THE UNIVERSITY SENATE OF MICHIGAN TECHNOLOGICAL UNIVERSITY

Minutes of Meeting 386

30 April 2003

Synopsis: The Senate

1. heard a presentation by President Tompkins.

President Bob Keen called University Senate Meeting 386 to order at 5:30 p.m. on Wednesday, 30 April 2003, in Room B45 EERC.

1. ROLL CALL OF SENATORS
Secretary Craig Waddell called roll. Absent was a representative from and Student Affairs and Educational Opportunity. Liaisons in attendance were Karl Haapala (GSC), Phil Ribeiro (USG), and Becky Christianson (Staff Council).

2. RECOGNITION OF VISITORS
Visitors included Curt Tompkins (President), Kent Wray (Provost), Dan Greenlee (CFO), Ingrid Cheney (Human Resources), Marilyn Cooper (Humanities), Faith Morrison (Chemical Engineering), Susan Amato-Henderson (Education), Martha Sloan (Electrical and Computer Engineering), Jana Jones (*Michigan Tech Lode*), Ryan Olson (*Daily Mining Gazette*), Michele Jokinen (*Daily Mining Gazette*), and Marcia Goodrich (*Tech Topics*).

3. APPROVAL OF AGENDA
President Keen presented the agenda and asked for additions or modifications. There were none, and there were no objections to the agenda as presented. **[Appendix A.** NOTE: Only official Senate and Library archival copies of the minutes will contain a full complement of appendices.**]**

4. PRESENTATION BY PRESIDENT TOMPKINS [Appendices B and C]
Keen said that President Tompkins had been invited to address the University Senate relative to Senate Proposal 20-03, A Referendum on Confidence in the President. He said that President Tompkins would make a presentation for 20-30 minutes, following which, the floor will be open to questions from the senators.

Tompkins thanked Keen. He said that he would distribute to senators written copies of his remarks. Below is the president's written statement, upon which his oral presentation was based:

"I have been asked to discuss matters related to the concerns raised at the University Senate meeting on April 23, and I am pleased to do so.

My comments will pertain to the following topics:

1. State of Michigan
    a. General Funds for the 15 public universities
        1. Increasing reliance on tuition
        2. Relationship between state appropriations and tuition charges
    b. Michigan Public School Employees Retirement System (MPSERS) affecting seven public universities
        1. MPSERS payout schedule, 1997-2036

        2. Impact of MPSERS on MTU
2. Michigan Tech vis a vis Other Michigan Universities
    a. General Fund Plant Operation and Maintenance as a Percent of Total Expenditures
    b. Administrative Support as a Percent of Total Expenditures
    c. Long Term Debt
3. Internal Loans from the General Fund
4. Michigan Tech Fund Balance History, 1993-2002
5. Budget Reduction Advisory Committee (BRAC) Report
    a. Strategy:
        1. Maintain educational quality
            a. 60/40 split between cuts in administrative costs and academic unit costs
        2. Minimize staff reductions
        3. Provide fair compensation
        4. Equitable balance of tuition increases and budget reductions
    b. Employee Severance Program
    c. Process for considering reorganization and criteria for evaluating reorganization proposals
    d. Budget reduction targets for FY 05 and FY 06
    e. Continued exploration of "horizontal" expense reductions
6. Reorganization
    a. Establish processes, boundary conditions, and timetables that will define and support successful organization changes
    b. Encourage growth of dynamic, creative, balanced organizations
    c. Focus on academic units, services to students and financial and university operations

Exhibit A shows changes in the composition of general funds for the 15 public universities in Michigan from 1972 to 2002. Not shown are the impacts of appropriations during FY 03 and FY 04.

Exhibit B displays the trend line of the percentage of institutional revenues for all 15 universities from tuition during the past 30 years. This time series depicts the linear relationship that has existed between tuition and time. If it were to continue for 30 more years, about 80 percent of general fund revenues would come from tuition, and only 20 percent from state appropriations.

Exhibit C shows the relationship for the 15 public universities between state appropriations and tuition changes during the past 10 years. As state appropriations increased in the early 1990's, tuition increases diminished. As state appropriations decreased significantly in the past two years, tuition has had to increase at all 15 schools. With the proposed 10 percent reduction in appropriations in FY 04, the average increase in tuition among the 15 universities will inevitably be much higher.

Seven of the 15 public universities have been involved in the Michigan Public School Employees Retirement System (MPSERS). Exhibit D shows the increases in assessments by the State for each of the seven schools. In 1996, the legislature stopped paying for retirement and health care for our employees but mandated that each university pay for its employees. Even though the seven universities withdrew from MSPERS in 1997 and have not had any employees join since then, we are liable through the year 2036 for the pensions and health care costs of all previously hired employees who were under MPSERS. The data for 1997-2003 are actual payments made and from 2004-2036, projections of payments based on the average annual increases experienced during 1997-2003.

Exhibit E contrasts annual increases in state appropriations for Michigan Tech with annual MPSERS assessments. The "standard contribution" (left-hand column at the top) is what we would have had to pay regardless of the 1996 changes in state law. The next two columns in the top table show the extraordinary assessments levied by MPSERS. Note the huge increases in retirees health benefits costs. When you occasionally hear someone say "spiraling health care costs," recall the impact of MPSERS entirely on Michigan Tech. The seven universities under MPSERS have no control over MPSERS.

The bottom portion of Exhibit E displays the annual increases in state appropriations less the MPSERS past service liability. (See column three.) In 2003, Michigan Tech paid the state $4,319,686 more in MPSERS fees than the state increase in appropriations. Our MPSERS payment is roughly equivalent to about five (5) percent of our annual appropriation or about nine (9) percent of our tuition revenue.

Looking back at Exhibit D, as the years go by and if MPSERS continues to increase assessments by 12.44 percent, the total amount paid by Michigan Tech to MPSERS will exceed $1 billion. Couple that with continuing decreases in state appropriations as a percentage of our general fund, and one sees a very troubling picture indeed. Thus, I have been telling the legislature and the governor that appropriations trends during the past 30 years coupled with the MPSERS trend during the past seven years (and extrapolated for 33 more years per Exhibit D) simply cannot be continued. If they were to continue, Michigan Tech would be giving the State more in MPSERS payments than we would be receiving in state appropriations and thereby be a private institution. I have been trying my best to get them to see where their policies are taking us.

Exhibit F shows that Michigan Tech's plant operating and maintenance (O&M) expenses as a percentage of total general fund expenditures are the lowest of all 15 public universities. In addition to the $8,119,605 figure shown for our O&M cost, we also pay $53,000 in annual interest charges related to the Rozsa Center.

Exhibit G shows that Michigan Tech has the lowest percentage administrative support costs of all 15 Michigan universities. That is, administrative support costs as a percentage of total expenditures are lowest at Michigan Tech.

Exhibit H is a particularly important item. It shows that Michigan Tech has the lowest long-term debt on an absolute dollar basis and on a dollar per student basis among the public universities in Michigan. We have chosen to operate much more on a "pay as you go" philosophy than most of the other public universities. That is, we have paid in real time rather than take out large mortgages on our future. One result has been that we put much more pressure on (1) private fundraising for facilities and (2) our general fund than any other university in Michigan.

In fact, we have raised 44 percent of capital (so-called "matching funds") for new facilities compared to less than 25 percent provided by the other Michigan universities for their new facilities. Many of the other schools have chosen to take on long-term debt to provide matching funds in order to qualify for state capital outlay.

Exhibit I reflects the practice of advancing funds in the form of "internal loans" to assist programs which want to go ahead with projects and eventually repay our general fund with monies received from donors and other sources. All of this will be repaid, but as of March 31, 2003 we have outstanding accounts receivable of $4,048,554. If we had not loaned this money for worthwhile projects, our general fund would be better off by $4 million but some important projects would not have moved forward in a timely manner.

Exhibit J shows all of the accounts that comprise what accountants refer to as "current funds" as well as other accounts not comprising current funds. I won't go into much detail about this exhibit at the moment but will draw your attention to the following:

In the top table, the left-hand column shows the cumulative general fund balances for 1993-2002. At the top of that column (6/30/1993), the negative cumulative general fund balance of about $5 million was improved from about $7 million on 6/30/1991 (not shown in the table). Note that the negative general fund balance became a positive surplus by 1997. However, that is not the complete story. Look at the third column entitled "auxiliary fund." Notice that the auxiliary fund diminished while the general fund rose during 1995, 1996 and 1997. We were moving auxiliary funds into the general fund; that is part of the reason for the positive general fund in 1997.

Now look at the sixth column entitled "total current funds." By watching this column along with the general fund (column 1), one gains a more complete picture. We have been able to maintain a reasonably healthy positive balance in the "current fund" throughout the past 10 years; this is a good gauge of Michigan Tech's financial vitality.

The bottom table of Exhibit J provides information about the year-to-year changes in the general fund, the auxiliary fund, and the current fund. Note that the year ending 6/30/2001 was not a good year financially, for a variety of reasons. Some of you may recall that in the spring of 1999, I requested all budget managers to provide plans to reduce general fund expenditures by five percent, and we also took a hard look at so-called "carry forward" funds. These actions on my part created a good bit of consternation on campus, and the University Senate even passed a resolution chastising me for bringing up those unpopular suggestions. What I was trying to do was to prepare for problems in coming fiscal years. Obviously I wasn't able to be persuasive enough, and I wasn't adamant enough to insist that we had to have better control of the general fund. Having learned that lesson, I still may not be persuasive enough but I am determined to be adequately adamant that we simply must work together to keep the general fund under satisfactory control.

Which leads to what we have been doing this spring to assure that our general fund budget is balanced for the next fiscal year. I won't go into much detail here, because I have been keeping you informed in my weekly letters to faculty, staff and students, and the first report of the Budget Reduction Advisory Committee is now available for all to read and consider.

I particularly want to thank the members of the University Senate who have served as members of the Budget Reduction Advisory Committee.

I am encouraged by what the BRAC is recommending. In a nutshell, the report indicates that there are ways to maintain educational quality, minimize staff reductions, provide fair compensation and have an equitable balance of tuition increases and budget reductions. The BRAC is suggesting an "Employee Severance Program" to provide opportunity for employees to voluntarily leave employment this summer and thereby further minimize layoffs.

Of some importance and interest, the BRAC is recommending that we take a carefully planned approach to improving the processes, functions, and structures of the institution during the next several years. There has been anxiety about reorganizing in part because it appeared that we were moving too quickly on that front. I can assure you that while we won't dawdle, we will not rush to judgment on reorganizing. And we will work together on process improvement to make Michigan Tech even more effective.

The BRAC also suggests budget reduction targets for FY 05 and FY 06 for each budget unit as suggestive estimates about which budget managers need to develop tentative plans in case we need them as we find out what the State of Michigan will do in the next three years.

As always, I will be pleased to answer any questions on these or other matters of interest to you."

Keen said that he would confine questions to those from senators. He read a question from a senate constituent: "Why is Michigan Tech's financial status so much worse than that of all the other universities in the state? And how did we develop such a large general fund deficit even before the cuts in state appropriations?

Tompkins said that he hoped that he had partially addressed this question during his presentation. He said that Michigan Tech does have a larger general-fund deficit than other Michigan universities. Lake Superior State University is the only other Michigan public university with a negative general-fund balance, and theirs is not nearly as large as Michigan Tech's. Tompkins said that there are five reasons for this. First, Michigan Tech has long chosen not to undertake long-term debt. Other schools have kept a positive general-fund balance by taking on long-term debts. Second, Michigan Tech had a lack of financial control during one recent year when we didn't have a good budgeting system in place. We now have a good system in place with Kent Wary as our Chief Budget Officer, Pam Eveland as Director of Planning and Budgeting, and Dan Greenlee as Chief Financial Officer. Third, the administration and the BOC consciously decided to take on negative general-fund balances in order to do things like the five-point plan to increase enrollment and the improvement of the Graduate School. Fourth, the administration didn't anticipate the dramatic increases in MPSERS payments. Finally, Michigan Tech did not have a reserve fund to fall back on when unanticipated expenses, such as MPSERS, arose. Tompkins said that the Current Fund is healthy and that the current mindset of the BOC Finance Committee is that as long as the Current Fund is healthy, then Michigan Tech is ok.

Senator Debra Bruch asked Tompkins to describe what Michigan Tech had done to improve its budgeting system.

Tompkins said that the first precept of the currently best-selling business book *Good to Great* is that in order to make the transition to a great organization, you must have the right people on the bus. He said that we now have the right people on the bus with Wray, Eveland, and Greenlee. They have been working to improve budgeting processes and, first of all, to find out what the truth is about Michigan Tech's financial situation. Tompkins said that before he arrived at Michigan Tech, it appeared that the General Fund was in good shape. However, the third week that he was here, we found out that there was a $7-9 million deficit. This had been covered by shifting the deficit from the General Fund to other funds. Tompkins asked the Arthur Anderson Consulting Firm to collect all deficits they could find and put them into the General Fund where they could be more easily monitored. Also, the Internal Auditor now reports directly to the BOC rather than to the CFO.

Senator Don Beck said that he thought that Michigan Tech should do more to restrain spending, particularly on expensive new projects. Since many of these projects are dedicated to recruitment and retention of students, Beck suggested that Michigan Tech survey its students: give them a list of proposed projects together with the anticipated costs of these projects and see which projects students support. He said that the proposed budget includes a walkway from Wadsworth Hall to Fisher Hall, renovations of the Memorial Union Building and the dormitories, new degree programs, and new technologies. He also said that it would be helpful if President Tompkins would read the comments from the university community that are being posted on the BRAC's Web page. A lot of problems are identified in these comments, not limited to financial problems. He said that if President Tompkins knew about these problems, they might get taken care of more efficiently.

Tompkins said that he agreed with both of Beck's points. He said that he had met with the Undergraduate Student Government and that the USG members support tuition changes, the operating and maintenance costs of the new library and computer science facilities being paid through student fees, and the renovation of the MUB. He said that more discussion of financial issues with students would be desirable. In response to Beck's second point, Tompkins said that he is on the BRAC e-mail list and has read all of the messages that have been posted to that list.

Senator Dickie Selfe said that over the last 5-7 years, Michigan Tech has seemed to go through a lot of trauma, such as no raises, cutbacks, and givebacks. The current budget situation is the culminating moment for this series of traumas. He asked when Michigan Tech would see the benefit of the fiscal policy Tompkins had described of not undertaking long-term debt. Other institutions may be taking on long-term debt, but they are also building graduate and undergraduate programs, creating twice as many degree offerings as Michigan Tech has, and, consequently, attracting more students. Instead of increasing degree offerings, Michigan Tech is planning to eliminate programs, such as in the School of Technology. Selfe said that Michigan Tech should have more diverse degree offerings. He also said that the instructional infrastructure at Michigan Tech is in very bad shape, and this not attractive to students. For example, an instructor or a student cannot walk into most classrooms on campus, plug in a laptop computer, and project it because things are not configured at Michigan Tech to allow this.

Tompkins said that the Center for Integrated Learning and Information Technology (CILIT) will have four high-tech classrooms that should allow this. He said that several corporations such as BASF and Kimberly Clark have contributed money to improve existing classrooms.

Selfe said that those are usually one-time monies; after this equipment is installed, Michigan Tech must update it within a year-and-a-half or two years, and there is usually no source of funding for such updates other than student lab fees. He said that he liked the CILIT idea, but that in a few years, it would become a financial drain on the university because the equipment would need to be updated.

In response to Selfe's first question, Tompkins said that one goal of the university's recent capital campaign was to raise private funds rather than to go into long-term debt. He said that the problem with raising private funds is that it is episodic rather than continuous. Hence, he said that Michigan Tech should probably develop a mixed strategy. He said that during his tenure at Michigan Tech, the BOC has not supported long-term debt and has, instead, adopted the position of keeping long-term debt as low as possible. However, Tompkins said that the current members of the BOC are more willing to consider long-term debt.

Tompkins said that no one should be concerned that the Board of Control is going to force reorganization because they absolutely are not going to do that.

Senator Jim Pickens said that the MPSERS chart that President Tompkins had displayed was problematic. He said that Michigan Tech's MPSERS payment this year was about $2.4 million (column 2 in the upper chart); the increase in base appropriations from the state over the period covered by the chart is about $11.1 million (column 2 in the lower chart); yet the chart seems to indicate that MPSERS payments have eaten up all of the state's supplemental allocations. Pickens said that the flaw in the analysis was that it compared the total MPSERS liability in the fourth column in the upper chart with the change in state appropriation in the second column in the lower chart. What should have been compared is the fifth column in the upper chart ("Increase from Prior Year"; the change in MPSERS payments) with the change in state appropriation in the second column in the lower chart. This would show that increased MPSERS payments do not exceed increased state allocations to Michigan Tech.

Tompkins said that CFO Dan Greenlee had developed this chart. He asked Greenlee to respond.

Greenlee said that he had meant the chart to show that since Michigan Tech began making MPSERS payments, the university has been giving back to the state more than the amount by which the state has increased Michigan Tech's appropriations.

Senator Larry Davis said that this was wrong. He said that the chart indicated a $44 million state allocation to Michigan Tech in 1997 and a $53 million allocation in 2003; hence, a $9 million increase in appropriations. He said that the current annual payment to MPSERS was about $2.4 million. Thus, the increase in state allocation far exceeds the annual MPSERS payment.

Greenlee said that he didn't mean this chart to show just the increases but also the total payments to MPSERS, which are almost $12 million versus a $9 million increase in state allocations.

Davis said that that was not the total amount of increase.

Greenlee said that he understood Davis's point.

Tompkins asked Greenlee and Davis to work together to resolve this and to report their conclusions to the senate. They agreed to do so.

Keen said that there was time for one more question.

Senator Tony Rogers said that some people have been disturbed by Michigan Tech's financial problems being attributed to "spiraling health-care costs" in some official university publications because although past service liability [MPSERS] is spiraling, the cost of delivering healthcare services to employees is not. He said that this was an important distinction.

Tompkins agreed and said that the Benefits Liaison Group had done excellent work to make this so.

Keen thanked President Tompkins and terminated the discussion.

5. ADJOURNMENT

Senator Dick Prince MOVED and Senator Jim Pickens seconded the motion to adjourn. The meeting adjourned at 6:40 p.m.

Respectfully submitted by Craig Waddell
Secretary of the University Senate