Minutes*

Faculty Consultative Committee
Monday, March 15, 2010
1:00 – 3:00
238A Morrill Hall

Present: Marti Hope Gonzales (chair), Carol Chomsky, Chris Cramer, Shawn Curley, Caroline Hayes, Emily Hoover, Walt Jacobs, Jeff Kahn, Jan McCulloch, Michael Oakes, Martin Sampson, Kate VandenBosch, Becky Yust

Absent: none counted for a meeting called on short notice over spring break

Guests: Vice President Richard Pfutzenreuter, Julie Tonneson (Office of Budget and Finance); Professor Joe Konstan

Other: none

[In these minutes: (1) financial issues; (2) Faculty Senate docket; (3) continued discussion of the 27 pay periods]

1. Financial Issues

Professor Gonzales convened the meeting at 3:05. Professor Oakes began by asking that the record show how Vice President Pfutzenreuter and Ms. Tonneson and their office have been enormously helpful—even over the preceding weekend—to the Committee leadership. Professor Gonzales asked Mr. Pfutzenreuter to briefly review the financial situation.

Mr. Pfutzenreuter distributed copies of a set of slides entitled "University of Minnesota Operating Budget Update March 15, 2010." He began by noting the University started 2009-10 with a beginning base budget of $702.6 million. The legislature reduced it to $623.4 million. For the second year of the biennium (the one starting July 1, 2010), the University also theoretically started with a base of $702.6 million, but that wasn't a real number, but the legislature did increase the appropriation to $677.3 million. The Governor subsequently unalloted, reducing it to $627.3 million, and has since recommended a further reduction of $36 million, bringing the recommended appropriation for FY11 to $591.1 million. The House and Senate have both cut the University's budget to $591.1 million, the lowest level allowed by the federal stimulus act. So the biennial cut, in total, has been $190.7 million, Mr. Pfutzenreuter concluded.

The President's recommended operating budget for FY2010 (the current fiscal year) included a budget challenge (that is, a budget shortfall) of $135.9 million (without a provision for a salary increase): 40% caused by expenditure needs and 60% caused by state budget cuts. The solution to the FY2010 challenge was increased tuition revenue (30%) and University budget cuts (70% of the solution, which total about $95 million in the current fiscal year). Examples of the cuts that have been made include the loss of 52 faculty positions and 22 non-instructional staff in CLA as well as cuts in TAs and a reorganized

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* 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.

administration; in IT there have been 17 faculty positions lost, 20 staff, and a $1.4 million cut in TA budgets. In some cases, units have received stimulus funds to bridge the cuts.

The challenge for next year includes not only severe state cuts but the 27 pay periods, compensation increases (mandated by contract or necessary for retention and equalization), financial aid/scholarships, and so on. The budget challenge is $132.3 million; 75% ($100 million) arises because of internal spending needs and 25% comes because of the Governor's budget cut. Of the $100 million in internal expenditures, the 27 pay periods account for 41%, compensation accounts for 32%, and facilities, financial aid, and investments/other account for the remaining 27%. The state budget cut has made the 27 pay periods more difficult to deal with, Mr. Pfutzenreuter related. The compensation item also includes a catch-up in fringe-benefits payments, required under federal rules (which means there will always be a lag in these costs, up and down).

Professor Chomsky said that in the examples of cuts, they keep hearing that people do not see cuts in central administration. Mr. Pfutzenreuter said that of the $95 million in cuts this year, $18 million has come from central cost-pool budgets. University Services was hit hard, for example, and would have laid off 30 custodians, but was provided stimulus funding with the hope that the reductions could occur through attrition. He lost one staff person (out of an office of nine people).

One hears that tens of faculty are gone, Professor Yust commented, but never any associate vice presidents. Custodians are not the same—faculty see that service every day. Have there been cuts in executive-office budgets, Professor Oakes asked? There have been, Mr. Pfutzenreuter said, including in vice-presidential offices. Is it accurate to say that offices in Morrill Hall have been cut substantially, Professor Oakes continued? Slightly more than academic units this year, Mr. Pfutzenreuter said. Attrition or layoffs, Professor Cramer asked? Mostly attrition, Mr. Pfutzenreuter responded, and these offices may not have seen as many layoffs because of widespread use of early-retirement incentives. But the cuts came from the current allocation, so were real cuts, Professor Chomsky asked? They were, Mr. Pfutzenreuter said.

The solution to the $132.3 million challenge for FY11 includes increased tuition revenues (35% of the solution) and recurring and non-recurring budget reductions (the other 65% of the solution), Mr. Pfutzenreuter next explained. The recurring reductions are the 2.75% reductions to unit budgets (on top of the 5.5% reductions that had already been absorbed, and slightly more than that in central administrative units). The 2.75% has produced $7.6 million in cuts in support units so far, Mr. Pfutzenreuter reported, and will total $44 million overall. They are not seeing a lot of layoffs; in some cases tuition revenues are helping colleges, and in others vacant positions are not being filled. The non-recurring reduction is also the need to solve the problem of 27 pay periods.

Professor Sampson recalled that the legislature has asked for a report on how the university plans to deal with the projected budget stress of the 2012-2013 biennium. It is due today, Mr. Pfutzenreuter said, and (the request from the legislature) asked for how the University would land on "tail targets" in the law (based on a much higher state appropriation). The University can say it has met them because it will be cutting its state funding to $591.1 million.

There could be a big additional drop in state funding in the next biennium (two years), Professor Sampson commented, and one assumes that the central administration has been thinking about it. If the University absorbs a proportionate share of the state's projected budget deficit in 2012-2013, the state funding will drop (a lot) lower than $591 million. And that could happen. There is a lot of faculty concern about what the cliff will look like.

Professor Oakes agreed that there are deep concerns about FY12 and FY13, which could be a repeat of what the University has just gone through, unless one is optimistic about job growth and increased state revenues. The University's share of the state budget has been declining consistently (it now stands at about 4%). Even with revenue growth, other costs will accelerate and the University will remain a lower priority.

Professor Oakes reported that he and Professor Gonzales had been called by the President, who had been thinking a great deal about furloughs and the issues people have raised. The President invited the two of them, along with a number of other people (including Professors Chomsky, Hanna, Konstan, and Morrison, Provost Sullivan, Vice Presidents Brown, Carrier, and Pfutzenreuter, Ms. Tonneson, Ms. Waldemar and Mr. Pearthree from CAPA, Assistant Vice President Paulsen, and Ms. Stuckert) to a meeting last Friday to talk about the original plan for three days of furlough and related issues. It was Professor Morrison who suggested a way to re-think the issue; he said that due to implementation problems (especially with regard to grant supported faculty), furloughs for faculty should be thought of as a percentage of pay, and instead of recommending a 3-day furlough, there should be a one-time 1.15% pay cut (which is the approximate equivalent of the 3-day furlough for hourly employees). Mr. Pfutzenreuter and Ms. Tonneson informed the group that that would generate significant one-time savings to help address the problems of FY11. The proposal is thus for a 1.15% temporary (one-year) pay cut for faculty and P&A staff and a 3-day furlough for civil service and bargaining-unit staff, which provides about $18.5 million in savings. Slightly more than would be recouped by a furlough for everyone, Professor Chomsky noted, so it closes the budget gap a little more. Mr. Pfutzenreuter concurred, and said that when one adds the proviso that salary increases for faculty and P&A staff will be delayed until January, there is another $9.7 million in savings over budgeted amounts. Those two items together leave a budget gap of $12.8 million, an amount that can be covered with balances in operating units and possibly with stimulus funds.

The President also decided, Professor Oakes reported, that the academic and administrative officers (there are 85 of them) would see a 2.3% temporary pay cut, twice that of all other employees. Professor Oakes recalled that Vice President Pfutzenreuter had good reasons for not delaying the salary increase until the end of the fiscal year, as the Committee on Faculty Affairs had recommended. One danger is that if one thinks ahead, to where the University may be on June 30, 2011, Mr. Pfutzenreuter said, units may decide that they would not deliver the increase. Another likely problem is that units would not make the cuts necessary to pay for the salary increase if it is delayed until the last pay period of the year.

Professor VandenBosch recalled that when the Provost had joined the Committee recently to talk about the compensation plan, he indicated the money saved from furloughs would remain in the units. Is that still true? It is, Mr. Pfutzenreuter said; there has never been any plan that central administration would take the money. Some colleges are more centralized than others, he cautioned, so it might not be that the money would stay in departments. How the savings are handled is internal to the college.

The 27 pay periods will affect some colleges more than others, Professor VandenBosch then observed. CLA and IT have more 9-month faculty while the AHC has more 12-month faculty. Is CLA going to help out the AHC with its cost of the 27 pay periods? All faculty and staff will take the 1.15%

cut and the money will not be moved around, Mr. Pfutzenreuter said. Professor Oakes reported that he and Professor Konstan had worked on this issue at great length over the weekend. 12-month appointees will receive an "extra" paycheck during FY11 but 9-month appointees will not. So 9-month faculty will take a 1.15% pay cut and not receive the "extra" check; 12-month faculty will take the pay cut and receive an "extra" check. The question is whether this is unfair, and this is quite complicated because it depends on one's view.

The Committee at this point held a lengthy discussion about the problem of the 27 pay periods. It was noted that there are two opposing views of the issue:

1. Those on 12-month appointments are paid for 52 weeks (a biweekly payroll system), so each year they work a little bit more than 52 weeks because there are 365 days in a year, not 364 (52 weeks X 7 days per week), and this additional pay period catches them up.

2. Those on 12-month appointments are paid for a year, so the 27th pay check is a "bonus."

The President, on the advice of the General Counsel, has firmly concluded that #1 is correct and thus the 27th pay check for 12-month faculty is not a "bonus."[1]

Professor VandenBosch repeated her point: The 12-month faculty come out OK, the 9-month faculty do not receive the extra check and face a cut. In some colleges, the vast majority of faculty are 9-month, and so there will be a great deal of revenue generated by the salary reductions in those colleges. The money stays in the college and helps to bridge cuts, Mr. Pfutzenreuter said. The more that is cut, the more that schools will be able to deal with problems, Professor Kahn said (e.g., IT has fewer faculty to whom it must pay the 27th paycheck).

Professor Chomsky asked whether the decision to pay the 27th pay period next year means it will not be possible in the future to divide salaries by 26 pay periods in one year and 27 in another. She said it is not clear what options the decision may foreclose. One needs to address that question to the General Counsel, Mr. Pfutzenreuter responded. Professor Oakes reported that Professors Konstan and Morrison were emphatic that faculty should agree to the 1.15% pay reduction only if the administration committed to finding a permanent solution to the 27 pay periods next year. Professor Chomsky said she was simply trying to understand if the options are more limited going forward. Under the tenure code, faculty salaries cannot be reduced even if there was a mistake, Professor Konstan contended, but said he believed there is another solution. If there is a 2% compensation pool, 9-month faculty could be provided with an extra 0.35% recurring raise so that there would be no inequity in the future. He also said that the fiscal challenge could be addressed in the future if the "implied raise" of 0.35% for A-term faculty was deducted from the compensation pool and instead sequestered each year to be saved until the next 27-pay period year.

That plan assumes there will be merit money in the future, Professor Cramer said, and there is a $27-million problem that has to be dealt with now. Another possibility, he suggested, would be that the

[1] Note: After the meeting, Vice President Carrier verified that payroll has treated 12-month appointments as being paid for 52 weeks. For example, consider a fiscal year where the last pay period ends June 23rd. A 12-month employee who leaves the University at the end of the fiscal year (June 30th) would be paid an additional week of pay for the week following the end of the last pay period.

12-month faculty are receiving a "bonus" they were not expecting, got lucky, and so could be asked to take a larger temporary salary reduction.

Professor Oakes repeated that he and Professor Konstan had worked on this issue at great length and recognized that there is a difference in the way 9- and 12-month faculty will be treated. The President's message said that all people are being treated equally, but they are not, Professor Konstan said. There is a difference between faculty and P&A staff as well, Professor Chomsky said; P&A staff will not see it as an "extra" check because they are being paid a salary they have earned every two weeks.

Professor Hayes commented that the more discussion there is, the less clear it is what the actual policy is. Any policy must be broadly understood because people will not support it if they cannot figure it out. Professor Yust agreed that the more one talks about the issue, the more complicated it becomes. This would be easier if an appointment were from July 1 to June 30, but in some cases they start and end on other dates. It is not an extra check, she said, it just shows up one year, every 11 years.

Looking back, if employees are paid the extra check, it appears the decision had/has been made that a year equals 52 weeks, Professor Konstan said, and one is not paid extra because the 27th check is paying for the 1.25 additional days per year (including leap years) not covered in the 52-week salary. But it will mean 12-month appointees got a very small raise (that few if any knew about), relative to 9 month appointees; It's all very complicated but what is important is that the problem be solved going forward, he said. Professor Oakes added that it is critical to understand that all savings from the salary cut stay in the units, so no cross unit burdens or subsidies are going to happen.

If the faculty vote "no" on March 25, the President will need to get the money from other places, and will probably take it from departments. Professor Yust noted that the Faculty Senate will ONLY be asked to vote on the 1.15% salary reduction, not on the 27th pay period and not on the 2% compensation increase. That is correct, Professor Chomsky said, but faculty will still want to know the reasons for the need for the 1.15% reduction. Professor Hoover was not sure extended explanation of the 27th pay period will be needed, but Professor Kahn did, because faculty are being asked to take a pay cut but not take days off. People must either take vacation or work at home, Mr. Pfutzenreuter said.

It was said that a furlough is not equivalent to a pay reduction. One Committee member said he knew of people who said that if they are not being paid to work, they want to know what days they are not being paid for so they don't work. The 1.15% reduction is different and could provoke pushback. The 27th pay period will be borne by the units and will not be a shared sacrifice. Nor is it totally clear the money will stay in the units, he added; with the "hydraulic" financial system the University has (if money is short in one unit and more available in another, the administration can reduce state funds to the latter and allocate them to the former). They do not make one-time cuts to units to pay recurring costs, Mr. Pfutzenreuter pointed out. They look at recurring problems. Then there will be problems in the units that have mostly 12-month faculty, Professor Konstan said.

Professor Sampson asked if the 12 month faculty do not get the 27th check, saving $17 million, and a corresponding cut is taken by the 9 month faculty, what would the cut be for 9 month faculty?

Professor McCulloch said that the conversation is important but that how it is presented will affect how people vote at the Faculty Senate meeting. She said she was concerned that if the Faculty Senate votes "no," the units will take a bigger financial hit. And it will be important not to present a veiled threat. But it is a reality that alternative means to save on costs will have to be implemented, Professor VandenBosch exclaimed. While not a threat, faculty will not have control over what options will be chosen. And in terms of 12-month people getting a check, it may appear that it is for work they have not done but that is not true; it is work they have done and are being paid for. Professor Konstan again made the point that ever since the change to the biweekly payroll, a salary is based on 52 weeks, and in that case all those on 12-month appointments have done a little bit of extra work each year.

Embedded in this issue is a tension between faculty and administrators, Professor Yust said; 90% of administrators have 12-month appointments and are perceived not to have seen cuts, and now they are receiving an extra paycheck as well.

Professor Gonzales extended warm thanks to Mr. Pfutzenreuter and Ms. Tonneson for their help in understanding the financial issues.

2. Faculty Senate Docket

Professor Gonzales asked for a motion to close the meeting. The Committee voted unanimously to do so and then moved to a discussion of structuring the March 25 Faculty Senate docket.

It was agreed:

-- All three motions will be put on the floor for initial discussion, for perhaps an hour. (Two resolutions were received from senators prior to the President's message on March 12. It was expected that the authors of the resolutions will likely still want to introduce these as motions, albeit perhaps with some edits.)

-- Professors Luepker, Martin, and Morrison would be asked to play major roles in discussion of the financial issues.

-- This Committee would move the President's proposal, inasmuch as the Parliamentarian has ruled that the President may not make a motion or speak on behalf of a motion.

-- It will be important to have Vice Presidents Carrier, Mulcahy, and Pfutzenreuter at the meeting in order that they can respond to questions.

Professor Gonzales adjourned the meeting at 5:15.

-- Gary Engstrand

University of Minnesota

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3 Continued Discussion, 27 Pay Periods

The Committee continued to discuss by email the 27 pay periods and the implications of the president’s proposal in order to clarify the issues. They concluded that while it is important to understand the mechanics and effect of the 27th pay period, the real issue at hand is the fiscal crisis caused by a cut in the University's state appropriation--a cut of 36 million dollars MORE than had already been cut last year. The question of whether to pay a 27th pay period was never really on the table; since the day of the conversion to a biweekly payroll, the University has been consistently treating 12-month employees as having a salary that is paid out in biweekly pay periods, each representing $1/26^{th}$ of their annual salary, and it would be unfair to suddenly cut their well-earned and expected biweekly pay just because the fiscal year with 27 checks just happens to fall in a tough year when the extra pay period can't be absorbed because of the external pressures on the budget. It needs to be acknowledged that everyone knew this (the 27^{th} pay period) was coming; the University should have devised a system to save a bit each year to pay for the 27th checks (although it isn't that simple, as much of the burden is charged to grants and other payers). The President should direct the appropriate administrators to bring him a proposal, informed by appropriate consultation, for dealing with the plan that can be implemented before he leaves office. It may also be appropriate to acknowledge now that at the time of the conversion, it was a mistake to effectively give 12-month employees this small raise (just over 3% over 11 years) without matching it for nine-month employees, and the University should commit to resolving that inequity going forward.

In any case, the 27th-payroll problem is only one part of a larger budget shortfall, which affects the whole University. It is not a matter of one unit versus another, but rather avoiding layoffs and severe cuts. No money is moving from college to college or from campus to campus as a result of the savings from the furlough and salary cut. The causes of the crisis will fall heavily across the University; the reductions from the Governor will affect everyone; the badly-timed but federally-required catch-up cost for fringe benefits will hit all units; and the 27th pay period will hit all units (through staff). It is true that some units (such as those in the Academic Health Center) have more 12-month faculty members who will receive the 27^{th} pay check, but those units also tend to support many more of their faculty on grant or clinical funds, so only a portion (and usually a relatively small portion) of the pay of those faculty will be subject to the University's 27^{th} pay check. Everyone should understand that the saved money from the salary cut will be used to protect the programs—and that means jobs—within their units.

The Committee was also informed that the issue of the 27th pay period has come up in other government agencies, including MnSCU, and they simply pay it without great ado.

Fundamentally, this giveback of 1.15% from faculty, of 1.15% from P&A staff and civil service and bargaining-unit employees, and of 2.3% from senior administrators, is a way to buy the University time—one year—to deal with the "new normal" in a thoughtful way. As many know, there is already a process in place, with involvement of faculty representatives at all levels, to make recommendations on how to reshape the University to maintain excellence in a climate of reduced state support. Adequate consultation and deliberation will take time, and even if decisions were made today, some of the changes will take time to enact. In the meantime, this 1.15% preserves not only programs, but jobs; it gives us one more year to shrink more by attrition than by lay-offs, and one more year to work creatively to shape the future of the University.

What happens if the Faculty Senate votes "no" on the proposal? The answer should be clear. It is unlikely the President will feel that he can ask other employees to sacrifice if the faculty will not. If the Senate votes "no," he will probably have no choice but to pass more severe cuts onto the units of the University—cuts that everyone should understand will result in job cuts and other painful decisions.