Minutes[*]

Senate Committee on Finance and Planning
Tuesday, January 16, 2001
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Stanley Bonnema, Charles Campbell, Daniel Feeney, Stephen Gudeman, Wendell Johnson, Joseph Konstan, Michael Korth, Eric Kruse, Elo Charity Oju, Richard Pfutzenreuter, Jane Phillips, Terry Roe, Rose Samuel, Cory Stingl, Susan Carlson Weinberg, J. Peter Zetterberg

Regrets: David Chapman

Absent: Leanne Baylor, Michael Volna

Guests: Sheila Warness (Director of Asset Management); Vice President Charles Muscoplat

[In these minutes: (1) faculty salaries delivered 1999-2000; (2) new football stadium; (3) update on Coffman Union; (4) Faculty Mortgage Program changes needed; (5) report on the Economic Summit Working Group recommendations; (6) department deficits]

1. Faculty Salaries Delivered 1999-2000

Professor Speaks convened the meeting at 2:15 and turned to Dr. Zetterberg for a review of faculty salary increases delivered in 1999-2000. Dr. Zetterberg distributed a slightly revised version of a table that had been provided earlier to Committee members; the table contained data on faculty salary increases by college/unit and by rank for individuals continuing in the same rank (the table appears below). The table does NOT include data for individuals who were, for example, promoted from one rank to another. This is the format requested by the Faculty Consultative Committee a couple of years ago, Dr. Zetterberg said, so that is the way he has continued to report it.

The overall increases were 4.4%. The salary plan called for at least 3% increases and asked units to try to deliver greater increases.

Professor Korth said that the data for his unit were incorrect; he and Dr. Zetterberg agreed to work to correct them.

Professor Konstan, noting large increases in one unit, asked if there were any one-time phenomena affecting particular units. Dr. Zetterberg said he did not know of any and in the particular case the unit must have had the funds and made faculty salaries a high priority.

[*] 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.

Professor Speaks noted that Law and the Humphrey Center delivered higher-than-average increases. Dr. Zetterberg said that Law has set faculty salaries as a high priority and that it compares well with its peers.

Professor Gudeman asked if the data had ever been divided into quartiles or quintiles and analyzed for patterns over time. Dr. Zetterberg said it had not but that he believed Law and Management would consistently be higher than other units. IT and CLA have had exceptional years, for example, but only those two have been consistently high.

Professor Speaks thanked Dr. Zetterberg for the data.

1999-2000 Faculty Salary Increases by College/Unit by Rank

College/Unit	Professor	Associate	Assistant Professor	Instructor Professor	Total
UMC-Academic Affairs	4.2%	5.6%	3.0%	9.4%	4.5%
UMD School of Medicine	4.8%	2.8%	3.0%	---	3.7%
UMM-Elem & Sec Educ	---	7.4%	---	---	7.4%
UMM-Humanities	5.6%	2.9%	-0.2%	---	2.6%
UMM-Science & Math	1.6%	1.4%	3.4%	2.8%	2.1%
UMM-Social Sciences	3.1%	3.4%	3.4%	3.2%	3.3%
Agr Experiment Station	2.5%	3.7%	3.9%	---	3.3%
AHC-Shared	2.8%	---	4.0%	---	3.2%
Arch & Landscape Arch	2.9%	3.0%	3.0%	---	3.0%
Biological Sciences	3.9%	5.4%	4.7%	---	4.2%
Continuing Education	---	---	2.6%	---	2.6%
Educ & Human Devel	3.7%	4.3%	4.4%	---	3.9%
Human Ecology	4.1%	2.2%	3.6%	3.0%	3.5%
Liberal Arts	4.2%	4.7%	6.6%	3.0%	4.6%
Natural Resources	3.8%	2.3%	3.2%	---	3.6%
Agr, Food & Envrn Sci	2.8%	3.3%	3.4%	---	2.9%
Mgmt, Curtis L Carlson	4.5%	4.2%	2.8%	---	4.1%
Dentistry	2.9%	3.5%	5.2%	---	3.5%
MN Extension Service	---	3.5%	0.0%	---	2.6%
General College	3.8%	3.9%	3.8%	3.2%	3.9%
HHH Inst of Publ Aff	7.8%	4.7%	---	3.1%	7.0%
Inst of Technology	3.8%	4.0%	4.9%	0.0%	3.9%
Law School	8.0%	7.1%	5.0%	---	7.9%
U Libraries	7.5%	2.0%	2.1%	---	4.3%
Medical School	5.2%	6.0%	5.0%	4.7%	5.3%
Nursing	3.3%	3.6%	3.2%	2.6%	3.4%
Pharmacy	10.1%	7.8%	6.8%	---	9.0%
Public Health	4.5%	4.4%	3.7%	4.9%	4.3%
Research	3.7%	2.0%	---	---	3.4%
Student Dev & Athletics	3.0%	---	---	---	3.0%
Vet Medicine	3.9%	2.2%	3.6%	---	3.4%
TOTAL	4.4%	4.5%	4.5%	4.2%	4.4%

2. Football Stadium

Professor Speaks turned now to Vice President Kruse to discuss the football stadium.

Mr. Kruse distributed copies of an article from the STAR-TRIBUNE entitled "The Who, What, and When of the stadium debate" and said that it was an accurate summary of the situation. He said his purpose at this meeting was to explain why the University is doing ANYTHING about a stadium and what it is doing.

One question that arises immediately is why the University is considering any stadium options when it has a contract with the Metrodome through the year 2011. The Twins have a way to end their lease after two or three more years; it is assumed by the Metropolitan Sports Facilities Commission that the Twins will not remain in the Metrodome. The reason the University is examining the issue is because both the Minnesota Vikings and the Metropolitan Sports Commission (hereinafter MSFC; the University's landlord for football) have asked for the University's position. And since there has been discussion at the legislature, Mr. Kruse related, the University knows it will also be asked by legislators what its position is.

When the decision to build the Metrodome was made the University was an afterthought and ended up with a poor position. This time the University wants its position to be known. At the same time, Mr. Kruse emphasized repeatedly, the University is NOT trying to advocate for a stadium or becoming partners with anyone. It is NOT in partnership with the Minnesota Vikings, although the Vikings would very much LIKE the University to be a partner with them.

The MSFC has proposed a plan to remodel the Metrodome for football only and taken the position the Twins would not play in it. The MSFC has asked the University what it needs to be successful and have asked for an endorsement of their plan. Until the University determines what its program and priorities will be, it cannot provide an answer. The Vikings have rejected renovation of the Metrodome and launched a campaign to garner support for a new stadium that could include the Gopher--and have asked for the University's support. The University has declined to endorse the campaign but has provided the information requested by the Vikings.

Mr. Kruse reported that the University has contracted with a consulting firm in Kansas City that specializes in sports facilities, one of the four leading firms in the world. He said the University did NOT want a local firm because it wanted to be sure the firm had the University's best interests at heart. The firm will help the University evaluate proposals to see how they meet the needs of the University's football program, how they provide a collegiate atmosphere, what the financial opportunities will be and what the financial responsibilities of the University will be, who governs the facility, and what the impact of a facility will be on the campus and neighborhood (if it were built on or near the Twin Cities campus).

There is NO work being done on a University-only facility, Mr. Kruse related. The University is responding to issues raised by the Vikings and the MSFC, and will cooperate in studies and analysis, but will not lead an effort. One position on which the University is firm is that any funding for a stadium cannot diminish the University's academic opportunities.

There will be a series of meetings with groups (the football program, campus planning, parking, event management, and so on) to gather information and establish criteria so the University can evaluate various stadium proposals. The University does not want something given to it that is not in the University's best interests. Mr. Kruse said he was worried by the possibility that the Vikings and Twins would each obtain a new stadium and the state would give the University the Metrodome. The costs of operating the Metrodome are high; such an offer would not be attractive.

Mr. Kruse said he would be willing to return to the Committee as often as necessary to keep it updated on stadium developments.

Professor Speaks inquired about a paragraph in the newspaper article which indicated the University wants a new on-campus stadium and is also considering a football-only dome. Mr. Kruse said that is the position taken by Mr. Moe, Director of Men's Intercollegiate Athletics, not the University's position. The implication, Professor Speaks said, is that this is the institutional desire. One might say it is "aspirational" on the part of the athletic director and head football coach, Mr. Pfutzenreuter commented; they would very much like a new stadium paid for by someone else so the department could generate more revenue.

Is it normal for a university this size not to have its own stadium, Ms. Samuel asked? There are very few that do not, Mr. Kruse said; seven use stadia that are also used by NFL teams. Did the University once have its own stadium, she then asked? It did, Mr. Kruse said, until 1982; Memorial Stadium sat where the Aquatic Center and the Gateway Center now sit.

Is anyone looking at the indirect effect a stadium drive would have on alumni giving to the University, Professor Konstan asked? Would it hurt giving for other purposes? Mr. Pfutzenreuter said that no one has authorized any fund-raising for a new stadium. Vice President Muscoplat, who had joined the meeting, said that the President would not authorize any stadium fund-raising until the current capital campaign is completed.

No one has mentioned one of the University's major assets, its land, Professor Konstan said. Mr. Kruse said the University has indicated that it has land available but does not know if putting a stadium on it would be the best use of the land.

Has there been consideration of the impact of the cost of a stadium on the University's bonding capacity, Professor Campbell inquired? The University would not want to take on additional debt for a new stadium, Mr. Pfutzenreuter said; he and the Committee speculated about various ways the legislature might provide funding for a new stadium in which the University was a tenant.

The Committee then conducted a short "no minutes" discussion with Messrs. Kruse and Pfutzenreuter about various political and financial issues surrounding the stadium proposals. At its conclusion Professor Speaks thanked Mr. Kruse for the information and accepted his offer to return as needed to report to the Committee.

<u>3. Brief Update on Coffman Union</u>

Professor Gudeman asked Mr. Kruse to comment briefly on the plans for Coffman Union.

Mr. Kruse reported that a contract has been signed to complete the remodeling of Coffman Union and they are now looking at a way to structure the flow of revenue in order to pay for the remodeling. One proposal is for University Bookstores to become the anchor tenant. The remodeled union would open in the Fall of 2002.

Asked about the plans for the Campus Club, Mr. Kruse suggested the Committee speak with Provost Bruininks.

Later in the meeting Mr. Pfutzenreuter reported that the project is starting over because it needs a new program. The design-build team that has been selected cannot do anything before that reprogramming occurs, so the University has to make decisions so the work can begin. A big decision is whether the bookstores will take 40,000 square feet (compared to its present 8,000 square feet). What would it displace? They are looking at everything again, Mr. Pfutzenreuter said.

Professor Roe cautioned that the University does not have a monopoly on book sales; if prices go up and service goes down, students will go to Amazon.com.

It was agreed that this topic would be on the agenda for the meeting of January 30.

4. Faculty Mortgage Program

Professor Speaks now welcomed Sheila Warness to the meeting for a review of the Faculty Mortgage Program.

Mr. Pfutzenreuter set the context. Ms. Warness brought the problems with the program to his attention; he brought it to the President. President Yudof suggested that it be referred to Professor Morrison, chair of the Faculty Consultative Committee; Professor Morrison asked that it be brought to this Committee for initial review.

Ms. Warness then explained that the program, begun in 1985, may no longer be serving the purpose for which it was intended and that it is no longer the no-cost program that it began as. In 1985 there were double-digit mortgage rates and the average home cost was about $110,000; now rates are hovering around 7% and the average home cost is close to $200,000. Funding for the program was to come from two $10-million investment pools, at no cost to the University because the money from the mortgages would be reinvested and provide higher yields than bonds in portfolios. It was assumed that the $20 million could be recycled 3-4 times without a negative impact on investment returns.

Of the two investment pools, one has shrunk dramatically (because of the sale of the hospital) and the other is no longer invested solely in fixed-income securities. The cost of the program to the University last year was $433,000; it has cost $112,000 so far this fiscal year. Her recommendation is that either the program be discontinued or an alternative source of funding be found.

A discontinuation of the program, Ms. Warness assured the Committee in response to a question, would not affect any faculty members who have set up a mortgage through it; those are done. It would mean that the program would not be available in the future. Asked how many faculty use it, Ms. Warness said perhaps an average of 175 people per year, although the number can fluctuate considerably; the program is only available to tenured and tenure-track faculty and some individuals on continuous appointments.

Professor Roe said there were two questions to be asked: (1) what is the opportunity cost of the money that is being spent? and (2) if the University were to pursue its normal investment strategy and this option were in the market, would the University invest in it? Ms. Warness was not able to answer the questions directly but did say that the payouts on GIP funds to departments were slightly reduced because of the cost of the Faculty Mortgage Program. She also noted that the original assumption, that the funds could be rolled over 3-4 times without harm to the investment program, has long been exceeded; the program has funded about $200 million in mortgages since its inception.

Professors Bauer, Konstan, and Speaks reported that they had explored using the Faculty Mortgage Program and had discovered that they could obtain cheaper mortgages in the private sector. Professor Bauer said the program was beneficial to younger faculty and Professor Konstan said that there would be substantial value to a program that DID help faculty; he asked if an alternative might be to negotiate a preferred rate for University staff with a mortgage lender. Professor Gudeman said that one needed to consider the benefit to faculty compared to the subsidy; is this what should be subsidized?

Professor Campbell wondered if the program was really helping in retention and recruitment. Ms. Warness said there are constraints: there is a $250,000 limit, a 10-day lock-in period, the house must be the primary residence, it must be in Minnesota, and cannot be part of a multiple dwelling. The program was more beneficial when interest rates were high, she concluded. Professor Bauer added that the out-of-pocket costs were higher than for a mortgage obtain in the market; so is the downpayment, Professor Konstan said.

Would faculty members being recruited to the University rather have a higher salary or a mortgage benefit, Ms. Samuel asked? It almost sounds like it would be more helpful for assistant professors moving to the University to find the best rates; this program could mean they end up with a WORSE rate than what they could obtain on the market, Ms. Phillips observed. Sometimes this program does offer better rates, Ms. Warness said, and the service is better.

The underlying principle is that this should be a faculty-friendly university, Professor Feeney said. It might be better to seek a preferential provider, perhaps for all University employees; that would involve no University dollars but the University could negotiate terms.

Professor Speaks suggested that the Committee on Faculty Affairs should review the program, but it was his view that this program was not a high enough priority that it should receive a University subsidy. The CONCEPT should not be scrapped, he said; it should be replaced, Professor Campbell concurred.

The reason this issue was brought to the Committee, Mr. Pfutzenreuter repeated, was because of the $433,000 cost last year and the $112,000 cost so far this year. The GIP funds are not getting a fair return and the University should do something quickly to find another source of funding for the program. Ms. Warness affirmed that if the program were stopped now the losses would stop but that no one currently holding a mortgage through the program would be affected. Ms. Weinberg urged again that the University consider issuing an RFP to learn if it could find a sole-source provider for a mortgage program available to all University employees.

Professor Gudeman moved that the issue be referred to the Committee on Faculty Affairs; the motion was adopted unanimously.

Professor Speaks thanked Ms. Warness for joining the Committee and making the report.

5. Report on the Economic Summit Working Group Report

Professor Speaks now welcomed Vice President Muscoplat to the table and told him the Committee was interested in learning about the recommendations of the Economic Summit Working Group that President Yudof appointed following the economic summit on September 12, 2000.

Dr. Muscoplat began by explaining that President Yudof wanted the economic summit because he was concerned there was not sufficient debate about the Minnesota economy. The President asked him and Lawrence Perlman, CEO of the Seagate Corporation, to co-chair the summit as well as a working group to follow up on the work of the summit because it was important to carry forward its work and to look at the importance of higher education in economic development. Dr. Muscoplat said that he immediately turned to a number of other people for assistance, including Professor Roe from this Committee.

Some take the position that there is nothing wrong with the economy and the market should take care of any problems. Others think the Minnesota economy is going to hell in a handbasket. The reality is more complex, Dr. Muscoplat said. It can be argued that (1) Minnesota is doing well but could be doing better and (2) Minnesota is doing well but not all are participating in the healthy economy, particularly rural areas and communities of color.

The state has one of the lowest unemployment rates in the country--something it brags about--but that makes it hard for employers to expand. Minnesota is not like Silicone Valley; it has a very diverse and robust economy. The elephant in the living room is the work force: it is estimated the state will be short one million workers in the next 15 years. There is a chronic long-term work force shortage.

The Working Group was not composed of people from the University (indeed, Dr. Muscoplat joked, one could say it was "the 20 most important people in Minnesota and me"). It was a group of well-known people who looked at what could be done to make modest changes in the trajectories in policies without breaking the bank. The Working Group held nine meetings of four hours each and had subcommittee meetings in between to work on specific issues. From the report:

> The Working Group identified five critical success factors for the Knowledge Economy and recommends a number of action steps for the people of Minnesota to support them.
>
> 1. A Strategy to Build a Knowledge Economy for Minnesota’s 21st Century:
>
> The Working Group envisions Minnesota’s Knowledge Economy as a resilient and growing one, fueled by a virtuous cycle of innovation, entrepreneurship and workforce talent that enables industries to return wealth to their owners, workers, and communities throughout the state. This vision depends on leadership at the highest levels to create an environment in which public-private partnerships enhance and advance a focused knowledge-driven industry cluster strategy that maintains the vitality of existing industries and builds on Minnesota’s emerging industry clusters, especially those in:
>
> Health care – particularly medical technology,
> Biosciences – especially applications in agriculture, and
> Communications and Information Technology – particularly storage technology and data communications
>
> These knowledge-driven industry clusters include large and small firms and supporting business and institutions which together will enhance skills, know-how, technology along with business and industry leader-ship and success. This cluster strategy addresses the root sources of our future

prosperity. It encompasses recommendations to build the best workforce, to deepen our capacity to generate and share knowledge, and to foster a climate for business success. The working group also calls for a leadership coalition as a vehicle to guide the strategy’s implementation.

2. Workforce as Our #1 Advantage: Build talent for the 21st Century

Use scholarships as a talent magnet to attract and keep the best and brightest young people.

Better align education and training systems to meet industry needs, and to increase wages and career opportunities at all levels.

The Working Group recommends that every effort be made to align the activities of government, education, and private industry towards development of the Knowledge Economy. The Knowledge Economy is defined here as one which values the talents of human beings in terms of knowledge, know-how and technology more than contributions of natural resources, financial capital and physical labor.

3. Top-Ranked Innovation & Knowledge Capacity: Build critical mass and enhance research and innovation in significant industry clusters

Strengthen the University of Minnesota as the flagship research institution and align programs with business and technology opportunities.

Support innovation through industry-led research and development and commercialization of technologies.

Spread access to and availability of knowledge -- through education, training and technical assistance -- throughout the state. Focus on linking diverse populations, entrepreneurs and small businesses to industry clusters in rural and inner city communities.

4. A Positive Climate for Business Success: Support entrepreneurship and business growth

Create favorable tax climate for business start-up, growth and success while maintaining a well-educated, highly-skilled diverse workforce.

Develop and implement a state economic development policy and coordinated strategies that assist businesses to expand and locate in Minnesota.

Promote Minnesota as a desirable place to live, work, learn and do business.

5. A Leadership Coalition as a Vehicle to Guide Implementation

The Working Group commits to advocating for the adoption of this strategy in the public, private and non-profit sectors including support for legislative actions to jump-start the strategy and encouragement of state and local governments, private business and non-profit organizations to align their programs to support this strategy. The Working Group will report on progress and outcomes over the next year. The Working Group calls on leadership at the highest levels of public and private institutions to create an enduring and inclusive coalition to continue to review, recommend, implement, monitor and revise this strategy for economic development.

These recommendations are based on the following guiding principles:

1. Aspire to excellence or top ranking in a few key areas: workforce skills, science and technology within our research university, and knowledge-driven industries.
2. Build systems which are reasonable and accountable and which are based on coalitions, increased interactions and partnerships across public and private sectors with specific outcomes, monitoring and reporting.
3. Embrace diversity as a business and economic imperative that is critical to a vibrant, competitive Minnesota economy.
4. View rural and inner city communities for as resources economic development.

Dr. Muscoplat discussed some of the recommendations with the Committee. In terms of #2, workforce, he noted that Minnesota is at the "end of the line" in terms of the coasts and the river and is not generally seen as the most desirable place to go but instead is a place people leave. These recommendations are intended to help overcome that hurdle. Mr. Stingl argued that students do not have a desire to leave; Dr. Muscoplat responded (with a smile) that people his age do, for example, to retire in a warmer climate.

In addition, Minnesota is not getting new immigrants like the coasts and the south, and the state cannot be moved to where the work force is, so Minnesota must bring the work force here. One way to do so is to keep students here. Was there talk about bringing back students who had left the state, Professor Konstan asked? There was, Dr. Muscoplat said, but the point did not reach the level of a recommendation. Even the scholarships were a controversial recommendation.

Also in terms of work force, the Working Group asked the business community if Minnesota was turning out enough employees to meet needs; it was told that it is not. The computer science industry, for example, does not like the University's biennial budget request--because it is too small.

Professor Speaks noted that the Committee on Faculty Affairs had recently sent forward a recommendation for tuition remission for children of faculty and staff; the President and Executive Vice President turned it down as too costly--even though the proposal only meant forgone revenue (assuming those children would have attended the University in the first place, which is questionable). It seems strange that this recommendation comes forward when the University will not make an effort to retain faculty and staff children.

They are different, Dr. Muscoplat said. One is forgone revenue; the scholarship program adds revenue. It was thought that it would be an improvement to the University if even half the children of the faculty and staff attended it, Professor Speaks responded. It would, Dr. Muscoplat agreed. He reported that at a state House-Senate joint committee meeting, he told the legislators that if they wanted to attract the best students in the country to the best university in the country, they should strengthen the University and make tuition free.

Professor Konstan said he liked the way the Working Group had written the work force recommendation because it recognizes the variety of institutions in the state. The University will not have ALL faculty and staff children attend because a large public research university is not the right place for all students. The University should not say it has failed because it did not recruit all of the top 10% students in the state; it would fail if it had done so because it would have recruited to the University students for whom this is not the most appropriate school. That, however, begs the question of the source of the $5,000 scholarships.

They would come from the state, Dr. Muscoplat said. There is not a lot of public merit scholarship money in Minnesota.

In terms of recommendation #1, concerning building a knowledge economy, Dr. Muscoplat said this is a knowledge and service economy and knowledge matters; there was a universal feeling on the Working Group that the University should be better funded. That is the reason for the language in recommendation #3 about funding; the idea was that the University should be among the top five public institutions in several fields.

The biggest message, however, concerns the work force, Dr. Muscoplat said. The Working Group was struck by how many states were doing things that Minnesota is not. California is spending $900 million, Wisconsin $200 million; the Working Group members are waiting to see the Governor's budget. The report in general, he said, is more about psychology than the economy; it is trying to get people to pay attention.

Was there any discussion about exploring the best practices of other states to fuel economic development, Professor Konstan asked? The Working Group talked about it but it will do no more. It has run out of money (it operated on donated funds, not University funds). While waiting to see what the Governor proposes, the Group has voted to stay together and see if it can help get something passed in St. Paul. The members of the Working Group will support the University's request. Asked how the report was received, Dr. Muscoplat said he believed the Governor was pleased with it.

Professor Speaks thanked Dr. Muscoplat for joining the meeting.

6. Deficits

Professor Speaks now turned once again to Mr. Pfutzenreuter to assist in a discussion of department deficits. Mr. Pfutzenreuter noted that he had earlier provided the data and has since "made the rounds" with the deans and with financial managers and has talked with the President. There are 107 deficits (which means approximately 107 departments) and he would like to eliminate them. He recalled that he has been trying to do so since 1992 and has made a lot of progress. Of the 107 deficits, 63 are less than $100,000 and total about $2.6 million. His latest proposal is to issue fair warning to departments: if they have not cleaned up the deficit by the end of the fiscal year, the Budget Office will clean them up--with the department's money.

Will he actually DO that, Professor Speaks asked? It is his intent, Mr. Pfutzenreuter said, but there will need to be some rules set. Some things he will not do. This action will only be directed at the 63 deficits that are under $100,000; the others, the larger ones, have plans in place to eliminate them. His concern is the small ones, which could grow. As for the larger deficits, many of them have knotty problems associated with them, Mr. Pfutzenreuter said (e.g., billing problems in the Medical School).

Professor Roe cautioned that any actions not destroy initiative or productivity. In some cases, a group of entrepreneurial faculty may have built up a surplus from some activity; it would be counterproductive to use that money to eliminate a deficit in another part of a department. The burden has been on the deans for eight years, Mr. Pfutzenreuter said, and he is trying to get their attention. He does not want to do this, he said; the deans should have been addressing the deficits. He related that he has letters from deans promising they will fix a problem--and then they do not do it.

Professor Konstan said that every time he has seen anything in the minutes of this Committee about surpluses he has heard panicked reactions; people decide they better spend money before the administration "sweeps" the accounts. That leads to inefficient spending. The "sweeps" never happen but people spend the money anyway. The Committee needs to send the message that there will not be any "sweeps" but that deans are being told to clean up accounts. If the interest rate on deficits were high enough, perhaps that would be an incentive to eliminate the deficits. Mr. Pfutzenreuter said the interest charges on deficits are 8%; the rate paid on surpluses is 2%. So raise the 8% to 15%, Professor Konstan suggested.

There has been tremendous progress, Mr. Pfutzenreuter said, but some units have simply said they will not fix the problem.

How does this question fit into the IMG structure, Professor Gudeman asked? Responsibility rests at the college level; should this be a college problem? Does the central administration want to look at department finances under an IMG system? The deficits have been the problem of the colleges for eight years, Mr. Pfutzenreuter said. But if the college budget balances, Professor Gudeman said, what is the role of the central administration? How does this align with the management of the institution?

The other side of this issue is surpluses, Professor Gudeman said. The administration is not always happy about those, either. A department can't be too much in deficit and can't have too large a surplus. What is happening here?

Mr. Pfutzenreuter said he is asking units to manage their budgets (most of these units are academic; there are few administrative units with deficits). Any unit with state dollars is not permitted to have a deficit, by University policy. Either the policy needs to be changed or the deficits have to be eliminated.

Why not tell a dean that the college will receive only 10 positions, not 15, Professor Roe asked? Because decision-making is decentralized, Mr. Pfutzenreuter said. The deans get the reports, they know the policy and they know where the deficits are. Professor Roe repeated his concern that any action not result in harming people who have done well. The deans should fix the problem, not him, Mr. Pfutzenreuter exclaimed!

Professor Campbell said that discussions in the Budget Management Task Force recognized that all units save for some risk; there is a certain conservatism in this respect. Some argue that this holds back a unit from spending for good purposes. He said Mr. Pfutzenreuter should not be hesitant to go after money because he believes it may have been saved intelligently. This also raises the question, about the deficits, to whom is the money owed? If the college has a surplus, should the college manage the deficit? That does not mean the funds will be lost; if a college uses set-up money to eliminate a deficit, it will be up to the dean to be sure that the set-up funds are available later when they are needed.

One possibility would be to change the policy so that deficits are allowed at the department level; they could have a deficit as long as the college showed a balanced budget, Mr. Pfutzenreuter said. The Committee seems to be saying that would be acceptable; he said he did not. But with IMG, responsibility was shifted downward, Professor Campbell maintained.

The deficits and reserves should be taken an information signals, Professor Gudeman said, information that becomes part of the compact process. It should affect the assessment of the dean's ability to manage and should have an impact on the process. That has been happening for eight years, Mr. Pfutzenreuter said, and it has not worked.

Mr. Stingl asked if the dean or the department head is responsible for the deficit. That varies with the unit, Mr. Pfutzenreuter said. Professor Campbell said it is possible for a department to run up a deficit without the approval of the dean; one question is what results if the dean says the department head must take care of it.

Professor Speaks said he was troubled by the deficits that were $500,000 or greater and that ten of them were granted waivers from the interest charges; that costs $750,000 per year. Why are these waivers granted? That is part of the incentive package, Mr. Pfutzenreuter said, to get the college to address the deficit; it is a central administrative contribution to debt reduction. So, Professor Roe said, "if you are going to run up a deficit, run up a big one."

Professor Korth commented that something should be done but admitted that he did know what. Whatever it is should be intelligently done, he said. (He also explained that his department was one of those on the list--and that it was a deficit required for construction purposes, one that would disappear when the construction work was completed.)

Professor Konstan said that department heads and deans do not receive training in business practices. One implication of this discussion is that the University operates on IMG (Incentives for Managed Growth) rather than RCM (Responsibility Center Management) because there is no management; it is an incentive budget plan with responsibility for oversight remaining at the central University level.

It is also bothersome, Professor Konstan said, that Mr. Pfutzenreuter says the large number of small deficits should be cleaned up when 75% of the deficits are in accounts with deficits greater than $500,000. There should be a dean-responsibility model and funds withheld, rather than taking money from other accounts. Some deans are weak, he observed, and could not clean up the deficits without losing their jobs. Withholding money gives the dean the power to reallocate.

Mr. Pfutzenreuter said he was not ignoring the 75%. He cannot approach them the same way because they are too large--he could not expect a deficit of $25 million to be taken care of in one year. On the other hand, he knows that if the small one deficits do not receive attention they will grow. He agreed that he could withhold funds and use them to eliminate deficits.

One problem seems to be that deans and department heads lack training in management, Ms. Samuel said. Professor Campbell demurred; he said anyone knows the amount of money available and can make a decision to overspend; the question is responsibility, not management, he said. Professor

Speaks said he agreed completely that management training is not the issue. Someone must be able to enforce the rules, he said--the deans with the department heads, the provost with the deans. What stops it? Nothing, Mr. Pfutzenreuter said.

In terms of what the Committee might do, Mr. Pfutzenreuter said, the more "air cover" he has the more likely it is he can get something done. All he has is the power of persuasion. Professor Speaks said he would be disappointed if some resolution or declaration did not emerge from the discussion. Subsequently it was agreed that Professors Campbell and Konstan would draft language for the Committee to consider.

The deficits reflect different levels of power around the University, Professor Speaks reflected; he would not keep his job as ILES Director if he ran an unapproved deficit for two or three years.

There seems to be no way to stop spending (apart from salaries), Professor Konstan said; someone needs the authority to stop spending. The auditor, Gail Klatt, has proposed "expanded intervention" based on audit findings, Mr. Pfutzenreuter said, and a unit could be put in receivership with controls on spending.

It was suggested that the Committee look at reserves, discuss the situation with Executive Vice President Bruininks, and hear from someone in a unit with a recurring deficit.

Professor Konstan observed that the deficits--and surpluses--vary considerably and there is nothing to set a target that indicates "there is no problem if a surplus or deficit is in this range." That is because CUFS is not a budget system, Professor Gudeman said; there are no rules for department reserves; there is not a full-scale budget management system at the departmental level

It was agreed the Committee would take up language developed by Professors Campbell and Konstan.

Professor Campbell inquired of Professor Speaks if there had been any reaction to the letter that he and Professor Goldstein had sent to the President about faculty salaries. Professor Speaks reported that Mr. Pfutzenreuter is drafting a response; he does not know what it will contain.

Professor Speaks adjourned the meeting at 4:50.

-- Gary Engstrand

University of Minnesota