Minutes*

Senate Committee on Finance and Planning
June 1, 1993
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair pro tem), Karen Geronime, Virginia Gray, Michael Hoey, Thomas Hoffmann, Julie Idelkope, Karen Karni, Craig Kissock, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Doris Rubenstein, Paul Sackett, Susan Torgerson

Regrets: Irwin Rubenstein

Absent: Carl Adams, David Berg, William Gerberich, Roger Paschke, Jason Schmidt, Thomas Scott, Mary Sue Simmons

Guests: Senior Vice President Robert Erickson, Senior Vice President E. F. Infante, Professor Dianne Van Tasell

Others: Tanya Hess (Daily)

[In these minutes: the 1993-94 budget]

Professor Morrison convened the meeting at 3:15 and explained that Professor Rubenstein was at another meeting on the budget with the University Vice Presidents. He called on Mr. Pfutzenreuter to walk the Committee through the budget proposal.

Mr. Pfutzenreuter began with an overview of projected resources and expenditures in the O+M budget for 1993-94. They appear as follows:

Resources:	State Funds	$362,119,000
	Base Tuition/Revenues	162,955,681
	Other Income	14,325,000
	Total Revenue	539,399,681
Expenditures:	FY 1993 Base	$540,833,351
	New Facilities/Rents/Debts	6,067,981
	Commitments	6,477,248
	Prior Year Programs	4,377,969
	Total Expenditures	557,756,548

*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.

Ending Balance: ($18,356,868)

These expenditures, Mr. Pfutzenreuter pointed out, include no inflationary increases on salaries or supplies and expenses.

To address the $18,356,868 "budget problem," tuition will be increased to raise $6.3 million and there will be budget reductions of $13.3 million, which will leave a "contingent revenue reserve" of $1.3 million. The budget reductions of $13.3 million equal a 2.64% reduction in the base (excluding fuel & utilities and debt). The $1.3 million, Mr. Erickson explained, is to protect against unpredicted occurrences. He noted that tuition income had been less than predicted this year, so the budget numbers are predicated on conservative numbers, but there is a small reserve created as a hedge.

It is proposed to raise tuition 4.9%, which would include elimination of the graduation fee and the computer fee. The legislative direction is that any tuition increase above 3% had to be spent for quality improvements. In addition to eliminating the graduation and computing fee (reducing the net increase to 4.4%), there are a variety of other improvements being considered. Mr. Erickson observed that tuition income for the current year will actually be more than the $162,955,681 shown as part of the resources, but the numbers now being developed suggest that tuition revenues will be smaller than this year; this number anticipates that decline. Committee members discussed briefly with Mr. Erickson the items that were described as examples of quality improvements that might be supported.

Consideration was also given to the need to identify funding for building maintenance; a major part of this budget, Mr. Erickson said, is recognizing costs of facilities. The legislature has not provided any new funding for space costs since 1986, and the University has simply absorbed the expenses, often funding them with Central Reserves.

Mr. Pfutzenreuter then explained to the Committee several tables containing the details, by campus and vice presidential area, of the budget adjustments, increases, and decreases. The net change, 1992-93 to 1993-94, is a 1.1% increase in the O+M budget ($540,833,351 to $544,467,364).

One Committee member then noted the lines with the largest percentage increases (Academic Affairs, Human Resources, Computing Services, the President's Office, the Budget Office, Business Services, the Treasurer, and Campus Planning, and inquired rhetorically which of those units provide instruction and research and which are support units. Mr. Erickson explained that the President's Office increases are largely legal and audit expenses. The Budget Office increase reflects the decision to add four analysts, something that has been discussed with the Board of Regents Audit Committee. Business Office expenses are related to CUFS and maintenance of the payroll system. Campus Planning increases are due to rent increases and Treasurer expenses are due to debt service payments. The Human Resource increase reflects an adjustment in payments to retirees who retired before the 1962 plan was adopted; this increase permanently funds increases.

It was noted that the budget calls for an across-the-board reduction of 2.64%, which cannot be described as a "good legislative outcome." This retrenchment will be traumatic for the units, it was said; the cuts will come out of TA lines, civil service positions, and student help. Another Committee member inquired at what level the cuts would be across-the-board; Mr. Erickson said it would be at the vice presidential level. The vice presidents will have to examine their units to see how the cut should be applied. Does this, inquired a Committee member, reflect a conscious decision that all vice presidential areas are appropriately funded, or a conscious decision that it would be too difficult to make cuts in any other fashion? Mr. Erickson responded that no one is saying they are happy about the process, which is one reason for adding the four budget analysts. The University has for too long relied on incremental and decremental budgeting and has not looked at all funds. One objective is to change the timetable so that these kinds of discussions take place in the fall, not the spring, which would permit time for analysis and discussion. His office, he said, is trying to reach a point where CUFS can support that change.

While Senior Vice President Infante joined the meeting, Mr. Erickson explained to the Committee that he and the central officers had gone over these budget proposals many times and had tried to identify alternatives; he had concluded, he said, that this is the one that makes the most sense.

Dr. Infante then told the Committee, again, that he and the administration felt strongly about the need to hold onto the Restructuring and Reallocation Plan; this is only its third year, and it involves moving a lot of resources. There is a second level of restructuring also occurring, he said; a lot of funds are going into facilities (because the original Restructuring and Reallocation plan did not include facilities costs). There are two elements to these facilities costs, the 1/3 debt service on new buildings that the University must pay and the lack of funds for operation of new space. Another unplanned restructuring is an increase in the numbers of lawyers, accountants, and compliance officers, plus areas where there is a mandate to reallocate money (such as required by the Americans with Disabilities Act and sexual harassment). The question, with these implicit restructurings, is how to continue the original Restructuring and Reallocation plan.

Given retention of the Restructuring and Reallocation plan, Dr. Infante said, another question is how to allocate the cost for facilities and mandated or important programs? An administrative structure is needed to look after problems. As a policy matter, facilities expenses come off the top; in the future, all would agree, space costs associated with activities will be attached to units. In some cases (e.g., the libraries), if extraordinary inflationary expenses are not covered, everyone at the University suffers.

Dr. Infante noted that there are large amounts of money identified as in Academic Affairs, but they are related to two funding decisions: to eliminate the computing fee and the graduation fee; the funds will replace the fee income. There are several other pieces (distance education, Twin Cities collaboration) where there will be expenditures, but the precise nature and amounts are uncertain.

One Committee member inquired if any thought had been given to NOT opening new space. This budget, it was argued, requires that TAs and civil service staff be laid off in order to open new space. Mr. Erickson reported that Associate Vice President Markham had raised that possibility in her budget proposal, but it was concluded that not opening new space would not be possible. And a lot of the new buildings are very much needed. Each new facility was considered and it was decided necessary to open it. Dr. Infante added that it will also be necessary to move ahead in CLOSING space.

Following a short exchange about funding for disabilities services and capital items, Dr. Infante went on to explain that he and Mr. Erickson have been trying to "scrub the system" of fiscal time bombs and unrecorded promises and said that he hoped this is the last time such scrubbing would be necessary. He also told the Committee that the President has asked him to set aside $500,000, on a one-time basis, for faculty and staff development, as a way to offset the lack of salary increases.

One needs to consider the emphasis on the Restructuring and Reallocation plan, said one Committee member. It redistributes about $7 or 8 million annually for five years according to the R & R plan. However, another $13 million is being retrenched across-the-board without any coherent plan.

In terms of describing the recent legislative session as "good," Mr. Pfutzenreuter told the Committee, the adjective was used at about the same time the tuition shortfall was discovered--something that "cast a shadow" on the budget that no one had expected. That shortfall amounted to about $6 million this year and is reflected in the 1993-94 budget. Predicted resources declined another $3 million when the new enrollment projections were made, so there has been a decline of over $9 million that was not expected a month ago. Those phenomena, the Committee was assured, have been incorporated in this budget by the use of very conservative numbers.

To the average faculty member, one Committee member observed, it will appear that the University received an increased appropriation for the biennium--but when the money went into Morrill Hall, the result was no salary increases and a 2.64% retrenchment. This will not be satisfactory, it was pointed out, and people will want answers. It appears that what consumed the money were "tails" (expenses arising from decisions in earlier years) and that most of the reductions will be in areas where the students are--there will be "a lot of pain and little gain." If there will be this much pain, it was asked, why not double it by closing a unit and at the same time gain some increase in quality? This budget continues to chip away at every one; when one "feeds sawdust to the horse, the horse dies."

Dr. Infante concurred. The bottom line is a 1.1% increase in revenues, he said. As for students, he pointed out that one big area, Arts, Sciences, and Engineering, will see only a 1% reduction, not 2.64%. He also noted that for the biennium, the legislature gave the University virtually no increase in the first year, which necessitates even that small cut. To the suggestion that the University borrow from the second year, Dr. Infante said he could not make such a suggestion, in part because there may yet be an additional 1% retrenchment if the State encounters budgetary difficulties.

The task before the University, he repeated, is to bring these secondary level retrenchments to an end. Mr. Erickson added that the way to accomplish that is to rely on the strategic planning process and a greater emphasis on budgeting. One Committee member responded that that would mean there would be no real impact until 1995-96, because the planning process will not be far enough along to affect the 1994-94 budget. Dr. Infante pointed out that the impact of Restructuring and Reallocation will be felt before 1995-96.

One Committee member expressed agreement with the statement that the faculty will not be satisfied. There will be no salary increases for faculty and the money is being taken by buildings and lawyers--there is not one positive thing for faculty to look at in this budget. That is something the administration needs to worry about. The situation, moreover, looks bad for both years of the biennium. Is there anything good in this budget, it was asked?

Dr. Infante responded that the temperature at the devil's residence would have to decline precipitously before he would approve of a second year without pay increases. The University is limited in what it can do, however, and it cannot print money. What must be said, maintained one Committee member, is what the 2.64% cut will mean to departments, following cuts already made. One must assume it will lead to lay-offs and cuts in TA appointments.

Discussion then turned to the 1994-95 budget. Mr. Pfutzenreuter noted that the two major revenue categories (state funding and tuition) will increase, perhaps by as much as $18 million. Higher enrollment would also have a significant effect, Mr. Erickson noted. Unfortunately, Mr. Pfutzenreuter then pointed out, there are some "what ifs" that have to considered, such as a possible 1% reduction (about $9 million). One Committee member pursued the numbers and argued that at most there would be about $10 million in additional revenue--and that there will be additional new space to pay for and some other "tails." Inasmuch as a 3% inflationary salary and supply increase requires $16 million, it appears there will not be enough for an increase in salaries or supplies and expenses. Mr. Pfutzenreuter cautioned that it is too early to say; it was responded that the numbers are not rosy.

The way the University budgets, it was observed by one Committee member, is to raise salaries if there is any money left over after other expenses. Do not most businesses build in salary increases? This seems to be sort of backwards. Mr. Erickson said he, the President, Dr. Infante agree that there must be some compensation increase the second year of the biennium. Right now the administration is being cautious; this situation also demonstrates the need to look at the totality of expenditures. The situation also illustrates the need for the strategic planning process to decide what size the University can be; part of its operation must include a fair compensation plan for employees.

Asked what would occur if unionized employees negotiate salary increases, Mr. Erickson answered that the University must negotiate in good faith, but it must also be willing to say "no," as it has done in the past. The signals from the State are that it will work very hard to achieve no salary increases. He said, however, that the University will treat all employees equitably.

One Committee member returned to the numbers on how the $18 million shortfall will be dealt with. The table of numbers indicates that tuition increases will cover 32.2% ($6,363,618) of the problem and budget reductions will cover the other 67.8% ($13,289,186). It would be more accurate, it was said, to say that tuition will cover 1/3 of the problem and the budget will cover the other 2/3 of the REMAINING budget problem. A more fulsome statement would be that the faculty and staff will contribute another $13 million to the solution by foregoing raises and other program reductions due to inflation will contribute another $5-6 million. So the more accurate summary is that the faculty and staff will contribute about 3/8 of the solution from their pay, students about 1/8 from their tuition, and the other half will come in program reductions caused both by inflation and by across-the-board retrenchment. These reductions will hit students primarily but will make life more miserable for everyone.

At one point there was discussion about keeping down the number of lay-offs, it was recalled; this budget will not accomplish that. The tuition shortfall, Mr. Erickson pointed out again, has exacerbated the difficulties. Asked if there has been anything done to increase enrollment, Mr. Erickson said that there have been discussions on the subject at the deans' meeting. There has also been discussion about reciprocity, which is costing the University money; the problem is that the net trade-off, in terms of taxes and tuition, is in Minnesota's favor, so there has been no inclination to change the reciprocity agreements.

2. The Capital Budget

Mr. Erickson then told the Committee he wished to raise a point about the capital request. He recalled the conversation several weeks ago with Mr. Paschke about the University's debt capacity and its current indebtedness. In the judgment of the administration, concurred in by outside consultants, the University is at the limit of its debt capacity--and that if it increases it by any significant amount, the University would be in jeopardy of losing its AA rating. Over the next few years, $20-25 million in internal loans will be repaid, so there will be some room for additional external debt. But there are uncertainties on the horizon, such as additional costs for the steam plant in co-generation. As a result, the University does not have a great deal of flexibility in the next few years. Mr. Erickson said he wished to consult with the Committee about recommending to the Board of Regents a revised capital budget.

The first priority will remain fire and life safety expenditures, which do not count against the University's debt capacity. The other requests will be for 1) the archives facility, but only if it is characterized as a regional facility and the University is not responsible for 1/3 of the debt service on it, and 2) the Carlson School building, which has a commitment to raise $20 million privately; the condition on which it would go forward is if the University is then not liable for the 1/3 debt service on the remaining $25 million cost. There would be no additional capital items requested, in order that the University can retain its flexibility and its favorable bond rating.

Asked if the Carlson School had identified a revenue stream to pay the operating costs of the new building, Mr. Erickson said it had yet to do so. The funds needed would be for the incremental space added with the new building; with the space freed up, the University will be allowed to do a lot more for other units and perhaps free up some deferred maintenance costs. If space is to be added and vacated, the uses must be identified in the planning, warned one Committee member, or "all the vacated space will be occupied by somebody." Mr. Erickson agreed. That is why there is a six-year capital plan, he observed, and the requirement that there must be a source of operating funds identified when a project is planned.

One Committee member expressed the concern that these commitments to the Carlson School and others will be at the expense of other units; has a conscious decision been made that that should be the case? Or is this a reaction to a donor? Another Committee member suggested the Committee should inquire of the Carlson School about its long-term plans. The capital request list has been shortened, concluded one Committee member; perhaps it should be shorter still.

Committee members agreed that they would meet again next Tuesday, and in the meantime would try to ascertain how the 2.6% reductions would be accomplished in their departments. CLA, one Committee member noted, was already committed to a 2% reduction; this budget will require that it be more that doubled. For one department, it will mean eliminating their supply budget or cutting two of five civil service positions.

The meeting was adjourned at 5:00.

-- Gary Engstrand

University of Minnesota