Minutes*

Senate Committee on Finance and Planning
Tuesday, January 31, 1995
3:15 - 5:00
Room 238 Morrill Hall

Present: Virginia Gray (chair), David Berg, Mark Davison, Gerald Klement, Roger Martin, Patrice Morrow, Richard Pfutzenreuter, Doris Rubenstein, Craig Swan, James VanAlstine

Regrets: Craig Dexheimer, Karen Karni, Anne Sales, Thomas Scott

Absent: William Gerberich, Allen Goldman, Thomas Hoffmann, Roger Paschke

Guests: Senior Vice President Robert Erickson, Assistant Vice President Paul Tschida

Others: Ken Janzen (Regents' Office)

[In these minutes: Traffic problems coming because of road construction; Morse-Alumni award changes; the Governor's budget recommendations; budget instructions]

1. Traffic Congestion

Professor Gray convened the meeting at 3:15 and welcomed Assistant Vice President Tschida to the meeting to outline upcoming traffic problems for those who come to the University.

Mr. Tschida informed the Committee that road construction on I94, beginning in May, 1995, will cause major traffic disruption for the University. The I94 bridge over the Mississippi must be repaired, so one lane in each direction will be closed until Fall, 1996. This could cause traffic to back up as far as Cretin/Vandalia, or even Snelling, on the east, and to I35 on the west--but no one knows for sure how bad it will be.

The Minnesota Department of Transportation (MnDOT) also decided that since they had to repair the bridge anyway, they would also straighten out the freeway; this will require eliminating all I94 overpasses that connect to the University from the south (East River Parkway) and to the freeway itself. The bridge over 27th Avenue will provide the only access from the south and east. The Huron Boulevard entrance to I94 westbound to Minneapolis will be closed for the duration of the project, but other access to the freeway and East River Road will be reopened by about November 1, 1995.

In addition, the rock and dirt cave-in on the West River Parkway may not be cleaned up until later in the year, so that avenue will also remain closed for several months at the same time the I94 construction is underway. The University is pressing to have the west river road opened sooner, but if it

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is unsuccessful, both the east and west river roads will be closed through November of this year.

Mr. Tschida said that departments are being asked about establishing "flex time" schedules for employees, based on their needs, in order to reduce the amount of traffic coming to and leaving the campus at rush hours. It is also possible that some 8:00 classes will be rescheduled to the St. Paul campus, or to 7:00. He said he also hopes to have notification of the construction placed in all class schedules, and especially CEE schedules, so that people know they need to plan for extra time to get to the campus. There will be no way around the fact that the first week of Fall Quarter, 1995, "will be a mess," he said.

He outlined various communication efforts that are underway to notify people of the problems, and said he will be glad to talk to any groups to whom it is thought appropriate to convey the message. They are also working with Minneapolis and St. Paul to find out when streets will be dug up for sewer repairs, and are trying to identify alternate routes to the campus. Information regarding suggested alternate routes will be made available whenever and however possible.

Bus routes will not be curtailed, he assured the Committee, except perhaps for routes where there are only six or seven riders that simply cannot be justified. There will also be increased bus service on the transitway. Parking on the Fairgrounds lots (except for the period of the State Fair) and the Como lot will be encouraged; contracts in those lots will be offered to those who work on the Minneapolis campus. Biking and car pools will also be encouraged.

A further complication, he explained, is that the city and county are talking about replacing the Dinkytown bridges beginning in the summer of 1996. University Avenue will be closed and repaired from I35 to Oak Street in 1996 and 4th street repaired between the same points in 1997.

One possible step that might help would be to once again heat the Washington Avenue bridge pedestrian walkway, said one Committee member. Sometimes in the winter it is just too cold to walk, so people drive to the East Bank from the West Bank.

Professor Gray thanked Mr. Tschida for presenting the information.

2. Changes in the Morse-Alumni Award

Professor Gray next noted that the Senate Committee on Educational Policy has proposed changes in the Morse-Alumni award, one of which has minor financial implications because the financial part of the award would be a permanent addition to the remuneration of the award winner.

Committee members discussed briefly the merits of adding the award to a faculty member's base salary versus making it a separate salary augmentation; also touched upon was the financial implications of making the award permanent.

One Committee member observed that the number of recognition functions at which the people would be expected to be present may be excessive. A question about the proposed advisory committee to be established was answered; it does not create another group to meet without reason, but establishes a group parallel to the Regents Professors, who meet at the call of the President to provide counsel.

Another Committee member suggested that the recipients be called Distinguished Teaching Professors; the winners could put it on their stationary and use the title however they wished. The University, unlike many private institutions, has few named professorships, but recognizing the accomplishment would be appropriate.

One Committee member expressed concern about the process of selecting the winners. Being nominated often depends on the initiative of a department or colleague to make the case; there may be others who are never nominated but who deserve to be considered. One might wish the process of nomination were more rigorous. Raising the stakes, observed one Committee member, also raises the incentives.

Professor Gray said she interpreted the remarks made to mean the Committee generally endorsed the proposal, and indicated she would so report to the Senate Consultative Committee on February 2.

3. The Governor's Budget Recommendation

Professor Gray turned next to Associate Vice President Pfutzenreuter for a report on the Governor's biennial budget recommendation. Mr. Pfutzenreuter distributed handouts summarizing the University's request and the Governor's budget. He reviewed them with the Committee; highlights of the proposal:

-- The University requested $22.9 and $55.7 million in recurring funds for the two years of the biennium; the Governor recommended $3.5 million recurring each year. He also recommended $18.1 and 35.7 million in non-recurring funds for the two years of the biennium; the University requested $9.1 million.

-- The University proposed tuition increases of 4.8% each year, generating $8.5 and then $17.8 million for the two years; the Governor recommended 3% each year, generating $5.4 and then $11.0 million.

-- The University proposed reallocation of $14.1 million each year of the biennium; the Governor proposed $27.8 and 37.8 million for the two years.

In essence, the University's partnership proposal called for $143.7 million in reallocated and new recurring funds, with the state bearing 61% of the cost. The Governor lowered the state's share to 42.3%, with the majority of the state funds provided only for the two years of the biennium. The $3.5 million of recurring funds, Mr. Pfutzenreuter pointed out, would not be sufficient to bring the appropriation to the University's current state spending level. The total $65.6 million in reallocation proposed by the Governor is about the same as the WORST case proposal prepared earlier, assuming the University received NO new state funds.

Mr. Pfutzenreuter also outlined choices the University might make if it receives no additional funds beyond what the Governor has recommended and sticks with its plan to achieve $143.7 million in spending for U2000 and other objectives. The choices represent variations on combinations of tuition increases and reallocation; the five alternatives range from, at one end, 3.0% tuition increases each year and $65 million in reallocation, to 10.6/7.75% tuition increases and the original University proposal for

$14.1 million in reallocation each year of the biennium at the other. There is, in essence, an $82 million hole that has to be covered through tuition and reallocation if the needed $143.7 million is to be generated.

The other alternative, he pointed out, is for the University to back off its commitment to spending the $143.7 million.

There are footnotes, he then observed. First, the Governor has recommended that any system that increases tuition beyond 3.0% also make up the costs in student financial aid for students who received need-based aid. Preliminary analyses suggest that if the University were to raise tuition 7.5%, for example, it would cost $1.4 million for the biennium. None of the tuition numbers reflect this cost.

Second, there are potential shortfalls in tuition this year, and fringe benefit costs may be higher than projected.

It appears the University went in with a proposal, and said that if the state did not provide the $87.7 million it requested, the University would rely on its own plan and raise tuition by significant amounts. The University said that would happen only if there were no increase in state funds, Mr. Pfutzenreuter pointed out. The University is now in the position of deciding if it will show its hand, it was said; this kind of result, and its consequence, needs to be considered in future years when a biennial request is being developed.

The University said it could not go forward if it did not receive the state funds; the Governor has not recommended the funds be appropriated. Perhaps it is time, maintained one Committee member, to say the University will not go forward in the absence of funds, that it will take as much in recurring funds as it can obtain, not non-recurring funds, and will reform itself in the future when times are better.

A question was posed about the uses to which the $53.8 million in non-recurring funds might be put, in light of the University's request for recurring funds. Can the University do what it originally planned?

Mr. Pfutzenreuter drew the attention of Committee members to a second table of data. In the context of the $143.7 million partnership proposal, it illustrated that the University will be short by $71.6 million in recurring funds, if the Governor's recommendation is approved, but will have $44.7 million more in non-recurring funds than it requested. The question, he said, is whether or not there are items in the $143.7 million partnership proposal that it makes sense to fund with one-time money. His office is conducting that analysis now, he reported. A number of the elements in the proposal are recurring, such as debt service and building maintenance. Any rearrangement of the proposal will be difficult to accomplish without putting compensation increases in the non-recurring category.

It will also be difficult to get the entire Governor's recommendation "hardened," Mr. Pfutzenreuter speculated; moreover, the amount actually appropriated by the legislature could be less than what the Governor recommended.

He then distributed a graph showing actual and projected state appropriations for the University from 1992-93 through 1998-99. The "old" budget cap for the University, for 1995-97, was $908 million;

the projected cap for 1997-99, according to the State Finance Department planning estimate, would be $915 million (the increase due to the $3.5 million recommended by the Governor in recurring funds for 1995-97). When one compares that cap, and other parts of the state budget, with the fund forecast, the prospect is bleak. It is probable the state will face an $846 million deficit going into the 1997-99 biennium--and that does not include an additional $500-600 million that may arise, nor does it include the money owed financial institutions as a result of the recent court decision.

The upshot, Mr. Pfutzenreuter said, is that the one-time money is likely to be one-time money, and in two years the University will be dealing with a state that is broke and fighting for every penny. The Governor is saying, in essence, that he has done all he can for the University to give it money, but that U2000 will be funded by tuition, reallocation, and sporadic one-time funds from the state. That is the implied but clear message in the Governor's budget, he surmised.

Is it possible, asked one Committee member, that salary increases might be lump sum rather than recurring? If the state funds come as recommended, Mr. Pfutzenreuter replied, and the University remains committed to the $143.7 million in spending, then it will be difficult to make the budget if compensation is recurring. The arithmetic isn't hard, he observed, but it will require discussion. Even if the funding were hardened, he commented, he would be nervous about recurring expenditures, given the state's financial situation.

One Committee member suggested exploring the possibility of renovating older buildings, repackaged as adaptive renovation and re-use, thus using the non-recurring funds as an investment in facilities. This would require rethinking deferred maintenance on the Twin Cities campus. One can be concerned that the state is more eager to support new construction than it is restoration of older buildings for re-use; at a time the University is trying to maximize both its physical and human resources, it should look to reinvestment in its physical plant. One part of the $143.7 million was $14 million for new building maintenance, Mr. Pfutzenreuter pointed out, to do repairs and to raise maintenance standards. It may be necessary to rethink some of these as one-time capital projects. The capital budget will also have to be rethought, pointed out one Committee member; can the University afford to take on the operating costs of new buildings?

The same thing is true on the human side, said one Committee member. The University hires people, but doesn't give them raises and doesn't support them.

One possibility that has been raised, Mr. Pfutzenreuter said, is that the University might take less in non-recurring funds in exchange for an increase in recurring funds. His view is that the University should decline that kind of offer. The situation in 1997-99 will be very difficult, so the University ought to take what funding it can get now; as things are projected, it will be back arguing in 1997 to retain what it has. Mr. Pfutzenreuter said he was optimistic that the University could be funded at the level the Governor has recommended, although the Governor will have to stand by the University.

4. 1995-96 Budget Instructions

Discussion then turned to the budget instructions, and questions that had been raised by Committee members following its meeting with Senior Vice President Infante. One Committee member noted that he had inquired where the situation stands in comparison to last October, although the Governor's

recommendation may make the numbers less relevant. Issues remain, however, such as what is occurring with fringe benefits as well as how the Committee is informed as plans and thinking evolve. What the deans received was different from what the Committee discussed.

Mr. Pfutzenreuter distributed a table of data linking the biennial request with the phase II budget instructions, illustrating the net impact on each of the provostal areas and campuses. He explained the data and offered to explain any particular decision as best he could. Committee members expressed thanks and appreciation to Mr. Pfutzenreuter for the preparation and presentation of the data.

Part of the phase II budget instructions for the Twin Cities campus include "administrative re-engineering" reductions totalling $5.5 million; what is meant by the term "administrative re-engineering," inquired one Committee member? It is the result of a strategic decision made last summer, Mr. Pfutzenreuter said, when outlines of reductions to be made were to be presented to the legislature; the reductions were in three categories (academic, administrative, and state specials); it was a conscious attempt to market the reductions with words that members of the legislature were used to and understood. The "re-engineering" is focused on reductions in administrative costs, both centrally and in the colleges.

How do the numbers look when one compares academic and non-academic spending, asked one Committee member? Mr. Pfutzenreuter noted that support and administration numbers include all of Finance and Operations as well as CEE, the libraries, Academic Affairs, academic computing, and so on, so it is difficult to answer the question. The "support/administration" category of expenditures needs to be broken down a lot more before one can get an answer. Even that may beg the question, he observed. There will be significant costs incurred when the basic medical sciences building comes on line; are those a benefit to the central administration or the health sciences?

There is a sense, reported one Committee member, that academic units are not being treated fairly vis-a-vis non-academic units. This is only intuition, but it is in the interest of the administration to address it. The administration should assume the burden of demonstrating it is not true; if so, people will be happier with the process. If it IS true, then it is on the table and can be dealt with. Mr. Pfutzenreuter said he wished he could answer the question. He is more constrained by the lack of data now than he has been in the past, he noted. For example, he cannot answer questions at this time about the decisions Provost Brody is making about colleges and departments. He could provide aggregated information, but that doesn't answer the question. More complete information will be available at the conclusion of budget hearings.

The Committee wants global information, it was said; the fate of one's department is an argument with the dean; the fate of academic programs generally is a concern to the Committee. He should pass on this message, it was suggested to Mr. Pfutzenreuter. He, in turn, noted that when the $143.7 million in plans were formulated, it was categorized by U2000, buildings, salaries, and so on, and driven by both academic and non-academic units. Much of the money is related to facilities, and the real issue is facilities versus academic programs.

This Committee, at least for today, understands the facilities issues, said one Committee member. The academic versus non-academic expenditure question, however, should be posed in light of the reorganization: there is a perception that the University is spending a lot of money to create another layer of administration. Will there be additional costs showing up as "support/administration" in the new

provost areas? To the extent there are increases, Mr. Pfutzenreuter said, they will be in provostal areas. New money was allocated last year to the health sciences provost, but unless there is a similar special allocation of funds, anything done will be from existing funds. Professor Gray reported that FCC is trying to get a handle on administrative costs and is working with Mr. Berg to do so.

Mr. Pfutzenreuter reported that his office is trying to get a count on the budgets and number of employees in vice presidential offices (Drs. Allen and Hopkins and in the health sciences), as well as a sense of the skills and job requirements that have been identified for the provosts offices. The President has asked for this information. Doing so accurately may require going back a ways; if facilities maintenance took tremendous cuts earlier, but is now building back to a reasonable level, then it may look as though there have been unnecessary increases.

The "administrative re-engineering" cuts to be made by the colleges are really program cuts, said one Committee member. Most collegiate units already have thin administrative structures. There is no pool of "excess bureaucrats" to meet those cuts.

One Committee member inquired about the sequence of events in consultation and decision-making. Decisions made last summer appeared to be in place in October, but since then it is not clear what decisions have been made, and one senses that some have been a surprise. There are genuine problems that must be dealt with, and consultation is the best way to get the lay of the land. One can be concerned that decisions are not always made after consultation. The community did not know when the big numbers were coming, and the University must be honest about the fact that "administrative re-engineering" is going to damage vital programs.

Another concern is that even within the academic enterprise, there are units that do not offer courses and have no students; how is are O&M funds distributed between "instructional" and "research" academic units? Do people in centers and similar units also teach in home departments? None have tenure in them, it was noted, but do allocate time to them. And in some cases, it is hard to make clear divisions, because there may be graduate and undergraduate students involved in them. In at least one college, departments are reviewed rigorously, but centers are not subject to the same kind of review. They are also funded from the outside, said one Committee member; another rejoined that in some cases, there are matching funds--which may exceed the outside contribution.

Discussion then turned to the transfer of recurring expenditures, and income, out of Central Reserves. Mr. Pfutzenreuter reviewed the changes being made and explained how recurring expenses and income could be transferred from a reserve to other accounts.

A major concern of the colleges, said one Committee member, is that they must pick up the shortfall in fringe benefit expenses, rather than central administration. Where is the administration going to get the money, asked Mr. Pfutzenreuter? It raises a more general question, as it did with tuition, responded the Committee member. Human behavior did not conform to the model, so blame the behavior; colleges feel they must always make up for the discrepancy.

Fringe benefits are VERY volatile, Mr. Pfutzenreuter emphasized. He reviewed the fluctuations in rates and funding over the past several years at the University, and the actions of the federal government that have led to administrative responses that have created problems. There could have been greater

reallocation and then additional allocations to make up the shortfalls, he pointed out, but there are no central funds available--they give out everything they have, and the Central Reserves are basically broke. The administration will try to smooth out changes over the next couple of years, but he warned that they may never be able to do an extremely accurate job of forecasting fringe benefits, because they ARE so volatile.

It was not clear, either from the budget instructions or the discussion the Committee had with Senior Vice President Infante, how widely misunderstood fringe benefits were. This raises questions about how information is communicated so that planning can be done. Are there ways to smooth the back-and-forth changes in fringe benefits? Does this experience create an argument for establishing a reserve account? Could the Central Reserves make loans? The administration is trying to smooth out the effects, Mr. Pfutzenreuter repeated, but something could happen again. It may be that there will be more funds set aside than required in 1997, assuming there is no shortfall in 1995. There will be shortage by the end of biennium, and there is no solution at hand how it will be paid.

There will be $28 million in cuts under the partnership proposal, plus an additional $4.5 to 5 million for fringe benefits in 1996 (but then not as much in 1997), plus the additional problem of revenues that do not appear (such as tuition). He has also been making the point, he said, that there is a 3.3% pool of funds for COMPENSATION, which must pay for fringe benefits as well as salary increases--and there may have to be trade-offs between the two, rather than creation of deficits in the colleges. He does not have the answers because no salary decision has been made, he concluded.

Mr. Pfutzenreuter said there will be supplementary budget instructions coming out of his office to clarify the salary and fringe benefit issues, to provide a sense of how the one-time funds will be used, and to extend the deadline for budget submissions to March 17.

It is to be hoped, said one Committee member, that Senior Vice President Infante will speak with the Committee BEFORE any decisions are made about budget planning for use of the one-time funds recommended by the Governor. It may be that he will wish to do so in executive session. Professor Gray agreed, and thanked Mr. Pfutzenreuter for providing the Committee with information.

She then adjourned the meeting at 5:05.

-- Gary Engstrand

University of Minnesota