Minutes*

Senate Committee on Finance and Planning
Tuesday, March 14, 2000
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Catherine French, Cynthia Gillett, Wendell Johnson, Michael Korth, Eric Kruse, Terry Roe, Susan Carlson Weinberg

Regrets: Charles Campbell, Dan Feeney, Gerald Klement, Rose Samuel, Charles Speaks, Rachel Sullivan

Absent: Vinay Nangia, Terrence O'Connor, James Perry, Richard Pfutzenreuter, Shana Saeger, J. Peter Zetterberg

Guests: Suzanne Bardouche (CLA), Pete Mitsch (Medical School), Ronda Rosby (Education and Human Development)

[In these minutes: college and departmental budgeting; capital projects update]

1. College and Departmental Budgeting

Professor Gudeman convened the meeting at 3:15 and welcomed Ms. Bardouche, Mr. Mitsch, and Ms. Rosby to discuss departmental budgeting.

Mr. Mitsch began by describing the process and practices in the Medical School. He reported that the Medical School had built its own budgeting system, intended to be part of a more comprehensive reporting system because CUFS was inadequate. CUFS was improved, so the more comprehensive system was not created, but the budgeting system is now used throughout the Academic Health Center and combines the University budget system with that of the private practice plan. He described to the Committee how the Medical School budget system worked and the relationship between the dean's office and the departments. He also explained that they must deal with multiple accounting systems (University, Minnesota Medical Foundation, University Foundation, Practice Plan) that are not linked, so they must build systems to link them.

Department heads are involved in budgeting in various degrees; some like the financial aspects of the job and others do not. Ultimately they all must be involved because the departments must have balanced budgets. There is, however, no formal program to train department heads on budget management.

Mr. Mitsch mentioned a number of issues that could be addressed. One is timing; they earlier the departments can know budgetary information, the better they can plan. Another is the "convoluted way" in which taxes have been assessed over the last couple of years. He said he agreed with the Budget

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Management Task Force recommendation that taxes should not be imposed in this way and that units should be allowed to come up with whatever money is needed however they wish.

The Medical School faces mandated compensation increases, which are based on the state appropriation, even though only 10% of its funds come from the state. That means it must come up with matching dollars.

There is not a well-developed allocation mechanism in the Medical School. There was in the past; now departments receive state funding on the basis of proportionate increases or decreases on their base. There is no way to link those funds to the amount of teaching that the departments offer. Such a mechanism is being developed, however, and will be implemented over time--because there will be "winners and losers."

One big problem is that overall institutional resources to develop new programs are drying up as the University imposes taxes on the colleges. The Medical School must pull funds from the University investment pool, funds that were previously used recruit new faculty and build programs.

Mr. Mitsch said he supported IMG, but said it was rolled out in a way that antagonized a lot of faculty in the Medical School. ICR funds were increased, but there was a swap in those funds with state dollars, so there was no effective increase, which angered a lot of faculty. IMG is worth doing, however, because it provides incentives to get grants, teach more, and obtain state funding.

What is a well-run budget, asked one Committee member? One that is not in the red, one where faculty compensation is competitive, and where there is a consultative process in place, an open development of the budget.

Ms. Rosby then spoke about the College of Education and Human Development, and began by saying that she also wished there were a mechanism to allocate funds. At present the system is based on faculty salaries, deals made 10 years ago, and so on. In addition, departments ask for new allocations of both recurring and non-recurring funds. She explained how she works with the departments in the college to review budgets and balances. She said that they do a lot of reports from CUFS data but do not use CUFS reports because they are unhelpful. CUFS should go, she said, because "it is a tedious, horrible budget entry system."

It is difficult to plan budgets when they do not know what they will face in terms of compensation, assessments, and so on.

It would be helpful if the administration provided financial training for chairs, she said. It is difficult to provide training for faculty; P&A staff attend training sessions but faculty do not. It would also make lives easier if department chairs could be taught to say "no" to people sometimes.

Ms. Bardouche then commented that she endorsed the recommendations for earlier decisions in order that departments could have more predictability. There are so many variables that they find themselves doing "what ifs." This is an issue for the institution: there is no predictability in budgeting.

Ms. Bardouche then described the budget process for CLA and how she interacts with departments. She agreed that it would be helpful if the administration would provide more of a budget framework for department chairs. She then made a number of points.

-- One thing they have developed is a one-page summary of sources and uses of funds; it provides a snapshot that can, over a period of years, provide a useful history. The report has been developed in CLA because there is no comparable central report.

-- One problem at the University is that accounting is particularized and it takes a long time to learn. As a result, they have regional accountants for small departments, because secretaries cannot be expected to learn the accounting system.

-- Graduate school fringe rates are bizarre and impossible to predict unless one knows exactly where each student is each year. As a result, they are unable to say how many graduate assistants they will be able to support.

-- Civil service and bargaining unit employee compensation increases have not been fully funded, which requires a budget cut each year to pay for.

-- The process could be more efficient if there were more time available and if central information could be received earlier--and was consistent. Fringe benefit rates changed twice after budgets had been prepared, which required that much be redone.

-- A well-run department budget is one that is balanced and that does not have a flurry of emergency requests. Much depends on how interested the chair is; the dean has told chairs they are responsible fiscally for the department. The University could work on developing a sense that chairs are not only the intellectual and spiritual leaders of a group of faculty but also the fiscal leader.

Ms. Bardouche said she would emphasize three things that it would be helpful for the University to do:

1. Provide more training for chairs about the University's budget framework.

2. Provide more predictability (too much information is so late).

3. Look at the salaries of accountants. It is a time-intensive process for people to learn the system but there is a lot of turnover; the result is that they raid other colleges. There are not new people coming into the system as others retire. With the complexity of budgets, a well-trained accountant can provide useful help to chairs. Current University salaries are low, so people move outside the institution to easier jobs with higher salaries. Training time is long, which is expensive, especially when chairs also turn over. Mr. Mitsch and Ms. Rosby both agreed, and noted that people jump around the University seeking better jobs, and they often get people who do not have the needed degrees. There is high turnover in these positions.

Committee members and the guests made a number of points in the discussion that followed.

-- In the case of department chairs uninterested in the budgets, training will not make a difference. There must be expectations established when someone is asked to be a chair: either they must delegate the responsibility for budget matters to someone they trust or they should not become chair. In one case, the dean has made clear the chairs will be held accountable for financial matters, and in a couple of instances that has been a factor in a chair leaving.

-- It is key to link planning and budgeting so departmental spending occurs in ways that furthers the mission of the unit; does that happen? They try to do so.

-- Departments continue to try to do everything--"there has never been a bad idea for a new program." Old programs are never phased out. In the case of the Medical School, there is a broad-based strategic plan, developed with chairs, senators, and associate deans, that should establish priorities for program investments (and, it is hoped, decide what not to do). Setting these kinds of priorities is difficult in a PI-driven environment.

Professor Gudeman thanked Ms. Bardouche, Mr. Mitsch, and Ms. Rosby for joining the meeting.

2. Update on Capital Projects

Professor Gudeman now welcomed Associate Vice President Eric Kruse to provide an update on the various capital projects underway. Mr. Kruse distributed copies of a set of slides as well as a list of the major capital projects and their status and a series of campus maps indicating the location and status of projects; this information had been provided to the Board of Regents in February and covered the second quarter of the year (through December, 1999).

Highlights from Mr. Kruse's presentation included the following:

-- For 1999-2000, there are 313 approved projects valued at $782 million. There are an additional 66 sub-projects that increases the total number to 379.

-- For the year thus far, 64 (20%) of the projects have moved from "in progress" to "complete." 256 projects remain "in process" with a value of $723 million; 40% of that money has been spent. Of the remaining $432 million, 73% is for 15 major projects (including, for example, Architecture, Coffman Union, Duluth Library, Mechanical Engineering, etc.).

-- Of the other 241 projects, valued at $116 million, 53% are under $250,000. There are a lot of small projects underway that take a lot of management coordination and people time, Mr. Kruse commented.

In response to a question, Mr. Kruse explained the status of the Riverbend Commons project (the dormitories, parking ramp, and other facilities behind Coffman Union) and the interactions that have been taking place between the University, the architect, and various consultants in order to deal with the unexpected increase in the projected cost of the projects.

Asked about the likelihood of overruns on the $782 million in capital projects, Mr. Kruse noted that he and Mr. Pfutzenreuter held aside funds from the capital budget in order to cover overruns. He said he expected that those funds would be used but that there would be no additional need for funding.

The Committee also discussed with Mr. Kruse the desirability of moving away from the traditional process of building a building (choosing an architect first, who then leads the process) versus the design-build process (in which the contractor leads the process). Mr. Kruse favors the latter process, which led to the Ford and Murphy projects being done early and under budget and which permitted some additional features to be part of the projects. He explained that the University is working with the legislature to obtain relief from the process required by the State Designer Selection Board because the design-build process allows the institutions to either save money or do more on a project.

Mr. Kruse agreed that new/renovated facilities cost more to operate. They have mechanical systems that were not in place before (for fire safety and ventilation), which means there are increased utility costs. Remodeled buildings also usually go from low-tech to high-tech.

What are the major problems managing huge projects? There are a lot of little problems, Mr. Kruse said. The scope of work is phenomenal: $250 million in capital projects has been paid already this year, while four or five years ago the entire annual capital budget would not have been $100 million--and this has being accomplished with very little increase in staff. One problem is that construction companies cannot get the quality of labor they used to so it is difficult to push them to get work done in a timely manner.

Asked if the Capital Improvements Advisory Committee worked, Mr. Kruse said that he thought it did. It provides an opportunity for all groups within the University to bring their concerns to one point, to develop a common list of capital priorities, and to look across lists of projects to help units work together. It is not always obvious that the right people are on the CIAC, said one Committee member (such as those with responsibility for oversight of colleges and campuses). Mr. Kruse said he believed the process worked well.

Professor Gudeman thanked Mr. Kruse for reporting to the Committee, and adjourned the meeting at 4:50.

-- Gary Engstrand

University of Minnesota