

MINUTES

APPROVED 11/7/86

SENATE FINANCE COMMITTEE

October 2, 1986

Regents Room, Morrill Hall

3:10 - 4:55 p.m.

Members present: John Adams, William Boylan, Jim Clark, Patrick Durbin, David Hamilton, Paige Johnson, Wendell Johnson, Gerry Klement, Tom Scott, W. Phillips Shively (Chair), Patricia Thomas.

Guests: Vice President Roger Benjamin, Associate Vice President V. Rama Murthy, Mike Peltier (Daily), Maureen Smith.

Professor Shively welcomed the participants and distributed copies of the O&M working schedule #15, received only the previous day. Dr. Benjamin and Dr. Murthy said the Regents had approved a budget without prioritizing items, and knowing that some figures would change and some would be added.

Dr. Benjamin noted that while the University must be flexible in its budgeting, the legislature and SFC want to know the University's priorities and SFC wants to know the principles involved. The current listing is in priority order. Deficits and unavoidable expenses are at the top; in addition, SEE bases are a very high priority. The Rank Funding Adjustment (RFA) items, he said, are to be taken as examples and do not represent commitments to particular categories.

Mr. Clark, noting that some items have been recategorized (e.g., Quality of Student Experience is no longer under CtF), asked how the labels and groupings have been determined. Dr. Murthy told SFC that as a budget label Commitment to Focus is misleading since the University's point is that in the long run CtF does not mean extra costs but doing things better; hence the administration is trying to avoid using the term CtF in the budget. He added that this budget builds in maximum flexibility to enable the University to do new things.

In response to a question, Dr. Benjamin said the administration does not yet know the state's inflationary formula. He said the administration feels anything less than a 6% salary increase would be very negative, but Professor Shively noted that even if inflation of 3% is granted, the net increase could only be 5.5% each year (2% faculty salary item, 1% market and retention under RFA, and 0.5% subtracted one time as the faculty contribution to the loan repayment necessitated by disallotment.)

Dr. Murthy said the administration has told the Regents that if the state provides less than 3% for inflation, the University would revise its request for faculty salaries to about a 5% annual increase. Dr. Benjamin added that although the RFA items are called examples and not commitments, the portion for faculty salaries is pretty well promised.

Professor Shively called attention once again to the strategic gamble,

as he saw it, of including among the top priorities items on which the legislature has a fixed position and may refuse to fund; he sees reason to consider asking, for instance, for only half. The risk in asking for all is the chance of getting none while failing to try to get other funds instead. He appreciated, however, the administration's desire to have maximum flexibility in its budget.

Vice President Benjamin acknowledged the argument but told FCC that President Keller and Vice President Kegler believe it is extremely important to present to the legislature the real costs of running the University. Moreover, the president does an excellent job of articulating the trade-offs in underfunding. He conceded that if the University doesn't get its top items it will limit the ability to provide for programs and hence for students.

Dr. Murthy said there are informal indications that the legislature understands the real needs and will be receptive to the idea that if they do not provide for these fixed costs the University will have to reduce improvements. Mr. Clark asked whether the University would actually have to show the legislature the real costs the U would have to make to demonstrate the truth of that warning. Dr. Benjamin hoped the argument would include examples of what the programmatic costs of underfunding would be.

Mr. Clark inquired whether the Comparable Worth item, now in the last set of priorities, is a legal or a moral issue. Dr. Benjamin called it a highly political issue and said achieving the goal will take only five years if the University gets this appropriation. Dr. Murthy termed the issue both legal and moral. Mr. Clark asked if SFC can correctly assume that the items last on the request will be the first to be cut.

Dr. Benjamin said that would not correct. Dr. Murthy added that the University ranks the whole request only because the legislature requires it, but would prefer not to.

Professor Shively asked which of the specific items listed are only examples and which are pretty much commitments. Vice President Benjamin replied that the University has to provide the legislature with examples, and also has to tell the community where it stands. But, he added, all bets are off until we accomplish a rigorous evaluation of our academic planning. Professor Hamilton raised the question of whether that would re-open for reconsideration all earlier unit requests that have been dropped from the budget list.

Vice President Benjamin said he intended to move from the annual and biennial budgeting process to five-year planning and is working with Vice President Lilly on a budgeting mode to achieve that. He reported that he had talked this afternoon with the Faculty Consultative Committee about academic planning. He wants the University to set institution-wide priorities, then plan budgets over a several year period which would allow people to attain their goals. Mr. Klement asked if the legislative process might not impact on the University's being able to carry out its plans, since the University has to balance its books for each biennium.

Dr. Benjamin hopes to build in enough flexibility to accommodate external forces.

Dr. Benjamin noted that the University's relationship with the legislature does not allow it to build in amortization costs. Dr. Murthy called attention to the request for approximately \$10 million each year for repairs and replacement. At the state's instruction, the University has this year put that item in O&M instead of in the Capital Request. If the legislature makes that appropriation it will become part of the base.

Mr. Clark voiced his approval of the intent to achieve complete budgetary flexibility until the Academic Vice President has his planning in place. He moved that the Senate Finance Committee express its approval of the administration's method of aggregating the Rank Funding Adjustment items, as opposed to a line itemization by colleges, so as to achieve budgetary flexibility. Mr. Klement seconded the motion.

DISCUSSION. Professor Shively saw ambiguity in the evolution of the biennial request since the line items which appeared in earlier versions and are now absent were always described as being only examples, and yet the change to aggregating the items is said to have been made to emphasize that each item was just an example. Professor Boylan inquired whether or not the RFA is a summation of unit line items.

Professor Hamilton said he favors the idea of flexibility, believing the University does need freedom to move money in and out of programs, but is uncomfortable with the present ambiguity and believes that the process that led to this particular arrangement is flawed.

Mr. Clark withdrew his motion and Mr. Klement his second.

Professor Shively stated that he saw the sense of the meeting as one of general approval of flexibility.

Professor Adams said he was uneasy that RFA does not elicit enough specificity. He doubted deans understood the meaning well enough to support it. Even given the need for a good planning process, he said, the University must be clear to itself about what it means before it can be clear to the legislature.

Dr. Benjamin said others have raised the same question. Some units are very clearly underfunded. The units identified are examples of the RFA that needs to be made if the institution is to deliver on the CtF function. However, we have not yet undertaken a rigorous internal comparison of the underfunded units (IT, CBS, et al.) with all of our other programs.

The University's redefinition under CtF cannot be done overnight; it is not an admission of weakness to be indefinite. People have worked hard on preparing this budget. We are trying to reposition the University to use our resources as wisely as possible for education. He thinks people will be pretty supportive of the University's looking at itself to determine what it will do.

Mr. Clark asked about progress regarding a planning process. Dr. Benjamin reported that he had talked with the FCC today about what needs to be done. He said he did not want to get out in front of the Senate structure.

Professor Boylan said he was glad to hear 0100 funds still have

some flexibility because the Faculty Affairs Committee continues to hope for consideration of its sabbatical proposal. Professor Shively noted that SCFA's sabbatical proposal and the Child Care proposal went to central administration at about the same time last spring, but that only the latter got a place in the appropriations request, probably because it had earlier visibility and the backing of a Senate resolution. He would prefer that the University try to start at least a pilot sabbatical project which could then be built into the next biennial request.

He asked whether it was a real possibility to have funds budgeted for a sabbatical plan.

Dr. Murthy recommended that SCFA look at the professional school deans' proposal, which came in at nearly the same time as the SCFA proposal. He said he hoped to get one or ^{the} other or a combination of them started.

CAPITAL REQUEST.

Vice President Benjamin reported that he had been asked to lead a discussion of the vice presidents on the Twin Cities capital priorities, and that President Keller had been given the responsibility of describing the integration of the Twin Cities requests and the system priorities.

He commented on several Twin Cities items:

Item III, Utilities and Services. The University has to have these improvements; they involve fundamental needs such as adequate outdoor lighting.

Other high priority items include II.C. (Green Hall remodeling), and certain other items, including II.B. (Appleby addition and remodeling), I.B. (Fraser Hall schematics/working drawings), II.E. (Amundson Hall, Phase II, Part 2 - remodeling), and I.A. (Walter and Wilson Libraries remodeling).

To Professor Shively's question of the guiding principle for capital priorities, Dr. Benjamin replied it is the principle of doing those things which will allow the greatest program movement.

Professor Adams asked what is the process which converts collegiate units' long-range space planning into development of a capital request item with figures. He referred to the continuing crowding in West Bank buildings, unalleviated by the new buildings. When new space opened, everyone with an off-campus location was allowed to move on campus, so there is as much crowding and constraint on movement as before the new space was opened. He commented that he and many of his colleagues treat space not as a resource but as a constraint. He is not aware of any discussions which relate departments' space needs to what they should be doing programmatically. There are numerous good things we know we should do, he said, but do not do for lack of space to do them. And as we talk about the next round of planning, we have to constantly evaluate the variable of space.

Dr. Murthy said the capital request process begins each year with the six-year plan which originates in Physical Plant Planning. Each vice president may bring forward items from that list according to their importance, political feasibility, and overall attainability. SFC members asked how that list is created in the first place and what specifically is the advising process to Associate Vice President Hewitt.

Vice President Benjamin said one of the goals he and Vice President Lilly have as they respond to recommendations in the Peat, Marwick report on administrative reorganization of the Twin Cities Campus is to link academic planning and space planning. Because such a long lead time is required for capital items, it is hard to get the planning phased properly.

Professor Hamilton asked that an examination of the Minnesota Facilities Model be put on the University's planning agenda this year.

Vice President Benjamin reiterated his immediate priorities: (1) items related to safety and shelter, (2) items which enable program movement.

Beyond that, he said, we must do our best to assemble a balanced request that is as intellectually defensible as possible. He cited the plan to move Landscape Architecture to the Architecture site as a sensible proposal.

Professor Scott asked if it is still University policy to eliminate the rental of property. Dr. Benjamin replied that the University was doing so in accordance with a legislative mandate. Professor Scott said the University needs to preserve flexibility at this time and that that is best achieved by renting. He recommended a greater effort to persuade the legislature of that logic.

Dr. Benjamin and Dr. Murthy left the meeting at this point.

DISCUSSION OF FINANCE COMMITTEE AGENDA FOR THE YEAR.

Professor Shively had written the Committee three examples of finance areas where SFC might usefully take some initiative in 1986-87:

- (1) How University autonomy in setting its priorities is affected by the sources of funds attracted for research and for the capital drive;
- (2) The University Hospitals' fiscal state, given the reduction of the federal formulas for patient subsidy, and its implications for the University;
- (3) The SCFA proposal on sabbatical support.

Regarding (1), Mr. Clark asked if SFC might begin by eliciting some basic statistics on how much designated money goes to the various collegiate units and how much of the total O&M budget is driven by dedicated monies. Professor Hamilton reported that the information regarding federal funds is contained in the annual report of the Office of Research and Technology Transfer; Professor Shively will request those data for SFC and similar information as regards the Capital Campaign.

University patent and business partnership policies. Professor Boylan asked who decides whether the University should become a partner in a company, and what is at risk if it does. Professor Johnson noted that the LCMR has an arrangement with the University that if some of the new applications of LCMR-funded research make money, the Commission is to be paid back first of all. Professor Hamilton noted that the Research Committee last year discussed the guidelines on University-industry relations, and the Senate approved them, but that there is still the question of what is to happen when a venture becomes profitable.

Professor Shively summarized the Committee's agreed-upon plans:

- (1) Invite the director of the hospitals to talk with SFC about implications of reduced federal payments;
- (2) Explore the effects of federal and capital drive funds on University priorities;
- (3) Invite a guest such as Assistant Vice President Tony Potami to talk with SFC about the University's accelerating involvement in capital enterprises.

Professor Adams recommended SFC also hear from a University Foundation officer about the likely effect on gifts to the Foundation of the new tax code.

Professor Hamilton described the five-year planning and budgeting process^{as} a dramatic announcement and he foresees a pro-active role for SFC in its development. He asked that SFC discuss it further with Vice Presidents Benjamin and Lilly.

The meeting was adjourned at 4:55 p.m.

Respectfully submitted,

Meredith Poppele
Secretary