures, if one is to do it right, but units would not receive money for getting money but instead for advancing the University's mission. Professor Konstan said he did not know how to do this, but it is awkward to reward deans for bringing in money rather than producing outcomes that effect the mission--and to fire them if they do not bring in money. The University attributes tuition based on the number of students, Mr.

Pfutzenreuter said; it could attribute the money based on the number of students who graduate. Vice President O'Brien commented that when they reviewed the support and service units, they tried to make the same point--they had been measuring inputs, not output or productivity.

Professor VandenBosch said she can see the rationale for Professor Konstan's idea but it would be difficult to implement across units. ICR and tuition are treated differently and there is a lot of tension across colleges (some bring in more ICR funds, some bring in more tuition). Can ICR and tuition be treated similarly to help dissipate that tension? They are not treated as differently as may appear because of the University fee, Professor Konstan maintained. ICR funds are divided 50/50 while tuition is attributed 90/10, Mr. Pfutzenreuter said.

One outcome of attributing tuition and the loss of state dollars means that CLA's dependence on O&M funds has declined from 22% to 17%, Mr. Pfutzenreuter reported. It is VERY heavily dependent on tuition. The Medical School, in contrast, has stayed fairly flat. Professor Konstan noted that the tuition-generating units didn't get more money because of the switch to IMG, rather they swapped O&M money for tuition money, giving them the potential to increase revenue, but also the very real risk that their revenue would go down if enrollment decreased. And, they were not given the ability to set their own tuition rates. While units that depend very little on tuition income may envy the ability to grow budgets through tuition, those units that rely heavily on tuition envy the stability of budgets in other units and fear the year-to-year risks as enrollments fluctuate.

Professor Campbell said the Committee would return to this topic in two weeks in order to respond to the President's request and to discuss the issues raised by the AHC Finance and Planning Committee.

Professor Wells commented that there is a huge cultural difference between the Committees in the Senate and those in the Academic Health Center. For example, the President declares that there will be a 3% salary increase, based on O&M funds, and that takes care of the matter on this side of the campus. In the AHC, that is an unfunded mandate and administrators must identify where funds will come from to pay for the increases--and sometimes they may not be able to deliver the increases. The incentives and reimbursement systems sometimes work at cross-purposes.

Things are very screwed up, Mr. Pfutzenreuter agreed.

3. Master Planning Working Group

Professor Campbell turned next to Vice President O'Brien to report on Master Planning Working Group.

Vice President O'Brien distributed a handout identifying the charge to and workplan of the Working Group. This is a work in progress, she said, and she will want to return to the Committee later in the spring or in the fall with an update.

The current Twin Cities campus master plan was developed 1994-96 and the Regents approved the plan in 1996. It has been used ever since, although there has not been much reference to it in the last four or five years and there has been no master planning advisory committee. The President asked her, as Vice President for University Services, to assess where master planning stands and how it should be used.

They are charged to consult with those who were involved before, to examine how other colleges and universities develop a master plan, assess the elements of the current plan, and develop recommendations for revising the plan.

The Working Group members are Judith Martin (Geography, FCC chair), Jan Morlock (Community Relations), Lance Neckar (Architecture and Landscape Architecture), Al Sullivan (Vice Provost for Academic Programs and Facilities), Harvey Turner (Director, University Planning), and Lori-Anne Williams (Communications Director, University Services). Capital Planning and Project Management, led by Michael Perkins, will also be a part of the process, because Mr. Perkins is responsible for administration of the master plan.

Ms. O'Brien said she wanted the Committee to know that the process is under way and to obtain its views about it. She said she envisions an updated plan being adopted during 2005-06 and that it should be reviewed every ten years. With the Academic Health Center planning, the stadium, St. Paul space planning, and the impact of growth on the East and West Banks, it is important to think long-term about the campus plan. Duluth is considering reviewing its campus master plan; Morris completed its master plan in the mid-1990s and developed the designation of an historic campus.

What is the underlying model to deal with priorities in the plan, Professor Konstan asked? Economic? The idea that open space has value? Or is it more ad hoc, developing consensus around development? The best way to describe the master plan is as a land-use plan that balances factors related to best use and design principles, Vice President O'Brien said; it deals with how a campus works, not just the building structures, and how academic needs and programs can be accommodated. When one looks at placement of the teaching and technology building, for example, one looks at programs that should be close to it. The fundamental principles underlying the campus master plan are like those of the six-year capital plan; the question is how to balance various factors.

The emphasis on supporting academic programs is important, Mr. Fitzgerald said. In some plans, there are competing factors in a resource-constrained environment. Space is among the most constrained factors, and tying it to academic programs is vital.

Ms. O'Brien said she has been gratified to have the participation of Professors Martin and Neckar because their academic fields coincide with the master planning process. One element of the discussion is how, once there is a master plan, should an ongoing master plan advisory committee relate to the governance structure. Perhaps it should be a subcommittee of a Senate committee.

One question is whether the master plan contributes anything, Professor Campbell commented. Does it do any good? They intend to look at how much the current plan has actually guided decisions. The Morris campus is a good example of how the plan helped understand the value of an historic campus and the recommitment to that campus.

The master plan does not deal with the Minnesota Facilities Model, Ms. O'Brien said in response to a question. That is more a matter of implementation.

Ms. O'Brien said that they are just beginning discussions of the light-rail transit central corridor and the North Star commuter rail, both of which could have an impact on the definition of the campus.

One important function of master planning is the definition of the campus boundaries, Ms. Weinberg said, which is a concern of the University's neighbors. The University has huge land holdings, especially at the agricultural research centers. She said she has long thought it would be helpful if there were a review of academic and research needs for land at the University's research centers in addition to its campuses, and how it is needed, or whether what the University has is in excess of what it needs. Vice President O'Brien noted that the process which she is presenting is about the Twin Cities campus; Ms. Weinberg raises the issue of how to review programs and property all over the state. Is there such a process, Professor Campbell inquired? Not that she knows of, Ms. O'Brien said, but the questions being raised could lead to establishing one.

Professor Korth said that his experience with the Morris plan, finished in 1995, was not as much a product as a process. A lot of people gained a lot of ideas and information, which provided great stimulation to the process. The historical designation was not planned as part of the process, but the master planning process started the discussion. The master plan is not just a book; the process is important. Ms. O'Brien agreed. The question is how, on a campus the size of the Twin Cities, to engage the community in that process.

Professor Campbell thanked Vice President O'Brien for her report, and adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota