

Minutes*

Senate Committee on Finance and Planning
Tuesday, December 12, 1995
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Thora Cartlidge, Kathy James, Karen Karni, Gerald Klement, Patrice Morrow, Roger Paschke, Richard Pfutzenreuter, Peter Robinson, Doris Rubenstein, Charles Speaks, Craig Swan

Regrets: Craig Dexheimer, David Kittelson, Steven Thelen, Ryan Thrun, James VanAlstine

Absent: David Berg, Allen Goldman

Guests: President Nils Hasselmo & Senior Vice President-designate Jo Anne Jackson

Others: none

[In these minutes: Phase II budget instructions, the status of the budget and compensation; introduction of the new Senior Vice President for Finance and Operations; tenure issues]

1. Phase II Budget Instructions

Professor Morrison convened the meeting at 3:20 and turned to Mr. Pfutzenreuter for a discussion of the Phase II budget instructions.

Mr. Pfutzenreuter distributed copies of a set of slides, the presentation he made to the Board of Regents last week. He noted that a few changes were made to the Resource Allocation Guidelines, which were then approved by the Board. There was discussion at the Board about adding a \$10 million budget cut to increase the funds for planning, but the motion failed on a close vote. The Board wants to see the reallocations, and could either accept or reject them; the message was strong but the question is what "strategic" means. Strategic decisions ARE being made, but perhaps they do not seem large enough; some may want to see elimination of colleges and departments. On the other hand, pointed out one Committee member, other Board members did NOT want to make additional cuts, so the message was mixed.

Mr. Pfutzenreuter then reviewed the modifications to the Resource Allocation Guidelines that had been approved; they related to the need to make recurring budget adjustments to fund salary and benefit cost increases consistent with the compensation plans for 1996-97 (not all of which are yet known, but some of which are, given settlements with the unions). In the case of one settlement, the total increase is about 3.87%, with 2% recurring, 1% not, and .87% step increases.

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Other changes in the Guidelines include a provision that the administration will propose these adjustments within a framework of program eliminations, savings and efficiencies, consolidations, and outsourcing. The 1996-97 budget is also to include an assessment of the implications of the U Hospital-Fairview integration. Finally, the administration is to seek to enhance outside income from auxiliary and education sales. One Committee member inquired how a private business, out to make a profit, could do something more cheaply than the University could do the work itself; the answer from several quarters at the table was "labor costs."

Committee members discussed briefly the proposed integration of the University Hospital with Fairview: there is to be a memorandum of understanding in January and a target date of February for the implementation. Mr. Pfutzenreuter said that Ms. Jackson could provide the Committee with more information.

It terms of outside sales, the issue is one of making the University's current policy less restrictive; a proposal could be brought to the Committee in a month or so. One Committee member said this had less to do with the Conflict of Interest and Conflict of Commitment policies than it did with the University selling things at whatever price the market will bear, rather than at cost. Questions about competition with the private sector and tax liabilities arise. It is the view of at least one Regent, Mr. Pfutzenreuter reported, that the University "cannot cut its way to profitability."

The Resource Allocation Guidelines financing assumptions are that the University will receive only an additional \$1 million in state funds over 1995-96 (set by the 1995-97 biennial appropriation), identification of \$33 million of one-time expenditures to ensure a "soft landing" in 1997-98, approval of a tuition revenue increase of 7.5% (where 1% equals approximately \$2 million), and \$8.9 million in reallocations, with additional reallocations to meet compensation costs. The units will know which funds are recurring and which are not when they receive their budget worksheets, Mr. Pfutzenreuter told the Committee.

Asked how central administration was doing in accomplishing the \$8.9 million in cuts, Mr. Pfutzenreuter reported that \$6.5 million has been identified. There is a ways to go, and the options are being reviewed with the President. The cuts will be found, he said. He said that none of the cuts are in pass-through funds that go to colleges and departments, and said he did not believe that any of them would result in "pass-through work" to departments. He said he did not wish to make public the proposed cuts--although they will be in the budget worksheets for the administrative units--because they have not yet been decided on.

Mr. Pfutzenreuter then reviewed large expenditure items for 1995-96 and 1996-97, including the Strategic Investment Pool, U2000 initiatives, buildings, and so on. The largest item in the list is a projected \$15 million increase in compensation, but a lot of money is also going to buildings for utilities, new facility operations, maintenance, and capital debt (the last of which is primarily the steam plant bonds).

There is a serious problem with graduate assistant fringe benefits, Mr. Pfutzenreuter explained as well as a slight underestimate of FICA costs; the total problem amounts to about \$10 million. The graduate assistant fringe benefit issue only arose last week, and may require raising their fringes from 43

to 57%. He reviewed with distaste why this problem with fringe benefits recurrently arises and said they are reviewing current year benefits to determine if the University is on track.

So the total reductions required will be \$10 million plus the \$8.9 million plus an undetermined amount to pay for compensation increases, commented one Committee member. Mr. Pfutzenreuter reviewed four different options for compensation that were provided to the Regents; one possibility would require additional reductions of \$15 million in order that it be funded permanently. This would mean, in addition to the \$8.9 million in reductions already scheduled to be taken next year, there would need to be \$25 million in other reductions (on a base of about \$700 million).

In order to complete the budget instructions, the level of compensation increases, recurring and non-recurring, and the funding sources, must be established. This information will probably not be available in time for the budget instructions, and any recurring amounts will have to be accommodated by the vice presidents, chancellors, and provosts later. Eventually there will have to be a number, but it will not be decided on until the negotiations with all unions are completed. Mr. Pfutzenreuter told the Committee, in response to a query, that the increases will probably be self-funded by the units, but the provosts, chancellors, and vice presidents will be able to decide which units will receive money for increases and which will have to make cuts.

Asked if there has been any thought given to not having a "soft landing" in 1997-98, and not now making the cuts in recurring funds in order to fund the salary increases, Mr. Pfutzenreuter said there has been and that he opposes that option. He does not want to have to use funds in the next biennium to restore the base and is concerned that if units are not told they must have a "soft landing" in 1997-98 and know what funds they will have, the entire problem could erupt on the next president. In addition, the provosts have told the President they want to deal with the numbers now, not later. This is about forward financial planning, said one Committee member; the administration should be able to say to a college that its base funding next year is \$10 million and \$9.6 million the year after--so start planning now. And units will have to start thinking about cutting faculty; they may hire some replacements, but not all.

One Committee member expressed dismay at the continuous presentations of copies of slides, rather than language, because the slides are so bare an outline. One is surprised the Regents could have a reasoned discussion about this; even with much good will, if the details depend on the presentation, that is troubling, because those details will be different every time. The use of slides seems to be standard practice for the Committee; why? The rationale is more interesting and pertinent than the slides; they are meaningless without the information presented by Mr. Pfutzenreuter. Did the Board receive essentially the same presentation, and then vote? Mr. Pfutzenreuter said they did, and said he would provide to the Committee any level of detail it wished. What is wanted, said another Committee member, is a self-contained document that explains all of this; if one could see it in advance of the meeting, one could better react to it.

In response to a query about the language of the resolution adopted by the Regents concerning the Resource Allocation Guidelines, Mr. Pfutzenreuter assured the Committee the Academic Health Center would not be authorized to make commitments on the funds being requested of the legislature until the money was appropriated. Mr. Pfutzenreuter then discussed other conversations that have been held regarding a possible additional supplemental request from the University, given the projected state surplus. Most likely any such request would be for technology. Asked if this would be like buildings,

where the University would receive the capital funding but not the operating money, Mr. Pfutzenreuter said it would not, and that units may be reallocating funds internally in order to make the technology purchases they deem essential.

Before leaving the subject, one Committee member inquired when the search for the new president will begin. No one had an answer to the question.

Professor Morrison thanked Mr. Pfutzenreuter for his presentation.

2. Discussion with President Hasselmo and Senior Vice President-designate Jackson

Professor Morrison next welcomed President Hasselmo to the meeting, who brought with him and introduced newly-designated Senior Vice President for Finance and Operations Jo Anne Jackson. He told the Committee he was pleased that she had taken on the task when the University needs a variety of experiences and skills brought to bear on its operation. He noted her experience on working on challenging problems in the Academic Health Center, most recently on the integration of the Hospital with Fairview. In his work with her, he said, he was firmly convinced she has the welfare of the University at heart.

There are a number of issues to be faced, the President recounted:

- The 1996-97 budget, with the adjustments that must be made for compensation.
- The development of a financial plan to serve as the basis for the 1997-99 biennial request, which must be largely complete by the end of the summer.
- Longer-range financial planning; Dean Schuh is chairing a committee looking at the longer-term financial possibilities for public universities and possible solutions and alternatives.

Ms. Jackson will be involved in all of these, he said, as will Mr. Pfutzenreuter. In addition, there are the restructuring and re-engineering projects that affect Finance and Operations, including the merger of administration and academic computing. There is a full agenda, he concluded, and she brings impressive credentials and background to the position.

For the immediate future, Ms. Jackson will continue to be the lead person on the negotiations with Fairview; that is a project that is on the fast track.

Ms. Jackson then said she looked forward to the opportunity to learn more about the University; she said she has learned much about the medical and health care side as well as the principles important to academic institutions. She said she recognizes the Academic Health Center is different from the rest of the University; she said she looks forward to identifying how Finance and Operations can assist the University--because it is a service organization that is to help the institution achieve its goals.

Professor Morrison then gave Ms. Jackson a schedule of the meetings of the Committee for the remainder of the year and told her that it is traditional that the Senior Vice President attends the meetings. He said that the Committee was interested in discussing with her the process of consultation, something

the President holds very important. The Committee's expectation is that it will participate in the decision-making process as the decisions are being formulated; if issues can be brought to the Committee, it can respond, providing an academic perspective on them. It is, he concluded, prepared to deal with hard questions.

Ms. Jackson said she hoped the Committee would help her learn, and that she would be able to talk to individual Committee members at times other than meetings in order to obtain points of view. Professor Morrison and others said that would be acceptable. It was also suggested that she not forget the St. Paul and coordinate campuses.

Professor Morrison then enumerated the issues before the Committee:

- the 1996-97 budget and allocation issues for compensation
- compensation
- the biennial request
- financial and planning aspects of the Hospital/Fairview integration; the President has indicated he wishes the Committee to consult on it
- systems problems and re-engineering in various areas
- forward financial planning, which is the biggest issue

In response to a comment, he agreed that campus master planning would also be an issue.

The Committee needs to think about the financial impact of the integration with Fairview (not the policy decision). Ms. Jackson said that she would be glad to inform the Committee about the hospital issues and that Mr. Pfitzenreuter would continue to be the lead person on most of the other issues.

The President emphasized the confidential nature of the negotiations with Fairview, and said that communication about the effort could be made later. The discussions have brought home, he said, the limited set of options available to the University, and Fairview seems an attractive opportunity. He said that he may try to attend some of the Committee's meetings as it deals with the issues on its agenda (e.g., long-term financial plans and budget issues).

The Committee then agreed to close its meeting in order to discuss the integration of the University Hospital with the Fairview Hospitals. At the conclusion of the discussion, the President and Ms. Jackson were thanked for their candor about the proceedings.

The President was then asked about his thinking on compensation. He discussed the relationship between compensation decisions and the negotiations with the unions, and noted that although the funding for compensation had been originally built in as totally non-recurring, that turned out not to be tenable. He touched briefly on the agreements with the two unions that have settled. To meet these agreements, the University will now have to identify recurring funding; the University has the money, but it is not recurring. Professor Morrison said the question is whether to impose a retrenchment at the end of 1995-96 or at the end of 1996-97--or to gamble that the legislature will have pity on the University and fund the increases in the next biennium.

The President reminded the Committee of House File 1856, which would reduce the base funding

of the University. The question is whether to take the retrenchment in 1996-97 or afterwards, and thus buy a year if done later. That will depend in part on how fast the cuts can be made. There also needs to be a discussion about faculty salary increases.

Asked about the implications of the Regents' resolution on tenure, the President said he has made statements about the subject: tenure is here to stay, and is a fundamental good that the University will preserve. Boards of regents are under pressure about tenure, however, and there is also a national debate going on about it. The best protection for tenure is to have a system that can be defended, he said, and that includes how it is granted and removed, who should receive it, where tenure is lodged, and how tenured faculty should be evaluated. Those are the major issues. The President acknowledged that tenure can be a volatile, even explosive issue, but he has concluded that the University is better off tackling it in order to strengthen tenure and to fend off attacks. The faculty leadership has responded well, he said, and if the University can hold steady while adopting reforms, tenure can truly be defended.

Most of the things proposed, if done carefully, would improve tenure and deal with problems, Professor Morrison observed. The two potentially controversial issues are (1) the location of tenure (in the department or in the University); this is essentially the layoff issue; and (2) post-tenure reviews and the possibility of salary reductions for some faculty. If these are carefully limited, with protections for faculty, they might be accepted by the faculty at large; if they are phrased to permit broad unilateral discretion by administrators, they would not be viewed favorably. There is now post-tenure review in salary recommendations, noted one Committee member; those are merit-based. That is commonly misunderstood, the President agreed; some believe that once faculty get tenure, there is no control of performance or competence, and that is far from true. Nor are they all paid equally, observed another Committee member. Moreover, the President pointed out, in the health sciences, much of the salary depends on clinical income. One Committee member suggested reporting ranges, because there are full professors who make less than \$40,000.

Professor Morrison thanked the President and Ms. Jackson for joining the meeting, and adjourned it at 5:15.

-- Gary Engstrand

University of Minnesota