Senate Committee on Finance and Planning (SCFP)
February 21, 2017
Minutes of the Meeting

These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the senate, the administration, or the Board of Regents.

[**In these minutes:** Collegiate Budget Reports; FY 2018 Budget Framework/Cost Pool Discussion; Buildings Roadmap]

PRESENT: Dan Feeney (chair), Catherine Fitch, Daniel Lockgren, Michael Berthelsen, Lincoln Kallsen, Jill Merriam, Paul Olin, Julie Tonneson, Robert Goldstein, Jennifer Gunn, Michael Korth, Fred Morrison, Carl Rosen

REGRETS: Tracy Peters, Karen Seashore

ABSENT: David Fisher, Laura Kalambokidis, Michael Volna, Karen Ho, Erik van Kuijk, Danny Bernick, Aravind Boddupalli, Mark Kanake, Varun Sood

GUESTS: Sri Zaheer, dean, Carlson School of Management (CSOM); Alok Gupta, associate dean, CSOM; Michelle Wills, chief financial officer, CSOM; Brian Buhr, dean, College of Food, Agricultural and Natural Resource Sciences (CFANS); Karen Dewanz, chief financial officer, CFANS; John Coleman, dean, College of Liberal Arts (CLA); Brent Gustafson, chief financial officer, CLA; Samuel Mukasa, dean, College of Science and Engineering (CSE); Mos Kaveh, associate dean, CSE; Dave Pappone, chief financial officer, CSE; Mike Berthelsen, interim vice president, University Services; Andrew Chan, facility portfolio program manager, University Services Finance; Julie Tonneson, associate vice president, University Finance

OTHERS: None.

Chair Dan Feeney welcomed the committee and members introduced themselves.

1. Collegiate budget reports - Professor Feeney welcomed Sri Zaheer, dean, Carlson School of Management (CSOM); Alok Gupta, associate dean, CSOM; Michelle Wills, chief financial officer, CSOM; Brian Buhr, dean, College of Food, Agricultural and Natural Resource Sciences (CFANS); Karen Dewanz, chief financial officer, CFANS; John Coleman, dean, College of Liberal Arts (CLA); Brent Gustafson, chief financial officer, CLA; Samuel Mukasa, dean, College of Science and Engineering (CSE); Mos Kaveh, associate dean, CSE; Dave Pappone, chief financial officer CSE, who were invited to share their thoughts on the sustainability of maintaining the University's mission in light of budget cuts and the University's overall financial situation.

Dean Buhr began by noting that CFANS is located on the St. Paul campus, but also supports ten research centers around the state of Minnesota, with 10,000 acres of land and research facilities. One area that affects the CFANS budget is commodity prices, which not many other colleges deal with, and CFANS has other ISOs (internal sales operations) as part of their ongoing programs. Two years ago, said Buhr, CFANS had a $5 million structural deficit, and has been working to bring this down. Currently the structural deficit is about $3.2 million. The college plans to add 150 new undergraduate students per year, but meeting current ACT metrics will be a challenge. Additionally, Buhr noted, there are challenges for CFANS in the area of research due to lower state appropriations. CFANS is managing these challenges through strategic reallocations, and aligning services with units, said Buhr, in addition to taking advantage of services offered by central units to reduce overlap and costs. CFANS also seeks to balance out faculty reductions with a focus on core strategic platforms, hiring new faculty strategically to better align with needs. Buhr noted that he sees benefits from the RCM budget model, and the college actively works to increase revenue.

Dean Zaheer reported that CSOM supports approximately 2,600 undergraduate and 2,400 graduate students. In the CSOM budget model, 6% or less of funds are from allocations (the state allocation has remained 5-6% over the past two years), so the college has had to become more self-sufficient. In the area of professional education, there has been a 50% drop in enrollment for the part-time MBA program since 2000, and the drop accelerated after the financial crisis of 2008, in line with national trends. Undergraduate demand is high, said Zaheer, but CSOM is now reaching the upper limits of growth in that program due to space limitations. During the recession, CSOM went into budgetary deficits as the college is funded mainly by tuition; the recession created the need for the college to be innovative, increase fundraising efforts, and reduce operating expenses. Innovations in programs, for example, led to new specialty professional masters degrees in high-demand areas, and significant growth in online courses in the part-time MBA, as well as in a new industry MBA program in Washington DC. CSOM's part-time MBA students are charged the same tuition for their online courses as students on campus, and it has been a huge boon to the college to think about how to reach working professionals in the state and nationwide. The school has also introduced a new DBA program for executives in China. Zaheer said that she likes the RCM budget model, but would like to better understand the logic behind O&M allocations and have some predictability in those allocations. She also noted that strategic reallocations are harder and harder to do every year.

Dean Coleman reported that CLA is heavily dependent upon tuition (75% of CLA's unrestricted budget) and state appropriation (20% of budget) dollars. Cost pools account for 35% of CLA's budget, an expense for which the entire collegiate allocation of state funds only covers 55%, with tuition covering the rest of the cost pools. Leadership and oversight in CLA is between 6.5-6.6% of the budget, which is below the University target. This year, CLA will look to make $1.6 million in reallocation cuts; it is difficult to find that level of administrative savings after years of doing so, so colleges inevitably put mission and mission support items on the reallocation list also. The CLA student body is getting smaller, said Coleman, with college enrollment at 1,000 less than in 2011. This is due to several factors: incoming targets were dropped; students are moving through their programs more quickly; students are looking for other majors outside of CLA once admitted; and some majors in CLA are BA versions of BS degrees in other colleges. CLA leadership has been in communication with the Office of Undergraduate Admissions to try to recruit more “CLA-centric” students who will likely stay in the college for the duration of their program and take major courses in CLA. Fewer undergraduate students has also resulted in smaller graduate student cohorts, due to less need for teaching assistants (doctoral programs come with five year financial guarantees for admitted graduate students). Coleman noted that faculty size has been reduced 15% since 2008, and that college staffing has been reduced, with departments sharing administrative services in areas like finance. For FY 2016-17, said Coleman, there was a $6 million increase in tuition revenue, but a $4 million drop in appropriations; this net of $2 million covered yearly pay increases across the college. CLA participates in three-year planning with departments, where the college helps to set targets, and discuss department goals and commitments. Reserves are used infrequently when needed to meet current commitments. The budget process for colleges and for the University are different, Coleman added, and it might be useful for the colleges if the University was able to move to a multi-year budget planning cycle, although processes such as the biennial state budget would have to be factored in.

Dean Mukasa reported that CSE is made up of 12 departments and 19 centers, with approximately 6,000 undergraduates and 2,700 graduate students. The college is primarily financed by tuition and funded research, with over 430 very active faculty researchers. Many students are interested in computer science and chemical engineering, but the college is quickly outgrowing its facilities and looking for additional funding to renovate spaces (including requesting funding from legislators). CSE has been affected by changes in indirect costs in research funding (in 1985, for example, 40-50% of grant applications were funded; now, that is closer to 10%). Many CSE researchers are now reaching retirement age, said Mukasa, and CSE startup funds to hire new faculty (in keeping with the market) are quickly escalating beyond the college’s means (for example, packages for engineers are often in excess of $1 million). In looking at expenses vs. income, CSE will have a structural deficit going forward, said Mukasa. CSE is affected by enrollments in other colleges, specifically the College of Biological Sciences (CBS) and the College of Food, Agricultural, and Natural Resource Sciences (CFANS), who are both increasing their enrollment targets. These students will need to utilize chemistry labs, though the current labs are antiquated and there are space concerns. Mukasa said that the RCM budget model is a good one, though the college is concerned with what is being asked of faculty regarding research funding; moving forward, the college will encourage industry partnerships, and reach out to small foundations to help in this area.

Feeney asked the deans how their colleges worked with the Office for Undergraduate Education (OUE) on their enrollment targets. Zaheer responded that CSOM works closely with OUE on enrollment targets, and they have always exceeded their targets. Mukasa noted that he has been in conversations with Bob McMaster, vice provost and dean of undergraduate education, about college demographics and accommodating new types of students (for example, recent immigrants) through scholarships. Dewanz added that communication between OUE and colleges is also done broadly across the institution, since many colleges may be impacted by changes in enrollment in any one college.

Feeney asked if the deans felt it was worthwhile to rethink the RCM model. Gustafson replied that it is important to look at the implications of this model, since revenue can move more quickly than costs; therefore, the model shouldn't drive academic programming. The University is trying to be responsive to state appropriations and tuition revenue, he added. Pappone responded that stability is important in the RCM model, which allows units to better understand implications. The revenue side of the RCM model works well, he added, though the perceived incentives cost pools create is more of an issue, including how colleges should react.

Fred Morrison asked the deans to speak about how they are managing mandatory reallocations. Zaheer responded that CSOM is growing, and would benefit from adding staff; yearly reallocations may eventually cause a reduction in necessary services, and add administrative burden for faculty. Coleman replied that it is healthy for the institution to go through yearly reallocations, between .5-1%. As part of a system-wide reallocation, it is harder to forecast what amount of difficult internal reallocations will return to the college for re-investment. Mukasa added that reallocations can get out of control, and that two to three year assessments may be more useful, noting that running a budget should not be major activity at the unit level.

2. FY18 budget framework/cost pool discussion - Feeney introduced Julie Tonneson, associate vice president, University Finance, to provide an overview of the FY18 budget framework and cost pools. Tonneson provided an overview of the FY18 cost pools and changes from FY17. Overall, said Tonneson, there is a 2.8% increase in the cost pools (1.25% when not including compensation increases). Base reductions total $2,660,000, not including libraries and public safety, and $576,000 was added to create the new Office of the Senior Vice President for Finance and Operations. $380,000 has been set aside for admissions to increase applications through more in-state recruiting, said Tonneson. In this analysis, it is assumed that the University receives its full state appropriation request of $48,600,000; this results in $12,500,000 of reallocations, and a potential 2% tuition increase for Twin Cities resident undergraduate students, a 10% increase in Twin Cities non-resident tuition, and a 5.5% increase in Duluth non-resident tuition. The University is not likely to increase tuition more than 5% for continuing students, said Tonneson. If the University does not get its full state appropriation request, she added, the options are to decrease spending, trim investments pools, reallocate more (which could impact programs), increase tuition, and/or look at the 2% pay increase for employees.

Morrison asked what the likelihood was of receiving a state appropriation of the size requested by the University. Tonneson responded that administration was pleased that Governor Mark Dayton recommended funding the majority of the request. If the full appropriation is not funded, there is a chance that core mission requests will be funded. In biennial math, the University has requested $147.6 million; Governor Dayton recommended full funding for both years of the core mission requests.

3. Buildings roadmap - Feeney introduced Mike Berthelsen, interim vice president, University Services, and Andrew Chan, facility portfolio program manager, University Services Finance. Berthelsen provided an overview of the buildings roadmap, which has been put in place in an effort to strategically manage buildings via the Facility Condition Needs Index (FCNI) rating and reduce poor/critical spaces at the University. On average, he said, primary renewal funds fall short by $4.50 per square foot (plus inflation), meaning that in order to maintain current facility conditions (not to improve), the University would need to spend $4.50 more per square foot of space. This plan includes the net reduction of new space, renewal of existing space, demolition and replacement, demolition without replacement (since 2000, 23 buildings equal to 550,000 square feet have been razed), leasing/rental, utilization and productivity improvements, and business process changes (e.g. managed space).

In planning for building by building renewal, objective measures such as FCNI rating, renovation cost, operations and maintenance costs, energy demand, space efficiency, historical value, and code/access issues are evaluated, said Berthelsen. Other, more subjective, measures are evaluated in stage two of planning, including adaptability, fit within the Master Plan, aesthetics, usability, program impact, and displacement. Buildings are then put into three categories: catch up/keep up with needs, sustain current condition, and “do not invest (DNI).” Strategic planning redirects approximately 20% more renewal funds to facilities requiring investment. The investment strategy is communicated to units to aid them in their requests and future planning, said Berthelsen. If a building is marked as DNI, Facilities Management will minimize maintenance and renewal, while ensuring that faculty, students, and staff are not in an unsafe building. Once facilities are evaluated, colleges will be given a roadmap of their buildings, noting which buildings are “keep up,” “catch up,” “under review,” “DNI (Renew),” and/or “DNI (Dispose).” Next, Berthelsen noted, Facilities Management will look strategically at buildings under consideration and develop individualized renewal strategies, launch supplemental district planning efforts as appropriate, and seek endorsement from the Capital Strategy Group. Plans will then be updated to align with the six-year capital plan and the availability of HEAPR and R&R funds, after which the plan will be finalized and communicated to impacted units.

Feeney asked what the stumbling blocks were to making these improvements. Berthelsen replied that the University needs to be planful, strategic, and pragmatic when deciding where to focus funds on building and improving facilities; additional funds could speed up this process, but resources are currently limited.

Jennifer Gunn asked how the University could keep buildings, such as the proposed new Health Sciences Building, aligned long-term with programmatic needs. Berthelsen responded that planning for long-term use is difficult, as building solutions change more slowly than appropriations and program needs. To help mitigate this issue, the University can design buildings to be more flexible in an effort to accommodate more types of potential needs. It is difficult to design for both convenience and efficiency, he added; while a single-use building may be more efficient, it it less convenient for long-term needs.

Hearing no further business, the meeting was adjourned.

Barbara Irish
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