

Minutes*

Senate Committee on Finance and Planning February 26, 1991

Present: Burton Shapiro (chair), Avner Ben-Ner, David Berg, Bergt Bieler, David Biesboer, Bill Chambers, Edward Foster, Virginia Gray, Kim Kantorowicz, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Mary Sue Simmons, Charles Speaks

Guests: Ken Janzen, Warren Ibele, Geoffrey Maruyama, Maureen Smith (Brief)

1. Report of the Chair

Health Plan Professor Shapiro began the meeting by telling the Committee that what will be presented to the Board of Regents at their March meeting, with respect to the health plan, is a set of broad principles, not a specific health plan. A set of policies will be presented--separating from the State, seeking flexibility, adopting a revenue-neutral approach. The plan presented at the last meeting would fit within those policies, but others might as well.

It was agreed that the portion of the Regents' docket materials dealing with the health plan will be circulated to the Committee.

One Committee member asked, with considerable irritation, "the cost of the publication of the slick mailing, the cost of the first-class mailing costs to the entire University community, and what the source of that funding was." It was contended that this was an unwise expenditure of funds, at this time, for a draft proposal. Professor Ben-Ner reported that the Committee on Faculty Affairs had raised the same questions.

System-wide Initiatives Contrary to previous understandings, there will not be case statements prepared for the system-wide initiatives. Dr. Foster reported that Academic Affairs had been planning on preparing them, but then received the impression from the President that they should not be. He agreed, however, to abstract from the now-withdrawn biennial request the elements that comprised the initiatives.

2. Discussion of the Governor's Budget Recommendation

Professor Shapiro welcomed Mr. Berg to the meeting to discuss the Governor's budget proposal, summarized on a one-page handout distributed to Committee members. Mr. Berg walked the Committee through the elements of the recommendation.

Taking the 1990-91 base, several adjustments have been recommended:

-- Add funding to the base for the "uncontrolled cells" in the Average Cost Funding matrix.

* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

That is, by agreement with the legislature, University funding was unlinked from enrollment--both at the undergraduate and other levels. As undergraduate enrollment (the "controlled cells") declined, funding did not. But as graduate, professional, Summer Session, and non-inloaded Extension enrollment (the "uncontrolled cells") increased, the University also received no additional money. This year the Finance Department and the Governor recommended that the increased enrollment in the "uncontrolled cells" should be recognized by increased funding. Funds were not reduced in the "controlled cells" even though enrollment continues to decline. (Although the budget does propose to take away a lot of money, it is not for this reason.)

Mr. Berg commented that Governor has, in certain small respects, done things for the University that are positive and that are different from what is recommended for the other systems; this change is one of them. This change would be, he affirmed, an adjustment in the base budget; if the State gets rich again, he pointed out, this could be a substantial advantage to the University.

- Accounting for tuition reciprocity will be treated differently.
- The University had proposed a technical adjustment to the request, contending that \$15.5 million in funding classified as instructional costs were not actually instructional and should not, therefore, be a drain on student tuition. Originally rejected by the Finance Department, the Governor's budget accepted the proposal to switch the entire amount off the instructional budget. If the legislature accepts this change--which, Mr. Berg speculated, it is likely to do--this also represents a permanent addition to the base.
- The non-recurring equipment appropriation will not be continued. This is not unexpected.
- The subsidy for undergraduate students from non-reciprocity states will not be continued; the Governor's office assumes that the University will increase tuition for those students to make up the lost income. (The group consists of about 1400 undergraduates, primarily foreign students and others from outside Wisconsin and the Dakotas.) The University could raise their tuition to full cost--but that will not completely replace the lost income because the State subsidy, in combination with the tuition charged, produced excess income used to subsidize general tuition rates. If the entire amount is to be recovered, tuition for resident and reciprocity students will have to be raised.
- The general base reduction, about \$28 million per year, is the University's share of the Governor's attempt to balance the State budget.
- A totally new item, a "restructuring escrow," is something different from any Governor's budget in the past. The Governor proposes to appoint, soon, a "blue ribbon commission" on the structure of higher education in Minnesota (drawn from the legislature and business and civic communities). It is to report next fall, to the 1992 legislature. In the meantime, the Governor proposes to take 10% of the base budgets of higher education systems--\$65 million (of which \$24.5 million would come from the University). \$10 million will be retained by the State to deal with the deficit; \$55 million will be kept as an inducement to the systems to comply with the recommendations of the "blue ribbon" commission. The

University could receive all of the \$55 million, none of it, or some share of it. His office, Mr. Berg explained, thus laid out a "worst case" (the University receives none of the escrowed funds) and a "best case" (the University receives all of them).

Mr. Berg was asked "from whose furrowed brow sprang that proposal." He said he did not know. One can say two things about it: First, why \$55 million, which is an extraordinarily large number. There is no question that the systems would "fight like dogs in a ditch for \$5 million, much less \$55 million; it is way beyond what is necessary to provide an incentive."

On the other hand, while \$55 million is impractical, if the University loses all of its share, it should be giving termination notices to staff effective the end of next month. The University's budget, if such an outcome were to obtain, would not permit timely lay-offs, except possibly of civil service employees. With the University's tenure code, it could not adjust to such a budget. He agreed that the other systems would face similar difficulties.

If the commission were to make radical recommendations, moreover, large shifts in base budgets might be required (such as if they recommend closing 15 technical colleges, for instance; control of the technical college system base budget would be required). This, Mr. Berg said, may be the argument for such a large amount in the escrow.

- The net change in the appropriation to the University, in the first year, is a reduction of \$27.9 million; the second year is indeterminable because of what might be done with the escrowed funds.
- There were no changes in the Indirect Cost Recovery Funds or the Other Income category (the latter of which is largely an offset for temporary investment income).
- The proposal allows a tuition increase; the Governor has said he wants it held to the level of inflation. This is somewhat disingenuous, Mr. Berg said; by removing the subsidy to non-reciprocity students, tuition will be run up beyond inflation. The numbers allowed for inflation are about 3.7% and 3.2% for the two years, the rate predicted by the State's economic service. (Mr. Berg noted that the inflationary tuition increase does recognize that enrollment will continue to decline, so are correct to that extent.)

Even if the University were to receive the entire \$55 million escrow, it would have \$12 million less in the biennium than it has in its existing base.

- If the budget is enacted as proposed, the percentage of instructional costs that would be paid by students would be 36.2% and the increase in tuition, on average, would be 8.1%. The Finance Department will argue that the percentage paid by students will be 34.8%, because they look only at the rates paid by resident and reciprocity students and discount the increase that would be caused by the elimination of the subsidy to the 1400 non-reciprocity students.

Would not this change in the subsidy for non-reciprocity undergraduates have an impact on the University's attempt to attract minority students from around the nation, Mr. Berg was asked. He said that

it certainly would; he and Dr. Foster testified on that very point. The University is attempting to recruit outstanding minority students from the Chicago area; the State would not, under this proposal, provide any subsidy for those students.

Professor Maruyama reported that he and Professor Gray had talked with staff people in the House, who noted that certain groups are at present exempted from out-of-state tuition; it might be possible to develop a proposal that would protect perhaps 1% of the student body from this change.

This proposal would shoot down the WICHE agreement before it ever gets off the ground; this change would not permit State subsidization of students from WICHE states--or it includes them but calculates the budget incorrectly.¹ There are few such students, yet, but there could be more in the future.

One Committee member inquired about the probable schedule for obtaining additional numbers--the committee recommendations and mark-ups. Mr. Berg said that the House has begun hearings on the budget; the Senate has not yet acted on specific budget items. He speculated that it will be near the end of April before the University can ascertain what the legislative committees may do.

Representative Lyn Carlson has said that the House Appropriations Division will hold hearings on campuses around the State. One such hearing will likely be held at the Twin Cities campus in order to take testimony from faculty and students.

Mr. Berg was then asked if there has been any indication that the Restructuring and Reallocation plan has had an impact on what the Finance Department recommended. He said that there have been; informal conversations with the Commissioner of Finance and the Budget Director have indicated that the Governor's staff has been very impressed with what the University proposes. The budget document itself contains language which explicitly commends the University of Minnesota administration and faculty for the leadership role they have taken. It is difficult to believe the University is being rewarded when one considers the budget proposal, but there are a few subtleties in the budget that do represent rewards to the University.

There is much more involved in this than simply the University's position, it was said. If the effect of having taken the first courageous step costs the University to the extent this budget proposal suggests, it will unavoidably communicate a message to the other higher education systems that this is what happens when "you stick your neck out and take the first bold step." This warning would be true for the State agencies as well; look what happens when you try to improve quality. Mr. Berg commented that everyone from the University is repeatedly making that very point. The Governor would probably say "it would have been worse"; legislators may have a different view. He said he had very little hope that the

¹WICHE: Western Interstate Compact on Higher Education. Roughly, the states west of the Minnesota/Dakota border, extended south; it excludes Texas and Oklahoma but includes Alaska and Hawaii. Minnesota has recently joined as an associate member. The WICHE agreement is that institutions may identify and designate under-enrolled programs on their campuses and accept students from WICHE states at resident tuition rates. Since the agreement has only been in effect for one year, the University has no estimate of its impact, and only a few programs at Minnesota would be designated. The State proposal to eliminate the subsidy for non-reciprocity-area (Minnesota, Wisconsin, and the Dakotas) was presumably based on the numbers of reciprocity students provided by the University. The Governor's budget either excludes any WICHE students--or if it does not, the numbers for eliminating the non-reciprocity subsidy are incorrectly calculated.

University would be able salvage its entire base budget, given the State's situation, but if there is a moderate cut, vis-a-vis the other systems, then the University will have been rewarded.

What is the bigger picture, Mr. Berg was asked; it appears the K-12 systems come out fairly well while the counties and cities get the biggest cut. Mr. Berg agreed that the K-12 system comes out the winner; the State agencies were hit harder than higher education except for Health and Human Services. Counties and municipal governments will be cut a lot if the budget is enacted; the argument is that people should pay locally for what they want locally.

What is not clear, Mr. Berg continued, is what the tax situation will be. The Governor's budget proposes only sin tax increases. It is likely, he speculated, that there will be other tax increases by the time the budget is enacted--which will change the situation.

As far as other higher education systems are concerned, the University did not take the smallest proportionate cut; the State University System was cut less. When the cut is divided by the number of students, however, the University's will probably be the smallest cut.

When one considers salaries, another Committee member commented, the situation looks considerably worse. State employees will take a 2% cut in their pension fund contributions, but teachers may have a chance at a salary increase. What can be said about salaries? Mr. Berg recalled that the University's position is that if the K-12 teachers receive an increase, the University wants the same amount. It is difficult to see where the salary increases will come from, however. Teachers and faculty in the other systems are unionized, it was pointed out, and will receive whatever increases are bargained; how will the University obtain an equitable share? There are two ways to look at the situation, Mr. Berg said. State employees could receive raises, although that is unlikely. On the other hand, the State could put aside money for union settlements with K-12 teachers; if the State funds the raises, the University wants a fair share. If the State does not fund any increases bargained for with the unions, they will come from lay-offs.

It was also pointed out that if one considers the entire \$217 million reduction for all of higher education, and considers the \$78 million in cuts to the University (base reductions plus the escrow), the University's cut is somewhat less than its share of the total.

The Committee discussed briefly the amounts that would be required for 4% salary increases. [The amount that would be required for 4% salary increases for each year of the biennium, it was later determined, would be approximately \$53 million.]

One Committee member suggested that if there is a tax increase, the situation will be the opposite of that being discussed last Fall; the University will not be arguing priorities among positives but rather among negatives. Which things would we rather have if there are additional funds--a restoration of the base or salary increases? That is one question which will need to be considered.

A second question is a matter of timing. How does the Committee proceed to offer advice when it does not know what the outcome will be? The President has asked the vice presidents to consider what will be done depending on whether a cut is \$10, \$20, or \$30 million; does the Committee wish to present advice? To whom? Mr. Berg said the Committee is certainly free to give advice; the vice presidents have

been asked to provide advice (although the deans have not; consultation with them is discretionary with the vice presidents). Mr. LaFontaine said that if the Committee wished to have certain items costed out the figures could be provided.

Another Committee member expressed puzzlement about how it should act--should it react to other proposals or make its own? When would be the best time to proffer any advice? One question that has been raised is the possibility of achieving savings by inloading CEE; what are the economics of Summer Session and CEE? Could the Committee at least generate such questions? And when in the process should it insert its views?

Another question is the extent to which any base reduction of this size can reasonably be accommodated in the immediate future. The use of the reserves, and even borrowing, for the first year, in order to make programmatic rather than across-the-board cuts, should be considered. Mr. Berg agreed that if this budget were enacted the University could not make the necessary cuts in the next year if those cuts are programmatically-driven. In order to accommodate the cuts there would have to be bridge funding mechanisms; borrowing is one possibility. This, he recalled, was Vice President Lilly's approach several years ago--and "it worked brilliantly." It worked because the situation did not persist very long. The University will probably have to consider a combination of borrowing and structural changes.

There are a few factors which will affect the magnitude of the cuts, Mr. Berg noted. If the State contribution to the civil service retirement plan is reduced, as the Governor proposes, the University will save about \$3 - \$4 million immediately. If the worker's compensation law is changed, the University would receive some indeterminate amount of savings there also. The idea of voluntary pay-less leaves has been suggested.

The University should also look at what other institutions around the country are doing, it was said by one Committee member. Could that information be obtained? Mr. LaFontaine said that it is being gathered.

The University cannot permit to be widespread the perception that if it can reallocate it can therefore retrench--that it can eliminate Waseca and save \$6.7 million. The University must continue to argue that it is reallocating and restructuring.

How does the University prevent itself from getting into the position of circling the wagons while at the same time trying to prevent at least some of the Governor's plans from being enacted? How do we prepare for a cut while at the same time trying to limit or eliminate the cut? One Committee member told of experiences with the legislature; the conversation inevitably comes to "well, what would you guys do? Try to be a part of the solution instead of just whining about the base cut." That is the hard part; the University has a responsibility to help identify innovative tax increases or a restructuring of higher education or how the University delivers education. Legislators need help; being of assistance will take the University farther than just "beating on them about the base."

One of the student members inquired about the procedures of the Committee and the discussions; it appears that students are being forgotten when the tuition increases are being considered. Professor Shapiro explained that the reallocation plan is wholly separate from the Governor's proposal; the Committee has endorsed in principle the reallocation plan but no one is quite sure how to respond to the

Governor's budget recommendations. The Committee is trying to determine how it can help the administration.

Dr. Foster commented that the President has said that if the base budget is cut because of the State's financial problems, additional programmatic reductions will be required beyond those identified in the reallocation plan. The funds identified for reallocation in the plan going to the Board of Regents in March will be reserved for the programs already identified. The letter to the vice presidents asks them to identify additional programmatic cuts that would be made if there is a base reduction; the answers to the questions will be used to explain to the Governor and legislature what the results will be if the base budget is cut.

One message for the students, said one Committee member, is that they may be tempted to believe the Governor did not do them harm. It was urged that they look beyond what the tuition increase will be and consider how much worse their education will be; students should be complaining about the University's funding because they will be paying slightly more but their education will be getting worse rather than better. Students have an important role to play.

Professor Ibele pointed out that the President, at the Faculty Consultative Committee meeting of January 31, had explained at some length what would be contained in the system-wide initiatives. These plans are not mysteries, although a case statement would be helpful to understand some of the details.

One individual, responding to the statement that the University should try to be helpful rather than just complaining, said that a tax increase should be sought. "I have never felt that I was cheated in terms of what I got back from the State of Minnesota compared to what I paid. I thought it was always a value-received bargain." The tax money is spent well, addresses State needs, and provides a "way of life that keeps most of us here." Although this may not be the best fiscal climate in which to introduce an increase, looked at honestly, things have to be paid for if we want them--and fairly-distributed tax increases are the best way to pay for them.

There have been analyses of what would be required in the way of tax increases, Professor Maruyama reported, but no one in the legislature wants to be the first one to suggest the increases; they want their constituents to suggest them. Additional efficiency would be nice, it was said, but higher education systems cannot improve efficiencies in a short period of time with these cuts; doing so is a longer-term project.

The faculty lobbyists for the University, it was reported, are asking the legislature to recognize unmet student needs in aid funding; their costs are underestimated. The Private College Council has argued persuasively for raising tuition to cover 50% of instructional costs, rather than 33%, because in the long-term it would improve education. This would result in a 50% tuition increase for students at the University.

Are there any pockets of support for the University in the legislature, Mr. Berg was asked. "Almost everyone is friendly," Professor Gray commented; "there is no money; everyone can afford to be friendly when they have nothing to give you." Mr. Berg reported that the University has never been "more loved" by all elements of the political system--"and there is no money." Then if State services are to be funded, there may need to be an effort to seek tax increases--and the University should not appear to

be self-serving. Another Committee member cautioned that the University, as a group, should not take a public stand in favor of increased taxes; that would appear self-serving. Individual calls to legislators, however, could make the arguments why the University is worth supporting.

Mr. LaFontaine reported that the Governor has also placed a moratorium on any building which is not already under construction; for the University, that is every facility except the Morris Student Center. He has also directed the Infrastructure Development Fund and the lottery proceeds into the general fund as a way to help the budget.

It was agreed that the Committee, at its next meeting, would confine its agenda to the health plan and the budget situation. It was also agreed that there would likely be a need for additional Committee meetings in late May, after the legislature has acted; there will be a very short period of time to act.

The Committee adjourned at 4:45.

-- Gary Engstrand

University of Minnesota