Minutes[*]

Senate Committee on Finance and Planning
Tuesday, January 6, 1998
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Jean Bauer, Catherine French, Stephen Gudeman, JoAnne Jackson, Gerald Klement, J. P. Maier, Richard Pfutzenreuter, Jane Phillips, Peter Robinson, Charles Speaks, James VanAlstine, Susan Weinberg

Regrets: K. Andrew Hall

Absent: Larry Fonder, Cynthia Gillette, Leonard Kuhi, Robert Kvavik, Joby Sebastian

Guests: Professor Ronald Anderson (Senate Committee on Information Technology); Carolyn Parnell (Networking and Telecommunication Services); Associate Vice President Donald Riley (Office of Information Technology); Chris Ryan (NTS financial manager)

Others: Suzanne Pearl

[In these minutes: statement on the budget and priorities that should be honored; update on the legislature, Governor, and request; report from the IMG oversight subcommittee on problems identified and actions being taken; analysis of costs and pricing in networking and telecommunications and possible changes in costs]

1. Budget Statement

Professor Morrison convened the meeting at 3:15 and recalled that the Committee had discussed budget principles in December, after which he had circulated a draft letter for comments. Professor Morrison said he subsequently decided that a part of the letter should not be included, so made the points with administrators, but revised the text of the letter; he handed out copies of the proposed revision. Later in the meeting, the Committee unanimously endorsed the statement as written; it follows:

> The Senate Committee on Finance and Planning has reviewed the budget situation for 1998-99. At this stage, we forward the following comments to FCC/SCC and seek your advice.
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> After reviewing the budget, we have the following comments:
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> A. Overriding considerations.
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> Two items deserve special attention: tuition rates and the compensation request.

[*]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.

We believe that the provision of funds to address faculty salary issues is critical to the future of the University. We cannot expect to be competitive in the academic marketplace if we are not competitive in compensation provided. The decline in NRC rankings mirrors our place in the compensation tables. We are not currently competitive in compensation among the major research universities or even among the major public universities.

We also believe that, after a period of rapid increases in tuition, basic tuition increases should be held to the 2.5% rate level next year. (The final stage of adjustment of upper and lower division tuition would provide one exception. Other exceptions, if any, should be specially justified.)

As we strive to rebuild the physical capital of the institution, we must also rebuild the human and intellectual capital.

B. Addressing any shortfall

If the legislative request is funded at the levels requested by the University and recommended by the governor, we should be able to meet our highest priority issues. If not, we may face shortfalls and the need to cut some essential expenditures. In that unfortunate case, we want to reemphasize the importance of the priorities listed under item A above.

We believe that tuition revenues should continue to be allocated to the collegiate units and that any new legislative appropriations should be distributed as designated. The shift of the Enterprise Systems to soft funding would also free some additional recurring funds to meet the priorities identified above. While it is too early in the budget cycle to address other alternatives in detail, the Committee has already begun to explore those issues.

C. Planning issues

The above items reflect a "quick response" for the problems of the immediate future. We believe that a more considered long-term financial plan is essential. In particular, we would urge two steps:

1. Administrative costs should be "benchmarked" and adjusted appropriately. We should examine carefully equivalent cost levels at other institutions and ask why our costs are higher. Can efficiencies be achieved? The recent administrative cuts are a welcome first step, but they should be followed by a more careful and targeted review.

2. Cost and levels of central support for academic programs should be reviewed. This should involve program review, review of per-student central support levels, selection of appropriate staffing and program levels, and appropriate adjustments.

These steps cannot be accomplished quickly, but they are essential if we are to deploy our resources appropriately. In brief, we need to create a plan for the future in which our academic and infrastructure plans are consistent with our financial capability to support them. We need to treat academic planning, physical planning, and financial planning as a common endeavor.

D. Conclusion

While we support the University's capital request, we again urge that careful consideration be given to the problem of making commitments (especially to lease payments, debt service, and operating costs) in the physical future of the University without simultaneously making the commitments that are necessary to its intellectual future. Over the past decade we have too often been faced with the problem that "prior commitments" for physical facilities have prevented us from making needed investments in our academic programs. Effective long-range planning will help to bring these elements into balance.

2. Budget Update

Professor Morrison then asked Mr. Pfutzenreuter to provide the Committee with an update on the budget situation. Mr. Pfutzenreuter distributed handouts and reviewed them.

The November revenue estimates projected the state would have $1.3 billion more than previously estimated, in February, 1997. The Governor's 1998-99 budget recommendations, on January 20, will be based on the November estimates. The Governor, however, is nervous about the projections, because DRI--the company that provides the revenue forecasts--made an unusual downward adjustment in the revenue forecast in December, based on concern about the impact of fluctuations in the Asian economies. The next state revenue forecast will be in February, 1998, and the Governor may revise his budget recommendations, depending on that forecast.

The Governor's office and Department of Finance have accepted language about the University's $41-million supplemental request, and it endorses full funding of the request. The language specifically permits the University to spend the money on the items it included in the request (including academic initiatives, faculty set-ups and equipment, classroom improvements, and faculty/staff compensation). There is, however, a contingency in the language; $21.5 million is dependent on the February revenue forecast; the Governor may reconsider whether the state can support the full request.

Mr. Pfutzenreuter explained that the Governor has made contingent statements about other budget recommendations as well, and if revenues are projected to decline, the "whole ball game" will be open to reconsideration anyway. This is good news, he concluded; the only worry is what the February revenue forecast may contain. At present, he added, revenues are running ahead of the November forecast, never mind the revised downward revision in December.

[Subsequent to the meeting, the Governor removed the contingency language from his budget recommendation for the University.]

One Committee member recalled earlier discussions about construction of new facilities and the University's corresponding commitment to long-term debt; can the Committee receive hard numbers on debt? The Committee has pointedly urged that the University NOT accrue debt at an increasing rate; it needs to receive information about the current and projected debt service. Professor Morrison said that it would be helpful for the Committee to have a chart outlining existing and projected new debt, with identification of both capital debt and debt service costs; Ms. Jackson promised to provide the data in about a month.

Mr. Pfutzenreuter cautioned that the capital request will mean the University incurs debt. Ms. Jackson added that that was the only "absolute" in debt service, if the legislature appropriates the money; the other projects can be deferred. The biggest problem is identifying the income streams that are intended to support new facilities.

With respect to faculty salaries, the question of funding the 8.5% increases needs to be addressed to Dr. Bruininks or Yudof, Mr. Pfutzenreuter said, but the University had identified total needs of $47 million (in compensation, facilities, supplies and equipment, and other commitments); the question was how to pay for them. Central cuts, a 2.5% tuition increase, and receipt of the $13 million requested from the state for compensation will help, but there will still be a shortfall of $8-9 million, for which no solution has yet been identified.

Professor Morrison said he was very optimistic that if the University receives the $13 million, the University will be able to meet the salary goals originally established by President Hasselmo. If the money is not received, the Committee's views are set out in the statement approved earlier in the meeting.

In response to a question from a Committee member, Ms. Jackson said that the University's policy on debt management is available, and that there is a committee to review debt, including faculty members. She said she did not know how the faculty members were selected.

Professor Morrison thanked Mr. Pfutzenreuter for the update.

3. Report of the IMG Subcommittee

Professor Morrison now drew the attention of Committee members to the report from Professor French, chair of the SCEP-SCFP joint IMG oversight subcommittee. He commended the report as marvelous, and asked Professor French to review the highlights.

Professor French related that the subcommittee initially identified 30 issues of concern with respect to IMG, and decided it would focus its attention on the top 6. Brief discussion of the 6 follows.

-- Laying the groundwork for the IMG review process: The subcommittee has begun interviewing administrators as well as those in colleges and departments to obtain initial reactions to IMG. Departments appear to be reacting differentially to IMG; some are responding to college mandates while others are responding to "perceived" incentives in IMG.

-- Effect of the benchmark used (and historical inequities): Inequities in funding occurred over time, but with a revenue-neutral transition to IMG, they have been locked into the funding patterns. Review of a list of the central allocations to units, and the percentage of funding received from the state subsidy, varies widely. Those units heavily dependent on tuition income will be greatly affected by tuition attribution. A subcommittee of the group will look at subsidization and what might be fair, and try to make clear why subsidies are justified. One means of doing so will be through the compacts that are signed, and the subcommittee has requested copies of the compacts.

-- Effect of IMG on interdisciplinary activities: There is a concern about the change in tuition attribution from the course designator to the individual. Interdisciplinary work benefits from using the course designator; if tuition is attributed to the individual of record teaching the course, in instances such as general biology, the unit receiving the money would not necessarily be the one that provides the funding for the course. The subcommittee has suggested continued use of the course designator, but with contracts for faculty to support interdisciplinary courses. In the case of cross-listed courses, the designator or call number should be tied to the unit teaching the course.

One Committee member commented that the concern with tuition attribution at the department level seems to run contrary to the premise that application of the principles of IMG would stop at the college level. Professor French noted that many courses are listed across colleges, but also observed that it appears IMG is being implemented within colleges as well.

-- The effect of ICR distribution: This includes four different issues, which the subcommittee is just starting to address. They include concerns of the health sciences, which generate over one-half the ICR funds, the requirements of the A21 circular (which calls for more and more services to be provided by units, not funded on grant money, although the most recent revisions to the A21 appear to permit charging costs that were previously impermissible), ICR rate variations (units receive no ICR funds for state-sponsored research, so there is less motivation to do it), and flexibility (the formula-driven approach appears to be used down to the level of the department and even the PI). A subcommittee of Russell Luepker, Patrice Morrow, and Russell Hobbie is looking at these issues.

-- The lack of a mechanism to create incentives or disincentives within IMG: The subcommittee has discerned a lack of communication to units, and to faculty, of the values of the University. IMG establishes a bottom-line motivation for departments, and there is a need for the administration to communicate a set of values and goals to the faculty; the units could then gear their actions, and the compacts, to them. In addition, the subcommittee believes there is a need for a curriculum committee, to serve as an appellate body, in instances where units are said to be inappropriately offering courses.

-- How to ensure the costs of non-academic units are in check: The focus of IMG is on the academic side of the house; how is it to be applied to non-academic units? What incentives are there for those units. The subcommittee suggests that a PUC-like body be established to set service and cost levels. The subcommittee also finds that there are hidden subsidies for some services; there could be good reasons for such subsidies, but they should be identified so a decision about continuing them can be made.

Professor Morrison congratulated Professor French on the report and said the Committee would expect to receive reports from time to time from the IMG oversight subcommittee.

4. Information Technology Charges

Professor Morrison welcomed Professor Anderson and Ms. Parnell to the meeting, and Associate Vice President Riley joined it shortly thereafter.

Ms. Parnell explained that she has told information technology committees across the campus that about a year ago, her unit (NTS) was told to measure its costs, in response to the demands of the federal government through the A21 circular, and to meet cost accounting standards. A major element of the study was to ensure that charges to federal grants are only for actual costs, and do not include subsidies for other activities. NTS knew there were subsidies in its charges, so conducted the study to determine true costs (the accuracy and validity of the methodology used was reviewed and affirmed by three different experts, two of whom are in the Carlson School). The measurement of the costs does not presume they will be the charges, although that could come to pass. The decision to move in that direction, however, will be a University decision, not one made by NTS or OIT. Ms. Parnell distributed to the Committee a handout about the study, which included a summary of NTS services, the charges for 1997, and the actual costs projected for 1998.

One issue that arose from the study, Ms. Parnell reported, was that in stripping subsidies from the charges, they discovered that they provide some services for which they had never identified the costs. To continue to provide those services, they have to be funded.

Committee members then reviewed and asked questions about a number of the services itemized, along with the charges that have been levied and the actual projected costs. In response to some of the questions about shifting charges to actual costs, Ms. Parnell commented that, for the most part, the shifts would be cost-neutral at the college level, although within individual departments there could be dramatic differences (e.g., if the charges for network connections increase, and charges for telephones decrease, departments that are heavily dependent on computer-based instruction could see an increase in expenses). One Committee member said that higher-level budget offices tend not to see the impact of changes lower down in the organization.

The study was also useful in identifying services that NTS is not providing in a cost-effective way, Ms. Parnell said, and they have already decided to outsource two or three activities that it does not make sense for NTS to provide. Another issue is that the cost of some services could drop noticeably if a certain threshold number of users is reached.

Professor Anderson then outlined the concerns that had been expressed by the Senate Committee on Information Technology (SCIT). SCIT and Dr. Bruininks concluded there is need for more data about information technology across the University and within OIT. They met with Ms. Parnell and others, reviewed the cost data presented today, and appointed a subcommittee to work on long-term financial issues.

There are several issues at hand, Professor Anderson said. Pricing should take into account University goals as well as user behavior. NTS has become more important for scholarly and academic work than the libraries, and there should be central funds for the backbone and perhaps for other services as well. There is concern about a possible increase in local area network costs and about network services provided. There is a lack of information about how changes will affect user behavior and about the hardships that will be created for some units if there is a change to pricing services at cost.

Committee discussion turned to the relative costs and comparative services of etherjack (centrally administered) versus LAN (local) connections to the internet and what departments would or could be expected/required to pay.

Dr. Riley commented that this is the first time this information has been available in this form, and they are now obtaining it for all OIT units. Before this, they could not tell what the costs of services were, and make decisions based thereon; once the data were available, certain items jumped out as requiring attention. Now, knowing costs, one can make comparisons with external providers as well as with other institutions; these data do NOT address quality of service or if more money needs to be invested.

Professor Morrison said this Committee, and others, need to follow up on this information, as costs may become prices, and will need to consider the extent to which there are subsidies and to which there is a mixture of cost pricing and subsidies. These are useful data. Dr. Riley cautioned that as this is discussed, it must be remembered that his office cannot run a deficit. No matter when cost pricing might be adopted, there will be evaluation of it.

Ms. Parnell also assured the Committee that the change to the new area code for St. Paul will not affect the St. Paul campus telephone numbers, because they are all run through the switch on the Minneapolis campus. She said she is negotiating with the telephone company over numbers; at present, the University has all the 624, 625, and 626 numbers in the 612 area code, and she is trying to get the same numbers in the new area code.

Professor Morrison thanked Dr. Riley and Ms. Parnell and adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota