Notes

Senate Committee on Finance and Planning
Monday, June 18, 2001
9:00 – 10:30
433 Johnston Hall

[In these notes: (1) the budget; (2) transit resolution]

A small group of the members of the Senate Committee on Finance and Planning, with Professor Campbell acting as chair, met with Associate Vice President Pfutzenreuter on Monday morning to review again the budget options being considered for FY01 and FY02.

The hour-long discussion touched upon, among other things, what is included in the Internal Revenue Sharing tax (currently 2.25%) and the sales and services tax (currently 3.25%), the role that unit balances should play in any plan to generate revenue for one-time University expenses, the balance between deriving income for central/all-University needs from tuition versus the Internal Revenue Sharing tax versus other options, and the impact of taxing systems on sponsored funds.

Those present concluded there was not sufficient agreement among Committee members to adopt a specific statement concerning next year's budget, especially given the information and explanations provided by Mr. Pfutzenreuter. As a result, those present agreed to the following statement:

1. The principles and incentives of IMG should be retained.

2. The University must develop a sustainable long-term financial framework, one that matches resources to priorities, provides for adequate consultation, and incurs commitments only after funds have been identified to meet those obligations.

3. Balances will be the subject of serious study during the 2001-02 year by the Committee, in consultation with the administration.

2. Transit

The group adopted a recommendation concerning transit, a statement that was subsequently endorsed by a significant majority of all voting members of the Committee:

Whereas:

Effective service by public transit is in the best interests of the University, and transit is most effective and economical for the University when riders are provided ready access to University facilities with a minimal number of transfers and without University-operated connector service,

the Senate Committee on Finance and Planning:

encourages continued University participation in metro-wide public transit planning and urges the University to focus on routing alternatives with transit stops that bring riders within walking distance of University classrooms, offices, facilities, and housing.

Professors Speaks and Campbell also directed that email exchanges after the meeting be appended to these minutes as part of the record.

-- Gary Engstrand

University of Minnesota

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1. Pertinent part of an email message from Professor Charles Campbell to President Yudof, Executive Vice President Bruininks, and Associate Vice President Pfutzenreuter conveying the SCFP statement on budget options being considered for FY01 and FY02 that came out of the 6/18 meeting:

"As you are aware, the Senate Committee on Finance and Planning has recently been in extensive consultation with the three of you as you have been developing plans for the FY01 and FY02 budgets. Based in part upon our understanding of the June 13, 2001 memo from Fitz to the Deans and Chancellors, containing four models "for generating additional revenues in central administration" and subsequent discussions with Bob and Fitz, the Committee has drafted and redrafted statements about these options as well as the notion of a surcharge to units based upon their account balances. Available members of the SCFP met this morning to obtain further clarification from Fitz in preparation for finalizing the Committee statement. Attached are notes of that meeting as well as the final statement developed at that meeting and approved unanimously by the voting members present. We hope this is of some use to you as you finalize the FY01 plans to be submitted to the Regents."

2. Pertinent part of a June 18, 2001, email message from Professor Charles Campbell to Professor Fred Morrison, chair of the Faculty Consultative Committee, explaining what action the Committee on Finance and Planning had taken earlier in the day.

June 18, 2001 2:00 p.m.

TO: Fred Morrison
SUBJECT: SCFP July 18 Budget Statement

A few members of the Senate Committee on Finance and Planning met this morning to discuss the SCFP draft declaration on the University budget that was presented by Charles Speaks for discussion and consultation at the FCC meeting of June 14.

The committee consulted with Associate Vice President Richard Pfutzenreuter on the present status of budgetary planning, including some clarification of the elements of the four models developed in central administration for generating additional revenues in the June 13, 2001 memo from Mr. Pfutzenreuter to the Deans and Chancellors. After subsequent discussion within the committee, the aforementioned draft declaration was modified as below and passed unanimously by the members present and voting.

It became clear during the June 18 meeting that there was not consensus about much of what was contained in the original statement, especially given the information that Mr. Pfutzenreuter provided this morning. We held a complicated discussion about college and department balances and the role they should or should not play in budgeting decisions. While we continue to have significant reservations about using department balances as a factor in assessments to colleges (to cover the non-recurring $10 million budget problem), we understood Mr. Pfutzenreuter to say that they propose to base the assessment on balances that exceed a certain percentage of the college's operating budget (e.g., 25%). We could not endorse this plan but at the same time it is not irrational. We thus call, in the resolution, for a serious study of balances starting early in the fall.

We were told that the President appears to be leaning heavily toward a modification of options A and B: a smaller increase in the IRS tax than the 2.75% proposed in option A and a smaller enrollment fee than the $200 proposed in option B. These modifications would very likely have the effect of ameliorating the severity of the impact of the budget on specific units (e.g., MES, the Medical School) while at the same time preserving the principles of IMG. We found that proposal acceptable, but believe that this, too, needs serious study over the next year.

There was also the view that the salary proposal in the redrafted resolution was not quite what the faculty wanted (or should want). Rather than suggest that the colleges should bear full responsibility for the additional 2% salary increases, it might be wiser to suggest that the colleges bear some share of the initial 3% and then, if they provide funding to bring the increases up to the full 3%, then the central administration would provide the additional 2%. It is assumed that the enrollment fee and the increased IRS would be set so that there would be sufficient funds centrally to accomplish this goal.

You should be aware that President Yudof was given a copy of the original draft declaration (after the modification of the third set of bullets that occurred during the last FCC meeting) as well as a draft copy of the minutes of the June 14 SCFP and FCC meetings. This was done in the interest of effective communication when decisions are being made with such tight timing.

Given our inability to reach agreement on specifics about next year's budget, we concluded that it would be best only to issue a more general statement and to call for SCFP to work with the administration on vexing and challenging issues that cannot be addressed in the short time available to make decisions for the next budget. We are sure that the President and Mr. Pfutzenreuter will readily understand the message that is being conveyed by the language of the statement we approved this morning.

3. June 19 email message and statement from Professor Charles Speaks (who was out of town for the June 18 meeting) to President Yudof, Executive Vice President Bruininks, and Associate Vice President Pfutzenreuter:

After holding a preliminary discussion about the University budget on June 14, the Senate Committee on Finance and Planning met again on June 18. During that second meeting, the Committee adopted a statement about the budget that I believe has been forwarded to you. Unfortunately, I was out of town on June 18 and was therefore unable to attend the second meeting. Although I endorse the SCFP statement, it does not address important issues for FY02. Therefore, the attached "thoughts" represent my own views on the matter, and I believe I would be remiss not to share them with you.

[-- entries indicate proposals that were being considered; ** indicates Professor Speaks's recommendation]

Thoughts on the University Budget

Charles Speaks
June 19, 2001

I wish to express my concerns about some of the proposals that the central administration is contemplating to deal with the anticipated budgetary shortfall for FY02 and FY03.

--Proposal for Central Administration to Levy a Tax on Account Balances

Such a tax is contrary to sound financial planning. Units that budget for future needs (setup funding for new faculty; major equipment purchases; remodeling; unit share of retention offers; and so forth) will be penalized, whereas units that do not plan prudently and do not establish a reserve fund will be immune.

** I urge that central administration not levy a tax on account balances.

--Proposal for Central Administration to Levy a 25% Tax on Incremental Tuition Revenue

Such a tax will almost certainly have a different impact on colleges than on units of the central administration, with the greatest negative impact on those colleges that depend most heavily on tuition revenue. Moreover, such a tax is an abrogation of the IMG agreement in which 100% of the tuition revenue is to be allocated to colleges responsible for generating those revenues. Colleges and central administrative units that are funded largely from state support will be largely or wholly immune from this tax. Furthermore, taxing only the incremental new tuition income creates disincentives for units to develop new academic programs or expand existing programs or increase enrollments.

** I urge that central administration not levy a 25% tax on incremental tuition revenue.

--Proposal for Central Administration to Fund Only that Portion of Compensation that is Equivalent to the State Support Portion of a College's O&M Budget

Such a scheme is a radical departure from that used during the past three years. For FY01, for example, central administration funded 2.1% for basic merit pools and 0.9% was funded by units. Under the proposed scheme, central administration units would receive increased funding to 3.0% for merit, whereas collegiate units would receive decreased funding (ranging from approximately 1.0% to 2.2%) and would be required to make up the difference from tuition revenue.

** I urge that central administration fully fund a 3% increase in salary and fringe benefits. If the central administration lacks resources to fully fund a 3% increase in salary and fringe benefit, the necessary funds should not be raised by simply taxing tuition.

** I further recommend that the responsibility for funding any compensation increase in excess of 3.0% for either merit or special merit be assigned to collegiate units for FY02.

--The Need for a Revenue Stream for Central Administration

I understand that certain costs must be considered a shared responsibility of the entire University community, costs identified for example in the Report of the Budget Management Task Force

(January 21, 2000): basic services, legal requirements, university enhancements, targeted academic investments, and so forth. Funding those costs requires a predictable, controllable revenue stream. I concur with recommendations of the Task Force: "A single tax applied to all University units should be implemented based upon an all-funds framework of nonsponsored resources to meet all other shared University responsibilities" and "Taxes should not involve complicated systems of attribution formulas tied to particular goods (e.g., one tax for the libraries, another tax for the office of the general counsel, etc.)."

** For FY02, I recommend that the IRS tax be raised to an amount that will erase the need to invent new taxes on tuition revenue, balances, and so forth (Model A: Recurring Net Position with IRS up 2.5% (from 2.25% to 4.75%) & Central Takes No Tuition). If it is necessary for FY02 to identify an additional revenue stream of non-recurring funding for Central Administration, I recommend that a one-time only surcharge on the IRS tax be levied.

** Finally, I believe that the University of Minnesota must develop a sustainable long-term financial framework, one that matches resources to priorities, provides for adequate consultation, and incurs commitments only after funds have been identified to meet those obligations.