Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 2, 2000
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Dan Feeney, Cynthia Gillett, Wendell Johnson, Gerald Klement, Michael Korth, Terrence O'Connor, Rose Samuel, Charles Speaks, Susan Carlson Weinberg

Regrets: Charles Campbell, Richard Pfutzenreuter, Terry Roe, Rachel Sullivan

Absent: Catherine French, Eric Kruse, J. Peter Zetterberg

Guests: Liz Eull (Office of Budget and Finance); Executive Vice President Robert Bruininks

[In these minutes: construction of and issues around the 2001-2003 biennial request; Controller's Organization functions, endowment, new accounts receivable system; Enterprise Systems, a variety of budget issues with Dr. Bruininks including faculty salaries and funding central/common goods and services]

Professor Gudeman convened the meeting at 3:15 and welcomed Ms. Eull to discuss the biennial budget. Professor Speaks raised a point of personal privilege, read a resolution commending him and thanking Professor Gudeman for his two years of service as chair of the Committee, and asked for a second. The Committee unanimously approved the resolution with a round of applause.

1. Biennial Budget Preliminary Discussion

Ms. Eull then explained that Associate Vice President Pfutzenreuter, who was scheduled to meet with the Committee, was called away to the legislature. She distributed a handout, copies of a set of slides, entitled "2002-2003 Biennial Budget Conceptual Discussion."

She reviewed briefly the timeline. The Department of Finance will issue guidelines in mid-June which indicate expected levels of funding. The University is an anomaly when it comes to responding to these guidelines, which are primarily for state agencies. The Governor's office receives the requests from the agencies and then makes a recommendation to the legislature (which the agencies are obligated to follow). The Governor also makes a recommendation on the University's budget, but the University's entire original request also goes to the legislature, unlike with the other agencies.

The Board reviews the request in September and approves it in October. The request is submitted to the state in October.

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

Professor Speaks, incoming chair of the Committee, inquired when the Committee should be prepared to review the more detailed numbers in a proposed request. Ms. Eull suggested the Committee would want to meet in mid-July and early August; it was suggested that joint meetings with the Faculty Consultative Committee would be appropriate.

In late November the Revised Economic Forecast provides the basis for the Governor's biennial budget recommendation. The legislature convenes in January and meets until May. The last economic forecast comes in February or March and provides the basis for final legislative decisions.

Ms. Eull reviewed the process that was used to develop the 1999-2001 biennial request and also ways to think about organizing the request (e.g., by object of expenditure--compensation, facilities, etc.--or by function--instruction, research, etc.--or by themes). Also to be taken into account are the Governor's "Big Plan" and legislative priorities. The latter will be interesting to try to ascertain inasmuch as there will be a new legislature AFTER the University has submitted its biennial request.

In terms of University themes, Professor Gudeman said, they should emphasize the importance of compensation. That subject is a source of grave concern and unhappiness among the faculty. Ms. Eull said that the President had told the Board that continuity in the request is important. As with the previous biennial request, compensation remains a high priority. Will this priority include both staff and faculty, inquired another (faculty) Committee member? The faculty receive a different look, Ms. Eull said; the staff tend to be viewed like State employees while the faculty are seen to be in a different market.

For the 1999-01 biennium the University requested $198.8 million in new funding and received $119 million; the latter included the tobacco endowment, so the net new operating funds were actually only $104 million.

The Governor's "Big Plan" has four major components: (1) healthy, vital communities, (2) self-sufficient people, (3) service, not systems, and (4) Minnesota, World Competitor. The University plays a role in each one. University priorities are not established on the basis of the plan but the themes are so broad that they can readily be linked to the University's priorities.

Graphs of the funding for higher education in Minnesota over the last 20 years demonstrated that (1) higher education's percent share of total state spending has declined, the University's share of total state spending has declined even more, and state spending on the University as a percentage of Minnesota personal income has declined markedly. The best the University has been able to do is stay level the last two years. These declines have occurred in the face of robust economic growth over a number of years: the growth in the state budget has not been in higher education. Asked about data for other states, Ms. Eull suggested that Dr. Zetterberg might have them.

The Department of Finance planning estimates for the 2002 and 2003 fiscal years project increases of 2.5% in the University's budget (and for other agencies as well). The projections call for an increase of about $15 million the first year and an additional $15.5 million the second. Those amounts would not cover compensation increases, let alone other priorities and obligations.

Professor Gudeman observed that the projected cost of increasing faculty salaries to the mean of the Top 30 research universities would cost $60 million. Professor Speaks pointed out that 2.5% would not cover the projected cost of fringe benefit increases for fiscal year 2002--which are projected at 3%. In

CLA, for example, even if salary increases were 0, it would still require 3% of the entire college budget to cover fringe benefit increases. If the increase in the budget is only 2.5% the University will be taking a step backwards.

To what extent is the University constrained to fit its request within those projections? It usually doesn't, Ms. Eull said. The entire request goes to the legislature, as does that of MnSCU but unlike that of the other agencies. Is there a reason the University would not receive more? Because the State cannot afford more? Because there are other priorities? Ms. Eull explained that the Department of Finance determines that inflation will be X percent and then builds in those numbers. These planning numbers do not have a lot of staying power--but they are the numbers that revenue and surplus estimates (and tax cuts) are based on.

The projections, Ms. Eull concluded, would not permit the University to serve the state as it is expected and are not even close to what the University needs. That, said one Committee member, should be the overall statement about the request.

Several points were raised in the discussion.

-- Minnesota has been ranked the most livable state. The role that the University plays in that ranking should be identified.

-- The role of the Budget Management Advisory Committee in the request is not clear; that is a question that should be addressed to Dr. Bruininks. It is trying to create a budget system but it has talked about how to reach the legislature on the University's budget needs.

-- How often do members of the legislature come to campus? At a recent professional conference, it was suggested that all legislators should be invited within two years and should visit within five or the institution is failing. Decisions are made in these kinds of one-on-one meetings. People remember stories and testimony at the individual level, it was said. If there are efforts under way, the faculty do not know about them and there seems not to be appropriate follow-up.

Professor Gudeman thanked Ms. Eull for joining the meeting.

2. Controller's Report

Professor Gudeman turned next to Mr. O'Connor for a report. He distributed copies of his semi-annual report to the Board of Regents and began by saying that his office has spent a lot of time integrating asset management, debt management, and risk management functions. There will be more focus on debt management, he reported, as well as with the Investment Advisory Committee. The latter group, which consists of five investment professionals from outside the University, one faculty member, Regent Bryan Neel (chair), and himself. It was supposed to meet four times per year; it has already met three times this year and will continue to meet.

In related steps, the University has hired two small-cap money managers to help invest the University's portfolio, there have been minor changes to the Regents' policy on asset allocation to strengthen and diversify the portfolio, and the spending policy vis-à-vis the endowment is being reviewed. The policy at present is to distribute 5.5% of the market average over three years. That compares very favorably to the practices of the University's peer institutions. They have looked at changing the spending rate, Mr. O'Connor said, and while the issue has not been put to bed, he did not believe it likely to change. There is a fine balance between immediate spending and protecting the long-term health of the endowment for the future.

There has also been a debt advisory committee appointed, Mr. O'Connor said, which has not yet met but will begin soon. It also is comprised primarily of external advisors along with a faculty member, and its role will be clarified by Regent Bergland. In the case of both groups, their work is ADVISORY to the President, he noted.

In terms of the University's endowment, as of June 30, 1999, it totalled $1.28 billion, or 27th largest of the 503 institutions that are members of the National Association of College and University Business Officers; if the $225.8 million of the Minnesota Medical Foundation is included, it ranks 24th. For the year ended June 30, 1999, the endowment return ranked 16th out of 437 in a NACUBO survey; it ranked 18th of 424 for a three-year period and 23rd of 411 for a five-year period.

Mr. O'Connor next reported that his office had issued a Request for Proposal for a new accounts receivable system and is now evaluating the proposals. He estimated that the cost of the system would range between $500,000 and $1.9 million. One Committee member inquired what the payback would be (that calculation has not been made); why install the system if that is not known (because the University has to have a new system). The Enterprise Systems Project cost escalated out of control, it was said, because it is easy to spend money on these systems; there needs to be a way to look at the possibilities and weigh the criteria to be used in making decisions to acquire them. Another Committee member noted that there are ESP and IRS taxes on the units and inquired if Mr. O'Connor could guarantee that there be no Accounts Receivable tax. Mr. O'Connor said there would not be. This is a small system, he said, and the University is not CREATING a system; accounts receivable systems are not rocket science and they are mature systems. While the impetus for the new system came out of the grants management initiative, he said he hoped that it could also be used for non-sponsored accounts and that it could help small departments collect receivables--and thereby also make the system pay for itself that much faster.

In addition to the concern about criteria for deciding on these system purchases, said another Committee member, is a worry about who is making certain decisions (e.g., grants management). If a PI writes progress reports and more than five are summarized, the system dumps them out. Who makes these kinds of decisions? Mr. O'Connor said he did not see such problems arising with the accounts receivable system; it is pretty fundamental stuff.

Why not take the cheapest proposal asked another Committee member? Because the University listed a number of features that it wanted; the proposals came back with different elements and costs. They are now sorting out the proposals to see which can do what and at what price. They may decide that CUFS can perform this function, Mr. O'Connor said--it has an accounts receivable module that has never been used.

Mr. O'Connor then distributed a handout on a new financial system. He said it was not sensible to keep a mainframe environment that only operates CUFS. A study group solicited suggestions from across the University on what a new system should include and those results are being evaluated. This is a two-three year project. He repeated, apropos the question of who makes the decision, that this also is not rocket science but mature general ledger and asset management modules.

Asked when a decision on a new system would be made, Mr. O'Connor thought late in the calendar year. Professor Speaks asked that it be placed on the agenda for the Committee in fall semester.

Executive Vice President Bruininks had joined the meeting; he asked Mr. O'Connor if it was assumed the new system would not be PeopleSoft. It may not be, Mr. O'Connor said, because new vendors are making their systems much easier to integrate with other systems. The University may migrate to a "best of breed" approach depending on system functionality and cost to integrate.

As for why the University will make this change, Mr. O'Connor explained that the decision was made NOT to purchase a new financial system while the new student and HR PeopleSoft systems were being installed; CUFS was already Y2K compliant so there was not great pressure to replace it. There is nothing magic about installing a new system at any particular time, he said, but there is a big risk to the University if CUFS crashes. The vendor is no longer supporting it; the University is on an island. It costs $2 million per year to keep the mainframe system operating; that system is now being used only by the libraries and CUFS and the libraries are going to migrate off it in the near future. At that point it will not be financially wise to keep up the mainframe only for CUFS. Dr. Bruininks echoed Mr. O'Connor's earlier point: these products are much more mature than are the ones that make up the Enterprise Systems.

Professor Gudeman thanked Mr. O'Connor for his report and turned next to Dr. Bruininks.

3. Discussion with Executive Vice President Bruininks

Dr. Bruininks said he did not have a detailed update on the Enterprise Systems Project but that there had been three or four significant things happening lately that lead one to be optimistic about its performance in the future. The systems seemed to be performing well. He told the Committee that the North Central Association's recent report said the University's experience with installing these new systems, in terms of budget versus actual cost, was probably among the best in the country (i.e., even though costs exceeded budget, they did so by considerably less than at other institutions). He also recalled the decision not to install a new financial system at the same time the new student and HR systems were being installed; that would have been horrendous, he said, and the University would have had to shelve one of them--which would have made it even more costly. He said he hopes that the challenges in implementing these systems will in a few months be only a blurred memory.

Perhaps they will be, said one Committee member--except for the tax. Dr. Bruininks responded that the University has not identified a good way to pay for major new systems, which need to be replaced every five to ten years. The problem is that the University is treating them as exceptions, it was said, but these costs can be expected and the ones coming down the line will be gigantic; the University must find a way to handle them. Dr. Bruininks agreed, and pointed out that the cost of a new financial system could equal 20% of the last biennial budget increase (about $20 million).

The University is behind because of the way the state funds it. The U.S. is not a heavy industry economy any more but these kinds of system costs need to be funded as capital items. That would mirror the nature of the economy. The financial advisory group is grappling with how these items should be budgeted and supported. There is no slack in the existing University budget to fund them internally.

As for previous systems, Dr. Bruininks said in response to a question, they were funded and supported over a 30-year period with dollars in the University budget for ongoing maintenance. More funds will be needed for this purpose in the future because of higher service expectations and more expensive technology. The larger problem is funding conversions and keeping systems current. No place in government or the non-profit sector has done a good job of providing for these ongoing capital expenses.

It may be worth trying for a State Special appropriation for technology, suggested one Committee member. Dr. Bruininks said that as the biennial request is developed, a major case could be made for technology needs. When one looks at long-term data storage needs and the new world of research in high speed computing and modeling, the University may want to seek partnerships with other systems that have the same needs (e.g., the state, the health care industry). In this new world, he said, campuses cannot try to be islands--or they will go broke at an accelerating rates.

One Committee member inquired what Dr. Bruininks envisioned for the Budget Advisory Committee. There is a lot of leftover work and a number of ongoing issues, Dr. Bruininks replied. He said he hopes that it can be a forum to test ideas with respect to long-range planning, that it can help advise on the direction of the legislative request and preparation of proposals (but this would not replace discussion with Senate committees), and--very important--assess overall University use of resources, how it could use them better, and where it can capture serious cost-savings. The long-term future of the University rests on strong state support, private funds, maintenance of sponsored programs and provision of high-quality educational programs. Along with these elements, institutions that fail to use their money wisely will be in trouble in a competitive world. The University must use its human and fiscal resources as well as it can--and it is not clear what it means to say that. There could be more use of technology and more investment in training for faculty and staff. Dr. Bruininks said he did not believe there was any magic bullet to save large amounts of money from existing commitments but that there are things that can be done. The committee can also help build stronger understanding of and support for the long-term directions of the University. He said he assumed the Budget Advisory Committee would help shape the agenda as well as deal with any unanticipated events.

Professor Speaks reiterated his concern about the Department of Finance projections of a 2.5% increase in funding for the University and his observation that it will take 3% of the CLA budget just to pay for anticipated fringe benefit increases in 2001-02, even if salaries do not increase at all. How confident is he, Professor Speaks asked Dr. Bruininks, that the University will be better than a 2.5% increase? Dr. Bruininks said he was confident the University would do better. He said he believed the legislature would treat the University well, even if it did not support all of its aspirations. Some states are making more investments in higher education but the record is spotty. He assured the Committee that the University will not shy away from an aggressive and realistic statement of its needs--which are a lot more than a 2.5% increase. "Nothing around here costs only 2.5%," he observed; technology, people, the libraries are all costs that increase at rates considerably above a 2.5% level.

Does he see a point at which the University will stop doing things, asked one Committee member? The trends in higher education funding make it clear that funding is inadequate. The University has stopped doing things in the past, Dr. Bruininks responded, and there are serious cutbacks being made in a number of areas. It must be remembered that University revenue sources continue to grow; when there is talk about the assessments, recall that they arise because of the cost of supporting growth. The University is in a CHALLENGING situation, he said, but not a dire one. There must be a look at the $1.7 billion budget; the University may need to discontinue activities with less promise. At the same time there are seductive elements to discontinuing activities: it will often take another five or more years to recover the funds from closing a major activity or program.

Savings can often be derived from unexpected sources. One example of a way to save money, Dr. Bruininks related, might be in desktop computers. The University spends about $25 million per year for them but they are much more powerful than needed for many who have them. There are ways to replace equipment do routine word-processing and spreadsheet analyses at one-third of these annual costs. What if the University could cut these costs by $10 million and still maintain service quality?

That would be about one-sixth of what is needed to bring faculty salaries to the median of the top 30 research universities, pointed out another Committee member. Is there any salary strategy being developed? The most recent AAUP data put the University at 27th or 28th; how will it move to #15?

There is not one solution, Dr. Bruininks said. The University will make a strong case in St. Paul. But there is a need for multiple strategies to ensure competitive compensation levels. The constraints are not only St. Paul and tuition but also what the federal government will allow on grants. Salaries must be part of a longer-term strategy that takes into account compensation and human resources; the University must also put funds into renewing its human capital. Private fund-raising must be a big part of the effort as well. There is no simple was to create a $20-million pool of funds that does not exist now. There is also the problem that there is almost nothing done at the University that SOMEONE does not think is important so cutting out programs is not easy.

Any good organization constantly reassesses, Dr. Bruininks said, and with respect to long-term compensation the University must commit to doing its very best and depend only on the state. It must look internally and must raise more money. But this is very difficult; the University should also sustain debt for the Art building and the Math and Science building at Morris, for example; how to balance these considerations is a big challenge.

How is the University doing on deferred maintenance, which was such a big problem a few years ago, asked one Committee member? Is it making progress? Dr. Bruininks said that Vice President Kruse would have a better answer but that he knows the University is making progress. There remain a lot of issues--there is mold in walls and roofs need to be replaced and air exchange is a problem in many older buildings. The number is coming down, however, and Facilities Management is looking at ways to budget for these costs on a long-term basis. The legislature is also anxious to see higher education develop a strategy to cover long-term maintenance issues. This is a special problem for the Twin Cities campus, which has by far the oldest buildings in Minnesota higher education.

There are exciting things happening, however. There is a long-term strategy for upgrading classrooms and a way has been found to fund the first part of the plan; the legislature will be asked for help for the second part. The University has to be more conscious about its use of space, Dr. Bruininks commented. People think of it as a free good and just use it. There may be under-utilization in some areas and pressure in others; the University does not manage its public spaces particularly well. Space can create cost pressures that the University could address more creatively.

With respect to the biennial budget, what are the concerns of legislators, asked one Committee member? Does the University have any systematic approach to finding out? Are they surveyed, talked to, or do they come to campus? Under Vice President Gardebring and Associate Vice President Peterson, Dr. Bruininks said he believes it does a very good job in this area. Ms. Peterson tries to get legislators to the campus on a regular basis to see the needs and increase their appreciation for what the University does with public dollars. There is a deliberate and planful attempt to get people in touch with the University and there are many one-on-one meetings with legislators. The results of those efforts could be better shared, Dr. Bruininks agreed, and said that more meetings with faculty, staff, and alumni will be organized. This will help University people because they will better understand collective goals and can talk about them, it was said. Dr. Bruininks agreed.

Dr. Bruininks cautioned, at the same time, that there is a tendency to think that if things do not turn out right it must be because the University did not get the message out. It must indeed get its message out because there will be increased competition for state dollars. The University can try to address legislative concerns, he said, but legislators are like faculty: they do not all think the same way. They have a lot of different interests and priorities and the University represents only part of the state's agenda. There is another problem with relationships with the legislature: the University is a large land-grant institution that gets involved in public issues--issues which the public and legislature may not ways see in only one way.

Asked if the change in committee chairs will affect the University, Dr. Bruininks said he did not believe it would directly affect the University a great deal. The University does a good job of presenting its case to the legislature and public. What is difficult is that there a number of competing and powerful influences operating, so that funds are being directed to tax reductions or other long-term investments, for example. Once a decision has been made to spend $X million through the state budget, there are also competing priorities: higher education, health care, transportation, K-12 education, etc. What is very powerful at the legislature is faculty and student involvement, Dr. Bruininks concluded.

Professor Gudeman thanked Dr. Bruininks for joining the meeting and adjourned it at 5:10.

-- Gary Engstrand

University of Minnesota