Minutes*

Senate Committee on Finance and Planning
Tuesday, February 15, 2000
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Charles Campbell, Catherine French, Cynthia Gillett, Gerald Klement, Terrence O'Connor, James Perry, Richard Pfutzenreuter, Terry Roe, Rose Samuel, Charles Speaks, Rachel Sullivan, Susan Carlson Weinberg, J. Peter Zetterberg

Regrets: Jean Bauer, Dan Feeney, Wendell Johnson, Michael Korth, Vinay Nangia, Shana Saeger

Absent: Eric Kruse

Guests: Executive Vice President and Provost Robert Bruininks

Others: Florence Funk (Office of the Executive Vice President and Provost)

[In these minutes: reorganization of the Treasurer function; tuition and salaries and budget problems for 2000-2001]

1. Reorganization of the Treasurer Function

Professor Gudeman convened the meeting at 3:25 and turned to Mr. Pfutzenreuter to lead the discussion of the reorganization of the Treasurer function.

Mr. Pfutzenreuter distributed copies of an organization chart and a memorandum from a policy committee concerning the Office of the Treasurer. The policy committee was appointed by President Yudof to deal with reorganization issues and to identify where certain activities in central administration should be located; the committee dealt with the Office of Student Development and Athletics (now Student Development) and with the Treasurer's office. His report to this Committee today, he said, will be only about the Treasurer's office.

The major recommendation is that the Office of the Treasurer be abolished. This would result in savings (of perhaps $350,000 - 400,000 in recurring funds because of the elimination of the Treasurer position salary, office position salary, and fringe benefits) and help with next year's budget problem; taking this action would also lead to some one-time savings, but Mr. Pfutzenreuter could not estimate how much those might be.

Mr. Pfutzenreuter reviewed with the Committee where the various functions that were in the Treasurer's office would go and who would be responsible. (Asset and Debt Management and Risk and Insurance to the Controller, Bursar to Vice Provost for Undergraduate Education, External Sales and Real Estate to Budget and Planning, and U-Card to Auxiliary Services.)

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One Committee member said he had been impressed with the rate of return and management of University assets; would the same group of people continue to be responsible for investments? Mr. Pfutzenreuter said that function would not be changed at all, and that he would hold Mr. O'Connor responsible for investment performance; Mr. O'Connor noted that the Asset and Debt Management will report to him. Mr. O'Connor also reminded the Committee that there are two new presidential advisory committees composed of external members, one on investments and one on debt, that will help guide University practices.

Was this reorganization because of the decision about Ms. Stephens, the former Treasurer, or would it have come about anyway, asked one Committee member? Mr. Pfutzenreuter said he was not sure. Many of the issues in the reorganization had festered for a number of years, and some of the units that reported to the Treasurer were a peculiar match (e.g., the U-Card office, Real Estate, Risk and Insurance). The reorganization is intended to get better cooperation among units, save money, and get similar units aligned. Mr. Pfutzenreuter pointed out that the State of Minnesota has also eliminated the position of Treasurer, and among the University's peer institutions, some have the position but some do not.

How does this reorganization fit into the larger picture, asked one Committee member? The University is a corporation and there are always tensions between the academic and financial sides. How does that play into the reorganization of financial domains? Mr. Pfutzenreuter responded that before this reorganization occurred, the movement of the Budget and Planning Office to the Executive Vice President's office has facilitated much more discussion with the academic side of the institution. That change was much more significant than these.

Asked if the reorganization has already been in effect, or would be in the future, Mr. Pfutzenreuter said that part of it had been implemented already and the rest only very recently on an ad hoc basis. It is expected the President will endorse the reorganization when he returns to work following surgery.

Asked what else he has responsibility for, Mr. O'Connor said that his office includes all of the accounting functions, the financial system support, purchasing, taxes, accounts payable and receivable, and so on. Audits reports to the President and the Board of Regents.

This is not a complicated financial or physical change, Mr. Pfutzenreuter commented. There are much more complicated financial arrangements in the Office for Student Development that will take more time to sort out. None of the changes in that office will lead to moving units into any of the finance offices.

Mr. O'Connor was asked to discuss accounts receivable. Mr. O'Connor reported that in the annual management letter from the auditors (suggestions from the auditors on ways the University might improve its practices), one recommendation was made about receivables in sponsored financial reporting. This is a highly manual process linked to the Sponsored Programs Administration office. The recommendation is that there be a new receivables system. The Audit Committee has endorsed the recommendation and a Request for Proposals has been prepared. Mr. O'Connor said he was not sure what the cost would be, perhaps $1.5 million. In theory, there would savings as a result of a new system, with faster turnaround and fewer losses. Losses (uncollectible accounts) go back to the Principal Investigator or the department or dean.

In response to a question of whether there would be direct charges to departments for the cost of the new system, Mr. Pfutzenreuter said that there has been no decision on how to fund it. In light of the experience with PeopleSoft, it was said, it is to be hoped that who will pay and how will be determined before any commitment is made. In theory there will be enough additional income to pay for the system, Mr. O'Connor said.

Asked if the University loses a lot of money because of uncollectible accounts, Mr. O'Connor said that it is hard to tell with a manual process, but said he did not believe there were significant losses.

The Committee touched on a number of related topics with Mr. O'Connor: There are pockets of problems with timely billing from the University; there would not be an accounts receivable system for the entire University because some areas have systems that work very well; whether or not a new system would permit staff reductions is difficult to determine, but moving to an electronic system means that help line costs go up (leading one Committee member to observed that "if it is as opaque as the Electronic Grants Management System, you will need to hire a lot of help").

This is intended to be a University-wide solution, Mr. O'Connor said, for units that need it. Then there needs to be University-wide communication on this, said one Committee member, or units will develop their own systems.

Is this the optimal reorganization of these offices, asked one Committee member, so that there will not have to be another reorganization in five years? In the end, Mr. Pfutzenreuter observed, these are all based on people, and the structure will change again at some point. Combining the Treasurer and Controller does make sense, Mr. O'Connor assured the Committee. He also again reassured the Committee that the management of funds will remain exactly as it now is.

One Committee member said the Committee should be informed about the reorganization of space in Morrill Hall. It was agreed that the topic would be fitted in soon.

2. Tuition and Salaries

Professor Gudeman welcomed Dr. Bruininks to the meeting and turned to Dr. Zetterberg to lead a discussion of tuition and salaries for next year. He noted that with respect to salaries, the University faces compression, dispersion, differences across units, and the Committee would like to see data on the internal salary structure as well as comparative data from peer institutions.

Dr. Zetterberg said it has always been true that there are significant variations in salaries across colleges and departments, primarily because of the marketplace for various disciplines. The demographics of a department also affect salary comparisons: if there are a lot of senior people in a department salaries will seem higher than in other units. The number of senior faculty in a department varies across units. But the primary reason for differences is the market, and that is true nationally. He said he did not know if the differences are growing more pronounced than they were in the past.

One Committee member recalled participating in searches in a department where salaries are low and hearing faculty argue that the salary for the new faculty should be as high as necessary--"but not higher than my salary." That is a very bad philosophy, Dr. Bruininks agreed; units must go after the best person and pay what the market demands. Retention offers also create discontinuities in salary administration, which is something academic leadership should address. Even if a faculty member chooses not to seek outside offers, he or she may be as good as the person who does so and the department has an obligation to review his or her salary. When these kinds of efforts are made, the result is more funds in the departments. The aggressive departments get the best people and then also readjust salaries in the department--or they have retention problems with others as well a morale problem.

One Committee member noted that the process gives the deans discretion to distribute salaries differentially; how often does that happen? There is the impression that it does not. Dr. Bruininks said that it has in a couple of instances. In his view, it is difficult to differentially allocate central salary resources by college with a 2 - 3% pool. Moreover, the comparative market data by academic field are relatively weak and unreliable. It is therefore not worth trying to differentiate; it is better to create a pool of funds for retention and extraordinary merit at the college level that goes above the average in those cases.

This issue is also related to the culture in the department, Dr. Zetterberg said. In the case of one very good department in CLA, salary decisions are by faculty vote and the department head and dean have little to say. Many department heads in CLA and other colleges change every three years, so it is difficult to do much about the salary structure. IT, on the other hand, has a tradition of chairs and heads who serve for longer periods. This may provide additional opportunities to rationalize the salary structure.

In his last year of office, one Committee member recalled, President Hasselmo provided differential salary increase funds to the college, a decision that carried many costs and appeared to gain little. Dr. Bruininks said that would not be done this year; the data are not strong enough to be confident about them and comparisons across departments cannot be made with sufficient confidence. The data are simply too weak to justify such a distribution.

Any assessment strategy to pay for common goods, Dr. Bruininks explained, will create disparate impacts on the colleges and will have to be reviewed and assessed. Some parts of the campus will pay disproportionate amounts compared to what they might pay under a different allocation model. If there is more weight given to tuition (e.g., take money off the top of tuition revenues to pay for common goods), those colleges that rely more heavily on tuition to cover costs will be affected more. There is no simple mechanism but there must be a way to pay for University-wide goods. What must be assessed is whether a process is having an adverse effect on academic units.

Dr. Bruininks said he did not believe that decisions being made would have a differential recurring effect across units on salaries. The intent is to put together a framework to allow the University to plan and manage more effectively.

The proposal for this year is to allocate the full $19.1 million (tuition, state funds, ICR funds) on a proportionate basis to colleges and not to favor one over another. Those funds will cover about 70% of a 3% salary increase plus associated fringe benefit costs. The units will then be asked to fund the remainder needed to reach the 3% average increase, and would be allowed to make other market and retention offers if they need to. Dr. Bruininks said he knew 3% was not an adequate increase.

The University needs to make a stronger case with the state for greater support, Dr. Bruininks said; in the last hours of the last biennial request session the University lost about $20 million between the House/Governor's recommendation and the Senate recommend increase in the University's budget. The University needs to make a stronger case for investment in all campuses of the University. In addition, it needs to increase the revenue in its base budget beyond tuition increases in order to solve rising cost issues. On the latter, there is a limit to how much they can be restrained, because the University hires the brightest people to do leading work and that requires a higher level of support than many other agencies in society. (Dr. Zetterberg said the academic price index in recent years has probably been 3-4 times as high as the CPI for some components, such as library acquisitions.) The University cannot use only one strategy to deal with the problems but must build a stronger public case for higher education.

Professor Gudeman pointed out that the 3% salary increase is not adequate, that the University will again fall behind, and that people are its most important resource. Dr. Bruininks said there need to be multiple approaches to this problem. One could be increased reliance on private funds, and tuition, and the University must be sure it is using its money wisely. And it must also set its sights higher than what it will be able to accomplish this year.

At the department level the incentive system does not see the link between the number of faculty and salaries, said one Committee member: they put money in faculty lines so it cannot be retrenched. Is there a trade-off at the University level between compensation and number of faculty? Dr. Zetterberg said there is. The University has 500 fewer faculty than it did 10 years ago, and one reason for that is because money has gone to fund salary increases. The trade-off between the number of faculty and supporting the faculty who are here has definitely reduced the size of the faculty.

Small departments are harmed, said one Committee member. Dr. Bruininks agreed. He also said that number of dollars can be increased if the University makes the right investments, as in sponsored programs and tuition.

Dr. Bruininks said he believed the administration would recommend tuition increases larger than last year. This will be a subject for consultation. The proposed salary increases will take about half of the tuition increase and would leave money for colleges to pay for other increased costs; most colleges would still be in a positive situation and could make additional investments. It is always wise to ask if the University is well-enough supported for the faculty it has; those are difficult conversations with small units.

The proposal means that tuition will increasingly fund salaries, said one Committee member. More so than it has in the past, Dr. Bruininks agreed. Dr. Zetterberg clarified that tuition has always funded part of salaries. Will that portion increase? Dr. Bruininks said that from 1980-2000 tuition increases covered rising costs in public and private higher education. Adjusted for inflation, there was about a $15 billion change (decrease) in government support for public higher education for the period 1980-1995; the institutions made up the shortfall partially with tuition increases and reductions in budgets. If the state chooses not to participate in the funding of higher education at the same level as in the past, but the institution wants to maintain its quality, some of the funding needed will have to come from tuition and some from other sources (e.g., private funds).

The most dramatic example of this is the proposal by the North Carolina board of trustees to increase tuition by 40% over two years, Dr. Zetterberg reported. They see no hope that the state will come up with the funds necessary to do what the universities want to do (in part because of the huge natural disaster costs North Carolina has faced). In the 1980s, operations and maintenance money covered two-thirds of instructional costs at the University; now it covers about half, so tuition is paying a lot more of the bills. That is a national trend and he did not know of any state going in the opposite direction.

Dr. Bruininks said that Dr. Zetterberg, in his presentation to the Regents about tuition, will illustrate the impact of tuition increases on the lowest-income students. The University must both cover its costs but also maintain access. In Minnesota, the most economically needy students can keep up with tuition increases due to substantial increases in federal and state financial aid. A 40% tuition increase would cause the University to lose money because of a decline in enrollment; that will not happen with a 5% increase, but the University would likely start to lose students at a 10-15% level of increase.

Tuition dollars would continue to flow directly to the colleges, Dr. Bruininks affirmed in response to a question; none would be retained centrally for salaries.

At the department level, when there is a retirement or resignation, it is customary to ask the dean for a replacement, said one Committee member. Part of that is cultural, part is fear; they do not ask if they should replace the position with support staff or graduate assistants or supplies and expenses because those are more vulnerable to retrenchment. There are times it would be better for the University, however, if they were to do so. Dr. Bruininks agreed and said that this perception had to be overcome with education and consultation. He agreed that it reflected a lack of trust because the budget system lacks internal consistency on a year-to-year basis and has not been driven by explicit values and assumptions that are understood by the community. When practice is inconsistent and the environment is unpredictable, people play it safe and lower their level of risk-taking. If there were more consistency in the environment, people could plan.

When there is a situation of too many faculty for the budget, that induces faculty to look outside, which increases retention offers and makes the distribution of funds even worse, said one Committee member. It is not clear what the optimal situation is, but it is one to be concerned about. Dr. Zetterberg commented that there is the budget process the University HAS and the budget process that many faculty THINK the University has--and they are not the same. Many believe there are officially-approved faculty lines; there are not. One aspect of budget practices discourage a department from using money from a faculty line for other purposes: additional funds tend to come only for salary increases, which is another incentive to put as much money as possible into salaries.

The University has not thought creatively or systematically about incentives and disincentives, said one Committee member. One can ask, for example, if there are DEPARTMENTAL rewards for teaching improvement. That would be a very different way of thinking about rewards.

Dr. Zetterberg then explained that the University has moved from multiple undergraduate tuition rates to a uniform undergraduate rate. There has also been an incentive to students on the Twin Cities campus to keep their credit loads up: each credit after the 12th is one-half price. Upper division students at Crookston, Duluth, and Twin Cities have not had a tuition increase for three years while the University brought lower division tuition up to the upper division level. Lower division students who graduate will have benefited because they will pay between $600 and $1000 less than they would have under the old tuition structure. As the University makes a tuition decision, it must put it in the context of what it has done and what it means to a student going through the institution.

In terms of the impact on low-income students, in 1996-97 total grant support for a student (Pell and state funds) came to exactly the same as average undergraduate tuition on the Twin Cities campus. In the years following, grant funds increased faster than tuition, so that even if tuition is raised now, even the most economically disadvantaged students will be better off than they were a few years ago. There is no upper bound on the tuition component used to calculate state grants for students attending the University; there is for students at private institutions, and they would like to see that limit raised. There is an increasing gap in tuition between public and private institutions, and both have increased more than the CPI.

One Committee member pointed out that the large increase in funding for grants is money that would have come to the University. Minnesota is at the top in the United States in terms of the generosity of its state grant policy for college students. Dr. Zetterberg observed that there are, through financial aid, more public funds going to some students at private institutions than at public institutions in Minnesota; he suggested that there should be some benchmark, because this is not wise public policy. Dr. Bruininks said this is an important issue that the Committee should address and inform the faculty about.

Professor Gudeman thanked Dr. Bruininks and Dr. Zetterberg and adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota