Minutes*

Senate Committee on Finance and Planning
Tuesday, March 20, 2012
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair), Martin Caride, Sarah Chambers, Catherine Fitch, Susan Hupp, Lincoln Kallsen, Cody Mikl, Fred Morrison, Kathleen O'Brien, Terry Roe, Michael Rollefson, Ann Sather, Karen Seashore, Arturo Schultz, Aks Zaheer

Absent: Brittany Bergemann, Will Durfee, Kara Kersteter, Ruth Lane, Richard Pfutzenreuter, Gwen Rudney, S. Charles Schulz, Thomas Stinson, Michael Volna

Guests: Robin Dittman (Office of Budget and Finance), Nan Wilhelmson (Human Resources); Associate Vice President Michael Berthelsen, Jerome Malmquist (Facilities Management)

[In these minutes: (1) vacation payouts for postdocs and others; (2) committee business (session with three deans, course "poaching"); (3) utilities and energy management annual report]

1. Vacation Payouts for Postdocs and Others

Professor Luepker convened the meeting at 2:00 and turned to Mr. Kallsen to provide the context.

Mr. Kallsen recalled that the Committee had a discussion earlier about vacation payouts for postdocs that had evolved into a broader discussion about vacation payouts from the fringe-benefit pool. But the Committee lacked information it needed, so today Ms. Dittman from Budget and Finance and Ms. Wilhelmson from Human Resources have joined the meeting to help the Committee clarify the issues.

Ms. Wilhelmson said that she could answer some of the questions that had been raised. Postdocs have received vacation for as far back as she can find records. In about 2009 the University began tracking vacation accrual and use electronically, and postdocs were included in the academic vacation policy for faculty and P&A staff. When the University started tracking, the data changed and the amount paid out increased because departments had not always accurately tracked balances. Now all vacation payouts—faculty, P&A, postdoc, civil service, bargaining unit staff—are charged in the fringe rate. The postdoc charge is for this year 0.59% of salary, as it is for all academic employees (faculty and P&A staff), and the money goes into a single central vacation pool. It is from that pool that all payouts come.

Professor Chambers inquired if there is a limit on the amount of vacation time that postdocs and others can accumulate. There is, Ms. Wilhelmson said: 22 days for those who are 12-month appointments at 67% or higher.

Professor Luepker and others discussed with Ms. Wilhelmson the difference between postdoc associates (who are employees) and others who may be on grants but not considered employees (e.g., post doc fellows). If someone says they did not take vacation and want the payout, whence the money, Professor Luepker asked? Ms. Wilhelmson said she would need to know what policy covered that employee and if they were eligible for vacation. Professor Luepker inquired about medical residents. Mr.

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Kallsen pointed about that there are about 18 job codes for professionals in training, the group under which medical residents reside—and that job code matters when it comes to vacation coverage. Committee members also discussed the mechanisms that may be used to track vacation time for various groups of employees.

Ms. Dittman provided a handout explaining vacation payouts when employees leave the University.

- Prior to fiscal year 2004-05, departments and sponsored projects were solely responsible for funding cash payments for unused vacation days to employees who terminate their employment. This also required a transfer of resources between units any time an employee moved within the University.
- Effective in fiscal year 2004-05, vacation pay-out was added to the fringe benefit pool as a systemic mechanism to fund the costs of vacation pay-outs, reduce administrative transactional costs, and relieve the financial burden on departments and sponsored projects.
- Costs are now funded centrally by charging departments and sponsored projects a fringe rate applied as a percentage of the employees gross pay each payroll.
- Vacation pay-out funds are currently held centrally. When an employee moves to a different department at the University, there is no need to transfer vacation funds between the departments.
- FY2011-12 fringe rate for vacation pay-out is 0.59% of salary for academic employees and post-docs.
- FY2009-10 actual costs for vacation pay-out was $7.3M ($2.9M academic).
- The vacation fringe pool rate is subject to the same federal rules standards as other pools that charge sponsored grants and contracts. This results in slight over and under recoveries from year to year. However, the intent is to recover through the fringe pool the full University costs of vacation pay-outs as employees separate from the University.

She explained that the change in 2004-05 was helpful for small departments and for any department when several people left at the same time. There are separate fringe pools for vacation, health care, etc.—each is in its own discrete account.

So if one takes vacation, there is no payout from the pool, Professor Roe observed. That is correct, Ms. Dittman affirmed. So some projects will pay into the fringe pool but people employed on it will not accumulate vacation time to be paid out, Professor Roe said. That is also correct, Ms. Dittman said.

Professor Morrison recalled that it was this Committee that recommended that a central fringe pool for vacation payouts be created, in order to relieve departments of the complex bureaucratic obligation to accrue funds for uncertain vacation payouts that might be due at some future date.

Some employees used to accumulate many more than 22 days, Professor Seashore said; is that still true? Civil service employees may accumulate more than 22 days, Mr. Rollefson said, and because of that the vacation fringe pool rate for civil service employees is higher (1.07%).

Ms. Dittman also explained why there is a two-year lag in the calculation of amounts paid out versus the rates budgeted: The process is dictated by the federal Department of Health and Human Services.

Professor Luepker asked how many academic employees people were provided the vacation payouts that totaled $2.9 million. Ms. Dittman said she did not have a headcount.

Professor Morrison pointed out that when administrators retire, they have accumulated vacation time even if they return to their faculty position, and they receive a check for that unused vacation time. He served twice as interim dean; the first time, a number of years ago, nothing happened when he returned to the faculty, but the second time, when he took no vacation as an administrator and the system was tracking vacation, he received a check for 22 days of vacation. Professor Hupp noted that the same thing happens when someone serves as department chair (on a 12-month appointment as an administrator); when the person returns to the faculty on a 9-month appointment, he or she receives a check for any unused vacation. Ms. Wilhelmson agreed; whenever one moves from a vacation-eligible appointment to one that is not eligible, one receives a vacation payout.

Professor Chambers said that her only concern is that information be provided to those who supervise postdocs to make it clear that postdocs are not to be pressured to work without vacation. She said she hoped the University will provide information to supervisors so that they know it is the employee's choice whether to take vacation.

Professor Morrison said that what is happening is a consequence of establishing standard rules for all employee classes. Either employees have vacation accumulation and payouts or they do not. The rule is driven by the needs of civil service and bargaining unit and most P&A staff: They are allowed to accumulate something that has value. The University established the rules, creating the value, and once established, people will collect payment for unused vacation time. The rules work smoothly for civil service, bargaining unit, and P&A staff but turned out to be a bump in the road for postdocs, who are here for two years but not treated like regular employees. There is nothing surprising or nefarious in this, it is simply the unintended consequence of a sensible policy.

Professor Luepker thanked Msses. Dittman and Wilhelmson for helping the Committee understand the rules.

2. Committee Business

Professor Luepker raised a couple of topics with the Committee.

-- At its mini-retreat earlier in the month, the Committee talked with three of the deans. Those conversations were an offshoot of the discussion with the vice presidents last year, which conversations led to a report being sent to the University Senate last year because of concerns about administrative costs. The Committee realized that administrative costs reside in the colleges as well (and in departments), so they talked with deans of three representative colleges. What should happen next?

Committee members concluded that they would like to hear from the other deans as well.

Professor Roe said that the deans provided a lot of information and that there are similarities but also differences. But the Committee could not tell if the administrations were making efficient use of funds. He said he learned two things from the conversations with the three deans. First, administrative costs in colleges have increased because they must now perform tasks that were previously carried out by the Graduate School. Second, the budget model has provided incentives for some colleges to teach classes that are really the domain of another college. The situation is sort of a prisoner's dilemma in terms of allocating more resources to classes [http://en.wikipedia.org/wiki/Prisoner%27s_dilemma].

Professor Zaheer said it would be a useful exercise for the Committee to ask the other deans to make a presentation because as the group listens to all of them, it can abstract ideas and perhaps germinate a set of best practices, and the discussions would also serve to focus attention on what is important. With a format covering five years, the Committee could consider the growth of administration during that period.

Professor Luepker said he agreed that it is advantageous to sit down and talk about these costs. What struck him was that all three colleges were within about 1% of each other in terms of administrative costs. Mr. Kallsen said that when colleges were being combined and departments moved, they all looked similar structurally; what those three colleges presented to the Committee is what the rest of them look like as well.

Professor Zaheer said, apropos of Professor Roe's comment, that the Committee could discern common themes as it looked at each of the colleges. Professor Roe's point is very important: It could be that the balance between centralization and autonomy has swung too far. Decentralization has its benefits, but the negative side is that it leads to unbridled competition—and CLA seems to be bearing the brunt of it.

Professor Hupp, recalling President Kaler's statement that he would not look in the rearview mirror, said that state funds are declining, so the question is what can colleges do to work with other colleges? What could the Committee recommend they do to plan for efficiencies?

Professor Morrison pointed out two things. One, there are some colleges that are in a very different situation and perform a different range of services. Law and Medicine have separate admissions offices, so it will not be possible to have a set of standards that apply across the University or to say that colleges should have X% of the payroll as administrative costs. Dentistry is also very different. Two, in addition, it is true that costs have shifted to colleges: The cost pools shifted them. Before the cost pools were established, the central administration paid the bills and everyone complained that they cost too much. Now everyone complains that the cost pools cost too much. The Graduate School change shifted many costs out to the colleges and there has been continued discussion if that was proper; those discussions will sort things out over the next couple of years. But the Committee has to look at both of these factors.

It was agreed that the Committee would ask the other Twin Cities deans to join it for discussion of administrative cost and structure. Mr. Kallsen suggested that Vice President Brown's workforce analysis, now underway, could be useful background.

-- The second issue he wished to raise, Professor Luepker said, is the one to which Professor Roe alluded: The Faculty Consultative Committee has discussed the "poaching" issue as well as the problems with interdisciplinary (cross-college) courses. He said he recalled predicting, when the new budget model was adopted, that there would be a concern about poaching. There was no worry then, but now, as state funds have shrunk and most colleges have become more reliant on tuition dollars, it has become a concern. Professor Cramer wrote to him and asked if this committee would take swing at the Gordian knot be developing a proposal to deal with courses that could be considered poaching by a Memorandum of Understanding. If the poaching problem could be solved, it could provide colleges incentives to reach agreements on offering courses.

Professor Seashore asked if the Committee has data on whether offering duplicative courses leads to lower revenues. Is this a fiscal or a political problem? If there are under-enrolled duplicative courses, then it is a fiscal problem. If there are duplicative courses but they are all full, then it is a political problem that does not belong to this Committee.

Professor Hupp said one must look at who is teaching the course and why students would take a course in one place rather than another. Can they get into the courses they need? These are highly contentious issues and the Committee needs to be very cautious. The MOU process assumes people will agree, but that isn't necessarily true in these cases.

Mr. Kallsen commented that no matter the budget model, on sees that statistics and the basic sciences are taught in a number of colleges. Professor Olin said it would be useful for the Committee to know the numbers, if it is going to make an argument for some solution. Professor Zaheer said that there is a new structure and what is needed is new processes, one of which could be how to adjudge turf battles and who gets to keep which revenues.

Professor Luepker said he would speak with the deans to obtain their perspectives and then invite them in to define the problem. If there is only one case of poaching, this is an urban legend. But Dean Parente reported that CLA is seeing a decline in Student Credit Hours at the same time their student numbers are flat. Poaching could be one reason. The Committee agreed that it would like to see the by-college distribution of liberal-education course, by core and theme. Professor Seashore expressed doubt that there was a list of duplicative courses anywhere in the administration.

Differential tuition will affect this as well, Professor Olin pointed out.

Professor Zaheer observed that the Twin Cities campus is quite spread out, and courses in one location could be inconvenient for some students because it could be miles away. The courses need to work for students as well.

Professor Luepker promised the issue would return to the Committee.

3. Utilities and Energy Management Annual Report

Professor Luepker now turned to Vice President O'Brien and welcomed Messrs. Berthelsen and Malmquist to the meeting to provide the annual report on utilities and energy management. Committee members were provided with copies of a set of 40 slides, some with complex graphs, diagrams, or tables. Vice President O'Brien recalled that they regularly report to the Board of Regents and to this Committee on energy management, a cost to the University that exceeds $100 million per year—and so one that receives substantial effort to control and guarantee.

Some of the highlights of the presentation were these:

-- A number of activities are occurring on the coordinate campuses; Duluth is doing many of the same things that the Twin Cities campus is while Morris is doing a great deal to rely on renewable energy (67% of its power comes from wind energy and they also have a boiler that uses wood and corncobs). The main problem at Crookston is how to heat the campus in the future, and the Twin Cities staff are doing a lot of work with the campus to analyze the heating system.

-- The total purchased fuel costs for FY11 were $18.4 million for heating fuels and $31.7 million for electricity ($15.3 million and $28.4 million of the totals, respectively, were for the Twin Cities campus).

-- The principles guiding Twin Cities campus decisions about utilities and energy management are reliability, sustainability, and cost-effectiveness.

-- The new Utilities Master Plan completed in 2009 guides decisions; secondary plans for future construction have also been developed (e.g., Ambulatory Care Clinic, Biomedical Discovery District).

-- They conducted an experiment over three days during the break last December to learn how buildings would react if the system lost a boiler, and learned they could survive (although some rooms would be cool). June 30, 2004 was the last modern-day peak load, a level that has not been hit since, because the campus is conserving energy and minimizing the use of steam. But the boilers are getting older.

-- The Governor's bonding bill includes funding for a combined heat and power plant, and they have begun preliminary work to design the plant. It would use combustion turbines, essentially jet engines, to produce electricity and to recover excess heat to make steam. In the meantime, they are taking various other steps to increase the reliability of steam, electricity, and chilled water. Last summer the combination of the heat/humidity and the light-rail construction put great stress on the system and they have learned the importance of getting better distribution across campus. They have saved well over $1 million per year in chilled water costs by utilizing a district utility approach and will continue to expand this program in the next year.

-- Utilities account for about 80% of the campus carbon footprint (52% from purchased electricity), but the Twin Cities Sustainability Committee identified ten energy-related strategies that can be implemented over ten years that will reduce carbon dioxide emissions by about 50%. For the next five years, those strategies include computer energy efficiency, lighting efficiency, building recommissioning, sustainable buildings, laboratory energy efficiency, and renewable campus energy pilot projects (decrease CO2 emissions by 187,500 metric tons); for the five years after that, many of the same elements plus reducing the campus size, the combined heat and power plant, window replacement, and continued renewable energy pilot projects (decrease by 321,600 metric tons). In FY10 the campus saved $2.6 million and 29,000 tons of CO2; in FY11 it was $2 million and 22,000 metric tons). The campus also has its first photo-voltaic solar array. They also have building-by-building data on energy consumption in FY10, FY11, and comparison with the State Energy Code.

-- Steam efficiency has increased significantly since 1996. The campus has increased by 3.7 million square feet while steam efficiency has increased by 37%, the cumulative energy savings due to efficiency gains have been $76 million, which annualized for $2011 equal $9.2 million.

-- In comparison with a group of peer institutions (northern, large research universities), the University is doing significantly better in efficiency in energy consumption (over 30 cents per gross square foot in energy costs). Mr. Malmquist reported that few institutions are as far along as Minnesota in energy conservation.

Professor Luepker observed that many improvements have been made so that the systems are more efficient; is the source of funding HEAPR, bonding, the cost pool, or other sources? All of them, Mr. Berthelsen said. When the University builds a new building, it is built to higher standards, and they use HEAPR funds, and when there is a targeted payback (5-6 years), they use internal loan funds. Some capital projects are in the cost pool rates for utilities. Energy savings are obtained from two parts, Mr. Malmquist said: Demand and supply; the University receives larger rebates from Xcel Energy than any other organization in the state for saving energy.

Does the warmer March have an effect on the energy bill, Professor Luepker asked? Mr. Berthelsen said a mild winter means buying less fuel, but if the temperatures warm up early, they will need to turn on the chillers early. If there are savings due to lower consumption, they will show up in lower bills to colleges immediately, Mr. Berthelsen said. Future rates are based on the cost structure of utilities, so there will not be a big effect on future rates unless there are savings per unit. Rates are set considerably in advance; the rates for 2013 were set last October. Savings now will be seen in consumption, not cost per unit. Mr. Malmquist commented that they set rates with the intent to sell X product, they are not selling it, but they still have a fixed cost, and while they may be "underwater" now, the situation will turn out acceptably.

Vice President O'Brien provided a brief update on space utilization. As the Committee is aware, she said, there is an effort underway to identify under-utilized and obsolete buildings. With the buildings that have been demolished or mothballed thus are, they have saved $1.1 million per year in operating costs and avoided about $33 million in capital renewal costs. She said she will provide data at a future meeting, but the process has not stopped and there are other buildings on the list for decommissioning or demolition. The plans include renovating Eddy Hall, redoing Donhowe and WBOB so that Williamson can be demolished (it has cost $10 million over 30 years to keep water and mold out of Williamson). They are also looking at the space assigned to administrative and support units; while many say they do not have enough space, in many cases that is because they do not have right space, Vice President O'Brien said. The question is how to get to the space that is needed, because every square foot of space must be heated, cooled, cleaned, and maintained.

Professor Luepker thanked Vice President O'Brien, Associate Vice President Berthelsen, and Mr. Malmquist for their report. One leaves these meetings feeling good when these officers come to the committee, he said, and in the years he has watched this report the systems have become more reliable, sustainable, and cost less. Vice President O'Brien thanked Professor Luepker for the compliment and said that they have a great team in Messrs. Berthelsen and Malmquist—and that the faculty have been extremely helpful in their work.

Professor Luepker adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota