Minutes[*]

Joint Meeting
Senate Committee on Finance and Planning
Faculty Consultative Committee
Tuesday, December 21, 1993
1:30 - 3:00
Room 300 Morrill Hall

Present: Fred Morrison (chair pro tem), William Gerberich, James Gremmels, Karen Karni, Craig Kissock, Gerald Klement, Geoffrey Maruyama, Richard Pfutzenreuter, Doris Rubenstein, William Rudelius, Thomas Scott, Albert Yonas

Absent: None were counted absent or as having sent regrets inasmuch as the meeting was called in the middle of the break

Guests: Senior Vice President Robert Erickson

[In these minutes: Discussion of budget scenarios]

Professor Morrison convened the meeting at 1:40 and welcomed everyone. He turned to Mr. Pfutzenreuter for a review of the various budget scenarios that had been developed at the request of the President and the Board of Regents. Mr. Pfutzenreuter distributed a table that laid out nine alternatives, each containing different assumptions about salary increases, tuition increases, non-salary inflationary increases, and the size of a Strategic Investment Pool (SIP). All of the options, when projected revenues and potential expenditures were netted out, showed a negative balance.

Mr. Pfutzenreuter reviewed the various options contained in the table. He noted that the numbers could change once an updated revenue and expense forecast were obtained in January. The administration is cautiously optimistic that revenues would run slightly ahead of projections--but, Mr. Pfutzenreuter repeated, they were running ahead of projections at this same time last year, and the end result was a tuition shortfall of $4.1 million. Nonetheless, the projections used this year were very conservative so there is reason to hope that revenues may run ahead of the projections.

Committee members raised a number of points in the ensuing discussion.

-- The non-salary inflationary increase should not be combined with the SIP; they are two separate choices to be made. There are two different decisions to be made, Mr. Pfutzenreuter pointed out: one, whether or not to recognize non-salary inflation, and two, whether to favor/disfavor units differentially. One could have any combination of the two decisions.

-- Asked if a unit could choose not to use non-salary inflationary increases for supplies and expenses, Mr. Erickson pointed out that those expenditures have been affected a great deal in recent years and

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questioned if it would be prudent to reduce them further. Moreover, perhaps half or more of the $3.5 million in 3% inflation of non-salary expenses is in areas such as fuel and utilities--where there will be little flexibility.

Asked about projections on utilities costs, Mr. Erickson said the University has been reducing its expenditures but that the easiest part of that reduction--retrofitting lights--has been completed.

A much bigger variable that he wants to talk with the Committee about, Mr. Erickson related, is the cost of facilities--a number of new ones are coming on line. Whether winter is cold or mild, and whether summer is hot or cool, has a significant effect on utility costs; in recent years the University has been lucky in this respect.

If the University begins to provide more access, in accord with U2000, that will mean keeping buildings open longer and require, for example, a change in the fan policy. If classes can be clustered, Mr. Erickson pointed out, not only can safety and amenities be increased but utility costs can be controlled because activity levels in other buildings can be reduced. This is an issue that needs to be looked at, he said, but accomplishing it would require faculty cooperation in scheduling. Other factors to be considered, it was said, is post-class advising and interaction with students; the fans cannot be shut off immediately.

-- One Committee member pointed to option #8. It calls for a 3.5% tuition increase, a fully-funded 6% salary increase (which might, as a rough guess, be 5.3% in actual costs, when turnovers and vacancies are accounted for), recognition of non-salary inflation, and a small SIP. That option says the University should pay its bills but not set up a major SIP yet. The net result is a deficit of $4.9 million.

The $4.9 million would be made up by a cut on all units. The small SIP would come from an additional 1.5% tuition increase--for a total increase of 5%--which would be used for non-inflationary strategic increases.

The larger SIPs, and larger corresponding projected deficits, it was said, are frightening; they would require as much as a 2.5% cut in the O+M budget.

-- It was unclear--and the point of some debate--what the actual COST of delivering a 6% salary increase to employees would be. Some were of the view that it could be as small as 4%; others expressed profound doubt that it would be that little. Historically, noted one Committee member, when units were provided the full percentage, the actual raises delivered were yet higher because of increases on vacant lines and turnover.

-- It was the view of FCC, it was said, that part of the SIP should include the difference between the 3.5% and 5% tuition increase. But if that is ALL that is in the SIP, students would have a right to be miffed because they could expect to see their tuition money used as leverage for additional funds. FCC also believed that 6% increases should be funded [although it was not clearly understood, nor agreed upon, whether funding should be provided to deliver 6% increases or 6% should be delivered and salary increases delivered at whatever level a unit could afford]. Providing funding for increases, in FCC's view, reinforces the priority that salaries are to receive--but, on the other hand, it would be a hollow priority if units would have to retrench elsewhere to obtain the funds.

-- There is another issue that must be taken up in the near future, Mr. Erickson warned, and it is primarily a Twin Cities matter. Mr. Pfutzenreuter reported that his office had done a four-year outlook on O+M and utility budgets, including revenue assumptions, implementation of the Brenner committee recommendations (on facilities expenses and charges), and debt service (new buildings and the steam plant); the report included beginning balances and made assumptions about the weather. By 1996, he told the Committee, there begin to be significant deficits in Facilities Management because of the operation of the steam plant, erosion of existing balances, implementation of the Brenner committee report, and the cost of new buildings.

Also requiring discussion is the need to aggressively decommission buildings, Mr. Erickson commented, a process that has begun and that must continue.

If, he said, there are no inflationary increases in the O+M funds for facilities (but assuming there would be increases in charges to third party users), the deficit will be $32 million in four years. If the Brenner committee recommendations are implemented, the deficit would rise to $40 million.

This has not been discussed a lot, Mr. Erickson said--he only recently had the information to provide to President Hasselmo and Senior Vice President Infante--but it must be given thought. There is some flexibility next year, because of the existing balances ($16 million)--but it would also not be prudent to run those balances down to zero, which might happen if there were a hot summer and cold winter. It would be wise, he said, to maintain balances of $5 - 10 million in order to deal with fluctuations in utility costs related to summer and winter temperatures.

Apart from existing balances, the upshot is that projected expenses exceed revenues by about $13.1 million for 1994-95. That means that if there were a $10 million SIP, it could be taken for Facilities Management. One needn't be critical if that's the case; the University made a mistake four years ago when it took money for academic programs from Finance and Operations. Now $10 million per year is needed to maintain buildings. Most of the reductions in Finance and Operations, Mr. Erickson corrected, did not come from Facilities Management, although a small part did. Nonetheless, the University is now in a situation where the funds are insufficient. In addition, up until now the information needed to address these issues was unavailable; now it is being produced and needs discussion.

This is separate from the issue of deferred maintenance, Mr. Erickson affirmed--it is cleaning, heat and lights, and ongoing building maintenance. There are three components to building expenses that one needs be clear about:

-- deferred maintenance and fire and life safety costs (estimated at $300 million, of which the steam plant is about $100 million)
-- ongoing maintenance
-- renewal: funds for elevators, fume hoods--instances where the life of equipment is shorter than the life of the building itself--for which the University has made no provision in the

past.

The least optimistic scenario, remarked one Committee member, is that funds will continue to be diverted to deferred maintenance, building maintenance, and fuel and utilities--and academic programs and the libraries will continue to be cut. The implications are not pleasant.

Capital funding will be available for some of the projects, Mr. Erickson pointed out, and the fire and life safety funds do not carry with them an institutional obligation to pay one-third. The University is trying to make the case for the money with the legislature; that is one reason why a six-year capital budgeting process is so important.

The numbers are fluid, Mr. Erickson concluded, and will become firmer as more information becomes available. But, he said, he wants this issue on the table so that it can be discussed soon. This a cause for concern, observed one Committee member, because the general order of magnitude of the shortfall means that it could eat up the entire SIP and there could be additional academic program retrenchment as well.

-- This is depressing information when one thinks about faculty salaries, said one Committee member. These are demonstrable problems that will require funding, yet faculty and staff have gone without salary increases in two years recently--and it is more difficult to make the case with the legislature for salaries than these problems. It may be that there has been too much Minnesota Nice and the faculty have not demanded enough. But taking salary money from tuition income is also distasteful.

This will not be a great institution, Mr. Erickson said, unless compensation permits it. He said he feels very strongly that the issue warrants spending time on. There is a small base of information to start with; most decisions have been ad hoc, something the University needs to move away from. It will be important to look at faculty compensation by disciplines because there is a large variance among them. He said he knows that both the President and Senior Vice President Infante are concerned about compensation.

One Committee member recalled a comment at the recent FCC meeting that any time faculty members here begin to compile a record of accomplishment, they get picked off by another institution. The University will consistently lose its best faculty if compensation does not keep up. Moreover, if supplies and expenses are not provided, and faculty have to scrabble for everything they need, faculty will also go where the materials they need to work are provided. Another Committee member concurred, noting that the compensation study will likely be narrowly defined. But an institution keeps faculty with a REWARD system, including support services--and some would say that has been even more deficient than salaries. That was also part of the Minnesota Campaign, it was remarked: the endowed chairs were modeled on costs in the liberal arts so that those in the sciences have required a second round of fund-raising to provide money for support.

-- There has been NO assumption on how any projected 1994-95 deficit would be made up, Mr. Pfutzenreuter said in response to a question. And the size of any deficit will not be known until the revised revenue forecast is completed; after that a decision will be required for the January 21 budget instructions.

-- One Committee member outlined acceptable premises:

  - a 6% salary increase (6% received)
  - recognition of non-salary inflation ($3.5 million)
  - tuition increased by 3.5%, plus 1.5% to create seed money for the SIP
  - additional revenue increases perhaps be used to cover operating costs outlined by Senior Vice President Erickson
  - the current planning effort should continue; the SIP would be funded by a 1.5% tuition increase for 1994-95, which would be a downpayment on U2000. The SIP should be more generously funded in 1995-96, after the planning cycle is completed and more information is available.

  That SIP, in turn, should be used for quality increases, in accord with the agreement with the legislature. On this basis, current retrenchment would be kept low--and retrenchment should be avoided; salary increases should NOT take away resources.

  Committee members appeared generally to endorse those premises.

-- Discussion returned to the amount of money that would be required to fund 6% salary increases. There is no evidence that 4% will be sufficient to fund 6% increases--there seemed to be agreement that better information is needed. The point made by Dr. Infante at the FCC meeting, it was noted, is that the administration can take into account vacancies and turnover in allocating salary funds to units so that each would receive what it needed for continuing employees--and units would not be at an advantage because they had open lines, permitting larger increases. Others expressed doubt that such information existed centrally. If the administration does not allocate enough, it was also pointed out, units will face a short-term retrenchment in order to balance the budget for 1994-95.

  There is a systemic problem here, said one Committee member. To allocate funds on the basis of which lines are open means the University will be run from Morrill Hall and the deans become irrelevant and funds can be allocated centrally. The practical problem is that 4% may be wishful thinking--if it is enough, that would be fine, but there is no reason to think it will be. If the deans come up short, however, they will be forced to retrench.

  Mr. Erickson noted that the University has very good data for bargaining unit employees and that it should be able to develop data on faculty and PA appointees. He also said that there is no way the decisions would be made without consultation with the deans and vice presidents, who have the responsibility and the accountability for the units. The administration is ATTEMPTING to obtain sufficient information to consider unit resources and objectives and establish some continuity. Doing so would provide everyone a more informed base on which to make decisions.

  If 6% is delivered to units, we know that increases will be higher. In an era of tight funds, it is fair to say that continuing faculty and staff should receive 6%. It is NOT fair that some units would be able to deliver more because of open lines and turnover. And the deans would still have decisions to make about who is to receive raises. At one point the Committee on Faculty Affairs discussed the possibility of salary DEFLATION, in the case of non-productive faculty, as one way to obtain funds for increases.

-- The retrenchment question for 1994-95, said one Committee member, is the size of the SIP. This Committee has spoken in favor of a small SIP next year and larger ones thereafter. The Board of Regents, however, apparently favors a larger SIP. Part of the answer, Mr. Erickson said, lies in what it is the SIP is to accomplish next year. How much should it be, and how much should it be in future years?

My position, said one Committee member, is that it should be small next year and much larger in 1995-96--and the amount for 1995-96 should be identified now. There has not been enough planning done yet to make informed judgments, it was again argued; this will also take place during the last two installments of Restructuring and Reallocation; it is premature to establish a large SIP this year. A smaller fund would also provide a model, it was said, to see how the system of allocating the rewards worked. Other Committee members appeared to agree with these sentiments.

When departments must retrench money, observed another Committee member, they typically take it out of civil service salaries and graduate student funds. This means faculty lose support and delivery of instruction to undergraduates is harmed--the very failings U2000 is supposed to address.

-- Central Reserves, Mr. Erickson affirmed in response to a query, are NOT available for strategic investment purposes, because the existing obligations against them exceed the balance. Spending plans already require significant investment income, which the University at some point may not be able to generate. The commitments against the Central Reserves are being paid down as fast as possible.

But there could be a balance of recurring and non-recurring funds in the SIP, it was said; if some of the funding provided by the SIP were to be soft, it would not require such a large commitment of recurring funds. Senior Vice President Infante, however, wants them to be recurring.

Professor Morrison concluded by observing that Senior Vice President Erickson and Associate Vice President Pfutzenreuter had heard the comments of the Committee. Completion of the unfinished second part of U2000, the financial plan, it was said, will be critical if projected costs in facilities and programs increase while there is no increase in revenues. Will that require more "right-sizing"? An end to caps on tuition? What will be the implications?

Mr. Erickson said the numbers have to be put on the table. This is not fun, he observed, but the numbers are being developed. He said that despite the "doom and gloom" that has pervaded the University recently, he remains very optimistic about its future. It is wrestling with problems that have faced it for a very long time--and they will be dealt with.

Professor Morrison then adjourned the meeting at 3:00.

-- Gary Engstrand

University of Minnesota