

## **Spectrum**

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### **Pacheco warns against complacency in fight to restore fiscal stability**



UM System President Manuel Pacheco cautioned curators July 19 that drastic steps will be needed to reduce operating costs during the next five years if current financial planning assumptions play out as expected.

The most likely scenario assumes that the University will not sustain additional withholdings this year and that state appropriations will remain flat in fiscal years 2004 and 2005 before rising slightly — planners estimate 2 percent — in FY06 and FY07.

Pacheco said that student fee increases alone would not suffice to balance the University's operating budget during the five-year period covered by the planning assumptions.

The University cannot afford to absorb additional reductions in state support and continue to sustain the current organizational structure, Pacheco said. He told curators that officials are taking a hard look at the University's organization, missions and programs to see what can be done to streamline operations.

Pacheco warned the University community against complacency. "I want to make it clear that everything this University does and how it does it is negotiable," Pacheco said. "I have advised the University's general officers that the only option that is not on the table is to do nothing."

Pacheco said no campus or program is sacrosanct. "We will take a hard look at consolidation or reorganization whenever and wherever it makes sense to do so with emphasis on those measures that promise to yield significant savings," he said.

"We will do everything possible to preserve quality, access and responsiveness to the needs of our state," Pacheco said.

The University has been working for many years to become more efficient and focused on its primary missions. As one example of efficient management, Pacheco cited the five-year financial plan, completed in 1997 ahead of schedule, which cut the University's operating costs and redirected resources to support its most promising programs.

One of the plan's most successful initiatives was the endowed chairs and professorships program, which leveraged limited state funds to raise \$80 million in private gifts to establish 122 endowed positions.

"The program has proven to be an excellent investment for Missouri," Pacheco said. "The 50 endowed chairs who have been at the University for two or more years have been awarded more than \$22 million in research grants from external sources."

He said the process of reevaluation, reallocation and reinforcement will continue. For the complete text of President Pacheco's remarks, visit [www.system.missouri.edu/budgetcuts](http://www.system.missouri.edu/budgetcuts).

### **Board approves financial planning assumptions for FY03-FY07**

The Board of Curators approved a new set of financial planning assumptions for the next five years at its July 19 meeting in Columbia. Administrators will refer to the assumptions to plan for the financially turbulent times facing the University.

The planning assumptions are contained within the UM System Strategic Plan, which is regularly updated and acts as a guide for decision-making.

Vice President for Finance and Administration Nikki Krawitz presented the assumptions to the Board. She noted that, due to a sluggish national economy and low state revenue projections, the outlook for healthy state support for higher education in future years is bleak.

In the last fiscal year, roughly \$64 million was withheld from the University's state appropriation due to state budget shortfalls; of this, \$41.2 million came in the last two months of the fiscal year. The state also withheld roughly \$46 million from the current fiscal year's appropriation.

The assumptions present three possible scenarios for University funding, ranging from optimistic to pessimistic. In the most optimistic scenario, the University would have its core funding restored in the next fiscal year, plus "cost to continue" increases for expenses brought about by operations and inflation. The University has received no cost to continue increases in the last two years.

The fiscal year 2004 appropriation request of \$465 million approved by the Board is based on the optimistic scenario. In the middle scenario, there would be no increases for the next two years, followed by minimal increases. In the worst-case scenario, the University would again suffer mid-year withholdings from the state followed by several years of no increases to the core budget.

The Strategic Plan will now assume that student fees could be raised by as much as 10 percent a year through FY07. The assumptions take into account that growth in undergraduate numbers over the next five years may not happen as projected due to fee increases that limit access and the possibility of capping enrollment.

Due to state withholdings at the end of the last fiscal year, the University decided to eliminate roughly 400 positions system-wide. The assumptions acknowledge the current need to reduce personnel cost and to maintain the reduction of staffing over the next five years in all but the most optimistic cases. However, the assumptions call for identifying funds for pay increases, lest the University's competitive position be compromised.

In the optimistic scenario, the University would recover the last two years of mission enhancement funding and be in a position to make planned investments in areas such as life sciences and health sciences. The University also would be able to restore cuts to operations, such as increasing maintenance and repair expenditures from 1.25 percent to 1.5 percent. This scenario would allow the University to maintain, on average, the 5 percent operating margin considered necessary for prudent financial management.

Krawitz said maintaining adequate fund balances is necessary in order for the University to achieve favorable credit ratings in financial markets.

"High credit ratings are associated with lower costs of capital, lower costs associated with financing student housing, student recreation centers, hospital renovations and athletic facilities," Krawitz said.

She noted that the University has thus far managed to maintain strong bond ratings despite mid-year cuts from the state. The annual average surplus of 5 percent for the last five years built reserves that enabled the University to cope with the last-minute withholdings until corrective action in FY03 could be put in place.

## **UM-Kansas City reports on campus master plan**

Community organizations have enthusiastically endorsed UM-Kansas City's campus master plan, UM System President Manuel Pacheco said following UM-Kansas City Chancellor Martha Gilliland's presentation of the plan. The Board of Curators approved the master plan at its July 19 meeting.

The master plan is the first comprehensive plan for the entire UM-Kansas City campus and addresses both the Volker and Hospital Hill sites. The 1999 master plan addressed only the Volker campus.

"The master planning process has provided us with an opportunity to engage the collective wisdom of our entire community," Gilliland said. "The result is a master plan created through input from more than 450 people contributing many hours to the process."

The overall aim of the campus master plan is to create an attractive, safe and vibrant physical environment that promotes academic and social interaction.

The plan calls for creation of a model campus environment with a range of living options and life services for students. It also calls for site land uses and programs to promote collaboration both within the UM-Kansas City community and between the campus and its neighbors.

"We have a plan that, everywhere you look, talks about community," Gilliland said.

The plan also calls for a campus without borders. The aim is to make the best use of existing campus and community resources to meet UM-Kansas City's future space requirements and ensure that new campus development contributes to the vitality of the surrounding neighborhood.

Other goals of the plan include preserving open space; promoting safe and efficient pedestrian movement; improving transportation between the Volker and Hospital Hill sites; and encouraging mass transit.

Campus and community forums were held to encourage broad participation in the planning process. The Touchstone Group, made up of civic, community and business leaders, was formed early in the planning process to allow community input on the plan. A neighborhood council, students, faculty and staff also provided input.

For more information on UM-Kansas City's master plan, visit the web site at <http://www.umkc.edu/partners>.

### **Moody forecasts more bad budget news for University**

State funding woes for the University of Missouri could continue for years, according to former state budget director James Moody, who gave a budget forecast to the Board of Curators July 19 in Columbia.

"This whole thing is a long- term proposition," Moody said. "My view is the discussion we're having right now, you're going to be having two years from now."

Moody has served as a governmental relations consultant for the past ten years.

Moody said that he believes Missouri's budget shortfalls are the result of a structural problem, not simply the result of low state revenues.

That the \$19 billion state budget can simply be rearranged to compensate for shortfalls is a myth not understood by some critics, Moody said. The majority of the budget is restricted and can only be used for specific things. The real Missouri general fund budget is under \$7 billion. Thus there is little flexibility to fund institutions such as the University of Missouri, which is considered "discretionary." Other areas funded by the discretionary portion of the budget are mental health, social services and corrections.

While costs for these programs have continued to grow, Moody said, the base for increasing state revenue has been hobbled. He said the debate over whether Missouri's budget shortfalls are the result of too much spending or not enough revenue is misguided. He personally feels that it's both and that Missouri will ultimately have to address its budget structure. Put simply, Missouri's spending requirements exceed allowed revenue sources.

Moody said the state's Hancock Amendment has traditionally limited revenue. The tax limit requires that revenues in excess of the growth rate of personal income be refunded to tax-payers.

From fiscal years 1995 to 1999, the state refunded \$973 million in excess revenues. Lawmakers also implemented a series of other tax reductions that totalled \$921 million.

Beginning in 2000, state revenue dropped well below the Hancock limitation. Moody projected that state revenue will fall much further below the limit in the next few years.

Moody said that many of the structural problems have so far been "masked" by using one-time funds that cannot be sustained to cover ongoing operating requirements. "That problem is coming home to roost," Moody said. The state has only seen about \$179 million in fiscal growth in the past four years, which is virtually static.

Moody referred to a "four-headed monster" to describe the current fiscal year and what it will mean for the University of Missouri. Citing K-12 education, corrections, Medicaid and tax credits as UM's "competitors," Moody said the fight for what revenue may be available will only grow more fierce.

The only possible good news regarding state revenue would be a limited payment stream from the state tobacco settlement and the possibility of a \$.55 tobacco tax increase, which will be on the November ballot.

Likening the state's budget situation to the Hollywood Movie "Groundhog Day," in which a man is forced to relive the same day over and over again, Moody said Missouri will face the same funding problems every year until structural problems are addressed.

When asked by Board President John Mathes what advice he might offer the University, Moody said, "Not much. I would tell you that I am counseling my own clients to expect additional (state) withholdings this year."

Moody told the Board that a special tax earmarked for higher education would not pass in the legislature and would most likely fail in a public vote.

## **Board approves capital appropriations request for FY04-05**

The Board of Curators approved the University's fiscal year 2004-2005 capital appropriations request at its July 19 meeting in Columbia.

Every other year the University is required to submit a two-year capital appropriations request. The FY04 request is for \$160,348,700 and the FY05 request is for \$156,341,400.

In FY01, the state appropriated \$74,332,400 for capital projects. These funds were reappropriated for the last two years but never released. University officials recently learned that the state no longer plans to reappropriate the funding for the FY01 projects, with the exception of the Life Sciences Center on the UM-Columbia campus.

Gov. Bob Holden gave a commitment last year to release the \$29 million for the Life Sciences Center once federal and local funds were exhausted. State funds will probably be requested for this project starting in June 2003.

University administrators have included the remaining \$43 million in projects from the FY01 request as the first priority in the approved FY04 request.

The top 11 priorities listed for FY04 are as follows:

1. Release of remaining FY01 requests: \$43.3 million
2. Pharmacy/Nursing Building, UM-Kansas City: \$3.6 million (in addition to the previously appropriated but not released funds from FY1999 and FY2001 totaling roughly \$30.5 million)
3. Master Plan Phase 3/Benton Stadler renovations, UM-St. Louis: \$22.5 million
4. Mechanical Engineering addition and renovation, UM-Rolla: \$11.6 million
5. Engineering East renovation, UM-Columbia: \$20.1 million
6. Campus Chilled Water and Steam Utility renovations, UM-Kansas City: \$15.3 million
7. UM Libraries Review and Depository addition, UM System: \$4.3 million
8. Agriculture Experiment Station Teleconference Centers, UM-Columbia: \$595,500
9. Freshman Engineering and Student Services Building, UM-Rolla: \$10.7 million
10. Master Plan, UM-Kansas City: \$7 million
11. Tate Hall Renovation, UM-Columbia: \$5.2 million.

## **Board approves resolution in support of public higher education**

The Board of Curators approved a resolution in support of state funding for public higher education July 19 in Columbia. See [complete resolution](#).

The Board resolution acknowledges the difficult situation that required state officials to make tough choices in balancing the state's budget due to a struggling national economy and declining state general operating revenues in fiscal year 2002, and anticipates that the situation is likely to continue in FY03 and beyond.

Public higher education's share of the state budget declined from approximately 17 percent in FY89 to less than 12 percent in FY03. The withholdings represented 37 percent of the state budget shortfall in FY03 and resulted in a \$154.3 million funding reduction to the UM System.

In total, reductions to public four-year institutions' operating budgets in FY02 totalled \$153 million, plus \$133 million in capital withholdings.

The state reduced the higher education core budget by 10 percent for FY03, which amounts to a \$46 million funding reduction to the UM System.

The resolution itemizes actions taken by the UM System to make up a portion of the overall reduction in state appropriations. The actions include: Initiation of a voluntary early retirement program and layoffs, to result in the elimination of more than 400 positions; freezing of employee salaries; suspension or reduction of academic programs; reduction of operating reserves; curtailment of essential medical and other services to Missourians; and the adoption of student fee increases and surcharges totaling 14.5 percent in FY03.

The Board's resolution cautions that further withholdings in FY03 could lead to additional student fee increases that exceed inflation, enrollment caps and the elimination and/or reduction of programs that Missourians want and need.

The University has accelerated its efforts to sustain critical programs by seeking alternative sources of income, such as private gifts and federal grants. University officials are studying ways to make University operations more efficient, creating public/private partnerships, cutting costs through consolidation and outsourcing where feasible, employing technology to achieve greater productivity and improve reporting, and reviewing organizational structures.

The resolution calls on Gov. Bob Holden and the Missouri General Assembly to avoid further reductions in state support for public higher education in FY03, and to approve funding for higher education in FY04 sufficient to repair damage sustained from FY02 and FY03 withholdings and reductions.

The Board amended the resolution to add a list of consequences of the current fiscal situation for the University of Missouri. These 11 addendum items detail the impact of the budget reductions on the University's operations.

The complete resolution can be found online at <http://www.system.missouri.edu/urel/main/second/curators/wmbc094/wbnews.htm>.

### **Search committee appoints member, reviews UM president applications**

The search for the next president of the University of Missouri System is off to a good start, according to Curator Paul Steele, chair of the presidential succession committee. The Board of Curators has received about 70 applications or nominations for the position.

The current pool of candidates includes both those who have applied for the position and those who have been nominated by someone else. According to Steele, executive search firm Korn/Ferry International has contacted nominees to determine if they are interested in the position.

At the July 19 succession committee meeting, members discussed techniques for reviewing candidate files and the process for distilling the pool to a small list of candidates at its next meeting in September.

The Board added D. Kent King, commissioner of education for the Missouri Department of Elementary and Secondary Education, to the succession committee.

"I believe that Kent will be an insightful and objective addition to the committee," Steele said.

"It is my pleasure to contribute in the selection of the UM System president at this crucial time when it is imperative that we prepare Missouri's youth to achieve success at every level of educational challenge, from pre-kindergarten through graduate school," King said.

In addition to King, the succession committee includes members of the Board of Curators; Vicki Eller, student representative to the Board; and Jack McCausland, chair of the UM Alliance of Alumni Associations. UM General Counsel Marvin "Bunky" Wright and Board Secretary Kathy Miller serve as ex officio members.

The faculty consultative committee, appointed by the Board at its May meeting, has an advisory role. The committee is made up of two members from each of the University's four campuses. Members of the committee are: Curtis J. Nelson, Curators' Professor, Agronomy, and James E. Carrell, Distinguished Teaching Professor, Biological Sciences, UM-Columbia; J. David Eick, Curators' Professor, School of Dentistry, and David Atkinson, Distinguished Teaching Professor, Political Science, UM-Kansas City; Walt Eversman, Curators' Professor, Mechanical and Aerospace Engineering, and Frances (Dee) Haemmerlie Montgomery, Distinguished Teaching Professor, Psychology, UM-Rolla; and Frank Moss, Curators' Professor, Physics and Astronomy, and Charles Granger, Distinguished Teaching Professor, Biology-Division of Teaching and Learning, UM-St. Louis.

The committee is chaired by Lois Pierce, Professor, Social Work, UM-St. Louis.

### **Voluntary early retirement program deadline is September 30**

Editor's Note: The next several issues of *Spectrum* will feature human resources and finance topics of interest to employees and retirees of the UM System. This first article is based on an interview with Ken Hutchinson, vice president for human resources, and Michael Paden, assistant vice president-benefits.

Election to retire from the University and participate in the voluntary early retirement program must be made during the "window period" of June 1-Sept. 30, 2002. Those participating in the program should consult with their supervisors about retirement dates. All retirements must commence no later than Jan. 1, 2003.



Why is the UM System offering VERIP?

VERIP is a tool designed to help the University downsize its operations in order to address the financial crisis precipitated by withholdings and reductions in state support.

What are the most common questions about VERIP?

Questions regarding the selection of an appropriate annuity payment option are common and very important, as that selection will have a significant effect on the benefit payment to the retiree as well as his/her beneficiaries. Many VERIP-eligible employees want to know if they should opt to take up to 30 percent of their retirement as a lump-sum distribution, which provides an immediate cash payout but reduces monthly benefits. Paden recommends that such employees consult a financial advisor on this issue. Individuals contemplating early retirement should also consider more personal aspects of their lives, such as their health, the health of their spouse, if any, and other family considerations. Although not strictly financial matters, such factors may have a bearing on the early retirement decision, particularly if the employee is considering a retirement annuity option.

Does accumulated, unused vacation count as service credit for VERIP?

Unused vacation counts toward service credit for the purposes of calculating benefits. If you retire before Dec. 31, 2002, you will continue to be a UM employee and receive compensation as well as service credit until your vacation has been completely used. Any unused vacation as of Dec. 31, 2002 will be counted as service credit for pension calculation purposes but it will not be used for the purposes of determining VERIP eligibility under the "rule of 85." Employees will be paid for accumulated, unused vacation days that have not been used as of Dec. 31, 2002. As a rule, payment for those days will be part of your final paycheck and taxed at the same rate as the rest of your salary.

Do unused personal days count as service credit for VERIP?

No. If you do not use personal days by your last working day, you will lose them.

How are VERIP benefits calculated?

Faculty and Staff Benefits personnel thoroughly review each VERIP application, utilizing data from legacy systems and the new PeopleSoft system, as well as an applicant's PAFs and employment history.

How do I find out how VERIP will affect me?

You should read the VERIP brochure that was mailed to all eligible employees, visit the [Faculty and Staff Benefits web site](#) where you can get an estimate of your retirement benefits, and attend a VERIP meeting on campus. Upon request by the employee, Faculty and Staff Benefits staff will make every effort to arrange timely counseling sessions. Typically, they should be able to perform the necessary reviews and calculations within one or two weeks of your request,

although that may vary from campus to campus. As the September 30 enrollment deadline approaches, more time may be required to get an appointment.

How much will medical and dental premiums for retirees increase next year?

Although numbers won't be finalized for several weeks, it is anticipated that typical medical insurance premiums will rise about 15 percent next year for active employees and pre-age 65 retirees, and by about 20-22 percent for retirees eligible for Medicare. Dental premiums will likely rise about 5 percent. Health care costs are something VERIP-eligible employees may wish to carefully consider. The University's contribution to retirees' medical and dental plans will be based on length of service plus age at retirement. Refer to the explanation in the VERIP handbook.

Given the recent economic downturn, how is the retirement fund doing? Since a significant portion of retirement fund assets are invested in the stock market, is there any risk to retiree benefits if the economy declines further?

The fund is following the market, and as such the portfolio is down in the short term. The retirement fund is measured by performance benchmarks, and the fund has consistently performed better, overall, than the benchmarks over the long term. The fund's assets have grown steadily. The University's contributions are adjusted annually based upon actuarial analysis, and the analysis fully recognizes all obligations to pay retirees' benefits. Those who wish to read the annual report on the retirement fund's performance should visit <http://www.system.missouri.edu/hrs/benefits/2000ch~1/retben/retben.htm>.

Will the influx of retirees anticipated from VERIP affect future or current retirees' benefits?

No. The plan is a defined benefit plan, and retirees' benefits will be paid. An actuarial analysis was done in planning VERIP to understand beforehand what the impact would be on the retirement fund.

#### VERIP Meeting Schedule

<b>UM-Columbia</b>	<b>UM-Kansas City</b>	<b>UM-Rolla</b>	<b>UM-St. Louis</b>
Sept. 3, 2002 Memorial Union, Room S107 Jesse Wrench Auditorium 1:30 p.m.	Sept. 9, 2002 University Center Pierson Auditorium 10:00 a.m., 1:30 p.m.	Aug. 15, 2002 University Center Mark Twain Room 10:00 a.m.	Aug. 27, 2002 J.C. Penney Building Room 229 10:00 a.m.
Sept. 4, 2002 Memorial Union, Room S107 Jesse Wrench Auditorium 10:00 a.m.		Sept. 4, 2002 University Center Centennial Hall West 10:00 a.m.	Aug. 28, 2002 J.C. Penney Building Room 229 1:30 p.m.

## **University of Missouri System briefs**

### **Krawitz named vice president for finance & administration**

UM System President Manuel Pacheco has appointed **Natalie "Nikki" Krawitz** as vice president for finance and administration, effective retroactively to June 1. Krawitz previously served as controller for the UM System.

Krawitz succeeds James Cofer, who assumed the presidency of the University of Louisiana-Monroe on April 1. Krawitz has served as interim vice president since Cofer's departure.

Krawitz is a certified public accountant with over 17 years experience in higher education in both the public and private sectors as a tenured faculty member, academic administrator, internal consultant and vice president for finance and administration. She holds a bachelor's degree in elementary education from Washington University, St. Louis; a master's degree in special education from Columbia University, New York; and a master's degree in accounting from UM-Columbia.

### **Curators' and distinguished teaching professors named**

The Board of Curators approved the appointments of two curators' professors and a distinguished teaching professor at UM-Kansas City.

**Ashim K. Mitra**, professor and chair of pharmaceutical sciences, and **Yanching Jean**, professor of chemistry, were both named curators' professors for their exemplary service, research and contributions to UM-Kansas City. As curators' professors, each will receive a \$10,000 annual stipend as long as they hold their respective positions.

**Charles W. Wurrey**, professor of chemistry and associate dean for administration, was appointed a distinguished teaching professor in recognition of his talent as a teacher and his research at UM-Kansas City. As a distinguished teaching professor, Wurrey will receive a \$10,000 annual stipend as long as he holds the position.

All three appointments are effective Sept. 1, 2002.

### **Fiscal Year 2004 appropriations request approved**

The Board of Curators approved the fiscal year 2004 appropriations request for operations, which consists of three main categories: increases to the core budget, new initiatives and other curator program requests.

The University will request state funds to restore the core budget to appropriate funding levels. The University also will request state funds to cover the cost of continuing operations and the operating cost of new and renovated buildings.

The FY03 appropriations request for new initiatives, which were not funded in FY02, seeks funds for life sciences, health sciences education and e-learning.

Other curator programs seek funds for MOREnet, MOBIUS, the State Historical Society of Missouri, the Seminary Fund, the Alzheimer's Research Fund and the Spinal Cord Injury Research Fund.

### **Transition assistance program extended**

The Board of Curators voted to extend the transition assistance program for 24 months, until Oct. 19, 2004. The program was previously approved by the Board in October 2000 and was scheduled to expire Oct. 19, 2002.

The program was established primarily in response to significant layoffs anticipated at the time at University of Missouri Health Care. All regular administrative, service and support employees who have successfully completed their probationary period are eligible for transition assistance. Employees whose positions are discontinued because of a reduction in the workforce are eligible for transition assistance.

For more information on the transition assistance program, visit the Human Resources Policy Manual at <http://www.system.missouri.edu/hrs/call-man.htm>.

### **A message from the editor**

The mission of *Spectrum* is to provide members of the larger University community with information and features that will enable all of us to serve the University. Regular communication is always important, but it is especially so when the University is facing serious issues having to do with the quality of educational opportunities that the University offers to the citizens of our state.

Our readers will find news about: important policy decisions of the Board of Curators; new programs and rules and regulations; changes in administrative procedures and programs; achievements of our excellent faculty and staff; issues affecting not only the University of Missouri but public higher education statewide; and features that tell us more about the people who make the University great.

*Spectrum* is distributed following regular or special meetings of the Board of Curators to approximately 15,000 full-time employees, including University Outreach and Extension staff located through out the state. *Spectrum* also is mailed to more than 6,000 retirees. Our distribution list is based on the monthly mailing list we receive from the payroll office and cannot be altered by individual request.

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