

Draft

AHC Finance and Planning Committee
Report to E. Thomas Sullivan
Senior Vice-President for Academic Affairs and Provost
Facilities and Core Infrastructure Issues and Trends

Preamble:

The circumstances currently surrounding higher education in Minnesota and nationwide necessitate aggressive measures. The Academic Health Center Finance & Planning Committee (AHC FP) believes that the current strategic planning initiative is the first major step to better positioning the University of Minnesota. Decreased State of Minnesota support for higher education, higher legislative demands for accountability, increased competition from the Minnesota State College and University System, and the need to do the same or more with fewer resources appear to be what the University can expect. With tuition elasticity reaching its limits, the University must make some tough choices. Across-the-board budget reductions have had a differential financial effect on units, which does not mirror institutional priorities. It is a critical time for the institution to reassess and restructure before its reputation is further diminished. A lean, highly functional, and understandable infrastructure is essential to support an institution that can survive the challenges facing the University. The issues listed below are the suggestions of the AHC F&P to achieve that goal.

1. Budget Infrastructure – University of Minnesota critical issues and trends:

The University of Minnesota:

- Lacks a budget model that has the flexibility to adapt to the changing economic environment
- Is having increasing difficulty obtaining consensus on how to fund common goods (e.g. libraries)
- Units lack accurate cost detail and therefore do not understand what they are paying for (e.g. space and central services) and are unable to assess the value of the service compared to the amount paid
- Lacks guidelines for aligning mission-based revenues with mission-based costs
- Lacks administrative policy on the need for and management of “reserves” for specific functions or endeavors (e.g. faculty start-up packages, funding being aggregated for endowed positions, etc.), mandated operating reserves, or “rainy day” funds.

How are these issues/trends likely to affect the ability of the University of Minnesota to maintain or enhance its quality relative to its competition and fulfill its mission:

With decreasing state funding, coupled with the increasing accountability for funds in higher education, it will be imperative that the institution responds with a transparent, understandable, and predictable budget model. In addition, it is imperative that the institution aligns incentives to encourage the most cost efficient management of resources. Units cannot develop plans to solve space, human resource, or financial problems unless revenue and expenses are matched and clearly understood both at the unit level and at the central services/administrative level. The institution will lose credibility if it does not address these problems. This is particularly worrisome with regard to unit reserves and the potential perception at the legislature (and taxpayers league) that there are some units that have extra funds and therefore the University does not need recurring or increased state funding.

Key policy and strategic issues that the University must address, given the above trends/issues:

1. Develop specific policy on unit reserves.
2. Establish a functional and understandable budget model.
3. Ensure that within the model there is conscious alignment of mission based revenue and expenses.
4. Conduct a full analysis of O & M fund deployment based on an assessment of priorities of programs, the need for their graduates (at all levels), their role in the State of Minnesota, their centrality to high priority institutional programs; their tuition elasticity, and their ability to leverage funds to increase revenues.
5. Define “common goods” not just as central services. Instead, further classify them such as academic goods (e.g.

libraries), space needs (e.g. classrooms), or miscellaneous infrastructure (e.g. billing, snow removal, general repair, human resources, etc.) and determine the degree to which these must be supported through research dollars, tuition, service revenue (including clinical income), etc.

2. Planning Infrastructure University of Minnesota critical issues and trends:

The University of Minnesota:

- Has a history of unstable capital cost projection and planning
- Has little strategic rationale for how O & M resources are DEPLOYED across academic and central units, based more on historical actions and across-the-board adjustments
- Cannot effectively capitalize on competitive advantages if managing in crisis mode
- Should face organizational challenges to create economies of scale across colleges and academic units (i.e. colleges the size of departments)
- Has inefficient organization and duplication of administrative services to and within collegiate units
- Is land-locked on the East Bank and to a lesser degree the West Bank Twin Cities Campuses
- Should address the role of and priority for intercollegiate sports facilities and programs vs. academic facilities and programs

How are these issues/trends likely to affect the ability of the University of Minnesota to maintain or enhance its quality relative to its competition and fulfill its mission:

The institution should decide what it will and will not do on a global level (all campuses and all units). If not, it will be viewed as a “sinkhole” into which ever-increasing dollars must be poured to sustain it. The institution should define what is “core” to the academic (i.e. teaching and research) operation based on the needs of the State. The institution should focus on the combination of supply and demand vs. what it costs to satisfy the demands (i.e. by students, by programs, by legislators, and by accreditation agencies). If we are not sure where we are going, we will not be able to sell our services, let alone be able to capitalize on our strategic opportunities. We will not have the money or the support to execute our mission.

Key policy and strategic issues that the University should address, given the above trends/issues:

1. Develop a detailed cost analysis of programs and compare results to what this institution needs to produce what the State of Minnesota needs; what the revenues generated (e.g. tuition, ICR, clinical, etc.) actually support; and what the gaps are that must be supported by the State, the students, the alumni, the research organizations, the fans, or be abandoned.
2. Conduct an efficiency analysis of the institutional structure (e.g. colleges and campuses) to determine where savings can be realized (e.g. combining or closing colleges or campuses, centralizing selected services to minimize unit-level “shadow” systems, etc.).
3. Develop a long-range plan of what this institution will be doing as “core” functions for the next 5-10 years and analyze the space, services, equipment, and management services necessary to execute its mission. Put this into a financial model and develop a priority list of what can and cannot be done.

3. Research Infrastructure - University of Minnesota critical issues and trends:

The University of Minnesota:

- Lacks predictable funding for its research infrastructure (e.g. molecular biology instruments, geophysical instrumentation)
- Should face the relatively high cost of construction for research space and prioritize it according to the reputation it wishes to portray
- Should effectively educate the public on the value of research and persuade the legislature that research overhead merits financial subsidy over and above federal funding

How these issues/trends are likely to affect the ability of the University of Minnesota to maintain or enhance its quality relative to its competition and fulfill its mission:

If this institution expects to hold or enhance its rankings as a “Level 1” institution, it should maximize collective resources through planned expenditures while supporting academic freedom. It should commit to areas of focus where resources will be placed (possibly at the expense of other units or campuses). To compete in the research arena, the institution must have financial management tools and facilities and equipment that are cost-effective, available and reliable. Trying to “piece together” needed resources at the unit level, on an ad hoc basis, to execute research will cripple this institution strategically. There will not be any economies of scale and obsolescence will destroy our short-term investments.

Key policy and strategic issues that the University should address, given the above trends/issues:

1. System-wide research thrust to make resources available on a priority basis for large-scale instruments that foster research consistent with the strategic plan.
2. If the University is to continue as a Level I research institution, it will require subsidy, through internal reallocation or additional external funding, from the State or other sponsors.

4. Financial Capacity including Acquisition and Distribution - University of Minnesota critical issues and trends:

The University of Minnesota:

- Has comparatively strong State support for capital needs, offset by relatively weak support from State for operating costs
- Struggles to raise funds for operating expenses, including equipment maintenance and depreciation
- Should prepare for and understand the competition for capital funds both within the
- Has undergone progressive dilution of core funding to finance new initiatives and resisted divesting from lower priority programs resulting in thinner spread of core funds
- Struggles with issues around the competitiveness of faculty/staff salaries, including institutional inconsistencies in compensation/merit assessment and adjustment procedures and policies.

How these issues/trends are likely to affect the ability of the University of Minnesota to maintain or enhance its quality relative to its competition and fulfill its mission:

Despite successes in recent capital campaigns, fundraising will become more difficult with likely restrictive economic conditions. Care must be taken to avoid “competition” among institutional fund raising initiatives so they do not become self-defeating. This means having a coordinated and skilled development staff and close communication among “foundation”, “institutional” and “unit” fundraising endeavors. We must get beyond the annual financial crisis management (e.g. balancing the budget from whatever sources are available at the time) and move into an organized assembly of state support, philanthropic pursuits, industrial support, and return on investments to support the mission as defined in the strategic plan. Care must be taken to assure that faculty salaries are competitive and that core (defined by strategic plan, not by perception) units are not “starved out” at the expense of new initiatives competing for the same dollars.

Key policy and strategic issues that the University should address, given the above trends/issue.:

1. Define a budget model that factors in the financial risks facing the institution (e.g. several potential sources of funds to support various aspects of the institutional mission(s)).
2. Coordinate all fund raising to avoid overlap and to maximize efficiencies.
3. Define specific sources of funding that are to support selected endeavors instead of robbing Peter to pay Paul with a high degree of annual variation.
4. Assure that the strategically planned research initiatives are covered to make the most efficient use of ICR dollars and contract dollars in support of research programs knowing that external support (e.g. grants) do not cover the entire expense of the research endeavor.

5. Consideration should be given to merging, downsizing or possibly even closing some units.

5. Utilization Inefficiencies – University of Minnesota critical issues and trends:

The University of Minnesota:

- Should improve space utilization
- Should create incentives to efficiently utilize space (e.g. classroom, research, administrative, faculty office space)
- Should limit disparate financial treatment of programs that reside in different space due to historical circumstances (e.g. academic programs in auxiliary buildings or off campus space could be solved by improved space planning and/or budget model)
- Lacks central support structure for certain specialized building management service (e.g. KE Dock, equipment sterilization)
- Should limit inefficient organization and duplication of administrative services to and within collegiate units

How these issues/trends are likely to affect the ability of the University of Minnesota to maintain or enhance its quality relative to its competition and fulfill its mission:

This institution has considerable space, some of which is used efficiently and some of which is not. We continue to construct buildings without a defined plan of how much space we can maintain and how much space is being maintained, but underutilized (e.g. afternoon classrooms). Because ongoing maintenance and upgrade of facilities is a costly endeavor, we should only maintain what we can afford (based on a cost allocation model) and we should take inefficiently used space off line to conserve resources.

Key policy and strategic issues that the University must address, given the above trends/issues:

1. Institute a comprehensive space management program wherein assigned space is paid for by the user(s) and unassigned space is available to those willing to pay.
2. Develop a detailed and “real-time” cost allocation model that puts costs where they are incurred and that identifies which funds (e.g. tuition, ICR, clinical revenues) might pay for the space being used.
3. Promote economies of scale by combining colleges to minimize administrative duplication.
4. Centralize services common to academic units and charge for provided services based on what is used (e.g. users will get what they want, not what somebody thinks they should pay for).
5. Limit the need for “off campus” leased space, and the associated charges that go with that, to units currently short on space by charging for space and reassigning what is not paid for.

Summary

There is a need for a functional financial model, the commitment to make it work to support the strategic plan, and the courage to make difficult strategic decisions. There is a need for the combination of demonstrable fiscal efficiency, a pruning of what the institution does (e.g. live within its budget and prepare for further declines in State support), and a uniformity of policies that are equitable. There should be incentives to conserve as well as generate resources and economies of scale must be recognized and implemented. The research infrastructure must be predictable and cost-effective. It will most likely have to be based on predetermined, centrally-developed, and shared resources. Last, but not least, the institution must be able to continue to recruit and retain the caliber of faculty befitting a Level I research institution.

Respectfully submitted by the AHC Finance & Planning Committee:

Dan Feeny (03-04 Chair), Professor, Veterinary Medicine

Tim Church, Professor, School of Public Health

Katie Dusenbery, Professor, School of Medicine

Lynda Kreisher, Professor, School of Dentistry

Joan Liaschenko, Professor, School of Nursing

Tom Shier, Professor, College of Pharmacy
Carol Wells, Professor, School of Medicine
David Hagen, Ex Officio
Stuart McMullan, Ex Officio
Beth Nunnally, Ex Officio

[Go to the Strategic Planning Letter](#)