Minutes*

Faculty Consultative Committee
Thursday, June 14, 2001
1:30 – 3:30
238A Morrill Hall

Present: Fred Morrison (chair), Wilbert Ahern, Muriel Bebeau, Les Drewes, Arthur Erdman, Dan Feeney, Marti Hope Gonzales, Joseph Massey, Charles Speaks, Billie Wahlstrom

Regrets: Linda Brady, Susan Brorson, Richard Goldstein, David Hamilton, Candace Kruttschnitt, Marvin Marshak, Judith Martin, V. Rama Murthy, Paula Rabinowitz, Jeff Ratliff-Crain

Absent: none for a summer meeting

Guests: Associate Vice President Richard Pfutzenreuter (Budget and Finance); Professor Charles Campbell (Senate Committee on Finance and Planning, who will serve as chair pro tem of the meeting on June 18)

Other: none

[In these minutes: (1) the budget; (2) Benefits Advisory Committee]

1. The Budget

Professor Morrison convened the meeting at 1:30, noted the presence of a reporter from the Minnesota Daily, and asked his colleagues if the meeting should be closed. The Committee voted unanimously to close it. He then turned to Professor Speaks for a report from the Committee on Finance and Planning (SCFP), which had met for two hours earlier in the day with Executive Vice President Bruininks and Mr. Pfutzenreuter.

Professor Speaks began by reporting that SCFP would meet again on Monday (June 18) in order to consult once again on the budget plan that will be brought to the Board of Regents on June 26; it is expected that by Monday the options will have been narrowed and choices will have to be made. He also said he has drafted a declaration on the budget in order that SCFP can express its views about the options.

The general compensation increase of 3% will not all be funded centrally; the colleges will be responsible for that portion of the increase that reflects the portion of their budget that comes from tuition. An additional 2% for faculty (down from the 4% in the biennial request) will be more special merit and probably mostly the responsibility of the unit.

Tuition increases being considered for the two years of the biennium are 13.8% and 12.2%, on average.

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Under any budget scenario the Enterprise Systems Project tax would remain at the current level. The Internal Revenue Sharing (IRS) tax would vary in magnitude with the options being considered; it is now at 2.25% and could go as high as 4.75%, depending on what budget model is chosen for central administration to generate the revenues it needs for shared expenses. The biennial request contained items for the libraries and technology; there will probably be zero for them in the budget allocations because the appropriation will likely be too small; is there any way to get funds for them in some other way, he asked?

Professor Speaks then asked Mr. Pfutzenreuter to distribute copies of the one-page handout also provided to SCFP members earlier in the day; he reviewed the four options being considered. [Those models are explained in the minutes of the 6/14/01 minutes of the Senate Committee on Finance and Planning and will not be repeated here; for reference, those minutes are appended to these.] All four models provide about the same amount of money for the administration to spend on shared costs.

There are questions that need to be answered about options B and C. For option C, a 25% tax on increases in tuition revenues, Professor Speaks noted that tuition can increase both because of a rate increase or because students take more credits; would the tax discriminate between those two? For option B or C, (B provides for a $200 "enrollment fee") would the IRS tax (which is on revenues) be calculated before or after the tuition was paid to the administration? In the case of the fee, Mr. Pfutzenreuter said, it can be directed into central accounts and would not show up as revenue to the colleges and would thus not be taxes; he has not figured out how to deal with the 25% and there might have to be adjustments to avoid double taxation. Option B, Professor Speaks noted, is a 32% tax for CLA, while option C is the 25% tax.

Two items were the focus of more attention by the deans, Professor Speaks reported. There is $10 million in non-recurring costs; the administration is considering a surcharge on the IRS (about an additional 1%, Professor Morrison calculated). There could also be a tax on balances, in combination with the surcharge, to solve the $10 million non-recurring shortfall. (The annual non-recurring shortfall, Professor Morrison observed.)

Professor Campbell and others at the SCFP meeting spoke strongly against a tax on balances, Professor Speaks reported, because it leaves vulnerable those units that planned and set aside money while units that have deficits are immune. Mr. Pfutzenreuter said that the administration needs a certain amount of funding and will present a bill to the deans; the administration is not concerned how the dean pays the bill. But if the calculation takes into account balances, it is a hidden tax. SCFP did not support this proposal, he said.

A draft declaration has gone to SCFP members for its additional meeting on June 18. The underlying issue is that when the University adopted Incentives for Managed Growth (IMG) and the tuition attribution model, there was not enough money provided for central administration. Key recommendations of the Budget Management Task Force, January 21, 2000, were that "a single tax applied to all University units should be implemented based upon an all-funds framework of nonsponsored resources to meet all other shared University responsibilities" and "taxes should not involve complicated systems of attribution formulas tied to particular goods (e.g., one tax for the libraries, another tax for the office of the general counsel, etc.)." It should, Professor Speaks summarized, be predictable and controllable. He circulated the draft declaration that has been sent to SCFP members.

If one looks at the numbers, one sees there are two competing forces, Professor Feeney said; what is good for one group is not good for another and one size does not fit all. The Committee is at risk of passing resolutions that will make things worse for some units but not others. There is almost a need for a customized tax system; if one compares the impact of the four options on the AHC units and the non-AHC units, they are almost inverse.

Professor Speaks agreed. He said he proposed supporting option A (an increase in the IRS tax from 2.25% to 4.75% and no charges or taxes on tuition) because it is the one closest to the recommendation of the Budget Management Task Force--a single tax--and the proposed declaration said the option should ONLY be used for the next fiscal year. The Budget Management Task Force recommended that the Provost's Budget Advisory Committee (which evolved from the Budget Management Task Force) put this issue high on its list of priorities. It is not clear that the University can change the system in one week, he said. The Budget Management Task Force was a broadly representative group that included Senior Vice President Cerra, Professor Campbell recalled, and he supported its principles.

Professor Feeney concurred but said the question is how the tax will be levied. As the report to SCFP on June 5 demonstrated, the AHC units have vastly different sources of revenue from the non-AHC units. Dr. Cerra would not support an increase in the IRS, Professor Feeney maintained, but would support a system that equitably applied taxes. He agreed that option A is the simplest model.

Professor Morrison said he supported the draft SCFP resolution except for one provision; he did not agree that the central administration should be obligated to fully fund all salary increases. Since the advent of IMG salaries have been supported by tuition, state funds, and other funds. There will be growth in tuition revenues to colleges but there will be little growth in state funds; it seems that salaries supported by tuition should be supported by tuition and state funds should support state-funded salaries. If all salary increases are to be paid from state funds, that gives deans a bonus (tuition revenues that need not go to salaries) to do other things; it will also lead to an increase in the taxes on the units in order to fund the salary increases.

The underlying theory of IMG is that decisions should be made consciously. The AHC needs to be supported, and not by tinkering with taxes on the edge, Professor Morrison said. There must be enough funds available to keep units whole.

What additional funds would the IRS cover if it were to be an all-funds tax, as recommended by the Budget Management Task Force, Professor Speaks inquired? Right now all current-fund revenues are summed for the purpose of calculating the IRS, Mr. Pfutzenreuter said; it does not include sponsored funds or student fees. Some institutions tax sponsored funds but he said he did not prefer that option.

Professor Bebeau mused what the reaction of the AHC deans has been to option A (which has significant negative financial consequences for all of the AHC colleges except Pharmacy and Nursing). Professor Speaks said he agreed with Professor Morrison's view that any option selected should ameliorate the distribution effects on the AHC.

One option must be chosen, Professor Drewes surmised. Mr. Pfutzenreuter said that a budget document will be delivered to the Regents for their June 26 meeting, with a two-year budget plan. He noted that the Board must approve the 12.2% tuition increase the second year as well as the first-year

increase; if they do not, the plan will not work. The Regents will not pick the model for revenue distribution used but that model will drive the allocations that the Board must approve. He expressed reservations about his ability to actually have a budget ready for the June 26 meeting.

Professor Morrison inquired about the calendar of events. Mr. Pfutzenreuter said there are three scenarios:

-- settlement by June 30 and the University presumably receives the approximately $110 million that the legislative conference committee has agreed upon; or

-- a "lights on" bill, which (in the Senate version) provides the University $62 million for the biennium; or

-- a shut down, but the University will not panic and will take a budget to the Board of Regents for approval on July 12 and make adjustments after June 26 if something happens to require them; if there is a serious shut down, in September . . . Mr. Pfutzenreuter dismissed this as only a remote possibility.

In terms of the options before them, Professor Speaks suggested setting aside option D (a 65% central tax on tuition revenues) and said there are two ways to approach the need for central funds: a tax on tuition or the IRS. The focus is on the distribution effects, which drive deans to fight and people to try to protect their own territory. The Budget Management Task Force, he repeated, recommended a predictable, controllable revenue stream to fund central administrative all-University expenses; options B and C (the varieties of taxes on tuition) will not accomplish that recommendation.

His concern is that the University has expenses of about $20 million annually in excess of its revenues and it finances those expenses by taxing itself. There has not been discussion about controlling the expenditure side. The University is shifting to a tuition-based budget model and the only way to fund central administrative expenses is through an IRS tax--which will reach 25% in the future unless something fundamental changes in the way the University spends money. If the administration needs $20 million each year to fill the hole, it can do so with a tax on a 13% tuition increase; it will not be able to do so with a tax on a 4% tuition increase.

Professor Massey asked how the 25% figure was derived and wondered if it would make more sense to go to a full IMG model. Mr. Pfutzenreuter related that he had told SCFP that he was an "IMG purist" who would rather push the costs down to the units and then have a low level of internal taxation, rather than jerry-rig the tax system. He said that they were into adjusting the third decimal of the plan in order to fix the distribution effects and that it would be better to look at the cost side.

In addition, the tax on tuition creates a conflict of interest, Professor Speaks mused: the University wants to improve the graduation rate and wants students to take 15 credits--but it only receives half the income from the 13th to the 15th credit and it is better financially for the University for students to stay around. The solution is not a better taxing mechanism, Mr. Pfutzenreuter maintained.

Professor Speaks pointed out that Messrs. Campbell, Morrison, and Pfutzenreuter were all on the Budget Management Task Force that recommended the all-funds tax; the group had wide representation from across the University. What is wrong with that recommendation? Or is it the IRS? Mr. Pfutzenreuter said the President feels that if he brings to the Regents a large tuition increase, he does not

like to rely solely on the IRS and would like another lever with which to control costs. He is disturbed by the rise in the IRS, Professor Morrison added, and hates retrenchment; the IRS is a "permanent disallocation"--but it is retrenchment.

Professor Morrison said he preferred the Enterprise System Project tax because it hits all units. Would it make sense to use option C (the 25% tax on increased tuition revenues) on a one-time basis, Professor Massey asked, and as the University moves to a hybrid funding model move also to a purer model of IMG by moving costs to the units?

Professor Morrison agreed but said his concern is that the 25% tax will be 37% in five years. He said he could only support options that tax tuition if things that are particularly student-oriented (not just instructionally-oriented) are charged to tuition. General University support should not be charged to tuition, he said; students should not pay for the Minnesota Extension Service. Professor Feeney observed that it is expensive to educate students in the health sciences programs; would they receive the benefits of a significant tuition increase?

Which option would he prefer, Professor Massey asked of Mr. Pfutzenreuter? Mr. Pfutzenreuter reiterated his position as an "IMG purist" but said he also understands the President's position, who wants to deliver salaries to the faculty, not cut the AHC, provide funds to the coordinate campuses, and so on. It may be that something like option B (an "enrollment fee" plus a smaller increase in the IRS), but perhaps with a smaller fee than in B, would provide enough funding to address problems.

Professor Speaks said he is NOT an IMG purist and would favor A, the straight increase on the IRS, because it is closest to the Budget Management Task Force recommendation. If there is a need to tinker with the system to give the President more money, that can't be accomplished by Monday. If the administration must do something, it should probably impose the enrollment fee rather than tax a percentage of the tuition increase, Mr. Pfutzenreuter said; he prefers to see departments more in control of their own fate, which is what he thought IMG was about. Increasing the tax just takes money away and then the administration gives it back, leaving no incentives for departments. The presidents wants a small fee, to generate enough funds for the budget to work and to deal with inequities.

Professor Drewes asked how, if option A (the increase in the IRS tax and no other changes) were adopted, the administration would take into account the fact that some units would be in a more difficult situation? The IRS tax assumes they are all equal. Option A is blind to those differences, Mr. Pfutzenreuter agreed.

Professor Erdman speculated that the Board of Regents would care most about the tuition increase; the deans and department heads would care most about the budget model used; individual faculty members would only notice the tuition rate if they have a child at the University and they will notice their salary, but the levers and models will not matter to them. There are basic and fundamental issues involved here that cannot be solved in a couple of days, he said; the President will have to pick an option but whatever he picks should not be permanent. There must be study and evaluation of the impact in order to see how fair the system is. The lowest risk comes with a small enrollment fee and an IRS increase of less than 2% if one wants to live to talk about it later, Mr. Pfutzenreuter commented. The SCFP declaration does not prevent that option, Professor Speaks pointed out.

How should a fee be imposed? Professor Morrison said that if a student takes two courses (taking one course may be in a special category), he or she should pay the entire fee; they are using the services of the University. If it is based on the number of credits it is still tuition-based, Professor Speaks said; he agreed with Professor Morrison that there should be a base fee reflecting the fact that the students draws on University services no matter the number of credits they take.

Professor Morrison inquired of the Committee what they wished. He suggested that he would circulate to it, by noon on Monday, June 18, the resolution as approved by SCFP and would expect responses (support/objection) by 3:30 also on June 18.

Professor Morrison emphasized that the recommendation for the next fiscal year is only a band aid and the Provost's Budget Advisory Committee should approach it very carefully. Professor Campbell noted that the AHC Finance and Planning Committee had pulled together a great deal of information; when the Budget Advisory Committee should do something thoughtfully, it should conduct a similar mining of information.

2. Benefits Advisory Committee

Professor Morrison recalled that the Health Plan Task Force, chaired by Professor McGehee, had completed its work, made recommendations, and evolved into the Interim Health Benefits Advisory Committee. One of the recommendations was that if the University were to separate from the state in providing health care, there be a Benefits Advisory Committee. That recommendation has been a part of the report all along; Professor Morrison said he believed the President would accept the recommendation.

The Regents have approved the recommendation to separate from the state. It is now time to appoint the permanent Benefits Advisory Committee, which will have four representatives each from the faculty, civil service, and professional and administrative employee categories as well as two retirees. Graduate students and bargaining unit employees may also participate as non-voting members.

Professor Morrison identified the faculty currently members of the Interim Health Benefits Advisory Committee and suggested that at the June 28 meeting the Committee identify a slate of 8-10 candidates to fill the four faculty positions on the new committee. Each employee group will be asked to identify a similarly-sized slate; the three committee chairs representing the employee groups plus the chair of the committee (that is, Professor Morrison) will then select the four representatives from each employee group with an eye to ensuring that there is appropriate representation across campuses and among various groups.

Professor Morrison asked that Committee members send him any additional names. He then adjourned the meeting at 3:15.

-- Gary Engstrand

University of Minnesota

Appendix

Senate Committee on Finance and Planning
Thursday, June 14, 2001
9:00 – 11:00
238A Morrill Hall

The Budget

Professor Speaks convened the meeting at 9:00, welcomed Executive Vice President Bruininks and Professor Morrison, and turned to Mr. Pfutzenreuter to begin the discussion.

Mr. Pfutzenreuter said that budget plans are being made assuming the University will receive about $110 million from the state, about $90 in O&M funds and about $20 for the Academic Health Center from the tobacco endowment funds. There has been a rumored "lights on" proposal, which would provide the University with $62 million; there are no plans being made for that contingency. There are various versions of shut-down plans being considered, with various contingency plans, but the approach is not to panic and to take no action on July 1 because it is assumed the state will get the situation straightened out shortly.

Mr. Pfutzenreuter said he believed the University should plan around the $110 million and bring the Board of Regents, on June 26, a budget using that number. If there is no legislative agreement, so be it, he said, but eventually there will be. If the amount appropriated is different, then recommended adjustments will have to be brought to the Board. The plan now is to bring the entire budget package to the Board with the understanding that it is subject to legislative action.

In developing the internal budget they have been going through a variety of options, Mr. Pfutzenreuter related, on how to fashion the Internal Revenue Sharing (IRS) tax, tuition, and how much of tuition will be taken by central administration--the internal distribution of revenues. The $110 million, he noted, is not enough for the President's investment plan, which includes a 3% general salary increase for employees, separation from the state for health care (which actually saves an estimated $11 million over the biennium), a minimum annual compensation level for University employees, and small investments in undergraduate education (faculty, advising, classrooms). There are other costs which must also be paid: opening new buildings, paying debt, paying the increase in utility bills.

Will the libraries and technology components of the biennial request be funded, Professor Speaks asked? There will not be substantial new funding for them, Dr. Bruininks said. His view, with which Senior Vice President Cerra agrees, is that these items should be a top priority in the compact process. There will be about $2 million in recurring funds available next year; depending on what happens with tuition and the biennial request, there could be $3-4 million in the second year of the biennium. There will be nothing for the libraries in the budget allocation, Dr. Bruininks agreed with Professor Morrison, but emphasized that he wants to identify ways to put money in them out of the compact process. Professor Campbell pointed out that the serials crisis in the libraries could consume the entire $2 million. Dr. Bruininks said he needed advice on whether budgets should be cut elsewhere to deal with that problem. Of the $110 million, he noted, $20 million is committed to the Academic Health Center so cannot be touched.

Mr. Pfutzenreuter reported that the President had also asked that the budget models also include an additional 2% (above the 3% general salary increase for all employees) for faculty salary increases next year and an additional 3% the second year. Are those to be merit or special merit, Professor Speaks asked? More special merit, Dr. Bruininks said, to deal with recruitment, retention, and market conditions; the money will be allocated to the colleges to be distributed by decision at the local level; deans and chancellors will decide how to use the money.

How will the increase be funded, Professor Speaks asked? All money is green, Mr. Pfutzenreuter said--it will come from the IRS tax, tuition, state funds. The legislature will ask what the University spent its state funds on but the University does not segregate the funds when it pays costs; the state funds could be attributed to facilities or salaries or however one wanted to assign it. There was a proposal to fund salary increases in proportion to the amount of a college's budget that came from tuition, Professor Speaks observed; that is the plan being considered. In terms of the 3% general salary increase, if one subtracts the part that is proposed to be covered by tuition, Mr. Pfutzenreuter said, it equals $29 million, or the amount of the first-year appropriation for the next biennium (assuming the $110 million).

Dr. Bruininks said that balancing the budget will be accomplished roughly in thirds: by increasing tuition, from state funds, and by cost reductions/cuts/internal reallocation. On the latter, he said, the University said it would do it, the legislature expects it will do it, and the University will do it. There will be a need for hard decisions.

Other investments to be made include 10-13 new computer and information science faculty, Mr. Pfutzenreuter told the Committee, core needs in the Academic Health Center (the endowment will generate about $5.6 million the first year, about $14 million the second, and over $17 million the third year; Dr. Cerra has identified how the money is likely to be spent). Some funds have been earmarked by the legislature for state specials (although a very small part), some funds will have to be used for financial aid because tuition will be increased, there is $10 million in one-time budget needs, and there are other recurring University financial needs such as leased space, legal costs, technology needs, and commitments that must be kept. The challenge is to figure out to pay for these investments.

There will be natural growth in the IRS, and the central administration's share of ICR funds; there is also about $3 million in one-time money, state funds will increase by $110 million, and there is tuition. The assumption is that there will be a significant increase in tuition. The Committee discussed with Dr. Bruininks and Mr. Pfutzenreuter the possible rate increases that might be considered.

Professor Speaks noted that the University had requested $221 million for the biennium; with tuition increases at certain levels, plus $110 million, much of that request could be covered. Mr. Pfutzenreuter explained that that was not quite true. The initial figure, for University needs, was about $274 million; when $30 million in internal reallocation and about $23 million in additional tuition revenues (a 3% increase) were subtracted, the net biennial request was $221 million. However: there are additional University needs that it has not asked the legislature to support (e.g., increased financial aid with a tuition increase, lease costs, legal costs, technology needs) and one needs to add about $55 million to the original $274 million figure, so the total is about $329 million. If one presumes $110 million from the state and perhaps $108 million in tuition, there remains $111 million in costs that are not funded. This means that some will not be; there will not be additional dollars for, among other things, Facilities

Management for building maintenance and for new faculty, and faculty salaries will not be increased an additional 4% (above the 3% general increase) each year of the biennium.

Professor Campbell said he would repeat a point he has made before: when all of the discussion about development of the budget has taken place, it was never said there was an additional $55 million in costs that needed to be covered. To put the $55 million in perspective, Mr. Pfutzenreuter said, each year there seems to be about $12-15 million in things the University must pay for and for which it cannot ask the state for the money; $15 million continued into the second year of the biennium, plus $15 million in the second year, totals $45 million; when an additional $10 million in non-recurring items arises, the total is about $55 million in items that the University cannot ask the state to pay for.

It may not be able to ask the state for the money but it would help those who participate in the planning and consultative process to know about those numbers, Professor Konstan said. Dr. Bruininks agreed that one could say these items will crop up every year but one cannot anticipate all that will arise in a $2 billion budget. What one CAN know, Mr. Pfutzenreuter agreed, is that there will ALWAYS be this $12-15 million in expenses. Professor Campbell agreed with Dr. Bruininks' observation that the University could build in a "stuff happens" budget line. Dr. Bruininks said the budget model is becoming more mature (e.g., it accounts for funding building depreciation) and there are central costs--which are not the idea of some administrator about how to spend more money; one example is a significant rise in costs of interpreters. Many of these unpredicted central costs arise as a result of pressure on academic units and the list of them to be paid has been pared by about half so far; if the list is cut any further, he cautioned, units will see bad things happen. While the budget model must include a way to fix problems, the University must also curb its appetite, Dr. Bruininks said.

The University must set aside reserves for contingencies, Professor Gudeman said; if it knows X% of the budget will routinely arise, that amount should be planned for. Dr. Bruininks agreed and said his only point is that there is a lot of shared responsibility for those costs and they will not go down. The costs of a university do not reflect the CPI, he added; to be on the cutting edge in research and recruit the best people it can are more costly.

Most of the items that Dr. Bruininks mentioned--labs and salaries--are carried by academic departments on fixed budgets, Professor Morrison observed. He also said he was happy to hear that an item would be built into the 2003 budget for unanticipated expenses; if there is an item, people responsible for commitments must live within that budget rather than hand the list to Mr. Pfutzenreuter and tell him to find the money. This will force these items within a budget, which is very important. finally, Professor Morrison said he had heard nothing about assessing the value of what the University is doing; if the budget is this tight, one can ask if the University must open its new buildings rather than lock them and postpone opening them for a year, or if the University should be putting $8 million into intercollegiate athletics when other universities are meeting gender equity guidelines by cutting programs rather than adding them. Is the University looking seriously at such options? Or is it spreading the pain all around, affecting all programs? Mr. Pfutzenreuter again noted that the budget would be balanced by allocating one-third of the problem to tuition increases, one-third to state increases, and one-third to cost-savings and reallocation. The latter includes a target of $6 million in cuts in recurring funds the second year of the biennium.

With respect to tuition increases, is the projected amount the maximum that could be expected--does it assume student behavior will remain the same, Ms. Phillips asked? Dr. Bruininks affirmed that

the tuition number assumes behavior will remain the same. There is some concern that there may be a drop in demand. But the University has work to do: students take too long to graduate, they take too few credits, and there are high costs for that, both for the University and the student. The half-price tuition for the 13th and subsequent credit was an attempt at an incentive for students to take more; the University must work very hard to make sure the numbers do not drop.

The University is checking with other institutions; it appears that most public institutions in the Midwest have been underfunded for 20 years and are going to push the limits on tuition. If there is a financial safety net, and the actual DOLLAR increase is not prohibitive (perhaps $500 per year next year at the University), the impact on behavior should be minimal. Professor Speaks suggested that with the decision on tuition coming so late, the impact on enrollment next year may be misleading; any impact will more likely be seen the following year.

Professor Campbell asked, apropos enrollment and tuition, if there was liable to be a shortfall and another penalty (part of the one-time recurring costs the University must pay is a penalty to the state for not meeting enrollment goals)? Mr. Pfutzenreuter said the possibility exists. Is the University taking steps to avoid the possibility, Professor Campbell asked? He said that the large undergraduate colleges surpassed enrollment targets but the University still suffered the $6 million penalty. There appears to be a communications problem. Mr. Pfutzenreuter said he would welcome advice from the Committee on this issue. Dr. Bruininks agreed that the University should not create problems because of prediction errors.

Professor Speaks then observed that if, under Incentives for Managed Growth (IMG), all agree that funds for central administration for all-University costs must be identified, what models are being contemplated for deriving those funds? Mention has been made of the IRS. Second, he recalled that the Budget Management Task Force, chaired by Dean Rosenstone, recommended a single, all-funds tax.

Mr. Pfutzenreuter said his office has modeled many different ways to balance the budget and deliver revenues. The President asked for four options; Mr. Pfutzenreuter distributed a one-page handout laying out four possible ways to structure the budget to pay for central costs. Those four alternatives were:

A: Use the budget model for this fiscal year; there would be no change in the attribution of tuition but the academic unit IRS rate would increase from 2.25% to 4.75%. The general tuition increase would be 13.8%.

B: Central administration would implement a $200 annual "enrollment fee," calculated for each semester as $10 per credit up to 10 credits, and the academic IRS rate would increase from 2.25% to 3.75%. The general tuition increase would be 10.1%.

C: 25% of the GROWTH in tuition revenues between the current year and next year would be transferred to central administration; the academic IRS rate would increase from 2.25% to 3.75%. The general tuition increase would be 13.8%.

D. 65% of the growth in tuition revenues between the current year and next year would be transferred to central administration and the academic IRS rate would remain at 2.25%.

Models A and D "are viewed as the two bookend options for comparison purposes," according to the handout. In none of the models would there be any change in the Enterprise Systems Project tax; all four options would generate about the same amount of money for central administration to pay for all-University expenses, approximately $25 million.

The handout also identified on a table, for each college and campus, the net impact of each option after calculation of the IRS, tuition income, and state funds (in all cases holding the Enterprise Systems Project tax constant). Professor Gudeman observed that the table of data indicated there is tremendous differential in the impact of the options on different colleges, varying with how dependent a unit is on tuition revenues and state funds. He also said that there are bigger issues involved than simply who gets what, such as what happens with support units and the environment for units that are more tuition-dependent. These require planning discussions about the direction of the University.

[A few illustrations from the table; ( ) indicates a net negative impact of the option, numbers without parentheses indicate a net positive result from the option]:

	A	B	C	D
Duluth	(418,705)	151,689	375,773	60,372
Morris	(1,178)	133,490	148,093	50,291
COAFES	(347,644)	(308,181)	(262,064)	(123,842)
Carlson	673,369	931,833	380,630	(85,458)
General Coll	(599,590)	(688,369)	(502,950)	(347,915)
IT	981,360	642,897	548,318	(139,583)
CLA	1,492,815	225,752	408,070	(1,322,199)
Dentistry	(436,715)	(336,574)	(310,749)	(107,777)
Medical Sch	(1,795,940)	(1,050,701)	(998,412)	284,522
Pharmacy	553,247	465,092	466,497	328,420
Vet Med	(502,427)	(252,184)	(291,849)	46,916
Ag Exp St	(1,206,381)	(739,822)	(739,822)	(39,983)
MN Ext Svc	(1,089,402)	(667,430)	(667,430)	(34,471)

Dr. Bruininks noted that tuition remains 15-20% of the revenue base. There have been commitments to the units in the past; one can, however, raise questions about what will happen in the future. Professor Gudeman said his question is not about "values" but is more pragmatic: what kind of university can this be in this kind of environment. Dr. Bruininks said there is not agreement on the issues and a need for conversation about them. The people of the state may not accept the idea of a different kind of university.

Professor Speaks said the underlying point is that the central administration has bills to pay and must have revenues; the table of four options demonstrates the different distributional effects of alternative ways of generating that revenue.

The table puts the cart before the horse, Professor Morrison opined. It is useful but if one is going to talk about allocating revenues there must be an understandable system that is built on some kind of principle (rather than on whose ox is being gored). Who should be contributing to the overall costs of the University? Should the money come from overall University revenues or only from what the students pay? If the University uses the fee (option B) or 65% of tuition, one is saying that the costs of services that are partly or largely not tuition-based should be borne by the students.

One could make that argument, Dr. Bruininks agreed, but one could also make the argument that all cost increases are attributable to students--financial aid, faculty salaries, and so on. The costs for buildings that house research facilities (e.g., heating, lighting), Professor Morrison pointed out, are also borne by students when tuition is taxed. Part of the costs must be paid by a general assessment on all revenue sources, he maintained; as for tuition, should it be based on a % of the revenue or on headcount (as with the fee, option B)?

There are no simple answers, Dr. Bruininks said. Decisions made last year will remain intact; the question is what to do about tuition, on which there is a split in opinion. Tuition needs to be added to the funding model to some extent because it is increasing as a source of revenues to fund the University, if one makes the assumption that a new funding model is evolving. Other models are being considered, Dr. Bruininks said, such as attributing more costs to units and increasing the IRS on that basis.

Why not a tax on all funds, Professor Speaks inquired? He also asked if there is any plan for a tax on balances. Mr. Pfutzenreuter said that the University has $10.2 million in one-time needs that must be paid; his office has developed a methodology for apportioning that cost to central and academic units and each will be sent a bill. How the units pay the bill is up to them. Is the amount assessed each unit based on balances, Professor Speaks asked again? It is partly based on balances, partly on revenues, Mr. Pfutzenreuter responded.

Professor Konstan said that there are different short-term and long-term models. For the short term, the valves are all locked and the pressure is building. One can increase tuition because tuition is available, but it is mostly in the undergraduate colleges. There is a very different long-term question: is putting 100% of tuition income in the colleges the right way for a university to budget? Answering the latter question will take more than two weeks. Right now the consideration is about a band-aid.

Dr. Bruininks agreed but said the point does not go deeply enough. Tuition is available but the University must also cut costs. Any assessment model will have long-term effects and the University should not raise tuition because it is convenient. At the same time, there has been a conscious decision over the last 20 years about public higher education; if one looks at the gap between needs and revenues, it has been largely made up with tuition, sponsored funds, and gifts. The argument is about what kind of university this institution will be.

Professor Morrison said he agreed with Professor Konstan and the point is tied to what principle will be used--something that cannot be solved this year. These plans are unstable, he pointed out, and in two years another band-aid will be needed. (For example, if the central administration is dependent on taxes on INCREASES in tuition, it will receive very little if the tuition increase is 4%; model C works only when there are large tuition increases, thus delivering significant revenues for central costs.) The University must work toward a system that will produce a predictable result, as recommended by the Budget Management Task Force.

In a more tuition-dependent environment, what has the legislature done about allocating money for financial aid, Professor Gudeman asked? There will be only inflationary increases, Mr. Pfutzenreuter told him. If tuition is increased significantly, some of the money must be set aside for aid, Professor Gudeman then commented. Dr. Bruininks pointed out that part of the capital campaign includes funds for student financial aid, although that part of the campaign has been less successful than others and needs to have a higher priority. He agreed that more money needed to go into financial aid.

Professor Campbell said that the asymptotic limit on central administration revenues will be 25% of tuition, under option C: as time passes, and the administration takes 25% of the increase in tuition revenue each year, the total taken will begin to approach 25% of ALL tuition. He said that it appears the University is giving up, on short notice, on one principle it worked very hard on: IMG. All who looked at the budgets recognized the need for the administration to have revenues; the question is how they should be generated. The options identified will be a shock to the system and will mean giving up a substantial portion of IMG with very little discussion.

Moreover, Professor Campbell said, taxes on balances are about the worst possible principle to adopt and it cannot be justified without notice. It will lead units to determine that they will not, in the future, have balances. (Dr. Bruininks expressed doubt that because the administration taxes balances once, at a few percentage points, units would decide to eliminate balances.) Professor Speaks agreed with Professor Campbell: units that have not engaged in wise financial planning will be immune from the tax and units that have deficits will be protected. He said he would prefer to see a non-recurring surcharge on the IRS to pay one-time costs than a tax on balances. Mr. Pfutzenreuter said the model relied .36 on the IRS but that could, for example, be doubled. He surmised, however, that bill to the deans, however derived, would be paid with funds in balances. This has been argued internally as well, Dr. Bruininks observed, and can be revisited--in the next five days, because there is a problem that needs to be fixed.

A more long-term, philosophical question, Professor Feeney said, is that it seems no matter what option is selected, it affects units differentially. Fixing the problem for one unit creates problems for another, as the results of imposing different options demonstrates; there appears to be no one model that works for all units.

Dr. Bruininks agreed. Not all revenues are included, such as endowment funds; building debt is not included. If the Academic Health Center taught more students, the results would be changed. He said he is not proposing any change in what the units do but only pointing out that there is much that is buried behind the numbers for each of the models. He agreed that option A cannot be the only one used to generate revenue for all-University expenses, but at the same time the choice should not destroy the incentives built into IMG; it may be necessary to use a combination of options.

One lesson for him, Mr. Pfutzenreuter related, is that the University cannot develop a taxing mechanism that makes everyone happy. With these models they have made everyone mad at each other. He said that he is an "IMG purist" and would allocate costs and then use option A, with the administration generating sufficient funds to deal with problems that arose.

Professor Bauer said that if all four options generate about the same amount of money, then one need look only at the distribution effects. The options with fewer distribution effects will be easier to explain to the University community.

Dr. Bruininks said that the University cannot spend its energy arguing over these options each year; it must develop an assessment mechanism. The President believes the system was flawed when it was implemented (because the central administration has too few resources to pay all-University costs) and this argument should not be necessary every year. The President maintains that there must be funds for central needs and the administration should not have to beg for them every year. The system needs to be refined so that the other big questions facing the University can be addressed. The administration is looking at cost attribution. The President is also coming to the view that the University needs a different funding strategy; it will not necessarily be easy to convince people that this is the way the University should proceed.

A formula cannot solve the problem, Professor Konstan said; it is good at creating incentives but the University still needs leadership to say what will be emphasized and what will not. For example, whichever formula is chosen will affect the Medical School and the Extension and Experiment Station in the same way; the University must first decide whether it wants to treat those units similarly or differently, rather than depend on a formula that cannot distinguish among them. He maintained that option A was simplest but that the University must be sure under option A that there is enough money centrally to help the units that are disproportionately hurt and need help.

Dr. Bruininks said that the administration was listening carefully to the deans and this Committee and trying to develop a model that would work in the future. He said, however, that he could not get a reading on what the Committee wished. Option A could be adopted because it is a simple tax; options B and C may not work in future years; the effects of A could be smoothed out; more costs could be attributed to units. Should the administration attribute more costs and lower the IRS? The unattractive part of that option is that some units would receive a mandate without additional funds.

These are all new questions that would lead to a shock to the system if imposed for this biennium, Professor Campbell objected.

Professor Speaks asked what the Committee's preferences were. Professor Feeney said he hoped for a one-year fix and then consideration given to a more permanent solution. He urged adoption of the KISS principle advocated by former Senior Vice President E. F. Infante: Keep It Simple, Stupid. His preference is for the model that has the least differential impact. He noted that FCC has asked this Committee to be more involved in working out a solution.

On a show of hands, Committee members cast 6 votes in favor of option A, 2 in favor of B, 2 in favor of C, and none in favor of D. At least one Committee member abstained.

Professor Speaks noted that the Regents will meet on June 26 for a preliminary review of the budget. He suggested, and the Committee agreed, that it would meet again on Monday, June 18, to consider the options that have evolved by then, before materials go to the Regents. Professor Speaks said he would be out of town; Professor Campbell agreed to chair the meeting on June 18. He said he would, in the meantime, draft a statement for the Committee to consider.

Professor Speaks commended Committee members for setting aside self-interest and for trying to look at the broad interests of the entire University. That approach continued at this meeting, he concluded, and adjourned the meeting at 11:00.

-- Gary Engstrand

University of Minnesota