Minutes*

Senate Committee on Finance and Planning
Tuesday, May 20, 1996
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Thora Cartlidge, Cynthia Gillette, David Hamilton, Gerald Klement, Catherine French, Richard Pfutzenreuter, Peter Robinson, Benjamin Senauer, Charles Speaks, Craig Swan, James VanAlstine

Regrets: Gary Malzer

Absent: Bruce Bromberek, Jason Frick, Robert Kvavik

Guests: Senior Vice President Joanne Jackson; Dr. Peter Zetterberg; Associate Vice President Carol Carrier, Miriam Ward (Human Resources)

[In these minutes: The outcome at the legislature, anticipated budgets and problems for 1997-98 and for 1998-99, tuition rates; human resources system redesign; faculty salaries; parking]

1. Update on the Budget

Professor Morrison convened the meeting at 3:25 and asked Mr. Pfutzenreuter to inform the Committee about the status of the University's biennial request.

Mr. Pfutzenreuter distributed a 7-page handout containing tables of data about the budget. The higher education bill, he reported, is in the Governor's office awaiting a signature. The Governor is expected to sign it.

Mr. Pfutzenreuter reviewed the various proposals that had been made for the appropriation, beginning with the University's original request and ending with the proposal from the conference committee. The important numbers, in brief, were these (numbers are dollar amounts above the 1996-97 base)

*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.

	1997-98	1998-99	Biennium
University request	115,500,000	115,500,000	230,000,000
Governor's revised	81,300,000	64,500,000	145,800,000
Conference	80,087,000	71,289,000	151,376,000
Recurring	51,525,000	55,443,000	106,968,000
Non-recurring	28,562,000	15,846,000	44,408,000

The appropriation as it stands from the conference committee represents a significant improvement over the base budget that was required by an earlier piece of legislation (HF 1856). While it does not bring the budget to a level equal to that of the 1991 base adjusted for inflation, it moves in that direction. The projections for the years 2000 and 2001--a slight decline in funding--mean the University must be careful not to over-commit its funds by the end of the next biennium.

Last-minute changes in the appropriation altered the relative proportion of recurring and non-recurring funds in the conference committee proposal (reflected above); the amount of non-recurring funds was increased. There are also earmarked funds and special appropriations contained in the totals, totalling $14 million in 1998 and $8 million in 1999.

Mr. Pfutzenreuter then reviewed preliminary budget plans for the next two years. Comparing 1997-98 O&M resources ($506.3 million, exclusive of Day School tuition, which is separate under IMG), and allocations already planned (e.g., 2.5% general increase in salaries, faculty salary increases, debt service, new building operations, and so on, totalling $473.8 million) leaves a residual of about $32.5 million, to be committed by the President (of which only $9.9 million is recurring money). The demands against that $32.5 million include such items as technology, enterprise systems, programmatic initiatives, tuition agreements, and so on. Asked about increases in supplies and in TA stipends, Mr. Pfutzenreuter said both are included (@2.5%) in the $473.8 million in planned allocations.

The picture for 1998-99 is more worrisome. The amount available for allocation by the President is about $20.5 million, of which only $5.6 million is recurring. That amount does not account for any further additions to the budget beyond the changes in 1997-98. The demands on the $20.5 million are substantial (all amounts are recurring):

--	2.5% general salary increase	16.546 million
--	year 2 of faculty salary increases	12.530
	(-- subtotal compensation	29 million)
--	new building operations	2.643
--	steam plant	3.381

--	utility inflation		.890
--	1/3 debt service on buildings		1.868
--	financial aid factors		1.650
--	other unknowns (place holder)		4.0
Total		about	43.5 million, recurring

The incremental revenues projected for 1998-99 over 1997-98 are $11.1 million (the increase in the base appropriation from the state and increased tuition revenue @2.5%). The gap between the $43.5 million and the $11.1 million is $32.4 million. The gap exists before any plans for additional reallocation are made, and before any decision about actual tuition rates is made.

Mr. Pfutzenreuter then reviewed some of the items that had been earmarked by the legislature for specific purposes.

Committee members then asked questions or made points about the data:

-- The appropriation includes $17.887 million for administrative process redesign; does that mean units will not have to contribute to the cost? Those are not earmarked funds, and are included in the total biennial appropriation of $151.376 million. The Executive Council could decide to spend some of the $32.5 million in funds to be allocated for that purpose, although the University is not required to do so because the appropriation is a block grant. It might need to explain why it did not spend the money that way in the next legislative session, however.

-- Asked why there are no funds for facilities, Mr. Pfutzenreuter said the legislature does not wish to appropriate money for facilities operations; it expects the University to close buildings, which it is not doing.

Professor Morrison said his conclusion is that the University is in good shape for 1997-98, but that 1998-99 will require a large tuition increase, large reallocation, or a miracle. The $29 million in compensation and $8 million in facilities items will be required; in the case of facilities, the amounts reflect commitments already made. He said there must be concern about 1998-99, and the Committee should encourage frugality in the use of the $32.5 million to be allocated in 1997-98, perhaps pushing some items to 1998-99. If that is not done, the University will face a gap of $32.4 million, which would require a 5% retrenchment.

One possibility, which he has NOT recommended, Mr. Pfutzenreuter said, is using non-recurring funds for recurring expenses, and hoping the legislature will harden the funds later. That is irresponsible, in his judgment, and also means that the first of any increased funds in future appropriations would have to go to harden expenditures made previously on non-recurring funds.

Dr. Zetterberg reminded the Committee that the proposal to the legislature was that the University and legislature would each contribute half of the funds for improvement and change, so there would always be a gap of some kind between the appropriation and planned expenditures that the University would fill with reallocation or closing buildings or something. There are a number of ways to fill the gap without retrenchment, and the University promised it would do so. The $32.4 gap is not unexpected.

Asked about the percentage faculty salary increase in the second year of the biennium, Dr. Zetterberg pointed out that the increases would be from a fixed dollar amount, not a percentage. This is confusing, he agreed; the University said it needed a fixed amount ($9 million per year) to get to the mean of the top 30 research universities. The expectation, Professor Morrison said, is that the increases would be similar to what they will be for next year.

One Committee member said that the faculty salary increase appears to be the most vulnerable item in the second year; the rest appear to be unavoidable. Another Committee member pointed out that additional revenues could be obtained. The point for next year is to avoid recurring claims on the $9.9 million in recurring funds that are available.

Asked what the $9.9 million be allocated to, Mr. Pfutzenreuter said he could have a list in about 10 days; examples include additional funding for Morris, Northrop Auditorium, and other items. There have been no savings from closing buildings yet, although there could be in the second year if Jones and Nicholson were decommissioned. There is no plan on the table for decommissioning buildings that everyone agrees to, Ms. Jackson observed, and many people must agree before anything can happen; there are also many moves that must be planned. Decommissioning will take a long time.

The Committee turned next to tuition options and a memo distributed by Dr. Zetterberg. There are several options on tuition that would respect the University's proposal not to increase tuition beyond 2.5%. One is to increase revenues over actual 1996-97, one is a 2.5% increase in budgeted revenues over 1996-97, and another is a 2.5% increase in rates or some combination of increases that amounts to 2.5%, on average. The second alternative is the one usually used by the University.

Tuition rates must be set in 1997-98 to implement two changes in Regents' policy on tuition. One requires a common upper division rate on each campus by 1998-99 and one requires a common undergraduate rate on each campus by 1998-99; the first change affects only the Twin Cities while the second affects all campuses except Morris. The second will also require larger increases at the lower division level.

Under IMG, Dr. Zetterberg noted, all campuses and colleges will expect to benefit from at least the average amount of the tuition increase (e.g., 2/5%), assuming no change in enrollment. Some units may wish to propose increases above the average (e.g., graduate and professional programs). It may not be reasonable for each unit to expect the average, however; upper division colleges, for example, might see lower increases than colleges that have lower divisions.

Dr. Zetterberg reviewed with the Committee the implications of three options. The first option (including moving to a common undergraduate tuition within three years) would increase tuition revenues by 3.9%, increases lower division rates on the Twin Cities, Duluth, and Crookston campuses by 7.5%, and increases Morris and upper division by 2.5%. In the case of lower division, for 10 years the University has raised tuition to replace declining state funds; that argument cannot now be made, because the appropriation is significantly increased. Accordingly, the 7.5% lower division increase is probably too large.

The second option would be to move to a common undergraduate tuition over three years but not increase upper division rates at Duluth and Crookston, increase lower division rates by 5%, and some undergraduate rates by 2.5%. "High" upper division on the Twin Cities and upper division at Duluth and Crookston would not increase. The total increase would be 2.6%.

The third option would lead to a total increase in rates of 3.3%, with Twin Cities and Crookston lower division increasing by 8.5% and Duluth lower division by 5.5%, and achieving a common undergraduate rate on all campuses within two years.

The second option could be the most popular, Dr. Zetterberg concluded; for a large number of students, there would be no tuition increases. One problem is that the Regents called for a common undergraduate tuition within two years, but they might accept a revised proposal to accomplish this goal over three years rather than two if doing so meant holding tuition increases down.

These are only options, Dr. Zetterberg said, although the University will likely increase rates in some such fashion. It is a basic tuition plan; some colleges, such as the Humphrey Institute or the Carlson School for the MBA program, might propose slightly greater increases, which the Regents would probably approve. If those increases were approved, there should be an understanding about how those increased revenues would count toward filling the institution's gap between revenues and expenditures.

On the last point, it would not defeat the purposes of IMG to adjust the state subsidy, Dr. Zetterberg averred; units could be told that they would be retrenched by X% to make up the gap, and increased tuition revenue could be used to cover such a retrenchment.

One Committee member inquired about the data on 1996-97 tuition rates at other institutions contained in Dr. Zetterberg's memo (the public institutions in the top 30 research universities plus the Big Ten schools). Iowa and Wisconsin are low by comparison to the University; will they become more attractive places to attend? Dr. Zetterberg said he did not believe Iowa would be, and Wisconsin is probably going to increase tuition by 6-7%. Moreover, the reciprocity agreement with Wisconsin is being modified; according to the current Wisconsin proposal, Wisconsin students will pay 125% of Wisconsin residential rates to attend Minnesota (rather than straight Wisconsin residential rates). The Office of Planning and Analysis has looked at the Wisconsin students attending Minnesota; they tend to be among the best students and come from higher-income families, on average. They are probably not as price-sensitive as students from lower income families. As for Minnesota students going to Wisconsin, they pay Minnesota tuition, so there would be no difference for them.

One Committee member noted that Michigan tuition had increased substantially in the last five years and was now significantly higher than most other Big Ten schools. Dr. Zetterberg said that appears to have made Michigan stronger; it made a pact with the Michigan legislature that it would become more privatized than the others and increase its reliance on tuition. Michigan has taken some political heat because it now recruits heavily outside the state, but it seems to have thrived. California has also seen large tuition increases, but Berkeley has not suffered. Minnesota is about where it has always been, relative to the other schools, and would not change significantly in the next two years.

Dr. Zetterberg said the Regents have seen these data and are more knowledgeable about where Minnesota stands and what is occurring. They may now be more comfortable talking about different tuition options than they have been in the past.

Asked about the impact on enrollment from increasing tuition as Michigan has done, Dr. Zetterberg said he has not seen a problem, but the mean family income of students at Berkeley is now $80,000, and with the demise of affirmative action, the student body looks different from what it might have been.

One Committee member inquired if the tuition plans would increase the subsidy that CLA students pay for IT students; Dr. Zetterberg said that it would, but that increased tuition revenues would go to the dean. This would actually help CLA, he said.

Following brief additional discussion, the Committee unanimously agreed to the following resolution, described by Professor Morrison as "largely hortatory":

1. The Committee thanks the Legislature, Governor, and the people of Minnesota for the support they have given the University.

2. In preparation of the 1997-98 budget, priority should be given to the items identified in previous committee statements.

3. The substantial size of non-recurring funds would make it impossible to meet all planned recurring expenditures in the following year, 1998-99, without substantial retrenchments/reallocations and/or additional tuition increases. Accordingly, we recommend that there be no additional allocations of recurring funds for 1997-98, so that those funds may be used to offset the foreseeable shortfall in 1998-99.

4. We also urge that non-recurring allocations be limited to projects that will not seek renewal of the allocation.

The Committee also approved unanimously a resolution expressing support for the second of Dr. Zetterberg's tuition options.

Professor Morrison thanked Mr. Pfutzenreuter and Dr. Zetterberg for his presentation.

2. Human Resources Management System

Professor Morrison now welcomed Associate Vice President Carol Carrier and Miriam Ward to the meeting to discuss the redesign of the human resources system.

The effort focuses on the way the University gathers information about people, Dr. Carrier explained, from the time they apply to the University to their retirement; it also deals with the flow of information and processes and procedures to deal with employee groups. Ms. Ward, she said, is the project leader.

Ms. Ward said the project started a year ago, and was intended not simply to buy new technology but to review how the University deals with employee information. They have relied on an advisory group that included representatives from the provosts and the departments.

She explained how the redesign team has gone about its work, and related changes that have been made in the pre-employment process as well (including a better match between positions and applicants, so that employers will receive applicants who want their job). Dr. Carrier related that it takes, on average, 57 days to hire a secretary at the University; they want to cut that time down as well as to deliver potential employees who want the particular job. The pre-employment changes do not affect faculty and P&A search processes.

The multiple-page handout distributed to the Committee explains only the process from the point of hire forward, Ms. Ward said. Committee members made a number of points.

-- The system will cost more, but there is no guarantee it will work? Ms. Ward said that was not true, and that the savings to departments and central administration will be $4 million, some of which can be recaptured, some of which will be time released for employees to perform other tasks, and includes people receiving training so they can provide better service. But there should be savings beyond the $4 million, in other areas not yet evaluated (such as the use of forms). But the savings do not necessarily mean positions will be eliminated; there will be annual savings in headaches, however. Units may wish to reorganize the way they handle personnel matters, Dr. Carrier commented.

-- The identification of time required in departments for hiring someone is inadequate. The handout suggests it takes 180 hours to hire someone, but the estimate of time in departments is too low. There is much not included, Dr. Carrier said.

-- These reports are so condensed that one has no idea what they are about. These are talking points for a slide show. It is not possible to understand what one gets. Ms. Ward pointed out that this is a half-hour presentation that represents years of work, and there are reams of detail available. The essential vision is move away from a centralized model to one where even employees can enter data about themselves. One Committee member pointed out that this is an evolving process, and what will be provided cannot be identified in detail until the system is in place.

-- Employees may enter their own sick and vacation time, and keep track of it on the web, but that does not preclude supervision of the data by a department superior. The system is intended to be one that relies on auditing and monitoring, rather than policing.

-- The system cannot eliminate all paper, because there are government requirements that must be observed, but most paper will be gone. Departments and colleges will enter data, and there will be a change in approvals (to zero or one).

-- There will be a need to install filters to protect private data and to prevent manipulation of data (e.g., grant information), and security of the system will be an important issue. That is an issue for all of the redesign projects, Ms. Ward said, and security constitutes about 20% of the budgets for all of them.

-- The human resources system will be built on the student systems; the software is the same, and there will be a common data base with a lot of capabilities.

-- The pre-employment system is to be operative next fall, the personnel system in July of 1998, and the other elements--payroll, benefits, and so on--by January 1, 1999. It was suggested that test marketing with a small group of different kinds of departments would be wise, before implementation of the system for the entire institution; Committee members recalled CUFS. If the timetable is unreal, it should be delayed. One driving force is the year 2000, Ms. Ward said, and the time is past to fix existing systems to accommodate it. There is not a lot of leeway.

Professor Morrison thanked Dr. Carrier and Ms. Ward for joining the Committee; they said they would be glad to return to discuss the system at greater length.

3. Faculty Salaries

Professor Morrison asked Dr. Zetterberg if the 8.5% is holding; there have been rumors that it is not. Dr. Zetterberg said the $12.5 million has not changed, and that was the amount to be available from the very beginning; the March 13 memo from the Senior Vice presidents indicated that the money would be spent. The actual percentage increase will depend on the salary base in the units. The actual salary base is not ever clear, and changes constantly.

Dr. Zetterberg said "absolutely not" when asked if the $12.5 million would shrink; he said he has heard no discussion of any such possibility. The Executive Council has never seriously considered changing it, and furthermore, it is not a problem to deliver the $12.5 million next year. He also said that the provosts have known the numbers for some time, and departments and deans will or do know them as well.

Dr. Zetterberg acknowledged that there is a problem in perception--that if the average increase is seen to be 8.5%, everyone expects 8.5%. But it may be that NO ONE receives exactly 8.5% in a merit-based system. Last year, said one Committee member, salary increases were not awarded in a number of units, which leads to concern about this year. The instructions this year do not permit that, Dr. Zetterberg said; last year they did. The money distributed for salary increases must be used for salary increases. Several Committee members repeatedly expressed GRAVE concern that salary increases may not be delivered as promised in one of the provostries, and it was agreed that the Committee should seek a written accounting from each provost, both before and after salary increases are delivered, of how the funds will be/were used.

Asked whether the mean being sought is moving or fixed, Dr. Zetterberg affirmed that it is a moving target and will have to be checked every year. One Committee member said his impression is that most of the top 30 institutions will be giving raises smaller than Minnesota's, so some ground should be gained.

4. Parking

Professor Morrison said he understood the sense of the Committee when it adopted--in his absence--a resolution calling for no increases in parking rates. He said that revenues were needed to cover necessary costs (e.g., ramp replacement), and that the Committee might wish to rethink its position. What makes Committee members angry, responded another, is the way parking PRESENTS information.

Professor Morrison adjourned the meeting at 5:15.

-- Gary Engstrand

University of Minnesota