

Minutes*

Senate Committee on Finance and Planning
Tuesday, July 14, 2009
2:00 – 3:45
510 Morrill Hall

Present: Russell Luepker (chair), Joao Boavida, Steen Erikson, Kara Kersteter, Lyndel King, Thomas Klein, Joseph Konstan, Richard Pfutzenreuter, Terry Roe, Michael Rollefson, Aks Zaheer

Absent: none counted for a summer meeting

Guests: none

[In these minutes: (1) budget update; (2) issues before the committee]

1. Budget Update

Professor Luepker convened the meeting at 2:00 and observed that although the Committee does not typically meet in the summer, given the constant changes in the financial situation, he thought it would be useful to meet with Vice President Pfutzenreuter for an update.

Mr. Pfutzenreuter distributed a one-page handout with two bar graphs explaining the 2009-10 general-fund appropriations to the University and the expected appropriation for 2010-11. The base budget (state funds) for 2008-09 was \$702.6 million; for 2009-10 it will be \$623.4 million. For 2010-11, the legislature appropriated \$677.3 million; by unallotment, the Governor reduced it to \$627.3 million. The Board of Regents' preliminary estimate of state funding for 2010-11 is \$604.3 million (which makes allowance for the fact that the state budget may be in no better or worse shape than it is now). At present there is thus \$23 million in additional funding available for 2010-11 that is not committed, but the budget assumptions (\$604.3 million) will remain in place.

The reason for not committing the funds, Mr. Pfutzenreuter explained, is that the minimum appropriation the state could make to the University and remain in compliance with requirements for receiving the federal stimulus funds is \$591.1 million. So the University remains at risk of losing up to \$36 million more (the \$627.3 appropriated-less-unallotment minus the federally-required minimum of \$591.1). The legislature and Governor could reduce the 2011 appropriation or the Governor could unallot further if the state budget remains in trouble. There will be a state revenue forecast this fall and a final forecast in March.

The 2010-11 budget assumes a 7.5% tuition increase and \$20 million in internal reallocation (plus an additional \$17.5 million in one-time expenses because of the cost of 27 paydays for employees on O&M funds. It also includes a 2% salary increase, paying the bills, and a modest amount of funding for new investments. Mr. Pfutzenreuter said he would like to meet with the Committee in September to discuss the framework for the 2010-11 budget so that budget instructions can be sent out.

* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

Professor Konstan asked if the University could set aside funds over a period of years so that it did not have to deal with the years with additional pay periods as a one-time expense. Mr. Pfutzenreuter said it could—but then it runs the risk of being accused of having reserves. And it cannot set aside such funds for federal grants.

Professor Konstan then asked how much of the final \$623.4 million for 2009-10 has been set aside centrally to deal with the dislocations of budget reductions that units can't cover in one year. None of the funds have been held centrally, Mr. Pfutzenreuter said. They have reviewed with the President the allocation of the \$89 million in federal stimulus funds. About \$50 million will be used for tuition mitigation for resident undergraduates and for a middle-income scholarship program; the remaining \$39 million will be allocated to academic and support units to help bridge expenses.

Ms. King noted the \$20 million in reallocation projected for 2010-11; she inferred that is about 1% of the total budget. Mr. Pfutzenreuter agreed. That really means cut, doesn't it, she asked? It does, Mr. Pfutzenreuter agreed.

Professor Luepker asked Mr. Pfutzenreuter to say more about the 2% salary increase. It is in the financial framework for 2010-11, Mr. Pfutzenreuter said, and the administration is resisting a pay freeze both years of the biennium because it would hurt morale; they see the 2% as the minimum the University should provide. What happens if the University is cut the additional \$36 million? He said he did not know what the University would do, but the last thing they want is to lose the salary increase. If the economy collapses, however, he warned that "all bets are off."

What is the status of the hiring pause, Professor Luepker asked? The University is still hiring, Mr. Pfutzenreuter said, just more slowly.

Professor Konstan asked if, should the University retain the "extra" \$23 million, there would be thought given to dropping the \$20 million reallocation. Mr. Pfutzenreuter said there would be, although that is the President's decision. That would be better, Professor Konstan said, because these reallocations require a year's worth of effort, and it would be better for deans and department heads if such reallocations only had to occur every other year, so that they can have a year to focus on directions the units will take. Professor Zaheer noted, however, that the \$23 million could be reserved in order to retain the 2% salary increases.

Mr. Rollefson recalled that in the past, employees were sometimes given one-time bonuses when recurring salary-increase funds were not available. This year units have been told not to do so. That reflects in part the gravity of the situation, Mr. Pfutzenreuter said, and the decline in unit balances (which in turn lowers the Temporary Investment Pool and the University's unrestricted asset, aggravates the ability to have reserves, and could affect the University's bond rating). What is the ideal percent for the reserves level, Professor Konstan asked. About 6%, Mr. Pfutzenreuter said, and the University has been at that point. Where it is right now he said he is not sure. Both politics and the financial situation compound the problem; the University has never taken \$94 million out of its budget before—and to save that amount of money, the number of employees has to be reduced.

When one talks about reducing the number of employees, Ms. King pointed out, one assumes those people were doing nothing. When will there be a revision in productivity expectations for the units? The amount of work expected does not change. Mr. Pfutzenreuter said that on the finance side, there are discussions occurring about the acceptable level of risk. Does the University need to track down every penny? It spends a lot of money on accounting for every cent. And how many times must something be approved? Those are institutional decisions, Ms. King pointed out; units cannot decide that by

themselves. Professor Konstan related an example: he was asked by an accountant to justify a four-way split between units of a \$200 charge. That is ridiculous, he said. It is the way people are trained, and they are following the rules, but they need to be changed.

Is it still the plan to buy down resident undergraduate tuition with the federal funds and require everyone else to pay the 7.5% increase, Professor Luepker asked? It is, Mr. Pfutzenreuter said. Then in the fall of 2012 the increases will kick in for everyone because there will no longer be federal stimulus funds available, Professor Luepker observed. He recalled that Mr. Pfutzenreuter has said previously that the University can get through the next two years but that after that the situation will be difficult. That is correct, Mr. Pfutzenreuter said. The legislature and Governor have left themselves with a \$5.1 billion deficit for the next biennium (2011-2013), and if they are to buy back the fund transfers and account for inflation, the deficit will be \$7.3 billion—compared to \$4.3 billion this year. There are not enough taxes in the state to solve that problem. What are the total tax revenues for the state, Professor Konstan asked. About \$36 billion for a biennium, Mr. Pfutzenreuter said. So, Professor Konstan observed, it would require roughly a 20% tax increase to deal with the projected deficit.

Mr. Rollefson noted that the University of California system is cutting salaries but Minnesota is not. They face a huge budget cut, Mr. Pfutzenreuter pointed out. They are also talking about closing a couple of campuses, Professor Konstan added. If the bottom falls out of the economy and the University has to look at faculty and staff pay cuts, Ms. Kersteter asked, would there be a problem with the unions? Mr. Pfutzenreuter said the University is not largely unionized—but said he never wanted to get to the point of looking at pay cuts.

Professor Konstan said he knew that the possibility of furloughs had been considered for the University but that there were problems (e.g., the effect on federal grants would be to cost the University money). Has there been any thought given to distinguishing between activities that are O&M-funded and those that are externally-funded? Mr. Pfutzenreuter reported that the College of Design received permission to impose pay cuts, but the University has taken the position that it will not require furloughs or impose pay cuts. He said he did not know why Design asked to be able to do so but it was permitted. He suggested the Committee ask Vice President Carrier about the details.

Mr. Erikson asked if layoffs are being made among staff supported by grants. Most of the layoffs are of individuals supported on O&M funds, Mr. Pfutzenreuter said.

Professor Luepker thanked Vice President Pfutzenreuter for his report. Mr. Pfutzenreuter then left the meeting.

Professor Luepker expressed concern about the effect of the tuition increases on students. Mr. Boavida reported that students in Medicine and Law saw the largest increases. Some graduate students have lost their RA or TA appointments; anyone who had an appointment is covered, if they can keep it, but the rest of the students will see a 7.5% tuition increase. Professor Konstan said his department is seeing the number of TA positions dropping dramatically and students are worried; they have not cut RA positions thus far. What will happen in the Law School, he asked? The University always assumes that it will have the same number of students, even with fewer staff and fewer jobs available for graduates; perhaps it needs to begin modeling a decreased number of students. Professor Zaheer reported that the numbers in the Carlson School have held up and the quality is increasing, reflecting the counter-cyclical nature of enrollment and the economy: people go back to school to get in a position to get better jobs when the economy recovers.

Professor Roe observed that the 7.5% tuition increase is an implicit tax on sponsored-research funds.

2. Issues Pending Before the Committee

Professor Luepker next asked Committee members to review the list of issues pending before the Committee and asked if there were any of particular interest. He also related that he had read the charge to the Committee and would like to spend time at the first meeting in the fall talking about its purview.

Professor Konstan said that it is not just the topics, it's who the Committee is talking with—when, for example, the Committee wishes to discuss making hard decisions about cuts rather than eroding units. He surmised that Vice President Pfutzenreuter would not disagree—it is the senior vice presidents and the President who make those decisions. Either the Committee needs to see them or the Faculty Consultative Committee needs to take up the issues. There is need for a deep conversation about how much nickel-and-diming the University can take without addressing the hard question of how the University will survive. That is an important discussion that needs to be on the record for the next generation of Regents and University leaders. Professor Luepker agreed and suggested the Committee needs to ask those hard questions.

One way to approach this, Mr. Klein suggested, is to identify those items on the list that are significant and on which the Committee has worked before and to follow up on them. At times it seems like a variation on the humor about work in the old Soviet Union. To paraphrase, Mr. Klein said, "the administration pretends to consult and we pretend to provide advice" and then the Committee moves on to the next meeting. The Committee should focus on a few issues that are of critical importance to the university and identify where it would like to get to.

Professor Luepker commented that when Vice President Pfutzenreuter and others come to talk with the Committee, they explain that things were done because that's what the front office wanted. The Committee also needs to talk to the front office. Second, the Committee hears about problems but there is no follow-up; what happens in three or six months?

Ms. King said that one of the issues on the list, rate-setting for the cost pools, is one that has the potential for consultation before decisions are made. That seems like an area where the Committee could have some influence. Mr. Klein recalled that one of the recommendations of the ad hoc subcommittee on the new budget model was that the budget process define the revenues available to colleges first, and then set targets for cost-pool allocations. The idea was to charge units on the basis of the use of public goods, Professor Roe added, and that needs data on the extent each unit's faculty and students utilize the institution's public goods. This is a question of how to capture what cost-pools charge, Professor Konstan said. But not all are based on use, Ms. King said; if the administration adds a new position, everyone pays.

Professor Zaheer, who served on the ad hoc subcommittee, asked if the Committee had ever received feedback on its recommendations. Mr. Klein recalled that the recommendations went from Vice President Pfutzenreuter to the President for additional discussion and were forwarded to the budget and finance section for further attention. Professor Zaheer said the Committee should follow up on the recommendations and should be provided reasons why the administration did or did not follow them.

Mr. Boavida said he would prefer if the Committee could receive information in advance of a meeting. Professor Luepker agreed to ask for it. Professor Konstan also agreed and suggested that if the Committee could not receive information by the Friday before a Tuesday meeting, for example, the item

should be postponed. He said there are four levels of issues: vision, policy, action, and information. The Committee spends half its time on information and a little on action (e.g., parking rates), but there are a lot of units that are working well and do not need an hour of the Committee's time—ten minutes would do and it can receive a report. He said he would like to see the Committee do more with the items higher on the list, the vision and policy matters, over multiple blocks of time, and perhaps only tackle a couple of them. Mr. Boavida said the Committee could ask for written reports and then decide whether it wished to put an item on the agenda after reviewing the report. Professor Luepker observed that if the Committee asked for information ahead of time, it could end up with more work and could be overwhelmed with data. Professor Konstan said the work could be assigned to Committee members; not everyone needs to read every report. Professor Roe agreed that it would be nice to receive information ahead of time but sometimes what it receives is the most current information—some need not be in advance. In some cases, Mr. Klein said, a report can be about a segment of the University the Committee does not know a lot about, and it is helpful to have an expert give an overview and identify the major issues to get the Committee up to speed.

Professor Luepker said if Committee members have specific issues they would like taken up, they should let him know, and said he would think about how to structure meetings so they are the most useful. The Committee is consultative, not decision-making, he noted, and at the end of a discussion or report it might suggest doing X, Y, and Z. Should it do more? The Committee represents University faculty, staff, and students, and they depend on it to represent them well and respond to their needs.

Professor Roe pointed out that there is overlap between the business of this Committee and others; the Senate Research Committee deals with financial flows, intellectual property, and so on, and it would be nice to know the dividing line. Financing graduate students is another such issue. The Committee also doesn't often discuss the financial flows from sponsored projects, for example, one of the items on the list.

Part of the value of a meeting is to get information out, Professor Konstan said. Once that happens, the Committee could have a discussion with the senior vice presidents and President about anything that looks strange and can communicate the rationale for decisions to the University community.

Professor Luepker adjourned the meeting at 3:20.

-- Gary Engstrand

University of Minnesota