Minutes*

Senate Committee on Finance and Planning
Tuesday, September 6, 2005
2:30 – 4:15
510 Morrill Hall

Present: Fred Morrison (chair), Rose Blixt, Arthur Erdman, Daniel Feeney, Steve Fitzgerald, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Michael Korth, Judith Martin, Ian McMillan, Kathleen O'Brien, Kathryn Olson, Richard Pfutzenreuter, Justin Revenaugh, Karen Seashore, Kate VandenBosch, Susan Van Voorhis

Absent: Calvin Alexander, Kendal Beer, Charles Campbell, Charles Speaks, Thomas Stinson, Alfred Sullivan, Michael Volna, Warren Warwick

Guests: none

[In these minutes: (1) faculty salary objective; (2) Regents' Finance and Operations Committee work plan and items for this Committee; (3) 2006 capital request]

1. Faculty Salary Objective

Professor Morrison convened the meeting at 2:30 and began by recalling that last year Provost Sullivan asked the Committee to develop a faculty salary recommendation that would be a part of the strategic positioning process goal of becoming one of the top three public universities in the world.

Professor Konstan said he would move, for the sake of discussion, that the Committee recommend the faculty salary objective be the median of the top five public universities in the United States. It was noted that the Faculty Consultative Committee had had, the preceding week, a long session devoted to institutional rankings and that it was not clear what the top five public universities were—it depends on what one is measuring.

Professor Morrison said there were also other questions involved. Is there a need for, or should, the salary objective address median salaries or also competition with offers received from other institutions? Professor Konstan suggested that measure would not work because the University is competitive at the new-hire level and way behind at the full-professor level. There is a need to address salaries before other institutions can poach senior faculty from the University.

Professor VandenBosch said there is also need to re-examine the increments awarded at each promotion. The amounts are very small at the University. [Established in 1993 and not changed since, promotion from assistant to associate professor carries an increase of $1500; from associate to full carries $2000.] Professor Morrison agreed the promotion increments are one piece of the issue.

Professor Seashore asked if there is any statement of the objectives to be achieved with a salary goal. It needs to be clear if the goal is to ensure the University is able to retain faculty, both through anticipation as well as through immediate responses to offers. People can look at Minnesota and see that it is not a good place to end up because of the long-term salary implications. It is important to look not

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only at retention offers, which are only a tip of the iceberg; people make more sophisticated decisions early in their career. There is a need for a stated objective. Such an objective is also part of the University's ambition to be one of the top three, Professor Martin added, and even if salary is only part of the calculation people make about where to work, the University is at present nowhere near the right universe of salaries. Minnesota loses faculty to Michigan and Stanford, Professor Seashore said, because after they have been here for 7-8 years, they look in the Chronicle of Higher Education and see that their peers elsewhere are ahead of them. Professor Morrison said it is not acceptable to say that it's OK for Minnesota to lose faculty to Michigan but not to its peers—Minnesota should be COMPETITIVE with Michigan, and that is what the University should be aiming for.

There are two ways to go after the goal, Professor Konstan suggested. One is to combat the practice of not rewarding high performers. The other, in at least some areas, is to go after "stars" where the University does not have them. These approaches have to be used together, not just one or the other. He said the University should not give "top 3" salaries to a "top 10" faculty—that would not bring the University into the top three. The argument that must be made is that higher salaries appropriately delivered will, over time, prevent the University from losing "top 3" faculty. But the University cannot simply give everyone a 30% salary increase and then announce it has achieved the top three. Professor Morrison agreed that increases had to be targeted in addition to average salary increases. The University cannot have a system where the "stars" are paid very well and everyone else is not.

Professor Erdman said the University needs to search for a system whereby salary is not the reason people leave. The University may not be able to match all salary offers when faculty are recruited, but it perhaps could match support.

The University also has to complete against the average January temperature, Professor Martin observed. Professor Morrison agreed that weather is a factor and needs to be offset in recruiting and retention. Professor Konstan added that when most on the Committee were hired, the Twin Cities was an under-valued real estate market. That is no longer true. This was a low-cost metropolitan area, but it is not any more.

There also used to be the argument that the University's salaries were not as high as others' but that the benefits made up for the gap, but that is also no longer quite so true, either, Professor Martin pointed out. Professor Morrison said the benefits are still a little better, but not a lot. And they are not much better in health care, Mr. Pfutzenreuter observed. Professor Morrison suggested, however, that the Committee focus on compensation, not salaries, in order to avoid the arguments about the value of the fringe benefits.

It was agreed that materials provided to the Faculty Consultative Committee on institutional rankings should also be provided to the Committee.

2. The Regents' Finance and Operations Committee Workplan and Committee Agenda Items

Professor Morrison turned to Mr. Pfutzenreuter to discuss the issues that will be coming before the Regents' Finance and Operations Committee and which of them should come before this Committee as well.

Mr. Pfutzenreuter explained that the Finance and Operations Committee has two different kinds of agenda items, policy issues and routine transactional items; it is the former that will be of interest to the Committee. The Committee agreed it would have discussions about a number of the items that will go to the Board:

-- The background data/information provided at the four working sessions of the Board committee (financing the mission: broad trends in funding, commercializable intellectual property; capital giving; and underperforming assets)
-- Issues related to the annual Asset Management report
-- Financing assumptions for the six-year capital plan and the 2006 capital request
-- Policy on targeted business and related issues
-- Capital financing and debt management guidelines
-- The annual financial report
-- Annual investment consultant's report (endowment benchmarks)
-- Review of Alternative Asset Portfolio
-- Financial comparisons with other higher education institutions
-- Enterprise Financial System replacement
-- 2007 President's operating budget
-- 2007 President's recommended annual capital budget
-- (For information, not discussion, financial oversight key indicators)

In addition, Committee members suggested other issues they wished to see come on the agenda:

-- University Enterprise Laboratories
-- The new budget model (scheduled for October)
-- The salary memo, including distribution of the separate merit pool, how promotional increases are factored into general increases, and whether the salaries delivered matched the salaries promised
-- Tuition rate-setting (and other changes, which affect graduate assistantships)
-- Support for graduate education
-- Facilities planning, the Facilities Condition Assessment, an update on capital projects management, and the annual report on utilities
-- Administrative strategic planning
-- The food service and vending RFP (what is the University looking for?)
-- The football stadium
-- Classrooms
-- The routine business, such as rate-setting in parking

Professor Morrison noted that the Regents will also be addressing their fiduciary responsibility with respect to the Faculty Retirement Plan. He said this Committee should defer to the advice of the Retirement Benefits Subcommittee concerning any impact on the Subcommittee's jurisdiction; the discussions will be about financing and choices, not the level of benefit.

3. 2006 Capital Request

Mr. Pfutzenreuter distributed copies of the preliminary 2006 capital request. In addition to $80 million in HEAPR funding, there are four items for the Twin Cities (bio-based products building renovation—the former Wood & Paper Science building—Carlson School expansion, student services/science teaching center—the Science Classroom Building at the end of the Washington Avenue Bridge—and medical research building), two for Duluth (business school and American Indian learning resource center), and funds for regional centers and stations. The total proposed request is $296 million, with $224 to come from the state and $72 million from the University's 1/3 contribution to the non-HEAPR projects. Not all of them are final, Mr. Pfutzenreuter said. The state has about $2 billion in requests; the debt capacity guidelines the state uses would permit about $784 million in debt. It will be a

challenge to obtain support for the full request, he concluded. The legislature will meet next March to approve capital appropriations.

Professor Morrison inquired what on the list would arouse interest and support from the liberal arts faculty. Mr. Pfutzenreuter said that CLA faculty could look at the projects they have received in recent years; in addition, this request happens to contain more new buildings, while CLA tends to occupy older buildings. Vice President O'Brien pointed out that the Department of Economics will go into the new Carlson School facility, which will help alleviate the space problem on the West Bank; CLA will also use the new teaching center. Professor Morrison advised Vice Presidents O'Brien and Pfutzenreuter that packaging is important and it will necessary to demonstrate how the entire campus benefits from the Twin Cities items. Professor Erdman reported that the new medical research building would open up the top three floors of Hasselmo Hall for the Institute of Technology.

Professor Martin inquired if the University's contribution would come from fund-raising or bonds. Perhaps 25% from fund-raising, Mr. Pfutzenreuter surmised.

Professor Konstan pointed out that there will be a new budget model in place at the University, so presumably the units will each be responsible for the entire 1/3 cost of new projects, not just part of the 1/3. Has anyone reviewed the list to determine, given the new budget model, these items are still the University's priorities? Mr. Pfutzenreuter said that discussions about each project have begun and they will be treated as required in the new budget model. The President will then decide whether he wishes to help a unit cover the cost of its 1/3. Would the President have different priorities under the existing budget model, Professor Konstan asked? The President will view the capital request as a strategic document and will not be driven by who can pay. Professor Konstan pointed out that a building may not be a high priority for the University but a unit may want it and have the money; would the building go on the list? That has happened, Mr. Pfutzenreuter allowed.

Mr. Klein noted that the Committee has heard on more than one occasion that the University would not build 28 million square feet on the Twin Cities campus if it were starting from scratch. It would be helpful to know how these projects fit with the long-term square footage goal for the University. Does this facilities plan increase square footage, reduce it, improve it, increase the assignable square feet, and so on? Professor Martin recalled that at the FCC retreat, it was pointed out that the Carlson School and the Humphrey Institute have large atriums that they might not want in a different financing model. Professor Morrison said this also raises again the point that the solution to many of the University's space problems was invented over 100 years ago by Alfred Nobel.

The list is not final, Mr. Pfutzenreuter said. It may be too large and the President may recommend a smaller list to the Regents.

The Committee discussed the size of the HEAPR request. Is it an easy place for the legislature to cut, Professor Konstan asked? Ms. O'Brien said one must look at the funds over time. Increases are good, but this still only represents about one-half of what the University needs. The University usually receives about one-half of what it requests. The Facilities Condition Assessment, an inspection-based assessment, will give people confidence that the University should ask for $80 million. The problem for the legislature is that it is hard to cut the ribbon on HEAPR projects. Professor Morrison said that the University has been receiving about $40 million in recent biennia, and over four biennia that amounts to a significant amount of funding. Each $40 million does result in repairs. But if the University does not ask for the money, it will not get it—so the University will have new buildings and buildings that are falling apart. Does the University bring legislators to the campuses to see that it can spend $80 million,

Professor Seashore asked? (It does.) It is important to educate them about the cost of maintaining the physical plant, she said.

Professor Morrison adjourned the meeting at 3:55.

-- Gary Engstrand

University of Minnesota