

Minutes*

Senate Committee on Finance and Planning March 6, 1990

- Present: Burton Shapiro (chair), David Berg, Carol Campbell, David Dittman, Lael Gatewood, Virginia Gray, Nick LaFontaine, Cleon Melsa, Jeff von-Munkwitz-Smith, Charles Speaks, Tim Wolf
- Guests: Senior Vice President Gus Donhowe, Associate Vice President Edward Foster, Professor Richard Goldstein (Subcommittee on the Faculty Retirement Plan)

1. Report of the Chair

Professor Shapiro reported that Professor Speaks had brought his proposal concerning the costs of athletic investigations to the Faculty Consultative Committee. After FCC members discussed it, Professor Ibele said he would forward it to the ad hoc committee being chaired by Jack Merwin and Alan Page and ask them to look into it and act on it or, if not, to return it to the Consultative Committee.

2. Change in the Faculty Retirement Plan

Professor Shapiro next reported that Professor Ibele as well as other faculty members had asked that the Committee take action on the proposal to eliminate the \$5,000 "notch" in the faculty retirement plan [see the minutes of the meeting of February 20 for the discussion]. Professor Goldstein returned to the Committee to provide data on the impact of the change.

Dr. Goldstein distributed a sheet illustrating the differential impact of the change on those with lower and those with higher salaries. The question at hand is not only whether to eliminate the notch (which the IRS will require) but also how to do it: Raise the contribution level so it is 13% for the entire salary or reduce it to slightly below 13% in order to make up for the notch (the latter would be revenue neutral; the former would require a one-time reduction in the salary increase to fund the increased contribution). Dr. Goldstein's examples showed that the impact of moving to a 13% contribution on the entire salary has a much greater and beneficial impact on those at the lower end of the salary range. Although the cash salary declines very slightly (at all salary levels), the long-term additional contributions to the retirement plan are substantial for those at lower salary levels.

Professor Goldstein told the Committee that both the Faculty Retirement Plan subcommittee as well as the Senate Committee on Faculty Affairs had unanimously voted to endorse the change calling for a 13% contribution for the entire salary. Professor Shapiro wondered if there would not be more of an uproar among the faculty if the 13% were lowered than if they had to absorb a one-time 1% reduction in their salary increase, although he acknowledged that his view was based on intuition.

Committee members discussed various arithmetic elements of the proposed change. Professor Shapiro inquired if the Committee supported removal of the notch, independent of the option chosen to

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accomplish it. It was moved and seconded that the Committee supported removing the notch, which one Committee member observed was a "we support upholding the law" motion.

Professor Goldstein pointed out that adopting the full 13% contribution would permit people to put more money into retirement accounts but also then retain flexibility on other elements of their fringe benefits. A change which is revenue-neutral overall is not revenue-neutral for individuals; the impact is greater on lower-paid faculty. If the contribution were reduced below 13%, there would still be an advantage for lower-paid faculty but then the higher-salaried faculty would actually be penalized--so the uniform 13% contribution was seen as the option in which nobody loses.

One Committee member expressed reservations about voting on the proposal, but only because the Committee had not had sufficient time to consider the implications of the different funding plans. He was reluctant to vote solely on the basis of possible faculty perceptions and would also liked to have seen some additional data. To make a deliberate attempt to change the plan in a way which is of greater value to the lower-paid faculty is a legitimate policy choice, but it is difficult to determine if that is what the faculty might wish. Professor Goldstein pointed out that either option will be to the advantage of those with lower salaries; the difference is that if the uniform contribution is reduced (in order that the total dollar contribution to the plan remains the same), the higher-paid faculty actually contribute less and thus have their retirement income reduced. Dr. Foster also observed that there is a distinct tax-advantage to adopting the uniform 13% rate.

One Committee member expressed dismay that the faculty were being asked to fund the change themselves; the rationale involved would seem to justify a request to the legislature for an increase. Why was it not asked? With the small raises faculty have been getting, to take one percent out to fund a change in the retirement plan will be somewhat demoralizing--especially when the impact on take-home salary affects different groups differently. Professor Goldstein observed, however, that the money still belongs to the faculty member, unlike money which goes to pay for increased health coverage costs, for example--and it is a significantly greater increase for lower-paid faculty than had they received the increase in cash. Another Committee member drew an analogy with the reimbursement accounts for medical expenses and child care, where the take-home salary is lower but the money remains that of the faculty member and results in a significant tax advantage.

Professor Shapiro reminded Committee members that the motion as it stood expressed no preference for the method to be used in eliminating the notch; no amendment to express such a preference was made. The motion was approved with one dissenting vote.

Professor Shapiro thanked Professor Goldstein for his time.

3. College Retrenchments and the 2% Retrenchment

Professor Shapiro next reviewed the information which had been previously provided to the Committee concerning the college retrenchments. Assistant Vice President Mary Bilek had provided a summary of the amounts retrenched and how the units had funded them. Later it was learned that prior to the presentation to the Committee the College of Education had been granted a moratorium on additional retrenchments--which had led several Committee members to be concerned that they had not been informed about the moratorium. The point, Professor Shapiro said, is not about the merits of the moratorium but rather about the process: A decision is made, and then "unmade," and nobody knows

about it. He said he had asked Associate Vice President Foster to discuss this issue with the Committee.

Professor Shapiro said he also asked Dr. Foster to inform the Committee about how the across-the-board 2% retrenchments would be handled and how decisions would be made if some units would not be required to pay it.

Dr. Foster said that in the matter of the College of Education moratorium it probably simply did not occur to Ms. Bilek--it did not occur to others--to link information on the moratorium to data on the retrenchments. The Committee asked a question, he said, for which Academic Affairs did not have an answer (where the retrenchment funds were coming from) and for which it is only now obtaining the answer. At the same time it had asked that question, Dr. Foster recalled, it also inquired where the colleges obtained the 1.5% contribution to the salary increases for 1989-90; that information is also now being gathered. The answer to the latter question, he said, will not be a neat one, because some of the answers are essay, some are spreadsheet, and some "are a bit of hand-waving."

The process for granting the moratorium to Education was entirely administrative: Acting Vice President Clark had talked to the Dean of the college and the President as well as Senior Vice President Donhowe. The presentation to the Board of Regents in the Spring of 1989 had laid out the retrenchments for 1989-90; it had also promised that there would be a review of the retrenchments at the end of the year and new recommendations based on that review. In the case of the College of Education there was an early decision that there would be a recommendation not to continue the retrenchments.

Professor Shapiro concluded that the matter may be academic but he did want it aired. He posed a hypothetical example: If, following widespread discussion, an academic decision was made about some major retrenchment, and the budgeting then followed from that decision, but then that decision were later reversed--but without consultation--then what is the role of a faculty committee in this process? The case of the College of Education seems to have been a very quick turnaround from an earlier academic priority. Naturally all decisions cannot be made by committee; they would all take five years. But the question must be raised.

One Committee member objected that the question was not academic. The concerns are several. One, it is not so important whether or not a given earlier decision was reversed, and retrenchment forgiven; it is the development of a set of principles to be adhered to or criteria to be met so that as other cases are pleaded there will a set of uniform guidelines by which a reversal might be made. Such guidelines may have been formulated but the Committee does not know about them if they have. Two, the money that would have been retrenched would presumably have been available for reallocation; does the decision mean that the amount forgiven is no longer available for reallocation? What units will suffer as a consequence? If not, where have the alternative resources been found so that other units will not suffer? Three, the announced retrenchments were in fact announced--they were public information throughout the University; it appears, however, that the forgiveness has not been made public nor have its possible consequences. There may have been good reasons for the early announcement but they are not clear.

Another Committee member followed up by suggesting that the Committee is not being very effective this year in carrying out its mission. It is always either too early or too late in asking its questions; there is need for better timing. An important part of the Committee's activities has been to look at the implementation of Commitment to Focus, but it has been unable to do so very well. Professor

Shapiro suggested that the Committee needs to have a meeting without an agenda in order that it can discuss what it wishes to do and how it will fulfill its responsibilities. Another Committee member agreed that it served no purpose to spend time grousing about the timing of issues but was at a loss for a remedy.

It was pointed out that it would be of benefit for those in Morrill Hall if items were brought to the Committee in a timely fashion vis-a-vis its communication with the faculty. One Committee member explained that "our problem is the rest of the faculty think we know what's going on--when we have no clue what's going on."

Notwithstanding this situation, Professor Shapiro observed, it does appear that a discussion about the process to be used in the 2% retrenchment decisions would be timely. The first decision, Dr. Foster told the Committee, is whether or not the budget parameters will be confirmed; that decision will be made in the President's Cabinet. When that decision will be made is unclear given the recommendations of the Governor for rescission and uncertainty about when the legislature will act. There remains time to advise on the decision.

The real question, Dr. Foster noted, is whether or not any unit will be excused from the 2% retrenchment. There are a number of units which have asked for new funding; they have said they have no way to absorb the 2% because it will "cut to the bone" and are asking for relief. Along with all of the other requests being made, those will be considered as programmatic requests: Do they make a persuasive case that the 2% retrenchment will severely damage programs? If so, the Cabinet could recommend that some of the funds generated by the 2% retrenchment be put into a unit for that specific reason. That would be the same as funding any other programmatic request.

While this seemed reasonable and necessary to operating the institution, did it not represent an uncoupling of Academic Priorities from the budget process? Where would Academic Priorities come in? Senior Vice President Donhowe responded that they enter in both at the same time as well as later. It enters immediately because one of the priorities is faculty income; the only way salaries can be increased is by mandating reallocation which then goes back to the units as salary funds. Programmatic elements of Academic Priorities are dealt with later through the development of a resource pool--part of the 2% retrenchment--which can accommodate program change. About 80% of the 2% retrenchment will be returned for salary increases; the other 20% will be added to funds reallocated from other sources and appropriated monies to create resources for programmatic change.

Dr. Foster described what could occur. Suppose Mr. Donhowe were to create a pool of \$6 or \$7 million for programming and the Cabinet decided to allocate \$300,000 of those funds toward relieving a problem in one unit caused by the 2% retrenchment; that could be seen as a "violation" of Academic Priorities because it was not listed in February, 1988, in Academic Priorities. There are, however, things that come along which it is essential be done which were not anticipated in February, 1988. There are emergencies to which the institution responds because it is decided it would be better for the University to do so. The way to judge whether or not Academic Priorities is being followed, Dr. Foster advised, is to look at the overall reallocations at the end of the process. It will come out to be very close, he surmised, although certainly not to the penny.

Dr. Foster also responded to the timeliness question. What is to be proposed is worked out in Morrill Hall and then sent to the President's Cabinet. After that it goes to the deans and the Finance

Committee. The timing of who receives it first depends on who meets first. In this sense the consultation will always be "after the fact." It would probably not be appropriate for proposals to come to the Committee before it goes to the vice presidents. It was argued by one Committee member, however, that it could not answer the question of timing; that will be a judgment call. The issue is whether or not the Committee can fulfill its advisory responsibilities; if it is, information must be provided at a time--regardless of the sequence--so it can do so. Mr. Donhowe commented, in response, that he has learned that nothing is fixed until it is approved--if then.

The important issue for the Committee to think about with respect to the 2% retrenchment, Mr. Donhowe remarked, while it is still an open debate, is its harshness. It is not just this budget; it is the harshness of the retrenchment as a continuing strategy--for several additional years beyond the next budget. The University will go after those funds "again and again and again as a way of continuing to put pressure on collegiate units to make very hard decisions internally in order to provide an increment to meet what we think are pressing needs for faculty pay." This means the University is prepared to take the position that there will be fewer faculty in order to meet this obligation. This will be a "very tough continuing kind of discipline." Mr. Donhowe said he saw no way to avoid this alternative, in part because it is unlikely the University will be treated very well during the next biennium.

During the next fiscal year, Mr. Donhowe pointed out, the Governor wants to take \$5 million from the University, from the instructional budgets. That will curtail the ability of the University to reallocate from that side of the house--which has been the basic gambit. It is entirely appropriate to talk about this plan, he told the Committee; it is not just a "one-time shot." It is one thing to get cut 2% one year, and perhaps 2% again a few years later; that isn't really a cut because the units get it back in reallocation. But to get cut 10%--five successive 2% cuts--is quite another thing.

Dr. Foster reverted to the moratorium for the College of Education; the reason, he said, was to indicate central administrative support for the very dramatic programmatic changes it is going through. (Moving teacher training from pre-baccalaureate to post-baccalaureate.) One Committee member pointed out, tartly, however, that that program change had been known at the time the retrenchments were announced; what changed was Morrill Hall's view of the change. Why, Dr. Foster was asked, would this not cost less money--to give up four years of undergraduate training in exchange for 16 months of post-baccalaureate training? He said there would be much closer attention to supervised teaching and more favorable faculty-student ratios. The College had understood that during the transition it would not be penalized as its student FYE count dropped. The administration, however, had made the cuts anyway--and that decision was seen as having abandoned the promise not to do so.

4. Continued Discussion, 1990-91 Budget Principles

Professor Shapiro turned next to Nick LaFontaine to discuss the 1990-91 budget.

Mr. LaFontaine drew the attention of Committee members to the slides which had been presented earlier to the Board of Regents. He began by noting that the calendar for action on the budget has changed; because of uncertainties about when the legislature will act it is likely that Regents' action will be delayed until June.

Mr. LaFontaine then outlined the revenue assumptions underlying the budget. One is that the University will receive the funds which were appropriated for the second year of the biennium. A second

is that aggregate tuition levels will increase by 9%. That is less than legislative intent would have permitted but after a succession of high tuition increases the University did not want to impose a double-digit increase. A third assumption is that there will be modest growth in sponsored programs and indirect cost funds. A fourth is that investment income will remain stable; a fifth is that there will be moderate increases in fund-raising.

On the expenditure side, several possibilities were considered. In doing so, however, certain items were known: Next year is the second year of equity settlements for faculty and it is also the last year of comparable worth payments for civil service staff; funds for those adjustments will be set aside. The legislature has provided \$2.3 million for program improvements; those will also be reserved for program allocation. Non-recurring equipment funds have also been set aside.

After those funds had been accounted for, consideration turned to possible salary and supply and expense increases. Two of the alternatives plus the proposed options were presented. Various combinations of tuition, salaries (both academic and civil service), and mandated reallocation were reviewed. Reallocation, for example, could have been set at 1.5%, which would have produced sufficient funds to cover salary increases but none for programs; setting it at 2% would produce \$2 million to be used for programs. Given that special problems would probably arise, it was decided it would be wise to have funds available in reserve.

Mr. LaFontaine then pointed out that there would be a "strategic funds" pool of about \$7.5 million, compared to an existing program budget--the base budgets--of \$521.5 million. These \$7.5 million would be available for programmatic allocations. The sources of that \$7.5 million are the \$2.3 million from the legislature for program improvement, the \$2.0 million to be held as a result of the 2% mandated retrenchments, and \$3.2 million from program reallocations (from Academic Priorities). Mr. Donhowe observed that unless there were funds in at least that amount (\$7.5 million), no one would notice any changes; the University would just be "rearranging deck chairs on the Titanic." This is a judgment, but he maintained that there must be "enough chunks, in large enough pieces, for everybody to perceive that there really is a difference."

It was confirmed that if a college were forgiven the 2% retrenchment, the funds would come from the \$7.5 million. There are other gambits which could be used, Mr. Donhowe pointed out; the 2% could be forgiven this year, for instance, but made up in a future year. Perhaps soft money could be used as a bridge. "You do not," Mr. Donhowe assured the Committee, "really want to know all the details of budgeting because it is not pretty at all. And it's certainly not by the book. There are too many problems to fix." What is important, he observed, is that the funds not all be used for tactical problems so none are left for strategic investments.

Mr. LaFontaine next drew the attention of the Committee to a review of the progress which has been made in implementing Academic Priorities. The goals, progress through the current year, and plans--hopes--for next year were laid out. Mr. Donhowe pointed out that Academic Priorities called for reductions of \$4 million and that to date only slightly over one-half million has been retrenched; the plan for next year calls for an additional \$359,000. This, he reflected, "is small beer. It is incredibly difficult to generate" those funds. The targeted increases, he continued, are \$35 million, of which \$8 million has been accomplished and another \$7.2 million is to be achieved next year--so progress is being made.

The question, he said, is whether that pace can be sustained from other resources. He said it was

his feeling "that unless we can find significant amounts of money from the non-academic side of the house from reallocation, we're never going to make it." To do so will require that the University become much more efficient in non-academic support. That, in turn, will require doing things in radically different ways than has been done in the past--and doing some things which will probably be very unpopular. It is, however, possible in some areas to get cheaper and get better; another area where funds can be obtained is from the building energy efficiency project--those savings must be captured. He also said he would come back to the Committee repeatedly--"until you are ready to throw me out"--on allocating space to collegiate units. He wanted, he said, the incentives on saving costs in operation to be at the college level so everyone will try to achieve them. "I don't know where else to get the money," he concluded. (It was agreed that there would be a report to the Committee on the development of the plan to charge for space when it was put together.)

Mr. Donhowe said that he had "grave doubts" if the entire \$4 million in program retrenchments would be accomplished. To suggest that over a reasonable period of time--perhaps the next two biennia--the additional \$28 million for program increases will come from the legislature is "totally, totally out of the question; it is not even within the remote realm of possibility." But if we don't obtain those funds, he said, "I think we've bought the store." So the only way to get at the issue is through reallocation, and no one will like it at all. It will be "painful, grueling work."

It was suggested that one part of the solution may be if people feel they are being treated fairly. Mr. Donhowe responded, however, that not all will be treated fairly in reallocation because some units are considered to be more important than others. It depends, he said, on who's ox is being gored.

Another factor which compounds the problem enormously, Mr. Donhowe told the Committee, is that in "the center of the University, in every single basic unit which is providing liberal arts education, we not declining, we are growing. We're growing in headcount, we're growing in FTEs." This includes CLA, Duluth, and Morris; over the past three years the numbers are up.

Mr. Donhowe was asked if there had been any thought given to returning to the original strategy of Commitment to Focus, which was based on cutting "big hunks"? He responded that if there was an attempt to close down entire colleges it could "unhinge the whole strategic thrust because you can't manage the politics." The question is whether or not programs within collegiate units have the "same capability of raising dust" as whole colleges. One would think not, he said, but do we have the will to do it? It is not feasible, he argued, for an institution as large and diverse as Minnesota not to be able to pick out programs or to conclude that it is obliged to continue to do everything that it has always done. Committee members seemed to concur with Mr. Donhowe's observation about the politics of the situation.

One problem that the Advisory Task Force on Planning had faced--and the reason it resorted to proposing elimination of entire units--"was that every dean felt the need to protect every single program within their college regardless of how good or how bad" they were. This is why, said one Committee member, he will support the mandated reallocation year after year--and will always look askance at forgiveness, particularly in units where a judgment was made that there are bad programs. It is to be hoped that the reallocation process will force some of the hard decisions to be made inside the colleges--decisions the Advisory Task Force could not accomplish.

It was noted by another Committee member that deans could just make across-the-board cuts. Mr.

Donhowe was asked how they would be guided not to do so. He deferred to Dr. Foster, who observed that "that is not something anyone below the level of a vice president is going to do." Some deans are inclined to face the problem and others are not; there will have to be conversations between the vice president and the deans.

Mr. Donhowe inquired if the faculty understood how serious the problems are, and if the University is to be serious about re-focussing and redirecting its activities would they not find it in their interest to start talking among themselves about things which they know better than anyone: which are the strong and the weak programs? If programs are not central to the mission of the collegiate unit, the faculty know which programs they are--and those programs have to be examined for squeezing, reduction, or termination. Is not the faculty the precise place from whom the support, if not the initiative, should come? Or, he asked, "is that just wishful thinking and crazy talk?"

One faculty member of the Committee recalled being on the budget committee of the college; unless the dean has an incentive to cut out some functions, it was said, he or she will not do so. Even with so many successive cuts in prospect, Mr. Donhowe asked, would the dean make hard decisions rather than possibly "butcher everybody"? The faculty do not realize, he was told, that it will be 2% for a number of years; that makes a difference. Knowing this might permit budget committees to make plans which make sense--something they have not been able to do up to now.

There was discussion about whether or not the continuation of these retrenchments had been taken up centrally; Mr. Donhowe pointed out, on one of the slides which had been presented to the Board, that they would be kept up "as long as the eye could see." The deans were told the same thing, he said, although they may not have internalized it yet. Committee members opined that they probably have not. One Committee member echoed the sentiment that the deans will want to make the cuts in the easiest way, the way that will generate the least concern. In two instances, even with programs of terrible quality, the faculty opposed closing them and the deans didn't push it very hard--and it didn't happen. Another Committee member suggested that the deans will have to learn from the vice presidents; he, for instance, is not going to go to his dean and tell him to make cuts. Yet another said that an easy way would be to make an across-the-board 2% cut--which is "not the intention of Commitment to Focus, Academic Priorities, or anything else." And, it was added, that is exactly why the Committee wants to see how the cuts are accomplished; last year, because of the timing, there may not have been much choice. That will not be true in future years.

Mr. LaFontaine next turned the discussion briefly to the salary plans, which call for total compensation of 7% for academic employees (6% salary plus .5% for equity and .5% for fringe benefit expenses) and 6.7% for civil service employees (4% salary plus 1.7% for comparable worth and 1% for fringe benefits). It is expected, and included in these plans, that the cost of health insurance will again rise. The reason for the difference in the fringe benefit increases between academic and civil service staff is due to the difference in average salary in each category, not any change in the benefits.

Mr. LaFontaine also informed the Committee about reallocations occurring at other Big Ten institutions during 1989-90; they range between 1% and 2.5%. It is not known if these are recurring, although Michigan has been engaging in the practice for the last six or eight years.

A question was raised about the projected continued growth in sponsored programs and indirect cost funds; information from NIH and NSF suggests that grant sizes will decrease and funding of grants

once approved will be more difficult. Indirect costs will also decrease. There will be, it was argued, a significant effect as the University comes to the end of four- and five-year grants; there will be a need to fund faculty, often teaching faculty in the health sciences, who have been supported on external funds. Mr. Donhowe noted that the assumption at hand was only for next year; he concurred that in the longer term there will be a serious problem with which the University will have to contend. These changes, it was observed, will disproportionately affect the health sciences and physical sciences; health sciences will be a particular problem because of the large percentage of funds which come from outside. It was suggested that there should be a group of faculty and administrators to look at this problem and try to make projections.

Mr. LaFontaine was asked about the Governor's recommendation; he repeated the point made earlier that the University is to receive a \$5 million cut in appropriated funds, to be taken from non-instructional units--a recommendation which only came recently so is not included in any of the information presented. How that might be absorbed is now being considered. Mr. Donhowe pointed out that the Governor has also recommended that the same cut be made for the next biennium. Part of the money could come from the \$7.5 million, to the extent they come from non-instructional sources; it could also come from units such as Physical Plant and fuel and utilities. One Committee member jokingly suggested the cuts could come in Morrill Hall; Mr. Donhowe observed it would take more than that; it "will be cut and slash to make it."

The University does not know, of course, Mr. Donhowe said, what the legislature will do. Once the Governor has given his recommendation he is not a very strong force, right now; the Senate is probably inclined to make the cuts but the House is not. The Governor could not make the cuts by executive order unless the reserve is spent. Mr. Donhowe reviewed briefly the views of several legislative leaders. The University, he said, must have plans in place, however, about how the \$5 million cut would be managed "without scuttling the reallocation of \$7.5 million"--the vast majority of which is for program change or fixing problems.

Mr. Donhowe was asked if someone could not construe the \$7.5 million as coming from fat; he said they could--always. But if done year after year, there should be recognition that the University is trying to carry out a strategy, by itself, to rearrange resources in ways to respond to different priorities. He said he believed that the position of the University at the legislature would be substantially strengthened if it continues to reallocate to achieve its objectives rather than waiting for the legislature to do it all--asking the legislature to do a part, rather than all of it.

The Committee adjourned at 4:50.

-- Gary Engstrand