Minutes[*]

Senate Committee on Finance and Planning
Tuesday, November 8, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Virginia Gray (chair), David Berg, Mark Davison, Ryan Fuller, William Gerberich, Karen Karni, Craig Kissock, Gerald Klement, Roger Martin, Patrice Morrow, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott

Regrets: Craig Swan

Absent: Mary Askelson, Carl Erickson, Allen Goldman, Thomas Hoffmann, Anne Sales

Guests: Professor John Adams, Assistant Vice President Stephen Cawley, Senior Vice President Robert Erickson, (telecommunications guy)

Others: A DAILY reporter

[In these minutes: Telephone expenses; the universal card; concern about Restructuring and Reallocation/resource allocation guidelines; emergency capital request; report from Facilities Management Subcommittee]

1. Telecommunications Expenses; the Universal Card

Professor Gray convened the meeting at 3:15 and welcomed Assistant Vice President Cawley to discuss telecommunications charges and the universal card. She noted that several questions about telephones had been raised by Committee members.

TELEPHONES Mr. Cawley distributed the Telecommunications Profit and Loss statement so that Committee members could understand the magnitude of the operation and its philosophy of a charge-back system. Their objective, he said, is to run a break-even operation while delivering telephone, data, and video services at the least cost and highest quality. For the year to date, Telecommunications has a surplus of $149,000--which is about as close as they can come to break-even on a $14 million budget. Their operating budget, by direction, must include income for about $1 million per year in short-term capital purchases (expand the telephone and voice mail systems, install cable, and so on).

Asked about charging marginal cost for telephones, Mr. Cawley said that would not be possible under the current scheme. Telecommunications does not need or receive a subsidy, but it is repaying the initial $30 million loan taken out to install the telephone system. Had they started with a telephone system fully paid for, with state dollars, for instance, then charging marginal cost would make sense, but

[*]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.

they need to recover financing as well as operating costs.

Departments respond to the high cost of telephones by removing them; does that not deprive Telecommunications of revenue? It does, Mr. Cawley said, but the system continues to expand; they install more than 500 additional telephones each year.

Telephones are to be a service to the faculty and students, said one Committee member, and departments who are doing the teaching are cutting out telephones because of their costs. There must be more variety in the packages that Telecommunications offers.

It isn't clear whether telephone charges are too high or SEE budgets are too low; it is both, said another Committee member. Mr. Cawley pointed out that telephone charges have increased less than have SEE budgets since 1986, when the existing system was installed, and that rates have only gone up twice during that period. SEE budgets are totally inadequate, in any event, said one Committee member, and some departments spend twice what they receive--they make up the difference by entrepreneurial activities to make money. Another Committee said that was typical.

It is also cheaper to have an answering machine than to have voice mail, it was pointed out. Mr. Cawley agreed that if the only purpose to be served is answering a telephone, an answering machine may be more economical. That was not the target of the system; it was to provide a messaging service and the ability to deal with high volumes of calls. That, it was rejoined, is targeted at administrative offices, not academics; people forget that the point is delivering teaching to students, and telephones are essential. One option that will be available with the new voice mail system, Mr. Cawley said, is multiple voice mailboxes on a single telephone line--so one will call a number and be told to press 1 to leave a message for Jane Doe, press 2 to leave a message for John Smith, and so on.

Departments are cutting out recurrent costs, so they eliminate the $7 or $7.50 it costs per telephone; why would it not be possible to have one switcher in a department, which could route calls to extensions? That is an issue, Mr. Cawley agreed; the State of Minnesota allows it, and it does function. (It is a complex issue, Mr. Cawley later explained. The State does not manage the same core function the University does; they outsource it. If the University were going to use the State's model, it would require a complete change in the operating model, and the State system doesn't work nearly as well as the University's does. The State manages a system using a switching system--it doesn't own its own telephone system. The State has to put separate systems in each office in order to deliver even a subset of features offered at the University. He said he assumed the State has gone this route in order to serve their many diverse locations. It is a different approach to telecommunications management. The University decided to buy a private switching system in 1986 in order to establish a higher level of feature functionality and uniform standards. It was believed at that time, and since demonstrated, that this approach would provide a lower cost over the long run.)

The University chose, in 1985, to have all in the system that all would use and all would help pay off. If departments buy their own switching units, the charge-back system would fall apart. True, but departments would put back telephones where they have removed them, it was pointed out.

Telecommunications could not support those private telephones, Mr. Cawley told the Committee, so departments would have to contract with private vendors. Related issues include maintaining uniform service around the system, accountability for controlling costs and provision of detail on long distance calling, and identification of location on the 911 system (with private switching, police cannot identify where the call came from, except by building). But people cannot call 911 at all without a telephone, it was noted.

Mr. Cawley emphasized that the University decided to have a universal standard for operations, and it is the way that all institutions of this size operate. If the University releases control of the telephone system, it would end with chaos in a core function.

Perhaps some of the funds to make the University user friendly, it was suggested, should be spent on telephones so that TAs can talk to students.

Asked about WATS lines and department charges for long distance calls, Mr. Cawley said there are no WATS lines any more, but the University does negotiate for discounts with long distance carriers. Departments pay less than regulation rates, and the University pays less than the departments. The difference, retained by the University, covers the University's cost of delivering long distance service. (Long distance rates equal the rate Telecommunications pays the long distance carrier plus the direct and indirect overhead cost of providing the service.)

Telecommunications provides access to email, Mr. Cawley said in response to an inquiry, but it does not manage the mail hubs. Academic Affairs pays a fee to Telecommunications for managing access. He said he could not respond to a question about proposals to charge for email in the future; he has heard discussions of the possibility, but the subject is one that Associate Vice President Riley can more appropriately talk about.

Mr. Cawley reported that there has been a tremendous increase in the number of modems needed to handle off-campus access to email. For SLIP access, in 24 months the number of modems needed increased from 64 to 380, and they plan to add another 200.

Asked when the bonds for the telephone system will be paid off, Mr. Cawley reported it will be June, 1998. At that point the rates could go down, or a decision may be made to purchase a new telephone system. There would be consultation before any decision to do so were made, he assured the Committee, and it is 18 months before any serious planning would begin.

UNIVERSAL CARD The idea of the universal card, part of U2000 and sponsored by Mr. Paschke's office, is an ID card that is much more than an ID card, for faculty, staff, and students. Designed for magnetic stripe technology, it could be used for building security, food services, the libraries, recreational sports, identification, billing, and so on. The card would have no personal information on it, but a photograph would be stored digitally, because some units insist on photographic identification (and he recognized that there are privacy and storage issues associated with inclusion of a photograph). Some card applications would require use of a PIN as well (such as for security).

The way the initiative would be paid for is by arrangements with AT&T and TCF, so it could also serve as a personal banking card at ATMs (but it would NOT be a credit card; the University will not get into the business of carrying credit balances) and a personal long-distance card. They are working with the two companies, who have expressed an interest in paying commissions. One Committee member recalled having such a card at another institution while on sabbatical and said it was very convenient.

The timetable for introduction of the card is limited distribution Winter Quarter and full distribution by Spring Quarter.

The readers for the card, Mr. Cawley said in response to a question, cost about $1200, and those for the library would cost more. So, it was said, everyone would have a card, but departments could not afford the readers. He said that they would work with departments to increase use and in some way assist departments in the purchase of the necessary machines. The cost could also drop were there to be large purchases.

Professor Gray thanked Mr. Cawley for meeting with the Committee.

2. Resource Allocation Guidelines

[NOTE: Subsequent to this meeting, the Committee sent a letter to President Hasselmo detailing its concerns. The President replied in a short note to the committee and later in a clarifying memo to all interested parties, stating that the fifth year of R&R has not been cancelled. --Virginia Gray]

Professor Gray then told the Committee she had obtained information that was causing a considerable stir among those who were aware of it, and as chair of this Committee she had received a number of calls asking what the Committee knew, what its views are, and what it intends to do.

She distributed materials that included budget instructions to the Dean of CLA (from Associate Vice President Pfutzenreuter) as well as three pages of data on the Restructuring and Reallocation plan. The budget instructions say that the retrenchments and reallocations of the fifth year of the plan have been cancelled and that U2000 goals will be used instead as budget allocations are made. This decision was made by the President and senior officers.

The impact of this change on units is enormous, she said. It was also a surprise. She drew the attention of Committee members to a table summarizing the planned retrenchments and reallocations and the result of canceling the fifth year. The core academic units are the losers, she pointed out, and will not receive what they expected. She asked Messrs. Erickson and Pfutzenreuter to help the Committee understand this decision.

Why was this change made, she inquired? She related that she has been hearing from department chairs all day; none of them were told of it. The units that received reallocated funds in years 1-4 of the plan will be better off than those who were to receive money in the fifth year but now will not. In her college, she said, the dean had made commitments based on the expectation of receiving the money, and a number of searches may have to be cancelled.

The faculty were under the impression that there was a plan, about which they had been consulted, and it was thought that the U2000 reallocations would come on top of the Restructuring and Reallocation plan, not instead of them.

Mr. Pfutzenreuter pointed out that except for the two pages of budget instructions, the tables of data were not his and that he did not know if they were accurate. The budget instructions start phase 1 of the budget process, which is to align revenues and expenditures and to get out of the way those things the University must pay for so that they do not come up in May or June. Last year, phase 1 included the Restructuring and Reallocation amounts; this year it does not. He noted that 83% of the planned retrenchments and reallocations were completed through year 4 of the plan; roughly $18 million was moved among collegiate units. Year 5 would have moved about another $3.5 million.

In developing the U2000 Biennial Request partnership proposal, he said, there was discussion with Senior Vice President Infante whether the fifth year transfers would be part of U2000 or in addition to it; he said they would be included in it in the following sense: As budgets are prepared, the administration will be mindful of where funds were to come from and where they were to go under the fifth year of the Restructuring and Reallocation plan. The point of the phase 1 budget instructions was that these transfers would not be part of the base adjustments for units; those will be made at a different point in the process.

They are not ignoring the Restructuring and Reallocation plan, he assured the Committee. There will be the Strategic Investment Pool (SIP) as well, and the administration will be mindful of the fifth year plans as allocations from it are made. This action is not inconsistent with Restructuring and Reallocation, he said, but they want to be sure the transfers are consistent with U2000.

Being "mindful" of the fifth year plans, said one Committee member, does not mean the dean can spend the money. For a unit that was to receive money, this is the difference between a bird in the hand and a gleam in the eye. The units may not receive the money and cannot authorize searches on that basis. Should the searches be called off? The Dean of CLA expected to receive $795,000, some of which was to be used for faculty searches; now they may have to be cancelled.

Mr. Pfutzenreuter said that when final allocations are made, the chancellors and provosts will make proposals related to priorities that are compatible with U2000. He recalled that central administration gave up $5.9 million as part of the biennial partnership proposal, which required $28 million in reallocations, compared to $1.7 million in the fifth year of Restructuring and Reallocation. The dollars from the SIP will likely go to the same areas that would have received the money in the fifth year of the plan. He said there needed to be trust that that would be the case. Mr. Erickson said that departments will know about their funding on the same schedule as before, so they could make decisions.

On the issue of trust, it was said, if there is no warning or consultation about the cancellation of the fifth year of the plan, people will also then question whether or not U2000 will be cancelled at some point, and will begin to wonder what it is they can count on. Why was this step taken without discussion? This is a very big issue.

It was clarified that the concern was not about transfers that would be made within colleges, and their possible cancellation. Those decisions will be up to the deans and provosts, Mr. Pfutzenreuter noted.

One Committee member said that it would be impossible to have two restructuring and reallocation processes on top of each other; another rejoined that if there are to be two, they should be linked. Mr. Pfutzenreuter said they would be. The best he can say, he told the Committee, is that as SIP decisions are made, the fifth year of the plan must be considered.

The budget instructions do not convey that intention, it was said. Phase 2 of the process, in December, will include an outline of financial parameters for the provosts and the criteria to be used in applying for SIP funds.

This development is almost inevitable, said one Committee member, when there are five-year planing cycles but two-year biennial cycles.

Another difficulty, Mr. Pfutzenreuter said, is that budget reductions were all taken on top of the restructuring and reallocation transfers--approximately $14 million per year for each of the last two years, as opposed to $20 million over five years. The question is whether to pile on more transfers or take a time out, with two plans in place.

Mr. Erickson said that another difficulty is getting more information out earlier. The December 20 memo, phase 2 of the process, will be key. Phase 1 is intended to be a mechanical process of adjustments, to get issues on the table, not to make decisions. The intent is to incorporate elements of the two plans and to integrate concepts.

What are interested parties to be told, he was asked? That the fifth year is cancelled and those who planned on receiving the funds should forget about them? What this says, Mr. Erickson told the Committee, is that the funds should not be built into base adjustments. That does not mean the fifth year of the plan will not be taken into account--only that it is not part of the base adjustments.

What if the University receives no additional money from the legislature, asked Mr. Pfutzenreuter? That is why U2000 is only a gleam in the eye, it was rejoined, because no one knows what the legislature will do. If the University is not going to do what it committed to do, and one is to look to U2000, there will be a lot of give and take and the dollars cannot be spent.

If one takes the numbers as valid, one Committee member observed, and the fifth year is cancelled, Finance and Operations will have $1.7 million in its budget that it would not have thought it would have. Mr. Erickson said there would be a $5.9 million retrenchment over the next two years and that the $1.7 million could not be added to it. But the presumption was that the $1.7 million would be retrenched and plans made thereafter, it was said in response.

Mr. Pfutzenreuter pointed out that there was considerable slippage in the five-year Restructuring and Reallocation plan as it was, and the University was lucky to have 80+% of it accomplished; he did not know if the fifth year transfers were even "doable." In addition, Mr. Erickson said, Finance and Operations retrenched about $5 million in one year, so if one looks at the totals, they retrenched far more than was committed in the plan. He suggested that the Committee may wish to talk with Dr. Infante at its next meeting.

One Committee member inquired if the both the retrenchments and the reallocations were to be cancelled. They are. So those who were to pay in over the five year period benefit while those who paid in the first three or four years have already given the full amount, it was pointed out. The logic is not understandable. Mr. Pfutzenreuter reiterated that when the SIP allocations are made, it is likely those who would have received funds in the fifth year will receive money. But, it was objected, some will be

80% losers and some will have been 100% losers; is it just tough luck for those who paid 100%? One can perhaps understand not continuing the fifth year of the reallocation, but there is no logic to canceling the retrenchments, it was argued. To make this fair, the last 20% should be collected, because the implication of this decision is that those who were to pay over five years will benefit.

Mr. Pfutzenreuter repeated that there has been little linkage between the Restructuring and Reallocation plan and additional budget retrenchments. Does that mean the Committee members are just naive, asked one Committee member. It "sweated through" the plan and took it as gospel; now it is gone. Now it is being said that what the Committee thought happened did not.

It would be difficult to re-create the Restructuring and Reallocation transfers, and the additional cutbacks due to declining state support, Mr. Pfutzenreuter told the Committee, because there have been so many cuts and reallocations and changes in the last four years. If one looks at year five in isolation, it does appear that some gave early. But others will give under the $28 million in U2000. Does it balance out? That will be known only once the legislature acts and reductions are made. That, however, will not be for awhile, it was noted.

Asked when the "winners and losers" would be known for planning for next year, Mr. Pfutzenreuter said it will be when the legislature adjourns in May. That, it was pointed out, is far too late to start academic searches. It was explained that departments, in the academic market, need to start searches a year ahead of time; in one case, such a search closed the day of the meeting. But they will be unable to fill the position if the funds are not available. But the money could have been committed for programs or equipment as well as positions. In the case of one unit, it was reported, they had waited until year 5 of the plan while others received funds in years 1-4. Now it appears they won't receive the money.

Given that the University does not know how much money it will have, Mr. Pfutzenreuter said, it would be wise to be cautious with or without the Restructuring and Reallocation funds in year 5.

One can hear what is being said on both sides, observed one Committee member, and pointed out that Messrs. Erickson and Pfutzenreuter had built up trust with the Committee over the past few years that faculty could rely on the processes; Messrs. Erickson and Pfutzenreuter were encouraged to follow through so that that trust could continue. The data presented show that potentially the last $3.5 million will not be moved among the units as planned, and the reasons for not doing so do not seem very good, so faculty and departments will go back to old numbers and begin to play games with the budgets. Messrs. Erickson and Pfutzenreuter have helped the University come along, it was cautioned, and they should not let it slide back into old habits.

Mr. Erickson said he understood that this was important and that trust remained the agenda. What is being said now, he repeated, is that the fifth year Restructuring and Reallocation will not be part of the base adjustments for the next budget; this is a mechanical process. Senior Vice President Infante should provide the rationale for the decision, he said.

[At the close of the meeting, discussion returned to this topic; it was agreed that Professor Gray should send a letter to the President expressing the concerns of the Committee about the cancellation of the fifth year transfers. The Committee believes and expects that the fifth year transfers will take place, and will constitute the first year of the next plan. It was noted that the President has spoken of the five year plan, as recently as a month ago in his State of the University address, and gave no one reason to believe the last year would be cancelled. It was also pointed out that one could look at this in different ways and get different answers; the question is what Dr. Infante is telling deans about searches--the budget instructions say nothing about them. A conservative dean will cancel them; others will not.]

Discussion then turned to the Resource Allocation Guidelines, a resolution to be presented to the Board of Regents for review in November and action in December. Mr. Pfutzenreuter reviewed its elements briefly and noted that it was largely the same resolution that was adopted by the Board of Regents last year.

One concept introduced by the language of the resolution is that there may be differential salary increases for different employee groups, depending on the market in which they exist. This is an important concept, Mr. Erickson said. A question about the narrowness of the language dealing with indirect cost recovery funds was raised; Mr. Pfutzenreuter promised to ask Acting Vice President Brenner about it.

In response to a question, Mr. Pfutzenreuter explained the concept of a structural imbalance and how it differed from a deficit (the latter is a one-year shortfall; the former is the case where recurring expenditures exceed revenues for the longer term). His office will be examining a number of units where there appear to be structural imbalances deficits above a certain threshold. This will include looking at all funds, Mr. Erickson added.

3. Emergency Capital Request

Mr. Pfutzenreuter then distributed a list of items the University proposes to ask for funding for under the rubric of an emergency capital request. He said the legislature expects to act on a bonding bill; institutions were invited to submit requests for emergency capital items. Committee members had only a few comments about the request, and no objections to it were registered.

4. Report from the Subcommittee on Facilities Management

Professor Gray turned to Professor Davison for a brief report from the Subcommittee. He asked Committee members for comment on the agenda items the Subcommittee has chosen to take up this year. They include the roles and responsibilities of Facilities Management in the reorganized administration, the Environmental Impact Statement for the new steam plant, campus master planning (all campuses), and trends and costs in facilities and maintenance and critical measures that might be associated with them.

Discussion turned briefly to the master planning process and the role that faculty should play in it. Professor Adams noted that there are often two groups involved: faculty who do not know how to plan buildings and do campus planning, and who are not listened to on committees because they do not know how to relate mission to what they do, and planners who do not know about the classroom. The West Bank buildings all had faculty on the committees, he observed, and the West Bank is an "unmitigated disaster." But this is important, he added, because the plans made today will create the working environment for the faculty's successors in 25 years.

It was noted that there are faculty on the master planning committee, some of whom are experienced in this kind of activity (such as Dean Harrison Fraker of the School of Architecture, who chairs the committee).

It was agreed that the Subcommittee would make five minute presentations at the first meeting of the month of this Committee.

-- Gary Engstrand

University of Minnesota