

Minutes\*

**Senate Committee on Finance and Planning**  
**Tuesday, January 3, 1995**  
**3:15 - 5:00**  
**Room 238 Morrill Hall**

Present: Virginia Gray (chair), David Berg, Mark Davison, Craig Dexheimer, Thomas Hoffmann, Gerald Klement, Roger Martin, Richard Pfutzenreuter, Doris Rubenstein, Anne Sales, Craig Swan, James VanAlstine

Regrets: Karen Karni, Patrice Morrow

Absent: William Gerberich, Allen Goldman, Roger Paschke, Thomas Scott

Guests: Associate Vice President Carol Carrier, Dianne Mulvihill (Director, Employee Benefits)

[In these minutes: Report from Facilities Management Subcommittee on the steam plant; Regents' policy on tuition and tuition waivers and remissions; Central Reserves structural imbalance and other potential structural imbalances; changes in early retirement options]

**1. Report from the Facilities Management Subcommittee**

Professor Gray convened the meeting at 3:15 and began by introducing the new student member of the Committee, Craig Dexheimer, and welcoming him to the Committee. She then turned to Professor Davison for a report from the Subcommittee on Facilities Management.

Professor Davison distributed copies of a letter from the Subcommittee to the Finance and Planning Committee summarizing its discussion and response to the draft Environmental Impact Statement (EIS) prepared for the University's steam plant proposal. He reported that the Subcommittee found that the University's challenges to the report seemed well-founded; the EIS seemed not to be using the same specifications as had the bidding process that led to the University's proposal. The Subcommittee was surprised to see cost estimates for natural gas that were lower than the University's planned facilities.

Despite these problems, the Subcommittee remains interested in the natural gas alternatives, he said--as it has been all along--and hopes the University will look into them.

Asked what the Committee should do, Professor Gray said that the Subcommittee has the responsibility for responding on the Committee's behalf on issues such as this.

There are two challenges in the Subcommittee's response, said one Committee member: one to the EQB to get better data; the other to the University to reconsider natural gas. One of the more contentious issues is land use, it was said; location of the plant and the reuse of an historic facility are also part of the

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debate. The Subcommittee took no position on the on- versus off-river issue, Professor Davison reported. From an environmental standpoint, some argue, the plant should be off-river; others contend that use and preservation of the existing plant could enhance river development and that the University should not abandon it. The Subcommittee, he promised, will return to this issue.

## **2. Tuition Issues**

Professor Gray then reminded Committee members that they had heard about two different tuition issues in recent meetings: tuition remission and waivers and the Regents' policy on tuition. Is there, she inquired, any interest in making a motion or providing advice to the administration on the issue of tuition waivers and remission?

What about the possibility of separating the way teaching assistants and research assistants are treated, asked one Committee member? The draft proposals fixes a problem for research assistants but creates one for teaching assistants. Is it possible to treat TAs as they are now and go to a direct charge system for research assistants? There were open forums with directors of graduate studies and other interested people, it was said, but there appeared to be no consensus on what to do. The division of opinion seemed to fall along lines of departments that employ graduate students as teaching assistants versus those who employ them as research assistants.

The administration may also decide to study the issue for another year, Professor Gray reported, and do nothing now. The more one hears, the more one thinks the University should stick with the present system, she observed; the present system is bad, but the rest appear to be worse.

Hearing no groundswell of opinion for a motion on this issue, Professor Gray asked about the Regents' policy.

The draft will go to the Regents for information in January, it was reported in response to a question. It was noted that undergraduate tuition may vary by campus; could Minneapolis and St. Paul have different rates? Mr. Berg responded that Minneapolis and St. Paul are NEVER treated separately. In response to another question, he said that the policy calls for a single upper division rate and does not permit variations by college.

The language about tuition waivers and remissions is straightforward and honest, in that it explicitly says that the costs of these programs will be covered by students who are NOT receiving them. What repercussions will there be when students read it? The idea, Mr. Berg said, is to separate the policy on waivers from the one on remissions.

The draft policy is silent on lower division rates, it was pointed out. That is because it proposes no change, Mr. Berg reported; the current policy calls for a single lower division rate on each campus, although this draft does not say so. This version also no longer requires that the lower division rate be less than or equal to the upper division rate; why the change? Because, Mr. Berg replied, the possibility has been raised that lower division instruction COULD BE more expensive, although that is hard to imagine. But the policy is written so the University's hands are not tied.

One Committee member expressed concern about the permission granted by the policy to charge instructional fees; this is a Pandora's box, it was said. It will be difficult to impose controls on the process

of imposing these fees. There is much attention paid to the setting of tuition because it is a very political issue; fees, however, could balloon out in other ways, outside that process.

Professor Gray asked Mr. Berg to comment on this issue. He agreed to do so, noting, however, that he is not neutral on the subject; he told the Committee he is totally opposed to instructional fees. Current planning documents from the colleges do include proposals for fees. He repeated his earlier observation that unless a fee is uniform by college, it is unlikely to be covered by state student aid. The fees that have been proposed are INTENDED to be covered, but in some cases it is not clear that they will be, and some will NOT be, in his opinion. This policy opens the door to all kinds of fees, once the colleges understand they can generate revenue dedicated solely to them without having to go through the budget process.

This is an interesting dilemma, reflected one Committee member. There is much pressure in society to impose activity-based charges, rather than ask everyone to pay for overhead. But students may be hurt if state financial aid does not cover the fees. What is missing from the policy--and perhaps it does not belong in a Regents' policy--is a statement about who makes the decision if a fee can be assessed. There is no identification of an administrative structure, even though in other parts of the document the President is identified as the locus of authority for decisions. He was identified as the decision-maker in earlier drafts, another Committee member observed, but not in this one. The President is intended to be the decision-maker, Mr. Berg commented. That clause should be put back in the policy, it was said; the Committee agreed.

One Committee member made a motion that the Committee express concern about the introduction of fees to a greater extent than previously permitted, and that if the policy is adopted with fees permitted, then very tight mechanisms be established to evaluate each proposed fee, in order to prevent widespread use without controls. The motion was unanimously approved.

Professor Gray said she would pass along the resolution and ask that the identification of the responsible authority for approving fees be restored to the policy.

### **3. Report on Central Reserves Structural Imbalance and Other Potential Structural Imbalances**

Professor Gray asked Mr. Pfutzenreuter to inform the Committee about structural imbalances. He provided a handout, from a report to the Board of Regents in November, and began with the Central Reserves structural imbalance.

He reviewed the assets and liabilities of the University (net fund balance 6/30/94, after liabilities, totals \$1.9 billion) and the current Regents' policy on the Central Reserves. A structural imbalance arises "when recurring expenditure requirements exceed recurring revenues." That will be the problem with the Central Reserves unless steps are taken.

Asked if there is any legislative mandate to spend down the reserves, both Mr. Pfutzenreuter and Mr. Berg explained that there is not--and never was. They encouraged the University to spend down reserves when they were much higher, in the past, but now agree with the Board that there should be \$40 million in reserves.

One of the tables in the handout contained Central Reserves historical data and projections through 2002; it predicts a continued decline in the reserves until after the turn of the century. Mr. Pfutzenreuter

explained that two concerns existed: one was the unexpected one-time charges against the reserves (such as the losses from the investment in derivatives) and the recurring expenditures that exceed recurring revenues. The Central Reserves balance has been slowly declining since 1988, and is expected to drop another \$2.5 million from 1995 to 1996.

The balance begins to slowly increase after the year 2000 because the debt service on athletic facilities is paid off, so recurring expenditures decrease. He also identified several other recurring expenditures, including in Student Affairs, Institutional Relations, the Foundation, and the Alumni Association (some of which were formerly O&M expenses). The major revenue source for Central Reserves, Mr. Pfutzenreuter explained, is the earnings on the operating balances in departments and colleges. Mr. Pfutzenreuter agreed that any settlements from legal proceedings or the sale of real estate could be deposited in the Central Reserves. He also explained, in response to a question, that the recurring revenue projections for the future are flat; the college and departmental balances are declining, so that even if interest rates rise, additional income is not likely. The worry is whether or not the income will remain stable.

Mr. Pfutzenreuter then reviewed the steps that need to be taken with respect to the Central Reserves. They include development of financial options to restore the funds, repair the structural imbalance, phase out or reduce recurring spending, restoration of the Reserves to \$40 million, and review of the Regents' policy (existing policy does not permit recurring expenditures from Central Reserves).

Mr. Pfutzenreuter pointed out the resource options that presently exist and answered a number of technical questions about the operation of the Temporary Investment Pool. One big part of the plan to restore the Central Reserves includes \$15 million from the sale of land; another is to raise the internal loan rate by .5%. He explained--in response to a surprised query from a Committee member about the amount that this small change would generate--that there are \$100 million in internal loans. The plan also includes raising from 5.5% to 8% the overdraft rate for units without an approved plan to erase their deficits.

On the expenditure side, plans include continued payment of some salaries and fringe benefits from the Reserves, reduction in the need for outside legal counsel after 1999, and a gradual phase-out of other recurring spending beginning in fiscal year 1996-97.

If the resource and expenditure options are all exercised, the Central Reserves balance would be restored to about \$34 million by 2001-02 (from the present level of \$14.7 million). This will only happen, Mr. Pfutzenreuter pointed out, if there are no additional "shocks" to the Reserves.

At a time of cuts, when there may be changes in early retirement and when units may need to borrow money, the Central Reserves will be needed more than ever; what impact will those needs have on the Central Reserves, asked one Committee member? Mr. Pfutzenreuter said the early retirement options have not been made clear and that other funding sources will cover some of the expenses. The pay-outs will not be covered by central funds, although loans to units will be made in hardship cases. Existing department and college balances may also have to be used for bridge funds.

Mr. Pfutzenreuter then reviewed June 30, 1994 year-end balances and potential structural imbalances. In the case of the first, he emphasized that there is not a University deficit and that while problems exist, they are in pockets, and the overall situation is acceptable.

There are 52 Resource Responsibility Centers (a.k.a. colleges and administrative units); within those units, there are over 800 Areas (departments). The Budget Office analyzed the situations of the Areas, which often have multiple Funds. The questions were whether the balances are positive and if they would remain so in the future. Mr. Pfutzenreuter summarized current University policy on year end balances and noted that "deficits" at the Area or Fund level may not be budgeted nor should they exist at the end of the fiscal year.

Positive balances for current, non-sponsored funds totalled \$262.5 million. Negative balances greater than \$1000 totalled \$31 million; 24 Area/Funds, out of over 4,000, accounted for 65% of those negative balances. Based on information he received at a recent Big Ten business officers meeting, Mr. Pfutzenreuter commented, the University appears to be unique in allowing such deficits to occur. There are a number of steps that will be taken on negative balances, including imposition of an 8% charge on deficits after June 30, 1995, that do not have an approved plan to eliminate them and an 8% charge on any negative balances incurred thereafter. Some of the balances will be eliminated by drawing down funds held by departments in the Foundation

Mr. Pfutzenreuter then quickly reviewed potential structural imbalances. For fiscal year 1995, it is possible that the year-end balances for current, non-sponsored funds could drop by \$90 million (although a projected drop of similar magnitude in fiscal year 1994 did not materialize). While some departments may be depleting their balances because they worry that the administration will take the money, the potential size of the decline prompted his office to consider possible structural imbalances.

They learned, he reported, that 66 Areas (out of about 800) accounted for \$57 million of a actual or budgeted drop in balances, 7/1/93 - 6/30/95, and 27 Areas represented \$19.5 million of the \$23 million drop budgeted from 7/1/94 - 6/30/95. Some of these declines may be legitimate, Mr. Pfutzenreuter pointed out, and the units may not be heading toward a deficit. But as a result of these data, they have developed a new quarterly report to monitor balances.

The message to departments, one Committee member observed, is that the University is getting serious about deficits.

Professor Gray thanked Mr. Pfutzenreuter for his presentation.

#### **4. Changes in Early Retirement Options**

Professor Gray welcomed Associate Vice President Carrier and Ms. Mulvihill to the meeting to review proposed changes in the phased and terminal leave early retirement options.

Dr. Carrier distributed a handout and reported that there have been discussions about early retirement going on for some while in order to develop mechanisms to encourage greater turnover among regular faculty and P&A appointees with continuous appointments (not civil service or other P&A employees or bargaining unit members). She reviewed data on faculty attrition (which includes retirements, death, resignation, and tenure denial) and on average age at retirement. Attrition has been stable for the last five years.

There have been two early retirement options in place since 1982: phased retirement and terminal

leaves. Neither, she emphasized, is an entitlement; all require the support of the administration. Given the changes the University is facing, however, the question of providing additional incentives has been raised, especially in light of the elimination of mandatory retirement. As a result of conversations with committees and deans/administrators, the administration is proposing to enrich the two programs for a brief period of time. Nothing, however, has been decided; the Regents have heard the proposal once and will do so again next week.

Ms. Mulvihill reported that health care appears to be the biggest concern, causing many faculty to hesitate to retire. The enrichment proposed is that anyone who qualified would receive subsidized medical and dental coverage for a period of up to five years (or until the individual is covered by another group plan subsidized by an employer), and for individuals who meet a "rule of 75," coverage would continue until the individual becomes eligible for Medicare. In addition, the requirement that one must work 50% time or more to obtain the subsidy, in phased retirement, would be eliminated. In the case of terminal leaves, the individual would be eligible for up to two years' salary plus fringe benefits (but no more than \$175,000).

The requirements for terminal leave are that one must be at least 52 years old, have ten years of service, must be in a unit that chooses to offer the option the faculty member wishes, and the department must agree to it.

Dr. Carrier noted that eligibility is dependent on being in a college that chooses to offer the options in all or part of its units; it is thought important to use these options as a tool that a college could choose or reject. They may be inappropriate in some units. Deans may decide to offer none of the enhancements or might set a specific number that they will fund, or may target departments they are trying to change or downsize. Alternatively, they could make the enhancements available across their entire college. The administration will ask colleges and campuses to identify the maximum number of enhanced terminal arrangements they would be willing to support.

Asked how the administration would ration the packages, Dr. Carrier expressed doubt there would be more than the 100 they expect; within colleges, the dean would have to make the judgment about the number to fund. If there are more individuals eligible than there are funds to support, then length of service will determine who receives the packages. Deans must use their own funds, but will be given loans for three years; central funds will, as of now, not be available.

Has any thought been given to the age structure of the faculty, asked one Committee member? There was a time when these options were not available to anyone over age 65--the University would not provide terminal leave agreements to those who were going to leave anyway. The point was to persuade people to retire early. The lawyers insist that that constitutes age discrimination, Dr. Carrier responded, so no upper age limit on eligibility has been set.

One table of data in the handout, outlining predicted savings from the programs, notes that they assume no replacements will be hired. Do the departments and colleges lose the positions, asked one Committee member? The assumption is that the funds freed up would be available to the college, Dr. Carrier said. That is the present system, it was pointed out by another Committee member--except, said another, that when cuts are made, the only money units have to ante up are the vacant lines.

Would it not be better to wait before offering these enhancements, given the big change last year of

the elimination of mandatory retirement, and also to study faculty age structure, asked one Committee member? There is also a concern that faculty might view this as "this year's deal," and that a better one might come in the future. Ms. Mulvihill noted that institutions which uncapped retirement before they were required to saw no significant change in retirement patterns.

The cost of the program would be \$4 million the first year, to obtain \$8+ million in savings the second through fifth years. But that does not include replacement costs, and if the individual would have retired in one year anyway, the program does not save money, it incurs a cost for the University, it was pointed out. That is a possibility, Dr. Carrier agreed.

Asked about the number of faculty who would be eligible, Dr. Carrier said about 1300; she did not have the breakdown by age groups.

Has thought been given about to whom these enhancements are addressed? The terminal leave enhancement isn't very attractive to people over 60 (increasing the terminal amount from one to two years' salary), it was said; with low participation in the program in the past, is this sufficient to increase participation? Dr. Carrier said they did not know. More likely, it was said, the impact will be on younger faculty--who have the option to pursue employment elsewhere.

In the phased retirement option, one Committee member pointed out, much haggling would be avoided if it included an agreement about the salary increases those on phased retirement would receive during the term of the agreement.

What about the negative perceptions that will be created when one college chooses not to offer the enhancements while another does? That could generate controversy and ill will, and eventually backfire. Dr. Carrier said the administration shared that concern, but believed that the differences among the units must be recognized. Some may resent what occurs.

In the discussions of the plans, said one Committee member, it is to be hoped that it will be made clear for whom the enhancements are intended--and that they not be used simply to give the best and the brightest faculty members a year or two to pursue other employment. The best way to avoid that, Ms. Mulvihill said, is to identify which departments will and will not be eligible for the enhancements. This will require considerable planning by deans and department heads.

One senses there will be objective factors deciding distribution of the packages, in order to avoid lawsuits. Someone will need to make a decision that the packages will be available in some units and not in others. There ought to be a program that lets faculty members in their early 60s retire with dignity, faculty who are unable to do so because of medical coverage.

Professor Gray thanked Dr. Carrier and Ms. Mulvihill, and adjourned the meeting at 5:15.

-- Gary Engstrand

University of Minnesota