Minutes*

Senate Committee on Finance and Planning
Tuesday, April 26, 2005
2:30 – 4:15
238A Morrill Hall

Present: Charles Campbell (chair), Rose Blixt, David Chapman, Daniel Feeney, Steve Fitzgerald, Lincoln Kallsen, Michael Korth, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Charles Speaks, Alfred Sullivan, Susan Van Voorhis,

Absent: Calvin Alexander, Kendal Beer, Arthur Erdman, Thomas Klein, Joseph Konstan, Ian McMillan, Diane Parker, Thomas Stinson, Kate VandenBosch, Michael Volna, Warren Warwick

Guests: Professor Fred Morrison (incoming chair); Brian Swanson (Office of Budget and Finance); J. Peter Zetterberg (Institutional Research and Reporting); Senior Vice President for Academic Affairs and Provost E. Thomas Sullivan; Jon Steadland (Office of the Board of Regents)

[In these minutes: (1) 2005 capital request and 2006 capital budget; (2) strategic planning savings; (3) stadium update; (4) database on departments; (5) salary instructions]

1. 2005 Capital Request/2006 Capital Budget

Professor Campbell convened the meeting at 2:30 and welcomed Vice President Pfutzenreuter and Mr. Swanson to provide the Committee an update on the capital request.

Mr. Pfutzenreuter distributed copies of a table outlining the University's request and the final appropriation. In essence, all of the University's projects were funded, along with a couple that were not requested (but which the University supported), but the HEAPR (Higher Education Asset Preservation and Renovation) funds were only funded at $40 million (the University had requested $90 million). With that reduction in the HEAPR funding, do they know what will not get done, Professor Speaks inquired? Mr. Pfutzenreuter said he is meeting with Vice President O'Brien to identify projects that will be advanced and those that will have to be delayed.

Mr. Swanson next reviewed the 2006 capital budget, which is the list of projects that will be implemented during 2005-06. To be on the list, the predesign (and schematics, preferably) must be done and all the funding must be in hand or there must be an arrangement with Vice President Pfutzenreuter to obtain the money. The list also contained a number of "potential additions" to the capital budget, projects that have not quite met the requirements but that may very well do so in the near future. This lets the Regents know that there will likely be capital budget amendments as the year progresses.

Professor Campbell noted that the table showing the funding sources for each project do not show the 1/6th required from the unit; is that contribution required for all but HEAPR projects? That is the policy, Mr. Pfutzenreuter said, and they are trying to enforce it, but some deans do not like it. The amount identified

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as the University's contribution to the cost of a project will be part debt and part cash. Two items, he noted, did not carry the usual 1/3 matching requirement from the state: agriculture water management projects and the University-Mayo partnership. The requirement of the 1/6 contribution from the unit (one-half of the University's one-third) is policy but is only in place for these projects; there is some balking about the requirement.

Professor Campbell said he was sympathetic to the argument that units have paid the IRS tax for a number of years so project costs were covered by everyone, but now the game has changed and those who were helped in the past need not help other units as much. Mr. Pfutzenreuter agreed there is some validity to that argument; they adopted the policy to prompt units to put some funding into projects from their balances, and units were given a number of years advance notice of the requirement, but there are still problems with the policy. Are some units required to pay the full 1/3, Professor Campbell asked? When there is a target of opportunity, the University does not turn it down, Mr. Pfutzenreuter said.

How often is the capital budget updated during the year and what is the likelihood of new entries, Professor Roe asked? Mr. Swanson said the capital budget goes to the Regents in May and June and, once approved, is done until the following year. But projects do pop up during the year; they are brought to the Regents' Facilities committee for action (although the Board does not like capital budget amendments). If, for example, there is damage from weather, or a large research grant provides facilities upgrades, those are acceptable changes, Vice President O'Brien added.

Professor Speaks asked if Mr. Pfutzenreuter had any idea why the legislature cut $50 million from the HEAPR funding request but then gave the University $27 million in projects it did not ask for (including nearly $22 million for the Mayo partnership and nearly $5 million for a plant pathology research facility). The University asked for the Mayo partnership funding, Mr. Pfutzenreuter said, and the plant pathology facility is related to a potential disaster for soybeans that is coming from the south. The Mayo project was not traded off against other University projects, he said, and was originally considered an economic development project. The legislature typically cuts the HEAPR funding request; otherwise the University largely received what it requested. Last time the University requested $80 million in HEAPR funding and received $35 million; this year it requested $90 million and received $40 million, Mr. Swanson reported. It appears, Mr. Pfutzenreuter observed, that the legislature is in the pattern of approving about half of what the University requests. As hard as the University works for HEAPR funding, he said, no one is excited about tarring roofs and the like; there are no advocates for this kind of work, even though the legislature knows it is necessary to fund it.

How many projects on the list began as entries on the six-year capital plan in the sixth year, Professor Campbell inquired. A number that were funded this year were not; some had been in previous six-year plans. What they have found, Vice President O'Brien said, is that a project may be in the six-year plan for more than six years before it is finally funded.

Are the HEAPR projects itemized, Ms. Blixt asked? The University provides the legislature a list, Mr. Pfutzenreuter said. There is a six-year HEAPR plan, Vice President O'Brien said, which they are now reviewing and updating. They will determine if there are any urgent projects because of facilities conditions. Mr. Swanson said that as the University seeks and receives increased HEAPR funding, they refine the process of allocating it and use the Facilities Condition Assessment database to help determine which project receives HEAPR funding. He noted that the University has tried to argue that projects such as the Kolthoff renovation and the Nicholson should be treated as HEAPR projects, since every element of the work qualifies as HEAPR, but when all of the elements are combined into one big project, the legislature refuses to treat it as eligible for HEAPR funding.

Professor Campbell thanked Messrs. Pfutzenreuter and Swanson for their report.

2. Strategic Planning Savings

Professor Campbell reported that he had provided to Mr. Pfutzenreuter an excerpt from an email from a faculty member who indicated that the central administration has a spreadsheet indicating savings will accrue as a result of the changes proposed in the strategic planning process—and where those savings would be allocated. Mr. Pfutzenreuter said that to his knowledge, no such list exists.

3. Stadium Update

Mr. Pfutzenreuter reported that even with all the publicity about the Twins stadium, legislative leaders appear to be saying that the University will get its stadium first. University leaders have met with the appropriate committees and they expect the project to move along.

Vice President O'Brien described the environmental review process, an essential component of the decision whether to move ahead. Any sporting facilities that seats more than 20,000 people must have an Environmental Impact Statement (EIS), so the University has begun that process. It was not clear, under the EIS statute, who the Responsible Government Unit is; the University sought and received the designation for the purpose of the stadium. They have briefed the Regents on their role as the Responsible Government Unit and have hired consultants to draft the EIS. They have also hired a traffic engineer to help design roads, work with the proposed central (light rail) corridor, the North Star rail line. They are reviewing proposals to remediate the soil and expect to make a selection soon. All consultants are retained using an open, competitive process. They hope to have the EIS done by next year in order to stay on schedule. It is, Mr. Pfutzenreuter observed, about 1200 days to the proposed kick-off date for the first game.

If the legislature provides $94 million and the University does fund-raising for the rest (not all of which will be available cash), what will be the magnitude of the debt required, Professor Speaks asked? Until the fund-raising for corporate sponsorships is completed, Mr. Pfutzenreuter said, he could not tell how much would be long-term and how much would be short-term debt. Whatever the magnitude of the debt, will the University deal with one financial institution or spread the financing around, Professor Speaks asked? The University has put out a request for proposals, Mr. Pfutzenreuter said, and will see what it gets.

Professor Speaks asked if the President will consider labeling the student contribution a stadium fee and not fold it into the University Fee (thus avoiding making it part of charges to departments and research grants for fringe benefit costs for graduate assistants). Mr. Pfutzenreuter noted that the President had been quoted in the newspaper as clearly saying that stadium costs would not take money from academic programs. That includes funding for graduate students. So students would be exempt if they are being supported by a department or research grant but not if they were paying their own costs, Professor Campbell asked? That is not correct, Mr. Pfutzenreuter said; there will be a charge to the students themselves. The President has been clear about that. The question about whom the fee will apply to is still being discussed. His financing model assumes $50 per semester that starts with freshmen and sophomores in 2006, freshmen, sophomores, and juniors in 2007, and all students (except non-degree-seeking students) in 2008. This is a plan that has not been approved by anyone, he cautioned, but it proposes to phase in the fee by class and ties the benefit of the stadium to those who will be on campus when it opens.

In the financial analysis, students are to receive admission to some athletic events in return for the stadium fee, Professor Campbell recalled. They are negotiating with the students on the timing and extent of the fee and what students receive in return, Mr. Pfutzenreuter reported. The admission to events could be broadened to include the arts, but they do not have any idea of what the cost of doing so would be.

Professor Speaks said he did not believe a statement from the Committee was necessary, given what Vice President Pfutzenreuter said; he simply wanted to be sure that the fee would not be structured in such a way that departments and research grants would be paying it. He also urged that the fee be explicitly labeled a stadium fee; students now will know they are paying it but in a few years students will not know. It is necessary that the process be transparent.

4. Database on Departments

Professor Campbell welcomed Dr. Peter Zetterberg to the meeting to join a discussion about the development of a departmental database, an idea first suggested by Professor Roe that Professor Campbell had outlined earlier in a letter to Provost Sullivan. The pertinent part of the letter follows:

> We would be interested in thinking aloud with you about the development of a database or information system that could help to evaluate the opportunity costs of putting resources in one college versus another, or within a college, in one department versus another. Professor Terry Roe provided, at my request, much of the following narrative, but it reflects an interest expressed by a number of Committee members and which I endorse.
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> Your "strategic planning initiative has, as part of its purpose, to identify at the college and department levels strategic directions and the maintenance and possible enhancement of fundamental strengths. Colleges have been asked to respond accordingly. A new budget model is under consideration, one of which seeks to address more carefully "full cost" accountability. Inevitably, this process has financial implications that entail the allocation of resources, including faculty tenure lines, across the entire university. While the current initiative is contributing to a one-time information/data base, a question arises as to whether such a data base should be created on a more on-going basis that can help to provide a guide to the long-term productivity of resources in one college relative to another.
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> Some questions are:
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> Is it useful and/or feasible to establish a database process to help assess the opportunity costs of resources across colleges?
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> Where in the administrative structure of the University should the responsibility for such a data base lie?
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> What should be the key characteristics of such a database?
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> Should the data base be quantitative or qualitative, or both?
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> Would a "spread-sheet" at the unit level of the following nature be useful, or too onerous?
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> Examples:
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> 1. Output/quality indicators
>   a. The rank of a department among similar departments at peer universities
>   b. The number of faculty retention cases

   c. Proportion of total graduate applicants choosing peer institutions
   d. Numbers of undergraduate and graduate enrolment and graduation rates
   e. Placement of graduate students (peer institutions, other)
   f. Starting salaries/compensation to graduates
   g. Publication to faculty ratio
   h. Grants, contracts, national awards
   i. Some quantitative measure of the quality/uniqueness of research facilities

2. Institutional "linkage" indicators
   a. Proportion of "non-majors" in total enrolment
   b. Proportion of FTEs in cross-departmental (within college) and cross-departmental – cross college activities (teaching, research, outreach)
   c. Other quantitative indicators of "public good" provision

3. Resource use (input/cost) indicators
   a. Key variable costs
      i. Faculty salary costs, by rank
      ii. Salary cost of support and other personnel
      iii. Salary costs of Research Associates
      iv. Variable research costs not associated with salaries (equipment depreciation, energy, chemical, biological objects, etc)
   b. Key fixed costs
      i. Facilities (space: could use depreciation costs)
      ii. Equipment in place (capitalized value)
      iii. Other
   c. Intermediate input use
      i. (e.g., library and other "public goods"), with costs prorated as a proportion of library costs.

These data could be used to create an institutional "financial" or cost-benefit sheet for each department.

Professor Roe explained that he developed this idea some time ago and the point is to develop a mechanism to collect and assess information about the productivity of resources assigned to the various colleges. There was a time that the Graduate School conducted reviews and kept a database; the idea is that quantitative and qualitative measures of various departments and the linkages of departments to the rest of the University (e.g., students in other colleges) should be kept. The cost side would include fixed, variable, intermediate, and public goods costs. There are questions one can attach the data, and one could develop time-series data to provide evidence for decisions. He and Professor Campbell had a discussion with Provost Sullivan about this, he said, and the Provost recommended that the Committee have a further discussion with him (the Provost) and Dr. Zetterberg.

Dr. Zetterberg began by suggesting the Committee might want a report on how the data business at the University works. There are three core systems: financial, student, and human resources. They are dynamic; the data change daily and reports are extracted from the data. Institutional Research and Reporting has reports on the web, and programs could be written in any way that was desired to produce additional reports.

There are also "ugly" data, information that is not in the databases, such as statistics on grant proposals, award funds, retention cases, and so on. Peer rankings for departments are not available. The rankings are known by the departments, Professor Roe said. They are, Dr. Zetterberg agreed, but those are not objective national standards. The National Research Council 1993 statistics are now obsolete. But one could go to a dean and identify which the best and worst departments in a field are, and could get rankings based on competition for faculty and graduate students or on publications. Departments have a sense of rankings but there are no objective numbers.

With respect to the core data, however, those already exist and a new database is not needed. What is needed is a report that tells the Committee or the Provost what they want to know. Institutional Research and Reporting is probably the best office to provide such a report on an annual basis if there is an interest in tracking data over time.

In 2001 they worked with Senior Vice President Cerra and Vice President Maziar to try to put together comparative data at the department level for the entire University. It was virtually impossible because of different business practices in the different colleges (e.g., how faculty are appointed in colleges), and at any given time there are about 20,000 students who do not have a major. Much of what one would regard as common data are problematic, such as the number of majors and number of degrees. Analyzing anything at the department level is problematic; it can be done, but the information is not very satisfying. Some of the information the Committee is interested in can be pulled from the three core systems, and it could be supplemented with a shadow database (e.g., the department head's opinion of the top departments in the field). It would be a lot of work but it could be kept and updated. Some information, however, could not be obtained (e.g., where a peer institution places its Ph.D. students or the second choice of students—there is a lot of non-routine data that cannot be obtained).

Is the same true at both the graduate and undergraduate levels, Professor Roe asked? Things are messier at the graduate level, Dr. Zetterberg said. For example, faculty can be spread across 2-3-4 departments and it is nearly impossible to credit effort to specific programs. The question is how to improve the current system, Professor Roe said. If the University is going to change its budget model, and rely more on outputs, it should not rely on impressions—and if it does, there will be more negotiation that will not be based on fact. The University has a lot of data, Dr. Zetterberg said, although it may not reflect all the nuances, and even if they could produce the report, who could read and comprehend it? Someone must make decisions about colleges and departments, Professor Roe maintained; even if the data are subjective, time-series data would help.

Dr. Zetterberg said his advice for the Committee is to understand what is already available and to see if it could identify perhaps ten data items it believed important. Professor Roe said he was not interested in doing these things; the question is whether the University can improve its database in the new environment in order to improve decisions, or if it is stuck with what it has. Dr. Zetterberg said he believed the current database was adequate, but it might not be, and if not, one should concentrate on a few key things to be measured. This question arose with discussion of public goods, Professor Roe said; some units use more of them than others and the consumption should be transparent.

Professor Campbell suggested that there be a discussion in a smaller group and the issue brought back to the Committee. There are good questions to be asked and the Committee has a lot to learn. As the University moves into the new budget model, faculty concerns will grow, and they need to understand what can and cannot be done. He said he would ask for volunteers to join the discussion and then bring the matter back to the Committee. He thanked Dr. Zetterberg for joining the meeting.

5. Salary Instructions

Professor Campbell welcomed Provost Sullivan to the meeting and informed him that the Committee would like to have a discussion of the salary instructions each year. What is the present situation, he asked?

The budget instructions went out in March, Provost Sullivan said; to his knowledge, they did not come to this Committee first and it learned about them after the fact. He also learned, after the fact, that it was routine practice to bring them to the Committee for review, and he did not know why the practice was not followed this year. He said he would be glad to bring the instructions to the Committee in the future, as in the past.

The substance in the document is this: Deans have the discretion to create a salary pool that exceeds 3% for merit and market adjustments, since he hears that salaries are the top priority given where the University is vis-à-vis its peers and aspirational schools. The deans are also required to report on the consultative process they used with the faculty—his office does not dictate a process—so he can see what happens across the institution.

At the last meeting of the Committee questions came up about the 2005-06 academic salary memo that is on the web, Professor Campbell reported. He invited Committee members to pose them. Professor Morrison inquired if the biennial request item for salaries was included in the instructions or over and above the amounts in the memo. Those funds are for "target of opportunity" hires and retention cases, Provost Sullivan said, and not part of the pool for regular salary distribution. It is a separate pool.

Professor Campbell noted that salaries have a high priority in the biennial request. Is it fair to assume that if the Legislature does not meet the University's request, the salary pool would not be reduced? Provost Sullivan said he assumed that would be the case; he has said that faculty salaries should be the highest priority of the University, although it may not be able to do much about them this biennium. He has tried to encourage the deans to create a salary pool greater than 3% because he has heard that salaries are a critical issue. It is easier for some colleges than others to create a larger salary pool, Professor Campbell observed; some could deliver substantial raises while others cannot. Will he address that disparity at the central level? He would, Provost Sullivan said, and agreed that some colleges are more able or willing to increase salaries. The question must be resolved in the colleges, given the model of decentralized responsibility; after that, he can identify where there are insufficient funds and a problem that must be addressed. There is a lot of catching up to do in salaries and they must be brought to the top priority.

For awhile there were increases provided to faculty that were not bonuses and not tied to a tenure line, the X-Y-Z formula. It started in the Academic Health Center and moved to other parts of the University. In the AHC, with ups and downs in clinical income, this was understandable; where does this approach stand in other departments? Mr. Kallsen said such plans were very rare outside the AHC. The "Y," an alternative income stream such as clinical income, is not something that most colleges see; the "Z," non-recurring lump-sum salary increases, could be used more but it is not.

Is the capacity of a college to provide retention funds closely related to the financial condition of the college, Professor Roe asked? To what extent is a college constrained by a central constraint? In the first instance, the college is responsible for managing, Provost Sullivan said; if unable to do so, presumably the central administration would be asked to help. In his experience, the administration comes in on an ad hoc basis, not systematically. The principle is that the college manages increases; if not, they bring a request to his office. This is one area where the University could use new legislative funds, which it has not had at the central level for many years. Retention offers must be approved by the Senior Vice President and President, Professor Campbell observed, whether or not they include central funding.

Another question the Committee wished clarified is whether the $1500 for promotion is on top of the 3% or included as part of it, Professor Campbell said. The wording of the salary memo is not clear on the point. The language has been in the memos for a long time, Mr. Kallsen said, and so have the dollar amounts. In his view, the amounts guard against salary freezes and set a minimum for promotion; they have not, however, looked at for spreadsheets that include the regular raises and a second column for promotional increases. As a dean, Provost Sullivan recalled, he took the instructions to mean that the 3% should be different from and above the promotional increase. That is the way it has worked in practice, Mr. Kallsen said, although they have never required a spreadsheet showing the two amounts. Some units interpret the promotional amounts as a base, Ms. Blixt said: they must give $1500 and may give more as resources allow. The numbers have been the same for a long time, Mr. Kallsen observed; Professor Morrison said they were established in 1979 or 1980. Provost Sullivan said that suggests the amounts should be revisited.

Professor Campbell said that with respect to the future and the priority of salaries, and the University's aspiration to be among the top three, there was a time once when the University had a goal to achieve movement in salary rankings. Could it return to that goal? There is no such goal at present, the Provost agreed. Since he has been at the University, the goal was to be at the median of the CIC. The University has used a couple of metrics, Mr. Kallsen said, such as middle of the top 30; it has bounced between 23rd and 28th. Professor Morrison said there have been several targets: middle of the top 30; when that became unrealistic, it was the middle of the publics in the top 30 (which is the second 15 of the top 30); when that became unrealistic, the University stopped talking about targets.

Professor Campbell said that a colleague of his obtained data after an earlier Committee discussion; among full professors, the University ranks 83rd in the country. The University ranks behind such institutions as Georgia State, the New Jersey Institute of Technology, and Passaic Community College. There are a lot of places that are not counted when the discussion focuses on the top 30. It may be reasonable to aim for the top three in public research universities, but many of the institutions with higher salaries are liberal arts colleges that have missions similar to CLA; the salary ranking would be even worse if the comparison were limited to CLA-type units and included liberal arts colleges.

Rankings can be misleading, Professor Roe said, because they do not take into account the cost of living or the composition of the faculty. Mr. Kallsen said that the University always looks better in rankings when they are based on total compensation. Professor Roe said he would like to have a more consistent way to measure salary rankings on a long-term basis.

It was agreed that the Committee should recommend to the Provost an appropriate salary objective.

Professor Campbell adjourned the meeting at 4:15.

-- Gary Engstrand

University of Minnesota