Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 15, 2001
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, Daniel Feeney, Wendell Johnson, Joseph Konstan, Michael Korth, Elo Charity Oju, Jane Phillips, Susan Carlson Weinberg

Regrets: David Chapman, Stephen Gudeman, Richard Pfutzenreuter, Terry Roe, Rose Samuel, Cory Stingl

Absent: Eric Kruse, Michael Volna, J. Peter Zetterberg

Guests: Vice President Carol Carrier, Mel Dario (Human Resources); Michael Berthelsen (Office of Budget and Finance)

Other: none

[In these minutes: (1) pay-out for accumulated vacation time (impact on departments, possible changes in policy or funding); (2) 2002 capital request; (3) undergraduate tuition plan and increases (briefly); (4) fringe benefit rate information (increases); (5) statement on funding for graduate assistants]

Professor Speaks announced that there may need to be an extra meeting of the Committee during the week of May 21 or May 28 to take up the budget situation. The legislature adjourns on May 21. The Board of Regents will meet on June 7-8 for a preliminary budget discussion and will take action on the budget on June 26. Inasmuch as the Committee has, all year, emphasized the need for consultation, it would be remiss if it did not meet once the legislature and Governor have acted on the University's legislative request.

Professor Speaks said he was very pleased with the consultation on the budget that has occurred in recent weeks. A small group met with Executive Vice President Bruininks and Mr. Pfutzenreuter earlier and had candid exchanges; another meeting of the same group, along with two FCC members, met again this week with Dr. Bruininks and again had candid conversations. Faculty representation in the discussions has been more smooth than earlier.

1. Pay-out for Accumulated Vacation Time

Professor Speaks next welcomed Vice President Carrier and Mr. Dario to the meeting. Dr. Carrier introduced Mr. Dario, who has been a human relations consultant at the University for many years and is the resident expert on rules regarding vacation and sick time. She distributed several handouts

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

containing data and information on accrual rates for vacation and sick time for various categories of employees.

Professor Speaks explained that one concern is that civil service staff are able to accumulate vacation and sick time but that few units plan for paying out the amounts due employees when they transfer to another department or leave the University. The issue was also raised in discussions that FCC members had with members of the Faculty Senate last year.

When employees accumulates vacation and sick time, are they paid at the rate they are being paid at the time they leave, Professor Konstan asked? Theoretically they are paid at the rate they earned the time, Dr. Carrier said, but the problem is determining what those rates were. Mr. Dario said he had never been asked the question; units pay the employee at whatever his or her rate is at the time of departure. Moreover, Ms. Weinberg pointed out, employees will justifiably say that they used the earlier vacation and sick time first so that the accumulated time is at their current rate of pay.

If an employee accumulates the maximum amount permissible (two years' worth of vacation time, or 54 days at the highest accrual rate for employees with 31+ years of service), is the pay-out two years' worth, Professor Bauer asked? It is, Mr. Dario said, but they suggest departments discourage accumulation of that much vacation and that they encourage employees to take vacations. Employees cannot, technically, be REQUIRED to take vacations, although some private sector organizations are doing so. The University is not at that point, although the administration could consider such a requirement. Mr. Dario added that he was not advocating such a policy.

The administration could decide to reduce the amount of vacation that can be carried over, Professor Konstan pointed out, and require that employees use most of their time as they earn it.

Faculty and P&A staff may not carry over vacation rights (although can make special arrangements within departments if the supervisor agrees the individual could not take vacation in the required time, which is what happened with some staff who were working on PeopleSoft implementation).

The vacation accrual limit (e.g., 54 days) does not include sick time that can be converted to vacation time, Ms. Phillips pointed out, so the department liability is even greater. She asked about employees who will not take vacations and do not want to. If they quit or change departments, she observed, the department will face a huge liability.

Professor Konstan wondered if people understood real fringe benefit rates; there is nothing in the usual information about them that includes vacation and sick leave costs. The actual rates could be 10% higher than what they appear to be. He suggested the University could put into the fringe benefit rate an amount to be set aside for departments to pay for accumulated vacation. Do private institutions put vacation and sick time in government contracts?

Dr. Carrier said she did not know. There has been discussion of this issue because of grants, but if an individual has accumulated time but has not been on a grant recently, the department is left with the liability even if some of the time was accumulated while the employee was funded by a grant. She said there has never been information assembled on whether there ought to be a central pool to pay these costs. It could be done system-wide, Professor Konstan observed.

The problem with the current structure is that there is no meaningful way a department can plan for these costs. If it has employees who have accumulated vacation time, it can set aside the funds to cover the cost--but that is not very smart because it can tie up thousands of dollars for years. But if the department does not set aside the funds, it can be hit hard when the employees transfer or leave.

The first way is the right way, Professor Konstan maintained: to escrow the funds as employee time accumulates. The department could use the interest on the money and pay the employee when the liability came due. Professor Speaks expressed a dislike for requiring a department to set aside that much money.

Mr. Bonnema agreed that this could covered as part of the fringe benefit charges. For the unit it is often a guess to project the costs. How many dollars are paid out each year when an employee leaves a unit, he asked? That amount could be calculated as a percent of the salaries, added to the fringe benefit rates and adjusted with experience. That way, when people change departments nothing would happen to either department and the individual would only be paid when he or she leaves the University.

Professor Konstan agreed, noting that accumulation of vacation time is a central policy against which departments must self-insure. Moreover, if an employee legitimately has to take 60 sick days, because of serious illness, the absence is a significant burden to the department, which has no extra funds to hire replacement help. The impact is especially serious on smaller departments; large departments can probably rearrange workloads temporarily to handle a prolonged absence. The funding should be provided centrally, where the decisions are made, rather than by departments, which have no power in the matter. Professor Bauer suggested that parental leave, especially for graduate students, might be included in the same calculations.

What are the demographics of the staff, Professor Bauer asked? Will there be a baby boomer effect? In perhaps 10 years, Dr. Carrier said, when that cohort begins to retire at about age 62. The staff attrition at the University is about 15% per year.

If one were starting from scratch in developing a vacation program that was fair and cost-effective, Professor Speaks asked, would the existing program be the one the University would adopt? Dr. Carrier said the University would probably offer paid time off--a specified number of days that an employee could use for sick or vacation time; when it is gone, it is gone, and nothing is carried over. That was the program at the University Hospital for civil service staff and was proposed to the unions (which opposed it). It is much easier to administer: there is no need for argument about why someone is gone (i.e., sick versus vacation time). But it is "lousy for employees," Mr. Bonnema maintained, because it is significantly less generous.

For senior staff employees, Dr. Carrier agreed, time off is the most generous part of the fringe benefit package. The University's benefits are competitive in almost all other ways; the University is more generous than the market in providing time off. Professor Speaks inquired why a policy against accumulation would be "lousy" for employees. It would be a reduction in benefits, Mr. Bonnema said. Civil service and bargaining unit staff view the vacation and sick time as negotiated benefits to which they are entitled; he said he would be very concerned if the University tried to reduce them. They have been in place, with only very minor changes, for at least 30 years, he observed.

One possibility would be to look at it as an option for employees to redirect to another benefit (e.g., put accumulated vacation time into retirement funds). That is an argument for knowing the amount of money involved, Professor Konstan said. If it amounts to 12-15% of salary, and if the University were to think about buying the amount down, it needs to know what employees might value more. And it is generally a good idea to permit accrual, he said, because it permits employees, for example, to take a once-in-a-lifetime vacation that can be enriching (for example, a summer in Europe). The downside is that departments must do without the person who takes such a vacation.

The problem, Professor Campbell observed, is department liability without a source of funds.

Some universities do it differently, Professor Bauer observed. Individuals have rights to vacation time, but if they choose to leave, there is a limit on how much will be paid out. For example, one might accumulate 44 days but the university would only pay out to a maximum of 22 days. This says that employees have the right to accumulate AND USE vacation time, which makes for a healthier employee.

How do peer institutions handle the department obligations, Professor Speaks asked? It varies, Dr. Carrier said. Some are like the University; its model is not unusual. How much of a "take away" would it be to use the model Professor Bauer suggested, where employees could accumulate to a maximum but there would be a limit on the pay out? Mr. Bonnema said that one reason the current plan was adopted, whereby employees can accumulate up to two years' worth of vacation time, was because state employees can cash out accumulated sick time while University employees cannot. The University offered the two years' accumulation benefit to make its benefits more equitable with those offered to state employees. Mr. Dario agreed that the University in the past did try to match with state employees.

Are department administrators told to accumulate funds to cover this liability, Professor Feeney asked? They are not, Dr. Carrier said. His concern, Professor Feeney responded, is that a new department administration might walk into a time bomb with this liability; could a unit go the administration for a loan? It could, Dr. Carrier said.

Professor Konstan, responding to Professor Speaks's request on what the Committee wished to do, said he thought it would be useful if Human Resources could provide information on the accrued liability departments face and a proposal on adjusting fringe benefit rates to cover the liability, to see if that might be a worthwhile solution. Mr. Bonnema said that the first, data on accrued liability for vacation time, is already in PeopleSoft reports. Ms. Oju said it would nonetheless be helpful to see a report on the extreme cases and on what makes up the middle ground. Dr. Carrier said that information would be provided to the Committee.

As for the second idea, Dr. Carrier said she would like to review with the Committee a similar proposal that was made several years ago. It would also be helpful to see data for the last 3 - 5 years, Ms. Phillips said, to see if there have been changes in the liability. Dr. Carrier said she understood that the liability has been quite stable for the last five years.

Professor Speaks thanked Dr. Carrier and Mr. Dario for joining the meeting and said the Committee would look forward to receiving the additional information at a meeting early next fall.

2. The Capital Request

Professor Speaks now welcomed Mr. Berthelsen to the meeting to discuss the capital request. Mr. Berthelsen distributed a one-page handout containing an excerpt from the six-year capital plan approved by the Board of Regents last December. He related that the 2002 capital budget was reviewed with the Regents in May (that is for projects for which the University has the funds in hand) and the administration will review with them in June a preliminary 2002 capital request. In December, 2000, the Board approved an updated six-year capital plan, which consists of all the projects the University currently has underway plus capital requests for 2002, 2004, and 2006.

The preliminary request as it stands is this (numbers in 000,000s)

HEAPR	Total	State	U 1/3	Unit	
(Higher Education Asset Preservation and Renewal)					
Life and Safety 2002	10	-0-	-0-	-0-	
Building Systems	32.8	-0-	-0-	-0-	
Jones Hall	7.2	7.2	-0-	-0-	
Utilities	30	-0-	-0-	-0-	
HEAPR subtotal	80				
Plant Growth Facil Phase II	16.3	10.9	-0-	-0-	
Lab Science Bldg UMD	33	22	3.5	7.5	
Nicholson Hall Fresh Studies	18.75	12.5	6.25	-0-	
MRRC for Education	16.8	11.2	3.6	2.0	
Classroom Improvements	4	2.667	1.333	-0-	(system)
Research and Outreach Ctrs	3	2	1	-0-	
Bede Hall	6	4	2	-0-	
Heritage District UMM	8.8	5.867	2.533	-0-	
Northrop Audit Phase I	10	6.667	-0-	3.333	
Design IT Tech/Tchg Facil	3	2	1	-0-	
Translational Research Bldg	32	21.333	-0-	10.667	
Total Request (rounded to 000,000)	232	181	27	24	

There has been no change to the preliminary 2002 capital request approved by the Regents in December, 2000, as part of the six-year capital plan; the list is the same. The Board did, however, ask that the cost estimates be reviewed in light of recent University experience (actual bids are coming in higher than expected). Predesigns are being finished for all projects, which provides a more accurate cost estimate; one question is how much of a contingent should be built into the numbers to accommodate possible market changes.

The request can be changed until October, at which time the FINAL capital request must be acted on by the Board of Regents, Mr. Berthelsen told the Committee. He cautioned, however, that the closer one gets to the October date, the more questions are likely to be raised about any proposed changes. He said he hoped that the numbers reviewed by the Board in June are the final numbers.

In arriving at costs, Professor Speaks asked, has anything been built in for projects that are completed but which have increased operating costs? Or must the University find money for those later? Mr. Berthelsen said the latter; the University asked for operating funds in the biennial request (but there is unlikely to be enough money to cover any of them). Professor Speaks then asked if there is any rough estimate of operating costs as a percentage of capital costs? Mr. Berthelsen said there is, although he did not have it at the meeting; it depends on the amount of new and renovated space, he said; for 2001-02 facility operating costs increased by $3 million. Where did those funds come from, Professor Campbell asked? From the University's O&M funds, Mr. Berthelsen said.

When a college or department receives a new building, does it receive funds from the administration to operate it? There is no charge to units for operating buildings, Mr. Berthelsen said. When a building opens, the University allocates money to Facilities Management or the coordinate campus for routine maintenance and custodial service. For supported buildings, Ms. Weinberg observed; not for housing, Coffman, etc., Mr. Berthelsen concurred. Academic units are not charged for the buildings they occupy.

Are units charged for adding new space, Professor Konstan inquired? There was an attempt to do so when IMG was first adopted, Mr. Berthelsen recalled, and some universities do allocate costs. There was, however, not widespread agreement on how to do so at Minnesota so the effort was dropped. Is there any incentive for a college with a new building to decommission space, Professor Konstan asked? There is not, Mr. Berthelsen said.

Professor Speaks recalled that Senior Vice President (for Finance) Gus Donhowe encouraged the idea of space rental (within the University) to curb the appetite for space. Is this a dead issue, he asked? Not to him, Mr. Berthelsen replied. The President had a discussion with faculty and deans about the IMG model and the need to pay for common goods costs: should that need be met by cost allocation (e.g., assess units for their share of the cost of space, libraries, and so on) or by a tax? The University has adopted the tax model and there is at this point little interest in the cost allocation model. The systems for implementing the cost allocation model are available but people are not interested in it.

The December numbers, Mr. Berthelsen said, will be reviewed once the predesign process is completed; they will try to be more diligent about facility construction cost and will also think more broadly about actual costs (e.g., including technology infrastructure, tunnels, air conditioning, landscaping) than has always been true in the past. They will also try to create more of a cushion to accommodate market changes (the costs on the current list could increase by $10 - 20 million); the size of the cushion depends on how much of a risk the University wants to take. The University has not asked the legislature for funding for cost over-runs; it is not interested in funding them and making such a request diverts from the current request. The University simply absorbs cost over-runs.

As the numbers in the request increase, one must inquire if the University can request additional funding or if it should take projects off the list. That discussion must occur before June, he said.

In response to a question, Mr. Berthelsen declined to even speculate on how much the University might receive in capital appropriations, given a DFL Senate, a GOP House, and an Independence Party

Governor. The request as it stands requests $181 million from the state; last year the University received an amount in the high $60 millions. The biggest difference in this request is that HEAPR funds are four times what they were in the last one because there are greater building system and infrastructure needs. A big item is a district chiller for St. Paul, which is more efficient and effective for cooling. The University is also trying to get a broader definition of HEAPR, beyond just code issues. The advantage for the University in obtaining more HEAPR funds is that it does not have to pay the 1/3 debt service on them.

If the University only receives $60 - 70 million, is there a priority on the list, Professor Speaks asked? The priority is the order in which they are listed, Mr. Berthelsen said. So if there is less than $80 million, all the money will go into HEAPR, Professor Speaks asked? Yes, Mr. Berthelsen said. Can the legislature cherry-pick what it wants to fund? Yes, it can and it often has, he said.

Professor Speaks thanked Mr. Berthelsen for joining the meeting. It was agreed that he or Mr. Pfutzenreuter should return for the June 5 meeting in order to review the final capital request numbers and that the Committee should review the updated six-year capital plan in September and October.

3. Undergraduate Tuition Plan and Possible Tuition Increases

Professor Speaks told the Committee about various exchanges of messages that had occurred after comments in the Committee minutes about the 50% discount plan had been circulated.

Professor Speaks distributed a sheet of information about the actual dollar impact of various tuition increases on students and said that the University must make clear to students the reasoning for any large tuition increases.

4. Fringe Benefit Information

Professor Speaks distributed information about fringe benefit rates for next year. He said there had been no discussion by any faculty committee of the changes and there had been no alert to anyone about the increases. The information provided about rates is as follows:

2001-2002
Fringe Benefit Rates by Component

Revised as of 5/07/01

2000-01 Actual	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.1	13.5	--
Group Life & Disability	--	0.4	--
Workers Compensation	0.4	--	--
Unemployment	0.1	0.0	--
Social Security	6.2	4.4	6.2
Medicare	1.5	1.5	1.5
Tuition	1.0	0.1	**

Health Insurance	14.4	7.6	9.8
	27.7	27.5	17.5

2001-02 Revised	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.1	13.8	--
Group Life & Disability	--	.2	--
Workers Compensation	0.4	--	--
Unemployment	0.1	0.0	--
Social Security	6.2	5.4	6.2
Medicare	1.5	1.5	1.5
Tuition	0.7	0.1	**
Health Insurance	18.2	11.5	16.9
	31.2	32.5	24.6

2002-03 Revised	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.1	13.9	--
Group Life & Disability	--	.4	--
Workers Compensation	0.6	--	--
Unemployment	.2	0.0	--
Social Security	6.2	5.6	6.2
Medicare	1.5	1.5	1.5
Tuition	0.8	0.3	**
Health Insurance	19.5	12.6	19.6
	32.9	34.4	27.3

** Graduate Student tuition remission is a flat charge per hour the student works.

The consequence of these changes for CLA, Professor Speaks reported, is an additional $775,000 in costs. He said he only distributed the materials for information.

5. Statement on Graduate Assistant Funding

Professor Speaks next distributed copies of a statement on funding for graduate assistants.

Ms. Barnes reported that she had spoken with a number of graduate students and was uncomfortable with one sentence in the draft. They would like to see a stronger statement about the importance of generally respecting the 25%-time appointment as the minimum; assistantships of less than 25% time are not desirable, she said, and even though there is only a small number of them now, if they are permitted departments may use them more often. Students on less than 25%-time appointments receive no insurance and may reconsider their schooling if they do not receive an assistantship with a greater tuition remission than 25%.

The Committee agreed to strengthen the language of the statement and made various other changes in the language. It then approved the following statement unanimously:

Statement on Funding for Graduate Assistants
Senate Committee on Finance and Planning
May 15, 2000

Graduate Assistants at the University of Minnesota may be appointed for any percentage time to a maximum of 75%. Appointments in excess of 75% require special permission. If the appointment reaches the minimum required for eligibility (25%), the resident assistant receives a tuition benefit that equals twice the percentage of time appointed. For example, a 25% appointment leads to a 50% tuition benefit, a 37.5% appointment leads to a 75% tuition benefit, and a 50% appointment leads to a 100% tuition benefit. A non-resident assistant with a 25% appointment is eligible to pay resident tuition rates in addition to the 50% tuition benefit.

Tuition benefits are paid by employers (departments and PIs) in the form of a fringe-benefit charge. That charge is levied regardless of the percentage appointment. For example, a graduate assistant appointed for 25% (B-base) in FY01 at a base salary ($12.74/hr) receives a stipend of $4,968.60. Associated fringe benefits for that 25% appointment are $2,546.12, for a total compensation package of $7,514.72, The tuition component of the fringe benefit charges amounts to $2,059.20 ($5.28/hr x 390 hrs).

If a graduate student is appointed for less than 25% (for example, 12.5%) the employer is still charged for fringe benefits, including the tuition component: the stipend is $2,484.30, and the tuition component of the fringe benefits is $1,029.60. *The graduate assistant, however, does not receive the tuition benefit unless the assistant has an additional appointment that brings the total appointment to 25% or greater*.

The Senate Committee on Finance and Planning is sympathetic to the proposition that, ideally, all graduate assistants should receive 50% appointments and thus receive a 100% tuition benefit. That objective, however, cannot always be realized. Moreover, there are circumstances in which it might be educationally or budgetarily justifiable to appoint graduate assistants for less than 25%.

> The Committee therefore recommends that the Vice President for Research and Dean of the Graduate School lower the threshold for triggering a tuition scholarship for graduate assistants from 25% (10 hpw) to 12.5% (5 hpw). The Graduate School should monitor the use of appointments of less than 25% time and report annually on the extent of their use to the Committee on Finance and Planning. In making this recommendation the Committee strongly urges employers (departments and PIs) to make every effort to ensure that the total appointment for any graduate assistant is at least 25%.

Professor Speaks said he would send the statement to Dean Maziar.

Committee members thanked Professor Speaks for his work as chair during the year. He, in turn, thanked Committee members and then adjourned the meeting at 4:20.

-- Gary Engstrand

University of Minnesota