Minutes*

Senate Committee on Finance and Planning
Tuesday, May 4, 1993
3:15 - 5:00
Room 626 Campus Club

Present: Irwin Rubenstein (chair), William Gerberich, Karen Geronime, Michael Hoey, Julie Idelkope, Karen Karni, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Doris Rubenstein, Paul Sackett, Mary Sue Simmons, Susan Torgerson

Regrets: Jason Schmidt

Absent: Carl Adams, David Berg, Virginia Gray, Thomas Hoffmann, Roger Paschke, Thomas Scott

Guests: Associate Vice President Susan Markham

Others: Ken Janzen (Regents' Office)

[In these minutes: budget update; budget principles and faculty/staff salaries; the capital budget request]

1. Budget Data

Professor Rubenstein convened the meeting at 3:15. Before turning to the budget principles, he asked Mr. Pfutzenreuter for an update on the budget. Mr. Pfutzenreuter reported, first, that as one considers the impact of salary increases, one must realize that faculty salaries make up only 24% of the University's all-funds salary budget; civil service and P&A make up the other 76%. If one considers only O+M funds (state funds plus tuition), faculty salaries are 40% of the total.

There remain individuals at the legislature, Mr. Pfutzenreuter reported, who remain adamant about no salary increases for either year of the next biennium--and believe they are doing the University a favor by standing firm on the issue. It appears, commented one Committee member, that the legislature will have to learn the hard way what it costs to have a low-quality institution.

Mr. Pfutzenreuter then distributed a sheet of data showing possible outcomes, depending on what the conference committee decides. He noted that both houses of the legislature agreed to fund increases in the cost of health care benefits for employees. The Committee discussed the data briefly. The conclusion was that there would be little or no change in the University's base budget if the final position of the legislature is to "split the difference" between the House and Senate positions (keeping a 3% tuition increase in each year of the next biennium).

*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.

2. Budget Principles

Committee attention was then turned to a one-page document, the draft budget principles for 1993-94 that the Board of Regents will eventually adopt. The draft distributed at the meeting read as follows:

DRAFT #4
May 3, 1993
REGENTS OF THE UNIVERSITY OF MINNESOTA

BUDGET PRINCIPLES RESOLUTION: FISCAL YEAR 1993-1994

WHEREAS, direct state appropriations have been reduced from fiscal year 1991 by $42,900,000 and the University has also been required to absorb the impact of inflationary cost increases within existing budgets.

WHEREAS, for the past two years the University has engaged in a major restructuring and reallocation plan resulting in elimination of programs and the closing of a campus.

WHEREAS, it is expected that state funding received by the University of Minnesota will likely be insufficient to meet inflation cost increases during fiscal year 1994 resulting in a negative impact on the University's ability to fully meet its mission

WHEREAS, the University of Minnesota has additional expenditure requirements resulting from new facilities, rent, debt service obligations, mandated programs, commitments and other programs.

NOW THEREFORE, BE IT RESOLVED, that the Board of Regents of the University of Minnesota adopt the budget principles for Fiscal Year 1994 as follows:

1. The strategic decisions embodied in the reallocation and restructuring plan will continue to be implemented as budgeted for fiscal year 1994, the third year of the five year plan.

2. The annual increase in tuition revenues will be limited to projected price level increases and funds necessary for improving the quality of education including but not limited to the availability of classes, instructional equipment, student services, facilities, libraries and curriculum or teaching innovations with tuition rates set to clearly distinguish between general increases and any targeted increases.

3. Financial aid accounts will be exempted from any reduction in order to ensure continued economic access to the University for those requiring assistance.

4. The University will give priority to funding unavoidable supplies and expense price level increases.

5. The University will negotiate salary and benefit increases within the parameters of

available funds. The Governor and the State Legislature strongly support no salary increases and have provided no funding for the upcoming fiscal year. Pending contract negotiations, the budget presented to the Board of Regents will not include funds for inflation related salary and benefit cost increases. Programmatic reductions in order to fund salary and benefit cost increases will be avoided to the greatest extent possible.

6. The budget principles will apply to all programs and activities of the University regardless of fund source.

7. The University will fully honor all of its contractual commitments.

One Committee member began the discussion by suggesting that at the end of the "whereas" clauses there should be a clause saying something about the pay freeze of two years ago and about the impact of such freezes. Right now it appears that these principles will lead to actions by the Board of Regents and central administration that reflect no concern about salaries, and will lead to the perception that the Board and administration are anti-employee. As it reads now, it says the legislature stuck it to the University--and the Board and administration are glad. Another Committee member said a similar statement should be inserted about the tuition increases that students have faced over the past several years. That is partly covered in point 2, it was said, while point 5 tells the faculty and staff that their salary increases are unimportant.

Principle 1 says that Restructuring and Reallocation will continue.

Principle 2 nearly repeats the original House position; it allows flexibility about 3% increases in tuition for extra items that improve instruction (such as including computing fees in tuition).

Principle 6 is incorrect as worded, one Committee member said. First, on some grants, there are supply and expense increases budgeted; this says the University must give that money back to the funding agency. AT LEAST this should be rewritten to speak only to salaries. Second, it was said, this is too picky an effort to achieve uniformity; "a foolish consistency is the hobgoblin of little minds," and that seems to be the case here. The consequence of adopting it means that money for salary increases must also be returned to the granting agency rather than be spent on other things. Third, on some grants, salary increases occur at mid-year, rather than July 1, which will mean there will be differential treatment of people. The effect of principle 6 is to encourage that research not be funded through the University but rather through outside entities--a practice that is already growing.

The point of principle 6 is to emphasize that we are all part of one community and that salaries, irrespective of the source of funding, should be treated the same. Others on the Committee agreed, but it was observed this should not require that funds for supplies and expense be returned, or that salary increase money not be used for other purposes (if permissible under the rules of the granting agency).

Committee members reacted sharply to principle 5. One Committee member inquired why the middle two sentences were there; another inquired why the first one was included; yet another said EVERY sentence in principle 5 was objectionable. Several points were made in the ensuing discussion.

The first sentence of principle 5 comes very close to being a violation of Minnesota law; it is nearly an unfair labor practice because it may constitute a refusal to bargain in good faith: it announces the last position the University will take before the bargaining with unions has begun. The language should be checked with the office of the General Counsel.

It is difficult to believe that the University, in union negotiations, will not have to agree to something not in these budget principles. The principles should be directed to the PREPARATION OF the budget document on July 1; after that there will be labor negotiations, and thereafter NEW budget principles will need to be developed, identifying sources of funds and how different groups of people will be dealt with. Substitute language for principle 5 was proposed, as follows ["5A" for the purposes of these minutes]:

> 5A. The University will negotiate salary levels with bargaining agents in good faith, bearing in mind the limits of available resources. The University is committed to equitable treatment of all employee groups. Pending completion of contract negotiations, the budget will not include salary increases either for employees on O+M budgets or for employees on other fund sources.

This calls for equitable treatment of faculty and non-unionized employees, in comparison with bargaining unit employees, and will probably require that salary decisions not be made until negotiations are completed. 5A also requires that July 1 budgets not include salary increases, but recognizes that that situation is conditional, and subject to change later in the fall.

Once the State and the University have settled labor contracts, then the University will need to figure out what to do. There may be salary increases with program cuts, or increases from non-O+M funds--principle 5 at present cannot deal with the great imponderable of negotiated salary increases.

The proposed substitute language of 5A, observed one Committee member, opens a window for salary increases. If the unions are interested in salary increases, they will negotiate all summer and fall, in the hope that State revenues increase--and then, on the first day of the next legislative session, ask the Governor and legislature for increases. The original language would not permit such an eventuality.

The original language, it was said, flies in the face of the faculty; it is not clear if that was intended. Over time the University is walking into a trap, it was argued: Unless the University can take advantage of the window that might be offered, the Regents and central administration will be seen by employees as the villains. If all other employee groups receive a salary increase, perhaps by the means discussed [in the preceding paragraph], and University employees do not (as happened two years ago, in effect), that will not be forgiven a second time. One can guess--although he would not favor it--that the faculty would opt for collective bargaining as a result. That, it was said, is the trap laid by the present language of principle 5.

Another Committee member said he was bothered by the juxtaposition of principles 4 and 5. The priority is supplies and expenses; there will be no funds for salaries and benefits--which belies anything else anyone in the administration might say. For years, the administration has said that faculty and staff salaries and benefits are the number one priority; these principles make it clear that computers are more important than people. At the same time, supplies and expenses ARE important. It was suggested that principle 4 be deleted altogether, and that principle 5 thus represent the proposition that the budget should stand still until more is known. Tuition levels can be changed, but the remainder of the budget should remain the same for now.

Discussion returned to the present principle 5. The second sentence, it was argued, clearly does not belong there; if anywhere, it belongs in the "whereas" clauses. The third sentence is inaccurate if the legislature does fund increases in the cost of health care benefits; people will not be charged for the increase in the cost of their premiums. That may be the only good news from this session, and it should be noted. The reason for the language as written, Mr. Pfutzenreuter explained, is to address NEW benefits that might be proposed, rather than something part of the current benefit package.

One Committee member objected STRONGLY to the last sentence in principle 5: It says, it was argued, that the University will not make any hard decisions; it is too difficult. Unless the Board of Regents adopts the proposition that it believes there should be no change in University programs forever, it should not adopt this principle. It basically says that program planning is dead. That is not true, said Mr. Pfutzenreuter; it says that program reductions TO FUND SALARY INCREASES will be avoided to the greatest extent possible. And this, moreover, is a budget principle only for 1993-94. It does, however, set a dangerous precedent, said another Committee member.

Mr. Pfutzenreuter, when asked, said he had not heard any recent discussion of a proposal to provide a one-time flat payment to faculty and staff, in lieu of salary increases. Doing so would at least deliver money to faculty and staff while not increasing the base; it would also provide the highest percentage increases to those with the lowest incomes.

This illustrates further, it was said, why it would be foolish to adopt anything other than a statement that holds budgets constant until after the legislature adjourns. Principle 5 is a firm decision by the Board of Regents telling the legislature that it does not believe faculty and staff should be paid more.

The language of 5A, it was said in response to a question, would substitute entirely for principle 5--and it would delete the language about avoiding programmatic reductions to fund salary and benefit increases. 5A does not call for such reductions, but it says the University may have to look at them. The problem is that the University always locks itself into a budget, for a year, on July 1--which is not the way the modern world, or the State, works. It must be possible to change the principles during the year. Asked why the statement was in principle 5 at all, Mr. Pfutzenreuter explained that the deans and vice presidents are concerned that programs not be cut to provide compensation increases.

The substitute language (5A) was moved, seconded, and unanimously favored by the Committee.

The Committee then turned its attention to principle 4. There was sentiment to delete it altogether. Mr. Pfutzenreuter pointed out that the principle concerns less than $4 million, and does not say it would necessarily be spent. Nor does it say that all areas of supplies and expenses would be increased equally; Senior Vice President Infante, for example, is concerned about library prices. One can object to the principle on two grounds, said one Committee member: it elevates one element of the budget above others that many see as equally important, and there may be alternative ways to fund supply and expense increases. At Morris, for example, the decision has been made to purchase NO new books for its library this year.

Other Committee members expressed reluctance to delete principle 4 entirely; there are legitimate infrastructure concerns to be considered, and since these expenditures represent such a small portion of the budget, they could be protected. After additional discussion, a revised version was developed, as follows:

> 4. The University will give consideration to funding supply and expense price level increases to the extent that they are both unavoidable and essential to the operation of the unit.

The situation of the Morris libraries is alarming, one Committee member said; that kind of practice cannot be allowed to occur if the University wants that campus to continue to function as it has for the past 15 years. There are essential infrastructure expenses that must be recognized.

Some units may need to fund these increases themselves, it was noted by another Committee member. For Facilities Management, for instance, an increase in prices will mean degraded service if there are no supply expense increases. Given the University's position, it was said, one sees a move to "cannibalism," as in the reductions made in Facilities Management; the University cannot maintain new buildings. In the case of faculty, it may become necessary to cannibalize positions in order to pay for telephones--or to do without telephones.

It was also suggested that this revised principle FOLLOW the principle about salary increases, rather than precede it, in order that supply and expense increases not be seen as taking precedence over salary increases.

The Committee vote in favor of the revised principle 4, with the understanding that it should FOLLOW the principle dealing with salary issues, was 10 in favor, none opposed, and two abstentions.

One Committee member then inquired if the Committee ought not ask the Board of Regents to commit itself to the planning and budgeting process in the future. The last sentence of principle 5 (as originally written) undermines that process. The Committee should recommend that subsequent budgeting should be tied to the strategic planning process.

Another Committee member asked if such a request was an appropriate part of the 1993-94 budget principles. Moreover, it was said, the Board has implicitly committed itself to the proposition when it voted at its April meeting to support the planning principles, which clearly call for tying budgeting to planning. In addition, it seems clear that this is what the Board of Regents WANTS to happen--program cuts should be made to fit the University's priorities to the resources it has available. It is to be hoped, however, that the Board would not adopt the last line of the original principle 5.

The Committee's actions today, summarized one Committee member, ask that the Board of Regents adopt these principles for the PREPARATION OF the budget (rather than "adopt the budget principles . . ."), which makes the principles weaker than originally written. If the Board does so, the instructions to Mr. Pfutzenreuter's office will be to draw up documents for the units and also to warn them that there may be additional instructions later.

Professor Rubenstein inquired if there was a motion to approve the entire set of principles as the Committee has proposed revising them; one Committee member responded that he did NOT want to endorse them, and the rest of the Committee concurred.

It was agreed that Professor Rubenstein would write promptly to the two Senior Vice Presidents transmitting the sentiments of the Committee as voted upon at this meeting.

3. The Capital Budget

Professor Rubenstein next turned to Ms. Markham for a report on the capital budget. She began by explaining that there was no document available because the senior officers have not yet had a chance to review it. She provided an overview of the issues in the capital budget for the Committee.

The first issue is the bonding request. There was considerable debate about whether or not the list should be re-ordered; the answer of the Capital Improvements Advisory Committee (CIAC) was "no," so the recommendation to the senior officers is the list that went through the consultation process and was presented to the Board of Regents previously.

There were two items in the bonding request that received special attention. One proposal was that funding for the archives facility be moved to priority number one (the proposal failed). The reason is that it must be completed before renovation of Walter Library can begin, and there are significant fire and life safety expenses that could be eliminated. The second item was the Carlson School of Management: the senior officers are concerned that private funds are being raised and that the project should be permitted to move forward. The original list remains intact, but consideration is being given to creating a second category of buildings that would be advanced (archives and CSOM) if the University were not required to pay the one-third of the debt service required. In the case of the archives, there are benefits for the State that go beyond the University, and in the case of CSOM, the situation is unique because there are interested groups willing to provide private funding. There is $20 million available for CSOM, Mr. Pfutzenreuter explained, and the fire and life safety expenses of the archives have never been subject to the one-third debt service requirement. The total request would be $150 million, if both categories of capital requests were submitted to the legislature--and the University rarely receives more than $50 million.

This proposal is not clear, said one Committee member. It appears to leave up the legislature what to fund. It could choose from the list of general requests (with the accompanying one-third debt service) OR from the "special" list (archives and CSOM). This is not a priority list; there are two alternative lists, and the legislature can pick and choose from them. This seems a weak negotiating position for the University to be in.

The University is acknowledging that it will not be freed from the requirement that it pay one-third of the debt service on capital projects that the state bonds, Mr. Pfutzenreuter explained, but it is trying to find projects where it does not have to do so. If CSOM can obtain the necessary funds, why should tuition pay for part of the building? One Committee member noted that this does try to recognize the reality that not all facilities have to be subject to the one-third requirement, but one can agree that two parallel lists without priorities between them is undesirable. There should be one list, with some items requiring the University to pay the one-third debt service and some not.

The message from this proposal, said one Committee member, is that if a unit is wealthy enough--if it can pick up the one-third of the debt service itself--its capital projects can go to the top of the list. What the Board of Regents would be saying, Mr. Pfutzenreuter said, is that the University cannot afford the one-third debt service, but here are projects that can be funded without requiring it.

Asked how the new buildings would be maintained, Ms. Markham said the source of the costs must be identified, and construction could be contingent on the legislature, or someone, providing the funding. ALL buildings represent incremental operating expenses, observed one Committee member, when there are no proposals to close existing buildings.

Another Committee member agreed that this proposal essentially permits the rich to get richer (except for the archives portion).

A question arose about the role of the Committee. The documents will be provided to the Board of Regents (for information) at their meetings on May 13-14. If the Committee is to consult on the capital request, it must have something in hand by the time of its meeting next Tuesday. Ms. Markham agreed to get the document mailed to Committee members in advance of the meeting.

Something new in the capital budget process, Ms. Markham told the Committee, is that the legislature will no longer fund project planning; planning costs will be probably be reimbursed by the State if a facility is built. At present, much detail is presented to the legislature in planning it has funded. The University's strategy will be to be sure there is adequate funding to ensure that the best information available will be included in the capital request in the future. There are big projects that must be considered, including the Morris heating plant and two other Morris campus facilities, a comprehensive plan for classrooms and study space on the Twin Cities campus, and increased equipment for Computer and Information Services (not administrative computing). Planning for these items, plus others, will require about $885,000 in central funds--which are not now available. Asked where the funds would come from, Mr. Pfutzenreuter said they would have to come from central reserves.

What the University must do is carefully scope and articulate the problems with each project, Ms. Markham said. She then itemized several other projects that will need consideration (space utilization on the St. Paul campus, consolidation of humanities units--especially if the Carlson school were to vacate its existing building, assessment of the Jackson-Owre-Millard-Lyon complex, gender equity and a new soccer facility, and central chilling on the Twin Cities). Facilities Management is conducting a building assessment, with its own funds, to determine if vacated spaces will be usable, and if so, by what programs. Development of information will put the University in a better position for capital requests and will also permit better internal allocation decisions.

One Committee member inquired if any consideration had been given to demolishing the JOML complex; she said it had. It was suggested that given the budget principles, the University should seriously consider an investment in explosives in order to reduce its overhead. Ms. Markham said that her budget, with its mandated 4% and 6% reduction plans, includes demolition of buildings. It is controversial, and Facilities Management will not make the decisions, but her budget is predicated on decommissioning buildings. The capital plan, however, it was said, is predicated on building new buildings; Ms. Markham responded that it also includes funds for demolition, although specific buildings have not been identified.

Discussion turned briefly to the University's planning process; there are concerns being expressed by faculty and staff that it is turning into a top-down process. It is critical, it was said, that the strategic questions filter down to the units so they can provide comments to the steering committee, if the necessary "buy in" is to be achieved. People must understand they have the right to comment on them. The University will be in a sad state if that does not happen, it was said, and there is only limited time remaining before the end of the academic year. Another Committee member said that the consultation will have to occur by the end of May, because once finals week begins and the end of the quarter approaches, there will be no effective discussion.

Another item discussed briefly was the "Brenner" report on space costs. It was agreed that there would be a joint meeting of this Committee and the Subcommittee on Facilities Management to discuss the report, but when the meeting would take place would be decided later.

The meeting was adjourned at 5:00.

-- Gary Engstrand

University of Minnesota