Minutes*

Senate Committee on Finance and Planning
Tuesday, February 6, 2001
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Joseph Konstan, Michael Korth, Elo Charity Oju, Jane Phillips, Cory Stingl, Michael Volna, Susan Carlson Weinberg

Regrets: Stephen Gudeman, Wendell Johnson, Richard Pfutzenreuter, Terry Roe, Rose Samuel

Absent: Eric Kruse, J. Peter Zetterberg

Guests: Steve Cawley (Chief Information Officer); Elizabeth Eull (Office of Budget and Finance); Robin Dittman (Office of Budget and Finance)

Other: Carole Fleck (Office of Budget and Finance)

[In these minutes: (1) Cherrywood Room; (2) new accounts receivable system, planning for new financial system; (3) IP (computer address) charges; (4) reallocation; (5) direct charges for fringe benefits and impact on colleges

1. Various Items of Business

Professor Speaks convened the meeting at 2:15 and began by reporting that he would soon review the calendar for the remainder of the year and decide what items to move on and off the agendas. He asked Committee members to email him if they had any issues they believed must be taken up during the remainder of the semester.

He then noted that he had just received a copy of a petition from the faculty of Agricultural Economics protesting the decision to close the Cherrywood Room on the St. Paul campus. Committee members discussed the item briefly; it was agreed that there is a policy matter in that the Committee should try to ensure that there are appropriate dining facilities for faculty, staff, and students located on the campuses (in part because there is no other Committee to take up the matter). It was agreed that Vice President Kruse would be asked to provide information to the Committee in the near future and then the Committee would decide what to do. [Subsequent to the meeting it was announced that the Cherrywood Room would remain open for the remainder of the semester; Professor Speaks then concluded that this item did not need to come to the Committee at this time.]

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2. New Accounts Receivable System & Report on Financial Systems

Professor Speaks now asked Mr. Volna to report on the two items emanating from his office, that of the Controller.

Mr. Volna distributed materials he had used in a presentation to the Board of Regents and described the three activities under way:

-- "Quick hits," items which have been identified as problems and solved.

-- Process redesign and analysis of the way to collect information, create reports, and send invoices. What they do is opaque to Principal Investigators and that is the way they want it to be. They evaluated options and decided to use a software system already being used by University Services because it is cheaper, it does not rely on CUFS, there are University staff with experience with it, and it may prove to be one that could replace the entire financial system.

-- Improve the coordination between Sponsored Projects Administration (SPA) and Sponsored Financial Reporting (which is in his office). When ORTTA was split into the two entities there were tasks left undone; they are now developing an integrated system. Initial focus has been on improving the collection system; they aim to improve the timeliness and effectiveness of the process for billing sponsors and to clean up the accounts receivable system so bills get out and paid quickly. In response to a question, he said he did not envision this system being used University-wide.

   The University Auditor, Gail Klatt, has also talked about the need for a non-sponsored accounts receivable system, but the total amount involved is small (about $12 million). His office will help set up a system but it will be very low cost and will not be a new system. It will be a stopgap measure before a new financial system is put in place.

Professor Campbell recalled that when the Committee talked about a new accounts receivable system earlier there had been questions about how it would be paid for. A new system might recover lost funds but those funds would not go directly to paying for the system. In the face of the large costs of CUFS and then PeopleSoft, this remains a concern. Mr. Volna assured the Committee that the decision to use the same software as University Services had kept the cost considerably below initial expectations (less than $1 million) and it will be paid for in part (the amount to be determined) from balances in the Controller's Organization.

Discussion turned to replacement of the financial system. The issue is in flux, Mr. Volna said, and nothing formal is going on. There has been an internal group looking at timeline and approach, but Mr. Pfutzenreuter has made it clear there are NO funds available for financial systems replacement. Much depends on the availability of funds; Mr. Volna said he did not see anything happening in the near future. As a result, it may be necessary to keep CUFS running; they are looking at the costs and benefits of doing so. They are spending only very modest amounts of money to evaluate possible vendors for a new system, including preliminary project planning.

Professor Speaks thanked Mr. Volna for his report.

3. IP (Computer Address) Charges

Professor Speaks welcomed Mr. Cawley to the meeting to discuss next year's IP charges and Office of Information Technology (OIT) budget.

Mr. Cawley said he had nothing to hand out; budget discussions are still preliminary. They are assessing revenues and building budget projections; they want to be sure the budget is balanced before they project rates. He said they have a good idea what the budget will look like and reported that his $330,000 deficit from last year may be eliminated. They are seeing a growth in consumption, which means the overhead costs can be spread among more users. They are in the process of "scrubbing" costs, employee levels, and salary plans in order to prepare a budget for the Budget Office and, thereafter, Executive Vice President Bruininks (to whom Mr. Cawley reports).

IP charges will likely increase about 7% next year. In response to a series of questions from Professor Konstan, Mr. Cawley told the Committee that salaries account for 42% of the increase; the rest is due to vendor charges and capital and depreciation costs. This will constitute about an 8% increase in payroll but a decrease in employee headcount. Mr. Cawley explained that OIT has had one of the highest levels of turnover in the University, about 25% in the last 12 months, because it has gotten behind the market in salaries. As people are replaced, OIT must pay more, which drives the average salary up. To keep things at a reasonable level, the number of employees has been reduced.

Professor Speaks inquired what in the biennial request would affect OIT. Mr. Cawley said there was nothing specifically for OIT in the request. Funds were requested that affect the libraries, technology, Internet2, and support for the Enterprise Systems, but nothing that has a direct impact on OIT. At the same time, Mr. Cawley pointed out, OIT is not immune from general University actions or policies; whatever it might ask Internal Service Organizations to do in the way of retrenchment, for example, would affect OIT. That will depend on the amount of pain inflicted on the University and how it is spread, he observed.

The total budget change is about 9-10%, Mr. Cawley agreed, with the increase in the number of etherjacks and a decline in the number of private Local Area Networks and with the increase in costs. The inflation in telephone costs, he said, would be about 5%.

This typifies a generic problem, Professor Campbell said. Mr. Cawley raises charges in one part of the University and those charges are levied on departments (although grants do not pay IP charges). But there is nothing in the request to the legislature to increase department budgets to pay for supplies. A real question about the legislative request is where these costs EVER come from in structuring the budget request.

There has been no decision on wireless, Ms. Phillips asked? Mr. Cawley said they would not try to count devices, now. His advice, he said, is not to try to replace a wired LAN with wireless service; it would not meet security standard or the robustness needed. It is, however, a fantastic enhancement. That he is not going to worry about wireless does not mean it will not affect the number of nodes. Wireless does not threaten the system, but if departments start to replace it with wireless service (which is NOT cheap), then he would need to revisit the issue.

Has he run into a limit on the number of wires or nodes in buildings, Professor Feeney asked? Does that affect his revenues? Or both? Both, Mr. Cawley confirmed. Vertical conduit upgrades in buildings are his responsibility so those costs are part of his capital budget. Horizontal conduits are the responsibility of departments. There is a problem in some buildings, he agreed.

Professor Speaks thanked Mr. Cawley and said he would be welcome to return as needed.

4. Reallocation

Professor Speaks next invited Ms. Eull to the table to discuss reallocation. She distributed copies of the University's reallocation model submitted to the Department of Finance, in which the University proposes to reallocate $15.1 million each year of the next two biennium. Contrary to what was written in one of the local newspapers, the Governor has said he is encouraged by the University's decision to reallocate. There has been no indication in any official response that he was disappointed in what the University has proposed.

Is there any determination where the funds will be allocated FROM, Professor Konstan asked? It is the President's view that reallocation always has been and will be part of the annual budget process. When this document was made final in October the President was not in a position to indicate where the funds would come from.

The Committee spent a little time discussing the meaning of "reallocation" and observing that it is a process that is ALWAYS occurring in the academy. There needs to be a way to identify how to COUNT reallocation beyond the items listed in budget documents. The University must be sure it receives credit for the full extent of reallocation and captures and documents the changes.

The University has been asked by the House and Senate to talk about accountability and what efforts it has made to use dollars "smarter." This would include IMG, reallocation, the IRS tax, the Enterprise Systems. Legislators must be able to say that the University is accountable for state money--and federal, donated, and bonding agency money as well.

Is there a routine mechanism by which the Provost and President receive information from the deans, Professor Campbell asked? Often the deans do not know about reallocation in departments, Professor Konstan pointed out; they may not recognize that a replacement hire is a radical change. It is up to departments to reallocate in that way, Professor Campbell said, and such changes do not appear in the compact documents.

Such changes can also be opportunistic, Professor Konstan observed; a department will jump to hire someone if they come on to the market. These kinds of changes could be interesting to the Governor, Professor Campbell said. At the same time, Professor Chapman said, the link between strategic reallocation at the micro (department) level and the Governor's notion of reallocation do not mesh and micro-level reallocation will not address the increase in the budget for the University. Micro changes lead to high quality but do not meet the Governor's goal of cutting growth in the state's budget.

The Governor has said the University is not cutting fat or re-engineering, Mr. Volna noted. The University is burning its fat, Professor Konstan rejoined--no one is paying to operate buildings, cover utility cost increases, and so on. The message about reallocation should include the point that the

University has reallocated funds to strategic areas PLUS reallocated to pay for heating and maintenance. That is squeezing the fat out.

Professor Speaks thanked Ms. Eull for her report.

5. Direct Charges for Fringe Benefits

Ms. Dittman from the Office of Budget and Finance now joined the table to report on possibly changing to direct charges for fringe benefits.

Ms. Dittman said that a direct charge system would get the budget office out of the business of setting rates to recover costs and ending up with deficits or surpluses because they cannot predict costs exactly. A direct charge system would charge each department exactly the costs of fringe benefits for employees in the department. They are trying to examine the option but are mired in obtaining information from PeopleSoft on what the direct costs would be. They are searching for someone who can help them extract the data they need.

In a department with five faculty, Professor Speaks summarized, the department is charged a percent of the salary; is the amount the same for all when the costs of health care are being charged? It is, Ms. Dittman affirmed. Then why is it difficult to figure out the direct charges, he asked? Because they have to find the mix of coverages that employees have chosen, the number whose salary exceeds the FICA limit, and so one. The data SHOULD BE THERE but they have been told that because of the initial decision to use a percentage to calculate fringe benefits, obtaining exact costs will now require a modification in PeopleSoft.

In the case of sponsored grants, Professor Konstan said, they must budget 4-6 years out, and for NSF one must know the amounts. Is it possible to get rate quote guarantees for grant budgeting? With some agencies, budgets are reviewed during annual renewals, but agencies where budgets are fixed when the grant is awarded, it would be useful to have a fringe rate guarantee, even if the rate were somewhat higher to compensate for being fixed. Similarly, when hiring new personnel, principal investigators need to have a figure to budget for fringe rates before knowing whether the proposed employee will, for example, choose family health coverage.

When the Committee talked about fringe benefit earlier in the year, Ms. Phillips recalled, the fringe benefit percentage of salary for lower-paid employees is higher than it is for higher-paid employees. When one identifies the “losers” one will see that there are units that have a lot more of the lower-paid employees; it will be possible to look at the costs of a direct charge system to those units. The change could be enormously costly for auxiliary services, she said. They could be made to pay--but it can argued that they are also part of the University’s common goods and the change could increase the problem with common goods that has already been discussed.

That could happen, Ms. Dittman agreed, but it would useful to get the data “on the table” and identify who the “winners” and “losers” are and the magnitude of the changes. That is not now known but the units with higher-paid employees have been paying more. A change might solve one problem, she pointed out; the Medical School might argue that it has been contributing more than it should to fringe benefit costs, which practice has in turn contributed to its financial problems.

It would be necessary to evaluate any change in light of federal cost accounting rules, Mr. Volna commented.

There will be winners and losers but there could also be odd results, Professor Konstan said. Winners would be departments with high-paid employees working 30 hours per week who are not collecting benefits but for whom the department is now paying. A change could lead to discouraging appointments of 30-39 hours per week and to steering clear of employees with dependents, or in favor of employees who are covered under another health care plan. One could see changes because of the policy costs of hiring.

What do other research universities do, Professor Speaks asked? Most use a percentage charge, Ms. Dittman said, like the University. What is ANOTHER advantage, besides minimizing the over/under-recoveries each year, he asked? Some would argue a benefit would be elimination of cross-subsidies, she said.

What would happen to funds freed up, Professor Feeney asked? When a unit gained, would the money stay with the units, and perhaps be turned into additional salary funds? When a unit lost funds, would they come FROM the salary budgets? It must clear that there will be a benefit from making the change, not just simplifying the system. Once there is a picture of where the shifts would occur, Ms. Dittman said, there would need to be consultation on how to proceed.

Professor Konstan contended that collecting the data might not be such a good idea if the point is only to learn that some will lose and some will win and that some must be subsidized. There will be new funds available in some units but there will be have to be reallocation to fund the costs in other units. If this is a zero-sum game, and the data cannot be obtained from PeopleSoft without paying a cost, then it may not be worth it only to put the President in the position of having a no-win situation.

The issue came up along with the initiative to raise faculty salaries, Professor Campbell recalled, because there was never agreement on what the increased cost of fringe benefits would be if salaries increased. Professor Speaks agreed.

Professor Konstan said there could also be a possible advantage to collecting the data. Those paying units underpaying disproportionately on external funds could charge a larger percentage for fringe benefits on external funds. Outside the AHC there are few faculty salaries charged to external funds but there are a lot of graduate assistants and so on. That could mean, in some cases, the rate would need to be cut. This could be risky, he concluded.

Professor Speaks said that he generally does not like cross-subsidies. But he would also dislike the idea that it would cost several million dollars to make a major change that would not improve the University. Mr. Stingl said he did not believe the University could get rid of cross-subsidies; if the data on this were provided and University Dining Services faced a huge increase, how would they fund it?

It would be said that lower-salary colleges would have to find the money, Professor Speaks surmised. That would mean closing some CLA departments, Ms. Phillips speculated, because biotechnology would be seen by some as more valuable. Some of the costs would have be borne across the University as community costs. Budgets are done across decades, Professor Konstan maintained; one can argue that “if one had done X” in the past then this would not be necessary. That assumes, Professor Campbell said, that there is a natural law that these budgets were developed in an intelligent way.

Mr. Volna said it would make sense to get the data; right now there is only an averaging process used. Athletics, for example, pays the average, as do external sources. With the data one could make strategic choices rather than simply averaging the costs. Professor Speaks said he agreed with Ms. Phillips that it is important to maintain the humanities and liberal arts; it is interesting that one does not make that same argument for salaries in the humanities and liberal arts.

Ms. Dittman said the Committee could look at the cross-subsidies and that it should also look at the overall financial subsidies for each college. Some that are receiving subsidies could be quite healthy, financially, with big balances; they could perhaps afford to pay more.

Professor Speaks thanked Ms. Dittman, briefly reviewed the agenda for the next meeting and, then adjourned this one at 4:00.

-- Gary Engstrand

University of Minnesota