Minutes*

Senate Committee on Finance and Planning
Tuesday, June 5, 2001
2:15 – 4:30
238A Morrill Hall

Present: Charles Speaks (chair), Brittny McCarthy Barnes, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Stephen Gudeman, Joseph Konstan, Jane Phillips, Terry Roe, Michael Volna, Susan Carlson Weinberg

Regrets: Jean Bauer, Wendell Johnson, Michael Korth, Eric Kruse, Elo Charity Oju, Richard Pfutzenreuter, Rose Samuel, Cory Stingl, J. Peter Zetterberg

Absent: none for a summer meeting

Guests: Jan Morlock (University Relations); Professor Marvin Marshak, Interim Vice President Robert Jones

Other: none

[In these minutes: (1) the budget and future meetings; (2) report and financial data comparing the Academic Health Center with the rest of the Twin Cities campus; (3) central corridor transit planning and route alternatives; (4) remodeling of Coffman Union]

1. Pending Business

Professor Speaks began the meeting at 2:15 by noting that the earliest date for a special session of the legislature likely would be June 11. The Board of Regents is scheduled to meet June 26. He suggested that the Committee may wish to meet before the Regents and consider whatever information is available about the budget. There are two particular issues of interest, he said: the compensation plan (the percentage available for distribution to the colleges and the source of the funding for increases) and the tuition plan.

It is important the Committee provide an opinion on the second item. The plan appears to be in flux; at a meeting of the Provost's Budget Advisory Committee earlier in the month Dr. Zetterberg presented four tuition models, each of which generated the same amount of revenue. One model was a flat percentage increase in tuition; others included a "base" tuition (a flat amount) plus a percentage increase. No one favored the latter alternatives but it appears that one such alternative is now the track upon which the train is running; what is being deliberated is the amount of the "base" tuition charge and the percentage increase in the existing rate. Also being considered is whether some or all of the "base" charge will be captured by central administration to pay for common goods; this would be a significant departure from the tuition attribution model favored by the Budget Management Task Force report. At its meeting on May 24 FCC passed a resolution saying that there should be no change in the tuition

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attribution model this year (which would affect the substantial tuition revenue streams of a few colleges without going through the consultative process) and that this Committee work with the administration to develop a plan for providing the administration with the funds needed to pay for common goods and fund the core operations of the University. At the FCC meeting on May 31, however, the intent of the resolution was apparently set aside.

It was agreed the Committee would meet again on Thursday, June 14, to take up these matters.

2. Academic Health Center Financial Data

Professor Speaks now turned to Professor Feeney for a report on financial data comparing the Academic Health Center (AHC) to the remainder of the Twin Cities campus. Professor Feeney distributed a set of 25 tables and charts comparing in various ways (in total) the academic units of the AHC and (in total) the academic units on the remainder of the Twin Cities campus; central administrative and non-academic units were excluded from the comparisons.

Professor Feeney explained that the data were gathered for the AHC Finance and Planning Committee to provide it and others perspective on financial issues related to the AHC. The data came from Institutional Research and Reporting; the idea was to look at the big picture in terms of the effect of taxation, subsidies, tuition policy, and so on. He noted that this is a committee report and he extended particular thanks to the AHC financial staff for digging up much of the information and data. The report was triggered in part by the capital budget and questions about why the AHC appeared to be receiving so much in the way of capital projects.

Herewith a brief review of the tables of data:

1. In terms of income (FY2000), the AHC schools had revenues of $513.1 million; the non-AHC schools had revenues of $597.1 million. (This excludes central administrative costs; it does include collegiate administrative costs--i.e., deans offices and the like.) The sources of the revenue for the AHC were quite different from that of the non-AHC schools:

Source	% in AHC	% in non-AHC
Tuition	6	28
Sponsored	36	28
Sales/Contracts	16	10
Endowment/Gift	9	9
O&M	13	21
State Specials	3	<1
ICR	4	2
Clinical Sales	5	--
UMPhysicians	5	--
Other	3	2

The amount of revenue from tuition is drastically different, Professor Feeney pointed out, and if there are discussions of revenue models, there must be an understanding of this difference. Raising tuition by a significant amount will not help all units equally. Also quite different is the amount of O&M funding received by the two sets of units.

2. On the other hand, the expenses by object are quite similar for the AHC and non-AHC units: operating expenses (36% AHC, 32% non-AHC), salaries (53% AHC, 55% non-AHC), and fringe benefits (11% AHC, 13% non-AHC).

One hears that salaries are 80% of the budget but on these charts they are only about 68% for non-AHC units, Professor Speaks pointed out. That may be because the information does not include central administration and support units, Professor Gudeman observed, and he suggested that the Committee ought to receive comparable information for the units that are not included in these tables of data. Professor Feeney noted that the intent of the AHC Finance and Planning Committee was to compare academic units to academic units; it was agreed that data for the other units should be requested.

3. Historical data for tuition and O&M allocations were presented. From 1994 to 2001 the non-AHC units saw a 47.1% increase while the AHC units saw a 37.2% increase. (The AHC data, in this case, include the office of the Senior Vice President for the Academic Health Center; if it were excluded, the O&M support would be slightly reduced. The non-AHC data excludes the office of the Executive Vice President and Provost.) Professor Speaks noted the jump on the graph in 1998, the year that tuition attribution to colleges was adopted; most tuition is generated in the non-AHC colleges, he pointed out.

4. The Committee considered carry-forward balances in non-sponsored accounts and ways the balances might be factored into University budgeting.

It would also be useful to see the balances in central administration, Professor Gudeman said. The plotting of these data should not stop with the year 2000, Professor Speaks said; it will be useful to see what happens in the next few years, as the change to semesters recedes into history and when IMG has been in place for awhile.

5. The growth in balances in O&M and tuition funds has been even more dramatic in the non-AHC units; from 1994 to 2000 they increased from $26.6 million to $76.3 million (186.5%); in the AHC they increased from $8.3 million to $16.3 million (96.4%). The non-AHC balances were essentially flat from 1999 to 2000, Professor Speaks noted; were these funds set aside in anticipation of semester conversion that are now being spent? One will need to look at the data in 2-3 years, Professor Feeney suggested. At the same time, if a top faculty recruit is not hired because of a $5000 difference in salary, the faculty need to be inquiring about these balances.

6. The trends in hiring tenured and tenure-track faculty are the same for both AHC and non-AHC units: from 1992 to 1998 the lines for both were on a slight downward slope. For the non-AHC units, the number of tenured/tenure-track faculty decreased from 1531 to 1455, 1992 to 2000; for the AHC, the number decreased from 807 to 725. In both cases, the number in 2000 was a small increase over prior years. These data should be updated each year, Professor Feeney suggested. In response to a question, Professor Feeney said the decline of 10% in the AHC was spread more or less evenly across all of the AHC colleges.

7. Student enrollment (headcount) in the AHC 1992-2001 was quite stable, which is expected given the nature of its programs. In the non-AHC units, enrollment (graduate, professional, and undergraduate)

went from 34,861 to 40,835, with a significant increase after the implementation of IMG. Ms. Phillips pointed out that because the numbers are headcount, not Full-Year-Equivalent, they could also reflect an increase in the number of part-time students.

8. The next table presented O&M funding per student by college (O&M funds divided by the number of headcount students); the data are as follows:

Agriculture	3696
Architecture	5746
Biological Sciences	6714
Management	2699
Continuing Ed	1822
Education	3119
General College	1181
Human Ecology	2403
Public Affairs	7813
Inst of Technology	6143
Law	4604
Liberal Arts	1825
Nat Resources	3504
Total	3015
Dentistry	17605
Duluth Medicine	36864
Medical School TC	23859
Nursing	6170
Pharmacy	6880
Public Health	12942
Vet Medicine	22654
Total	18121

These numbers are why the data should be followed up, Professor Gudeman exclaimed. The number for CLA is extraordinary, he said, when compared to Architecture, Agriculture, and so on; these data speak to how resources are distributed and it seems that CLA is deeply underfunded. This needs more discussion and careful analysis, he said; where state support goes talks about mission priorities. Moreover, if there is a large differential in state support and then taxes are levied on tuition, there is in essence a double penalty, Professor Speaks opined.

Professor Konstan cautioned that because these numbers are based on headcount, not Full Year Equivalent students, there are things lumped together. He said that these numbers raise a flag but do not condemn the budget. Professor Gudeman agreed but pointed out that the student-faculty ratio in CLA is 29:1 while in Agriculture it is 6:1. The numbers do require discussion, Committee members agreed, and also discussed whether the data include tuition derived from teaching students from outside the college and if it would be possible to identify tuition derived from within the unit compared to tuition generated from teaching students from other colleges.

9. Tuition revenue per student follows a somewhat different pattern (the numbers are tuition revenues per college divided by the headcount number of students).

Agriculture	3908
Architecture	6341
Biological Sciences	4244
Management	5341
Continuing Ed	2066
Education	4887
General College	2428
Human Ecology	3401
Public Affairs	6200
Inst of Technology	5147
Law	10520
Liberal Arts	3755
Nat Resources	2815
Total	4084

Dentistry	7542
Duluth Medicine	11913
Medical School TC	10922
Nursing	4281
Pharmacy	6940
Public Health	6723
Vet Medicine	9819
Total	8503

9. About 55% of the cost of clinical medical education at affiliated teaching sights is the pro bono contribution of time by physicians on site providing instruction.

10. The revenues to support health professional education in the AHC come from a variety of sources; 32% from state funds, 12% from tuition, and the balance from about nine other sources.

Professor Speaks noted that time for review of the data was running out. What are the most interesting and policy-relevant issues to arise from all these data, Professor Chapman asked? Taxation rates, Professor Feeney said, and drew the attention of Committee members to tables 23 and 24.

The tables enumerated (1) O&M, tuition, and gross ICR funds for each college and (2) the Enterprise tax, the Institutional Revenue Sharing tax, and the portion of ICR funds that are held by central administration, and (3) calculated an "effective tax rate" for each college, as follows:

Agriculture	6.9
Architecture	2.0
Biological Sciences	9.4
Management	2.9
Continuing Ed	2.3
Education	6.4

General College	2.4
Human Ecology	4.3
Public Affairs	7.4
Inst of Technology	9.4
Law	2.2
Liberal Arts	2.8
Nat Resources	7.0
Total	5.5
Dentistry	6.5
Duluth Medicine	2.7
Medical School TC	19.9
Nursing	3.6
Pharmacy	7.6
Public Health	28.5
Vet Medicine	7.7
Total	16.1

The point, Professor Feeney said, is that a model that works for one unit or group of units does not necessarily work for another. Maybe there should not be only one taxation model but should instead be several. If only one model is used, units are disproportionately affected. The Committees should look at this from the perspective of faculty members.

Is the main message that the AHC is carrying more of the load than is popularly understood, Professor Chapman inquired? There is truth to that view, Professor Feeney said. He added that financial management in the AHC is improving and cost-accounting is the byword. Controls are much tighter than they were a few years ago. But it is still the case that what might be good for CLA or IT won't necessarily be good for the Medical School. This does help one understand how the budget model shapes thinking, Professor Konstan observed; depending on whether one views ICR money as originating in the units and being "taxed" at 49% by central administration, or originating at central administration and being "granted" at 51% to the units, one can either interpret the data as the AHC sucking money out of the University or the University sucking money out of the AHC.

Professor Feeney reported also that Vice President Cerra had had the "right of first refusal" in terms of choosing not to circulate certain of the data; Dr. Cerra said everything should be disclosed.

It was agreed that the Committee would take up these data again at its fall retreat; Committee members expressed deep thanks to Professor Feeney and to the financial staff in the AHC for compiling and providing the numbers.

3. Central Corridor Transit

Professor Speaks now welcomed Jan Morlock from University Relations to provide the Committee an update on planning for Central Corridor transit plans.

Ms. Morlock said there is a regional planning process underway for both commuter rail and LRT or busway in the Central Corridor, linking downtown Saint Paul with downtown Minneapolis, through the

University area. Commuter rail would be heavy rail, like Amtrak, and would have only about three stops between the downtowns of the two central cities. Light Rail Transit (LRT) or a busway would be slower, with stops about one-quarter mile apart.

Ms. Morlock noted that the Hiawatha LRT line is under construction; once it is running and the public has reacted to it, one will have a better sense of whether or not there will soon be another line built. The central corridor line could be a number of years off, but this study is still important for getting the institution's views.

Planners for LRT have given the University four alignment alternatives and asked that it (the University) reduce them to its two favored options, because the planners will need to conduct environmental impact statements and do engineering studies and would prefer to work on the two sites the University prefers.

The Committee then reviewed a series of maps identifying the four alternatives affecting the Minneapolis campus (the transit plans would not include the St. Paul campus--they call for the route to follow either the I94 or the University Avenue corridor to St. Paul). Two of them route LRT on Washington Avenue and two on University Avenue north of the campus. The alternatives on Washington Avenue include surface transit or a tunnel from the end of the bridge to perhaps Oak Street.

Committee members discussed the alternatives and made a number of comments.

-- The tunnel would reduce congestion in an area where congestion is now among the heaviest on the campus. It would also be the most expensive option, in part because there are a large number of utilities under Washington Avenue that would have to be dealt with if a tunnel were to be dug.

-- Is there any possibility of turning Washington Avenue into a pedestrian mall that is accessible only to busses or LRT? The problem is that one is trying to squeeze too much on one street. Ms. Morlock said that while the pedestrian mall concept has been debated at several junctures in the past, the idea has always lacked support from the necessary external constituencies, and may be less feasible now than ever, since the University has increased the density of development along this part of Washington Avenue. Another consideration is that there are no other acceptable east/west roadway alternatives upon which to divert local traffic.

-- The northern routes, on University Avenue, essentially remove the AHC from the system. At the same time, many of the people who use the AHC--patients as well as faculty and staff--drive in and out and would be less likely to use transit than other parts of the campus. If the University Avenue route were selected, the University transit system would be expected to provide the north-south transportation. This, however, would likely reduce the number of people who would use the system, because they will not drive to a park-and-ride lot, take the LRT, and then transfer to a campus bus. If the system is to support the University, it must deliver people to within walking distance of a large part of the University. The University should spend a lot of effort to decide if the Washington Avenue option is feasible; if it is not, then let other factors decide where the route will be along the northern edge of the campus and assume the system will not be of much help to the University.

-- The transit routes would serve a new football stadium.

There appeared to be general agreement with Professor Campbell's comment that an at-grade transit system on Washington Avenue would be a disaster because of the increased congestion that would result. A tunnel would be a financial problem, Professor Speaks said. Professor Chapman pointed out that if a system is convenient, it will go to a congested area, by definition; compromises are what need to be explored.

It was agreed that the Committee would take up this subject again at its June 14 meeting and decide if it has any advice to offer the Board of Regents, to whom the matter will be presented at their July meeting. Professor Speaks thanked Ms. Morlock for her presentation and promised to get back to her.

4. Remodeling of Coffman Union

Professor Speaks next welcomed Interim Vice President Robert Jones to discuss the new plans for completion of the remodeling of Coffman Union. He recalled that the Committee had discussed this topic twice earlier in the year; the second time it heard from Assistant Vice President Robinson and Mr. Crabbe about projections for bookstore income if the bookstores were to become an anchor tenant in the Union. What is the current situation, he asked Dr. Jones?

Dr. Jones told the Committee that when the initial bids did not fit within the budget for remodeling, the University went to a design-build process and has been working with the contractor since January to provide a building that is financially sound and provides the services that students want. The project has come a long way; the plans have been approved and people will be pleased by the result because the new plans are more exciting than what was originally envisioned. The cost has increased but the building will be more functional and user-friendly.

In response to a question, Dr. Jones said he would provide the financial information about the Union.

The renovation will take the Union back to its original 1939 design, after the 1973 remodeling ruined the building. It will return to its original splendor and also be more functional than it has been. Dr. Jones reviewed briefly some of the changes that would be made.

How much support for the Union will the bookstore generate, Professor Marshak asked? It is expected to provide $500,000 more per year than it currently spends on rental and utilities, Dr. Jones said. That will not sustain very much debt, Professor Marshak observed. Committee members spent some discussing the costs and revenue projections for the Union. Dr. Jones clarified that the total project cost will be $70.4 million, which includes building the bookstore, the Campus Club, food and other retail space, and so on. Some of these costs were not included in the original figures because they were being calculated separately; Dr. Jones emphasized that while the cost has increased, the total project cost has not increased from $45 million to $70 million; the original $32-$45 million figure (without and with non-construction costs) did not include these other elements.

Where will the additional funds come from, Professor Speaks asked? From the food service and the Campus Club (the latter from the administration). What is the final contribution of the administration to the Campus Club, Professor Speaks asked? Dr. Jones said the total cost was $4.1 million but he did not know how much was coming from the University; he promised to provide the information.

Professor Campbell said he had the impression a few years ago that this was entirely a student-fee-supported project and that there was a great deal of resistance to the administration paying part of the cost. It now appears that the University is putting in several million dollars. Dr. Jones said that was not true; the only University contribution is for the Campus Club; the remainder of the project cost will come from tenants and students. He said he wanted that to be very clear. The ONLY funds from the administration for the Union will be for the Campus Club.

What happens if the financial projections for the various units in the Union are not met, Professor Speaks asked? There will be financial issues that would have to be addressed, Dr. Jones replied. He has said all along that fees for the tenants or student fees will have to pay to operate the building. They have tried to address those concerns and are also trying to make the building more of a destination for both students and faculty so both groups will frequent it more than they did in the past.

The expected completion date is December, 2002; units will start moving in August, 2002.

Professor Speaks asked if the new tenants in the space being vacated by the bookstores on the West Bank and in Williamson Hall would be revenue-generating or revenue-eating. Dr. Jones said it has not been determined who will occupy those spaces. He said that even though the bookstores will substantially increase their space in the remodeled Union, they will not have storage space and some of their staff will have to be elsewhere.

After all have moved, will some units expand, Professor Konstan asked? Is the intent that the space be occupied by more revenue-generating units or absorbed by existing units? Not all units that were in the Union can be moved back in it, Dr. Jones said, so some will have to be located elsewhere. No one has decided whether or not the units in the vacated space will be revenue-generating; the question is whether the space is used appropriately and efficiently. One would like to think there is a "law of conservation of space" at the University, Professor Konstan said, so that all units do not simply expand. (Several Committee members nodded their heads to indicate there was no such law operative.)

Some of the space could be occupied by academic units, Dr. Jones added. Then there would still be expansion without conscious decision, Professor Konstan maintained.

The economic model for the Union, Professor Campbell said, is that in order to fund it all revenues from the units in it will be attributed to its operating cost and debt service and the space that is being vacated will likely not generate revenue. One must ask what happens if the bookstores are not as profitable as projected, Professor Speaks repeated; they do not seem to have a business plan. Nor have the students indicated it would be acceptable to increase fees if the retail units in the Union do not generate enough money. Dr. Jones disagreed with the last assertion; he said the students have raised questions and agreed to sacrifice student space in order to let the bookstores move in with retail space, if that would make the Union successful. It will be a different issue, however, if there is a shortfall.

Is the price of the project locked in, Professor Speaks asked? It is, Dr. Jones affirmed.

Professor Speaks thanked Dr. Jones for joining the meeting and adjourned it at 4:15

-- Gary Engstrand

University of Minnesota