Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 7, 1997
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Catherine French, JoAnne Jackson, Gerald Klement, Leonard Kuhi, Robert Kvavik, J. P. Maier, Richard Pfutzenreuter, Jane Phillips, Peter Robinson, Charles Speaks, James VanAlstine

Regrets: Stephen Gudeman

Absent: Jean Bauer, Cynthia Gillette, Joby Sebastian, Shenoa Simpson

Guests: Vice President McKinley Boston, Associate Vice President Ronald Campbell

[In these minutes: the charging system for FICA and other fringe benefits; new planning and budgeting system; food service contract]

1. FICA Charges

Professor Morrison convened the meeting at 3:20 and asked Professor Speaks to raise a question that he had inquired about earlier via email. Professor Speaks asked about FICA charges: budgeted units are charged 5.2% on entire salaries and the University pays 6.2% on the first $64,500 to the federal government, which means, Professor Speaks calculated, that below a certain point ($78,000), the University pays more to the government than it collects from departments, and for salaries above $78,000, the University collects more from departments than it pays to the government. He raised several questions about this practice (are the overcharges balanced by the undercharges; if there is an excess, what happens to it; even if there is a balance between over- and under-charges, are not the costs of units with higher-salaried faculty artificially inflated; and are not higher-salaried units in effect subsidizing the FICA for lower-salaried units?).

Ms. Jackson explained that there is a fringe benefit pool, of which FICA is a part, and that there are indeed pluses and minuses, and that the rates are adjusted each year. This is not an unusual way to do things; there are some cross-subsidies, but the practice also allows the ease of operation. Mr. Pfutzenreuter added that the fringe benefit system is very old and that changes are being explored, and that the enterprise systems may do things more fairly.

Committee members pressed Ms. Jackson and Mr. Pfutzenreuter on why the existing system cannot be changed to reflect the actual charges the University pays for FICA. The problem was said to be technical; the existing program is jerry-rigged, there are not good records on it, and further changes may

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create additional problems. With the advent of the new human resources system on the horizon, the question is whether a change should be made now or if the new system should be awaited. The view of the Committee was that IF the new system could deal with the problem, and IF the new system were going to be installed in the near future, then tampering with the existing system was probably not worth the effort. Committee members were, however, skeptical that changes in the programming of the existing system were so difficult that they could not be accomplished, given the kinds of operations the system is otherwise able to perform.

A related issue was "postalizing" fringe benefits: removing fringe benefits from the pool and calculating each one separately for a unit or department. The question was raised whether it was worth the administrative supervision and cost to have a system capable of doing this, or if the fringe benefit pool and composite rate was satisfactory, with everyone receiving the appropriate fringe benefits. Is there any net benefit over the composite rate? Or is the composite rate inequitable?

It was agreed that the Committee would be provided a cost estimate for improving the proposed human resources system to accommodate better accounting for fringe benefit funds.

2. New Planning and Budgeting System

Professor Morrison turned next to Associate Vice Presidents Kvavik and Pfutzenreuter to discuss the new process. A draft memo about planning and budgeting compacts was distributed; Mr. Pfutzenreuter said they are consulting about it around the University, and that the intent is to more closely align the two processes. He reviewed briefly the calendar and described the phases involved in the process. There will be a website where units can prepare documents electronically; they intend also to reduce the volume of information requested. He drew the attention of Committee members to the draft questions for units.

Professor Morrison offered several observations about the draft: (1) there appears to be no place built into the process for consultation within colleges, or consultation between deans and the administration, and there is very little time for it to take place, given the deadline of October 17 for the process to begin; (2) units are being asked about issues that are not unit specific, such as compensation and tuition waivers; these are institutional policy decisions where units cannot give good advice about where the institution should go and where an institutional framework is needed; (3) the document cannot be equivocal on the faculty salary issue, which it appears to be.

Dr. Kvavik explained the rationale behind the questions, and said the intent of the effort was along the lines Professor Morrison's questions suggested. The deans should be able to advise the administration on problems, including on items such as salary increases and tuition, and they want the problems flagged early. Ms. Jackson said the intent was to ask questions earlier and to integrate planning and budgeting through an interactive discussion.

The Committee debated with Ms. Jackson and Dr. Kvavik about the process, with the Committee suggesting a need for more academic questions early in the process and for an institutional approach to major issues (rather than having a series of 2-person dialogues and lacking any broader consideration by deans and faculty). Dr. Kvavik said the dean is to put key issues on the table, and it is those issues that will be the focus of the compact.

Other issues raised by Committee members included the relationship between market, price, and University support for a college; whether or not the administration would bail out a college that did not meet its budget (not necessarily, but perhaps for the short term, especially if the outcome was not something the college could control); whether or not colleges could impose additional fees (this is regulated by the regents, but there could be more explicit language); the need for a single larger conversation on global issues, rather than 42 separate conversations on the same issues, which might not lead to the same conclusion as the single conversation.

Dr. Kvavik and Ms. Jackson pointed out that the document before the Committee today is oriented to compacts with the colleges, and that there will still be a need for planning parameters and an institutional approach to all-University issues. One example was an institutional goal of 4500 freshmen if 80% are to come from the top quartile; if freshman-admitting colleges propose to allow 6500, there must be negotiation with the colleges. Such an issue should also go to SCEP, it was said; the question is how to do the consultation.

Dr. Kvavik invited advice about the process, format, and questions. He suggested that the college plans could be aggregated and presented to the Committee for review of institutional questions; it was agreed that would occur. It was also suggested that the process be used to drive a serious inquiry into the size of academic units; most are the size they are because that is the size they were last year, which may not make sense. Unless inquiry is made (leading to gradual change, not layoffs), units will continue to be the same size, more or less, forever.

Professor Morrison thanked Dr. Kvavik for the presentation.

3. Food Service Contract

Professor Morrison next welcomed Vice President Boston and Associate Vice President Campbell to the meeting to discuss the food service negotiations. They distributed a handout with financial projections for the contract. Dr. Boston reviewed the factors that led to negotiations with Aramark, noted the principles that guided the negotiations, and said the objective is to provide high quality food at low prices. He reviewed important considerations: the partnership concept and the involvement of students in decisions about quality and pricing, the declining University market share, the need for a reduction in overhead costs, and the need to control costs (which does affect the University's bottom line).

Mr. Campbell reported on the consultation that had occurred and that a letter of intent is close to being signed, with action by the Board of Regents projected for December on a contract and action beginning in January. Mr. Campbell said they are now inviting comments from the University community about the proposal. The University will retain control of pricing (an important concession, responding to widespread concerns), partnerships with academic programs and internships will continue, there will be negotiations about services to be provided, and there will be renovation and both local and national brands offered.

There will be significant financial benefit to the University. The contract will be for 10 years, and includes a profit-sharing provision. Labor commitments will be respected for two years; civil service employees become Aramark employees (they retain their salaries but have Aramark benefits, which are less generous than those of the University). Students remain University employees. Of the 750 employees, perhaps 15 or fewer will not have a job after the change.

Committee members raised numerous questions about payment for space to be occupied by food service operations (Mr. Campbell explained that the food service pays for the full cost of space, and is not charged by the square foot; Committee members remained uncertain whether food services would pay its share of facilities costs, and if it would be paying less than academic units or student organizations). Another question was how an operation that had been losing $1.5 million per year would become profitable to the tune of about $1.5 million annually, and also provide a profit to Aramark. This would require a "swing" in profitability of at least $3 million, according to the contract projections (it was said this will be due to solid business practices, reduction of administrative costs, and reduction in food costs because of a volume purchaser, and, maintained some Committee members, lower employee costs). Other questions raised included exclusivity (not in catering), sale of assets, payments to and from other units by food services, and administrative costs to the University.

The students have reacted unfavorably, it was reported, and believe that if they are not to have substantive input into the negotiations, they should not be included in the process. Dr. Boston said it is difficult to decide what constitutes meaningful participation, and said they believed they had been inclusive and would continue to consult as much as possible.

The Committee requested more detailed information about the projected income and expenses from the contract. Professor Morrison observed, however, that SOMETHING had to be done to improve the food service, because it is collapsing.

Professor Morrison said the Committee would take up enterprise systems, the south Mall project, and the Facilities Management Subcommittee report at its next meeting, and adjourned this one at 5:00.

-- Gary Engstrand

University of Minnesota