Minutes*

Senate Committee on Finance and Planning
Tuesday, November 15, 2005
2:30 – 4:15
238A Morrill Hall

Present: Kate VandenBosch (chair pro tem), Christina Bachmeier, Rose Blixt, Charles Campbell, Arthur Erdman, Steve Fitzgerald, Lincoln Kallsen, Thomas Klein, Joseph Konstan, Michael Korth, Judith Martin, Jacob Olson, Richard Pfutzenreuter, Justin Revenaugh, Karen Seashore, Michael Sertich, Susan Van Voorhis, Michael Volna, Warren Warwick

Absent: Calvin Alexander, Daniel Feeney, Dan Hennen, Ian McMillan, Fred Morrison, Kathleen O'Brien, Kathryn Olson, Charles Speaks, Thomas Stinson, Alfred Sullivan

Guests: Dr. Richard Howard, Ron Huesman (Institutional Research and Reporting)

[In these minutes: (1) faculty salary goal; (2) faculty promotional increments; (3) annual financial report; (4) new financial system update]

1. Faculty Salary Goal

Professor VandenBosch convened the meeting at 2:30 and called for a round of introductions for the benefit of the new student members. She then turned to Dr. Howard, Director of Institutional Research and Reporting, for data on the University's faculty salaries. Dr. Howard introduced Dr. Huesman, also from Institutional Research and Reporting.

Dr. Howard related that he had been asked to provide base data in order that the Committee could begin to discuss potential salary goals related to the strategic planning effort. He distributed to Committee members three sets of data: the University's salaries and rank among Big Ten public institutions, among the top 20 public institutions in the AAU (by academic rank), and among the 59 members of the AAU (public and private), which includes the top 30 research universities (by academic rank. In average salaries, all ranks, among the Big Ten publics the University ranks 5th, among the top 20 publics the University ranks 17th, and among the 50 members of the AAU the University ranks 39th. Dr. Howard cautioned that one must keep in mind that these are institutional ranks and that there is a lot of dispersion when looks at salaries by discipline. When measuring the University against other institutions, it will be necessary to look at disciplines. He also said that the University has a relatively good fringe benefit package, so ranking on total compensation rather than salary alone would put the University in better standing vis-à-vis its peers.

Ms. VanVoorhis asked if it were possible to obtain data on compensation packages. She said, for example, she has been told that the retention rate at Penn State is very high because of the 75% tuition discount provided to dependents of employees. Dr. Howard expressed doubt that it would be easy to assemble such data in a comparable form.

Mr. Klein asked if there are studies of patterns of salaries across disciplines. Are they similar to the institutional rankings, so that low institutional ranks will also mean low average salaries in the

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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.

disciplines? Dr. Howard, who noted that the salary data does not include the Medical School, said that high technology and business generally tend to be higher than social science and humanities salaries.

Professor VandenBosch noted that in the Big Ten, the University ranks 5th overall and for salaries of full professors, but for associate professors it ranks 8th and for assistant professors it ranks 7th. What impact do those rankings have on recruiting? Dr. Howard said he did not know and it probably depends on the discipline. The assistant professor rank would be a concern. He said he did not collect the salaries of new hires, which tend to bounce around, but the data are available. He also pointed out that while Minnesota has a reasonably balanced number of faculty at all ranks, other institutions tend to be heavily weighted toward full professors.

If the reach is to be among the top three public research universities in the world, Professor Konstan said, the question is what level of salaries will be required before the University stops losing people to other institutions, and once that point is reached, then what level of salaries will be required for Minnesota to be successful in recruiting high-quality faculty from other institutions. He said he was not sure how to use the data in terms of getting to the goal.

Salary may not be the only operative question, Mr. Klein said. The Committee may need total compensation data. Historically, the Committee has mostly seen compensation data, Professor Campbell said, and historically, looking at total compensation improved the University's standing. He said that he believed may be less true now. It was suggested that the University's advantage in fringe benefits has eroded in recent years so that looking at total compensation rather than salaries would not significantly affect the University's standing.

Professor VandenBosch noted that Dr. Howard had mentioned the University is competing with institutions on the coasts, where the cost of living is higher. Has anyone indexed the salaries for cost of living? Dr. Howard said there would some shifting in the rankings, but not at the bottom. The high-salary private institutions are in high-cost areas, Professor Seashore said; they talk about that issue informally but the data could be important. Professor Campbell said the Committee needs to think about more than that it costs more to live in Boston than Minneapolis; on that scale, the University's standing probably improves marginally, but cost of living is not as much of an advantage as many believe and the Committee needs to be truthful about that.

If one takes into account cost of living, there are other factors as well that should be considered, Professor Konstan said. For example, in his field, it is easy to collaborate with colleagues when one is in Boston or California. There are relative advantages and disadvantages in various places. It was also recalled that the Committee was provided information in the past that suggested cost-of-living data really did not have a very significant impact on the salary and compensation rankings.

Professor Seashore said the Committee needed data to make an argument. Mr. Klein added that unless the Committee is to do more than walk through hypotheses, it will need data and model the effect on recruitment and retention on elite faculty. Otherwise these are just anecdotal perspectives and the Committee will not know what the real drivers of faculty recruitment and retention are. He suggested that after this conversation, the Committee identify a small group to identify those drivers.

Professor Martin reported that there had been a conversation at the FCC about why faculty leave the University. No one knew for sure, which is why the Faculty Senate asked for exit interviews of all faculty who leave for another academic institution. This Committee can ask for an update, Professor VandenBosch said, in addition to the questions that Professor Kleiner is asking on behalf of the Committee on Faculty Affairs (which sponsored the proposal adopted by the Faculty Senate).

Professor Revenaugh said that exit interviews were a good idea but it would take 10 years to build up a usable database; in the meantime, deans and department heads could perhaps provide useful information, even if it is anecdotal. The Committee on Faculty Affairs concluded that such information would not be useful. Professor Seashore disagreed with Professor Revenaugh, saying that faculty who "up and leave" are not going to talk about why. They will be polite and not say why. They will not talk about their reasons openly. The concern should also not be only about superstars; there are people, one notch below that status, who help the University a great deal and who hold units together. People in that category will leave quietly and respectfully. Several faculty members she knows of left the University and were not affected by any retention offer. That suggests that salary is not the issue, Professor Revenaugh said. Professor Seashore again disagreed; she said they leave because they are honorable people and don't look for a retention offer if they intend to leave anyway. It is true that salary is usually not the only factor; it is a multiple regression analysis. If they do not look at salary, it is not important, Professor Revenaugh maintained. Professor Seashore did not agree; she said they also look at what has happened in other retention cases and decided they did not believe an adequate retention offer would be made.

Professor Campbell said that this Committee, the Committee on Faculty Affairs, and the Faculty Consultative Committee are the three key committees on salaries.

Starting a data set could provide insights while others do interviews, Mr. Klein suggested. For a reasonable amount, perhaps $25,000 a consulting firm could do 50 completed interviews in a short timeframe of faculty who have left in the last two years. The survey could include U of M faculty and faculty from similar universities to have a large enough pool. Another university might even be willing to co-fund the work. Or maybe a recruiting firm or an association has already done a similar study and would share the results with us. It would not be necessary to go through layers of institutional processes to obtain the data.

Professor Erdman said he was not opposed to exit interviews, but if everyone on the Committee made a list of the reasons faculty leave, it would be possible to identify 20 valid reasons (include in-laws). All make a balanced decision when thinking about leaving. The University would be better off spending time on increasing salaries and improving facilities and the libraries. He said he was not sure what would be discovered by additional data or interviews.

What about the reverse, Professor Warwick asked: interview faculty who have been recruited from the University but who chose to stay. That would provide more interesting information.

Professor VandenBosch said that in her field there are certain windows when faculty leave, such as the time leading up to promotion. Professor Konstan rejoined that the one-year terminal appointment is a reason why many faculty feel they must interview externally during the year they go up for tenure and a two-year terminal appointment might reduce this pressure, and in the process reduce the number of faculty who earn tenure but end up leaving anyway to accept a different offer.

The long-term goal is to have compensation that reflects the institution's ranking, Professor Revenaugh said. Salaries will rise as the University attracts better people. It is important that there be in place a mechanism so that departments can offer the required salaries. That is not happening in the Big Ten, he said; the 5th-place salaries do not match the University's rank in the Big Ten. Professor Seashore concurred but pointed out that offering the requisite high salaries will lead to pain: there will be salary compression. One department she knows of has hired an outstanding assistant professor from an elite institution whose salary will be higher than that of some full professors in the department. That creates difficulties internal pressures.

There were times, during the Yudof administration and before, when the administration said that faculty salaries were the number one priority at the legislature, Professor Campbell recalled. This was when the University was paid more poorly than its peers. Did those efforts succeed? The University has not had any big salary increases. The priority was often negotiated off the table, Professor Martin commented. Salary increases across public institutions generally have been small, Dr. Huesman said. There were also "cuts" here, with salary freezes in three of the last 15 years, Professor Martin pointed out.

Professor VandenBosch asked the Committee what it wished to do. Ask for more data? Reinforce the SCFA resolution about exit interviews? Index salaries to ranking? Professor Campbell said he would like to see a resolution from the Committee saying that if the University aspires to be among the top three public research universities in the world, the aspiration should include salaries in the same range. This is an important corollary to the strategic positioning that is going on. The Committee needs to ask the question how will the University get to the top 3 when its rank is 5, 17, and 39 on rankings of some of its peers. Professor Korth said he agreed with Professor Campbell but said he thought the Committee should also take a more specific stand, even if this is a complicated matter. Is the Committee making a claim it cannot back up, Professor Konstan asked? In his field, he said, the top-salaried departments are not the top-ranked departments. Professor Campbell said that most would probably agree that in the United States, the top three publics are Michigan, Berkeley, and UCLA, and their salaries are all much higher than the University's. If the Committee misses this opportunity, it will be saying that salaries are not a big issue. Professor Korth agreed but also urged the Committee to suggest a more concrete target.

The Committee voted unanimously in favor of the following resolution (final wording agreed on by email in the day following the meeting):

> If the University aspires to be among the top three public research universities in the world, the aspiration must include salaries commensurate with that aspiration.
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> COMMENT:
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> The Provost asked the Senate Committee on Finance and Planning to identify, in the context of the University's strategic positioning process, an appropriate goal for faculty salaries.
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> The Committee recognizes that many factors go into making the University competitive, and that one can look at either salaries or total compensation as a measure of financial competitiveness for faculty. In the past, the Committee was told, compensation comparison made the University more competitive than a study of salaries alone, because the University had a benefits package that was superior to that offered at peer institutions. More recently, however, the differences in benefits packages has lessened, and so, therefore, has the comparative advantage the University held.
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> At present (fall, 2004) the University ranks 5th among Big Ten public institutions in average salary for faculty at all ranks. Among the top 20 public institutions by academic rank (AAU), it ranks 17th. The AAU has 59 members, which include the top 30 research universities (public and private); in that group, Minnesota ranks 39th. The Committee doubts that any small

comparative advantage in total compensation can begin to offset the significant differences in salary levels offered at Minnesota and at its aspirational peers.

The Committee intends to return to the Senate with a more detailed statement in the future, but wished to set the stage for its efforts with this simple declaration.

2. Faculty Promotional Increments

Professor VandenBosch recalled that the Committee sent the issue of promotional increments for faculty to a subcommittee chaired by Professor Revenaugh. The subcommittee's proposal had been forwarded to Committee members before the meeting:

> Promotion from assistant professor to associate professor will be accompanied by an extraordinary recurring increase of $X,XXX in base salary, and promotion from associate professor to professor will be accompanied by an extraordinary recurring $X,XXX increase in base salary. These figures should be interpreted as minimums and should be awarded in addition to the annual increase given for meritorious performance. The minimums will be determined by the Provost and adjusted as necessary to reflect inflation. The Deans (or equivalent unit heads) will set aside funding for promotional increases separate from funding normally set aside for merit and retention purposes. Deans may institute higher minimums but are required to use consistent and equitable procedures when granting these increases.

Professor Revenaugh noted there were several concerns about the current language of the Faculty Compensation Policy, including the problem that it does not reflect the need for inflationary increases and inappropriately identifies the source of funds for the increases (the general merit pool). The recommended changes call for funding the promotional increments from a pool other than the general faculty salary merit pool (so that a large number of promotions in a department or college does not reduce or eliminate the merit pool).

Professor VandenBosch reported that Dr. Howard provided the data on inflationary increases in the promotional increments for the period 1993-94 (when they were first implemented) and the present. The increment for promotion from assistant to associate professor is $1500; for associate to full professor it is $2000.

CPI: $1500 → 2055; 2000 → 2740
HEPI: $1500 → 2275; 2000 → 3034.

The figure could also be indexed to University salary increases over the same period, Professor Campbell observed.

Before the Committee settles on a number, Professor Martin suggested it should find out what the practices are at UCLA, Berkeley, and Michigan, since the University aspires to their status. Professor VandenBosch said the Committee could approve new numbers for this year and in the meantime identify the practices elsewhere. Professor Seashore said the subcommittee tried to balance the desire to stick to the intent of the original policy (protect people in units that would claim to be too poor to give the increments) and not disadvantage people in units that could give larger raises. She said she did not know what else the Committee could do except set minima and urge the deans to do more.

Professor Erdman said the subcommittee did a good job. Setting aside the amounts, there are important new principles in the draft that he hoped the deans would adopt. He said he also hoped that the deans would not reject the policy because of whatever amounts might be inserted in the XXXXs; the Committee needs to be clear that while it cares about the XXXX, it also cares about the source of the funds and in emphasizing that they amounts are minima. Ms. Blixt agreed with Professor Erdman; putting the minima in today's dollars should expedite the policy change. The point is to emphasize the increases should not be taken from the salary pool, not to propose increases that no one will pay any attention to.

Professor Konstan asked why the Provost gets off the hook and make the deans set aside the money. To the extent there are funds from central administration to the colleges for salaries, at least that percentage of the funds should have an amount also set aside for increments. The Committee can't recommend the administration tell the dean of a small college that he or she must deliver the promotional increments and not reduce the merit funds. There needs to be a principle: whoever is responsible for salaries should be responsible for the promotional increases. The deans are responsible for salaries, Mr. Kallsen said. There have been no central funds to colleges for salaries for 5-6 years. And in the new budget model, all salary costs will be covered by a mix of revenue sources, not any single central allocation.

The Committee discussed briefly the status of funds for Regents' Professors, for members of the Academy of Distinguished Teachers, and for the deans, but none are parallel to the promotional increments.

It was agreed that the HEPI rather than the CPI should be used, because the HEPI more accurately reflects changes in salaries in higher education.

Professor Korth asked about setting a percentage of salary rather than fixed amounts for the promotional increments. Professor Seashore said that was what some units wanted, but the Faculty Consultative Committee at the time (which she served on) concluded that most faculty did not. The subcommittee tried to reflect the intent of FCC on the point and did not try to retool the policy. The deans could do more, or could use a percentage if the amounts met the policy minima, Mr. Pfutzenreuter pointed out. If the intent is to protect faculty who are being promoted, Mr. Kallsen observed, the protection comes in the fixed amount.

The Committee unanimously agreed on the following language for the Faculty Senate:

> ~~Beginning with the 1993-94 salary year, p~~ Promotion from assistant professor to associate professor will be accompanied by an extraordinary recurring ~~$1,500~~ $2250 increase in base salary and promotion from associate professor to professor will be accompanied by an extraordinary recurring ~~$2,000~~ $3000 increase in base salary. These figures should be interpreted as minima and are ~~It is intended that these promotional increments will be~~ *in addition* to the annual ~~salary~~ increase ~~award related to~~ given for meritorious performance. The minima will be adjusted

annually to reflect inflation using the Higher Education Price Index.[1] It will be the responsibility of the Provost to identify the amounts each year and to communicate those amounts to the deans (or equivalent unit heads). The deans will set aside funding for promotional increases separate from funding normally set aside for merit and retention purposes. Deans may institute higher minima but are required to use consistent and equitable procedures when granting these increases. ~~, from those funds provided to his/her unit for salary increase distribution, sufficient funds to cover these promotional increments. It is understood that the dean may also set aside funds from this overall pool to address special merit or retention purposes. It is intended that this promotion increment will receive inflation-related increases in future years.~~

COMMENT:

The Provost asked the Senate Committee on Finance and Planning to review the policy on promotional increases awarded to faculty. The Committee recommends to the Faculty Senate that the changes to the policy be approved.

The amounts were increased by the HEPI (Higher Education Price Index) from 1993-94 to 2005-06. The Committee was informed that HEPI is a better measure than the CPI because HEPI is geared largely to college and university costs, in particular salaries.

The Committee also recommends that the funding for promotion increases not come from the general salary increase pool. Especially for smaller colleges or campuses, but for all colleges and campuses in general, if a larger-than-usual number of faculty are promoted in one year, and if the promotion increases must come from the general salary increase pool, there could be little left over for those faculty who are not being promoted that year. The Committee thus recommends the policy required the deans and chancellors to fund promotion increases form other sources.

Finally, the Committee recommends, in the amendments, that the Provost be responsible for adjusting the promotion increase amounts each year, by the increase in the HEPI, and that he or she notify the deans of the promotion amounts to be awarded that year.

3. Annual Financial Report

Professor VandenBosch turned next to Mr. Volna for a discussion of the University's Annual Financial Report.

Mr. Volna began by noting that the annual report is now 62 pages; it was 28 pages when he began at the University. The increase is partly because of changes in the accounting profession and partly due to changes resulting from Sarbanes-Oxley. The University changed from an international accounting firm to a regional firm but the fee to prepare the report still went up about $100,000 because of increased work and increased liability in preparing the report.

Mr. Volna summarized the highlights of the annual report.

[1] The Senate assumes the Provost's office will, after calculating the increases, round the results to the nearest $50 or $100. The Senate does not presume that any particular ratio between the two promotion increments will be maintained.

-- The University balance sheet continues to be strong. The debt rating is Aa2; the University could have increased the rating but decided not to because maintaining such a rating would mean less flexibility.

-- Revenues and expenses resulted in an increase in net assets of $223 million.

-- The University experienced very favorable returns on investments made during fiscal year 2005.

-- Future financial strength is dependent on new sources of revenue, cost containment, state support, and focusing the University's financial resources on its core mission. As state support becomes a smaller percentage of the University's budget, the other sources become more important.

Mr. Volna reviewed the assets and liabilities; liabilities stayed flat, which is good when assets increase. The increase in assets, he pointed out, are not all in cash, so can't be spent on salaries or a football stadium. He also reviewed the total revenues of $2.4 billion, of which tuition & fees and state appropriations account for 43% of the total. However, compared to other Big Ten schools, the University has a more diverse set of revenues so not everything is in one basket. Mr. Volna was asked if he could provide comparable revenue data for the University's peer institution.

As for operating expenses, instruction amounts to 27% and research 21%, public service 8%, academic support 12%, scholarships/fellowships 3%, and various other activities comprise the balance.

Mr. Volna explained that the financial report includes seven other "component units," including the Foundation, the Medical Foundation, Arboretum, etc., as required by federal rules. These organizations exist primarily for the benefit of the University and would not exist without it, so they must be included. Professor Martin looked at the data for the component organizations and noted that two of them showed losses for the year; are they cause for concern? They are not, Mr. Volna said; the Landscape Arboretum spent money on a capital project in advance of revenues; the Gateway Corporation is a subsidiary of three of the other organizations, all of which are in good financial shape.

The pace of regulation of accounting is increasing, Mr. Volna told the Committee. The University will need to adopt four more new accounting standards next year; it will need to disclose more and report more. But the reports are getting so large that one has to be a professional accountant to understand them, he commented. The new standards will not take more people, Mr. Kallsen asked? "Of course," Mr. Volna said his first response would be, but the challenge is that there is a narrow window at the end of the fiscal year when the reports must be prepared. Even with 3-5 more people, it is difficult to coordinate the work. If the regulatory environment makes the situation too difficult, his office may move to more regular rhythms of reporting and simply do updates when a report is due.

Professor Martin thanked Mr. Volna for making the financial report comprehensible.

4. Enterprise Systems Update: New Financial System

Mr. Volna next provided the Committee with an update on the installation of the new financial system. He provided background on the project; phase 2 (implementation) will run from August 1, 2005 through July 1, 2007) and it will cost a total of about $28.6 million (with an additional $3.4 million sequestered for follow-on sponsored projects enhancements).

After a study last summer led by the Office of the Vice President for Research, they have decided to revise the project plan to include the PeopleSoft grants, projects, and contracts software. With a new version of the software, it no longer made sense to defer incorporation of grants in the new system. EGMS will be retained; EGMSi and JD Edwards will be replaced. So the EFS team has recommended that sponsored projects be added to the scope of the project, which will add a year to the timeline and increase the cost by about $11.5 million. Because $3.4 million of funding is sequestered for this effort, the unfunded portion of this new cost is about $8.1 million. This is a reasonable investment to get things right, Mr. Volna told the Committee. Professor Martin asked where the money would come from; Mr. Volna said that under the new budget model, it would come from funds charged to units that incur research costs, since they would be the units benefiting from the new grants features. It will not be charged to sponsored projects but it will be charged to those who use the service. He also assured the Committee that they are carefully evaluating the project risks and taking steps to mitigate those risks.

They are incorporating strategic positioning into their planning and "deliverables," Mr. Volna said. They are working on best practices, administrative policy redesign, and small-college clustering—supporting a lot of work of strategic positioning on the administrative side.

Professor Konstan asked about the communication strategy. He said he has heard from three people in three different departments that the project is a year behind and more expensive. Do they plan to get word out about the changes to the University community so confidence in the result will not be undermined? They have made a lot of changes in recent weeks and have put the working teams on hold because of the changes, Mr. Volna said. They have sent out communications so that people know what is going on. The project is not a year behind and everyone who has learned about the proposed changes say they make sense. Professor Konstan told Mr. Volna that his (Mr. Volna's) credibility is important and he should get messages out in BRIEF, etc.

Professor Konstan also asked about the use of consultants, something Mr. Volna had touched on briefly. Mr. Volna reported that they had decided to use a few consultants in specific areas over a longer period; Professor Konstan wonder if they had considered hiring people from elsewhere so that there would be expertise on the staff when the project is completed in order to keep up with the changes that seem to be constantly occurring in accounting and audits. Mr. Volna said the University's peers are split in what they do; they decided not to bring in permanent staff. They are using consultants with whom the staff works so that there will be in-house expertise; they have also hired some ex-PeopleSoft employees.

Professor Martin wondered if there could be a big problem if CUFS were to go down before the new system is in place. Mr. Volna pointed out the University has not received (CUFS) vendor support since 1994; the University has been patching the system itself. Custom support can be purchased if needed. He noted that the added scope of the new financial system is not a done deal; the President, Provost, and Board of Regents need to approve it. The final proposal will be ready by February, at which point the senior officers and Board will have to make a decision.

This addition is not lengthening the project, Mr. Klein inquired? It is over time and over budget if one looks only at the original estimates, Mr. Volna said. In the meantime, there are 30% more modules. They could also possibly complete the additional sponsored project modules with the original project schedule of two years, but for a number of good reasons it makes sense to add one year in order to bring the project on line at the end of a fiscal year in order to avoid the need for patches.

Professor VandenBosch adjourned the meeting at 4:40.

-- Gary Engstrand

University of Minnesota