Minutes*

Senate Committee on Finance and Planning
May 21, 1991

Present: Burton Shapiro (chair), David Berg, Avner Ben-Ner, David Biesboer, Bill Chambers, Edward Foster, Lael Gatewood, Virginia Gray, Michael Hoey, Kim Kantorowicz, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Irwin Rubenstein, Charles Speaks

Guests: Senior Vice President Robert Erickson, Robert Fahnhorst (Employee Benefits), Geoff Gorvin (Footnote), Warren Ibele, Diane Mulvahill (Employee Benefits), Thomas Scott

1. Disability Benefits

Professor Shapiro began the meeting by asking Professor Ben-Ner to review the recommendations of the Senate Committee on Faculty Affairs on disability benefits. Professor Ben-Ner distributed a letter from Mr. Fahnhorst outlining the three SCFA recommendations and the costs associated with each.

The recommendations were adopted by SCFA last year, Professor Ben-Ner told the Committee, and said he brought them to the Committee for review. He asked Senior Vice President Erickson what the intentions of the administration were with respect to the recommendations.

Senior Vice President Erickson said he was prepared to recommend implementation of the first and third recommendations (increase the maximum monthly benefit from $3250 to $4000; change the offset for partial disability for those who return to work from 60% to 50%). The second one, he said, was too expensive (add a cost of living increase to the current plan). It would require a $975,000 deposit and a premium increase of $6000 monthly (with greater increases in future years). This issue, however, should be revisited every two years or so to review the level of benefit; Mr. Erickson said he would ask Mr. Fahnhorst and Ms. Mulvahill to bring it up periodically for review.

2. The Outcome at the Legislature

Professor Shapiro next turned to Mr. Erickson and Mr. Berg for information on the outcome of the legislative session.

The conference bill adopted calls for a biennial reduction in the University's legislative intent spending of $55.4 million (0100 and State Specials)--but that number does not mean anything, Mr. Berg said, because it contains a presumption of tuition decreases. The bill assumes that the systems will increase tuition--even though the numbers in the bill presumes a tuition decrease. Taken literally, the conference bill assumes a reduction in tuition income of $14.3 million--a 6% decrease. That, however, is not really what the legislature expects to happen.

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* 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.

The actual cut in the biennial net appropriation is $41.1 million, very close to the House bill. Mr. Berg observed that the final bill represents the almost complete triumph of the House position. (It also appears that the House will not cooperate in implementing the bill which merges the other three systems of higher education; the House approved it only to avoid a special session.) The final bill rejects the "high tuition, high aid" philosophy. There is an increase in student aid, of which about $1 million will likely go to University students. The base budgets used by the legislature are different from the existing University budgets because of technical changes the University successfully argued for.

One significant accomplishment in the bill is an offset for the tuition assumption, based on the reasoning that graduate and professional students cannot be expected to bear as large a proportion of the costs of their education as can undergraduates. This will be a relief to undergraduate tuition. The adjustment was made when the Senate bill contained very large tuition increases; the University argued that it could not stand such increases in professional and graduate tuition; the adjustment remained in the bill even though there were no significant tuition increases called for. After three biennia, the University has finally obtained recognition of the fact that graduate and professional students should be looked at differently from undergraduate for purposes of the funding formula.

Mr. Berg also reported on several other adjustments having to do with Wisconsin reciprocity and non-resident, non-reciprocity students (the latter undergraduates will no longer receive any State funding). Students being taught at off-campus "non-legislatively-authorized" sites will be subsidized only at the rate of about 32% of instructional costs. For the University, this covers any teaching not on the five campuses or at Rochester (the "legislatively-authorized" sites); it applies primarily to Extension Classes at local high schools and other locations around the State. (This will have a much greater impact on the State Universities.) The same funding rule will apply to high school students taking collegiate instruction.

Mr. Berg turned next to the 1991-92 budget. There were several adjustments made to the base budget, primarily changes in identification of costs as instructional and non-instructional and a slight run-up because of increased enrollment in graduate and professional fields; the net change was an increase of $4.76 million in the base. The base cut, for 1991-92, was $28,467,000 (including instructional, non-instructional, and State Special funds). If one hypothesizes a 9% tuition increase (adjusting for enrollment changes), available resources are $6.5 million below the 1990-91 level. This assumes there will be no salary increases and no price level increases. If there were no tuition increase in the second year of the biennium, the reduction in the budget would be about $16 million (compared to 1990-91).

Committee members discussed with Mr. Berg and Mr. Erickson some of the technical aspects of the appropriation. Mr. Berg agreed that if there were no price level increases, no salary increases, a 9% tuition increase, and if the University could squeeze the $6.5 million out of its budget, there would be $4 million in additional funds for increases in the 1992-93 fiscal year--which is less than 1% of the budget. Increasing tuition by another 9% would add roughly another $10 million.

Mr. Erickson next distributed a possible plan for the 1991-92 budget. Given the uncertainties about the 1992-93 fiscal year, it would be inappropriate to try to project a budget for the second year of the biennium--there are too many variables to try to deal with. The administration would plan on going to the Board of Regents in December--after the State economic forecast has been made--and propose a budget for the second year of the biennium.

The central reserves, at the beginning of 1990-91, were $45.4 million; at the beginning of 1991-92 they will stand at $33.6 million. The State appropriation will be reduced by about $16 million. Tuition and fees, assuming a 12% increase (and the same level of increase will likely be necessary in the second year of the biennium), would generate about $11.7 million in additional funds. ICR funds are expected to decrease slightly (about $1 million).

Investment income is projected to increase by about $11.5 million; this reflects the proposal not to pay interest on the temporary investment funds. This is a significant item and represents a step taken only under extreme circumstances. The administration believes these are extreme circumstances. The burden of this proposal, Mr. Erickson cautioned, falls disproportionately on the Hospital and the Medical School. The Hospital would lose about $7 million in income and the Medical School about $2 million. The administration felt it was important, however, to identify funds that can be used to phase in programmatic cuts. When programmatic cuts are made, there is not an immediate financial benefit; there needs to be a mechanism for doing things in an orderly and logical fashion. But it does have a significant impact on the two units.

Total operating revenues, for 1991-92, would be about $6 million above those for 1990-91--all because of a tuition increase and withholding interest payments on temporary investment income, $23 million which offsets the decrease in the State appropriation.

The proposed budget would provide $7.5 million for fuel and utilities and other price increases, $1.5 million for increased financial aid, $1 million for the additional debt service required as the University's 1/3 portion of capital costs, and a $5 million contingency fund. The budget would also include $13 million in program reductions for 1991-92 and (very tentatively) $9 million in additional program reductions in 1992-93; the latter number is not final. These numbers, Mr. Erickson affirmed, are in addition to the current Restructuring and Reallocation process; the administration feels very strongly that the existing process should be outside of any reductions which might be required because of legislative action. This is of paramount importance in moving forward; this approach attempts to respond to the numerous discussions the administration has held with this Committee and many others: it reflects the strong consensus that there should not be across-the-board cuts and that the University should move forward on the Restructuring and Reallocation plan.

The entire $13 million would not be saved immediately, Mr. Erickson observed, and funds have been set aside for phasing. It is difficult to predict how much of the $13 million would be saved the first year; most of it probably would not. In the case of Waseca, for instance, there will not only not be a decline in expenses, there may be a slight increase. As the food service is phased down, for example, all the costs remain but the income declines. That experience suggests it takes time to recover the funds.

Mr. Erickson then distributed a graphic which illustrated the balancing act the University is trying to perform. The chart demonstrates three components being used to bring the 1991-92 budget into balance: (1) Tuition increases ($12 million increase, a 9% increase in income but a 12% rate increase); (2) foregone salary increases ($23.5 million, assuming 5% inflation, on 0100 salary increases only--the actual system-wide increase would be about twice that amount); and (3) program reductions ($13 million). Mr. LaFontaine explained that a similar analysis, presumably, would be presented to the Board of Regents in December for the 1992-93 budget.

The plan assumes that central reserves should be held at approximately the same level (about $34 million). Mr. Erickson agreed that one could draw down the central reserves to fund some of the reductions, but the University would then have no ability to react in the future. Everyone is assuming that the economy will improve in the second year of the biennium, and that is to be hoped for, but the numbers could go down as well as up. The State could do again what it did this year: retrench the budget in mid-year by another $8.8 million or some amount. The Committee spent time clarifying changes in the central reserve balances and the use of those funds.

One Committee member asked what the $5 million central contingency fund would be used for. Mr. LaFontaine explained that it substitutes for the several requests that have been made, by individual units, for contingency funds to assist with reallocation. It is not recurring and is intended to meet demands that will arise as reallocation takes place. Another Committee member said he would be among the first to argue for a larger central reserve to provide soft funds. Allocations keep appearing, however, "into a black central box"; one example is the $8 million in system-wide initiatives in the reallocation plan. There has been great resistance, it was said, to providing explanation of where that money is going. This $5 million, at least, will be needed to cushion the programmatic reductions, but the Committee will need some explanation of how the funds are used as the year goes on. Mr. LaFontaine pointed out that this is not a normal strategy and the funds are identified because of the times the University is entering. No one now at the University can recall a time when there was an appropriation reduction and no funds for salary increases; this is not a situation that the University has had to contend with before. These funds are intended to be a prudent protection as the situation is dealt with.

Mr. Erickson was asked about the reasoning behind the proposal to suspend interest payments on temporary investment pools and the disproportionate impact it would have on the Hospital and Medical School. He responded that in these circumstances the University must examine every possible option it has to develop flexibility. As the administration considered options for freeing up funds to provide for contingencies and phasing of program cuts, it was apparent that there are insufficient funds in the central reserves and the funds coming to the University are insufficient. An "interest holiday" is a step; those units that have the reserves are, in a sense, the units that have the best ability to buffer themselves. It is those units which have been among the most prudent; the Hospital has done an outstanding job in managing. To a degree, Mr. Erickson acknowledged, it is not fair--but there is nothing fair about the whole process, he observed. He has spent considerable time talking to Mr. Dickler and Ms. Perlmutter about the plan; it is not something that the University wants to do. But the situation must be faced; the plan must ultimately be approved by the President's Cabinet and the Board of Regents and there may be modifications in it. Mr. Erickson said, in response to a question, that the Hospital has an extensive program of replacements, using their reserve funds; given the capital-intensive nature of a hospital, the numbers are large. There will be an impact, because they take the interest income into account in their operations. The Committee discussed further with Mr. Erickson Hospital rates and income; these are difficult questions, he said, and this plan tries to preserve the ability to select rational solutions. It becomes a question of how much pain each entity can bear, which is a judgment call.

One Committee member then raised three issues. (1) Why wait until December to consider the 1992-93 budget? (2) The salary issue, which appears to have been taken as a foregone conclusion. The graphic suggests that one-half of the budget balancing comes from faculty and staff ($23.5 million) and the remainder from students and program reductions; it is not 1/3 from each. This ties in to the timing question: The longer the issue is left unresolved, the more morale will decrease and the situation will become acute. (3) Cost-control items, such as the $1 million for debt service. Buildings are no longer free, and with staffing requirements, they are not free even if given to the University. What will be the impact of this proposal on the capital request next year, if any, and on fund-raising for new buildings, if any.

In terms of planning, Mr. Erickson said, the December date was selected because the administration believes it will be important to know the State economic forecast, which comes out in November. He acknowledged that it would be better if the uncertainty could be resolved earlier. The Committee member responded that it would be better to generate uncertainty; the tables being discussed presume no salary increase for two years. There must be early communication about that question. Mr. Erickson concurred with the proposition that two years of no salary increases would be very difficult; the administration is very sensitive to it. He assured the Committee that the administration will look very carefully at the salary question. There should, it was said, be some kind of statement from the President in the near future--which need not include numbers.

Mr. Berg told the Committee that this kind of thing has happened in other states. What frequently happens is that there is a build-up of political forces that leads to a mid-biennium adjustment in salary policy. The University does not want to be in the position of saying, in advance of that build-up, that "if you can't do it, we'll find a way to do it internally." As sure as the State believes the University can do it internally, State funds will not be provided. The University needs to be careful.

Another Committee member inquired about the policy, if there were no salary increases for two years, towards a faculty member whose salary is funded completely from federal sources and whose budget has a built-in increase? Mr. Erickson said the University has taken the position it would be unfair for some employees to receive increases and some not; he has told the Hospital Board that support units will follow whatever is done for other University employees. What about faculty on 9-month appointments with outside funding who have used a portion of that funding to put themselves on salary for one month; can they now make up the lost increase by putting themselves on salary for an additional month or two? The answer was "yes." Would there be any monitoring of the practice? It was said there would not be.

What about promotions and the salary increases that would come with it, one Committee member inquired. The answer to that question is not known, Dr. Foster told the Committee. Mr. Erickson said, in response to a query, that commitments already made, in retention cases, would be honored.

Discussion next turned to a written proposal from one Committee member. Certain premises were laid out, including: salary increase funds are unlikely to be available from the legislature for the second year of the biennium; the $60 million reallocation plan should be reconsidered (especially given the proposed additional $13 million in program cuts). The proposal calls for salary increases in 1991-92, that they not be across-the-board (even zero increases affect people disproportionately), and that they be unequal but approach equity issues across and within colleges and be awarded to individuals for whom cases could be made. The increases could be significant enough to make progress on equity issues (comparisons within the University and with peer institutions); there could be fixed dollar amounts for those promoted. The funds should come from the current reallocation process. The University should not be adding things while hurting other things central to the operation of the institution. The proposal also called for not honoring retention requests when faculty have used offers from other institutions to force increases in their salary.

One Committee member, while expressing concern about salaries, especially for young faculty and for staff members, said he opposed the proposal. There has been so much pain in the entire reallocation process, to get it to where it is; many of the things which have been approved by the Board of Regents have been on the table before. After publicly arguing that all these things were needed and going through the anguish of the decisions, to now say that because it might cost a few percent in faculty salaries we no longer think those principles are important would cause the University to lose all its credibility with all of its constituencies. The Committee member who made the proposal acknowledged that this problem would arise, but argued that credibility among the faculty is at stake. The administration has consistently said, for years, that salaries are the most important issue. With this process, the fact is that salaries are not the most important issue; more important is programmatic reallocation.

Another Committee member said that the internal reallocation process had to be kept separate from the legislative process. The University put its credibility and faith behind an internal reallocation process, and it is in part for that reason that the University came out so well in the legislative process. It may appear that the University came out badly, but what was achieved--a $6.5 million net cut--is a miracle compared to where it started. The major reason the University was able to accomplish that was because the legislature believed the University is making programmatic and quality improvements; they respected the faculty and the President for that. "If we turn around and say that the real reason we did that was just to put it in our pockets, we have committed an incredibly stupid act, in my opinion."

If salary increases are to be funded from internal resources, it was also argued, they would have to be generated from further cuts, not from the reallocation process. If there are such increases, they should not be devoted to equity considerations. The reason there are equity problems is because the funds the University has received from the legislature have been less than what is needed. To distribute salary increases on the basis of equity would be very expensive; full professors alone, per person, are $8,000 - $10,000 below their peers. If increases are to be granted, it should be on the basis of this year's productivity--the way increases are normally awarded.

The same Committee member also expressed doubt that it would be possible to determine when faculty members have obtained offers solely in order to obtain increases in their salary from the University. Certainly department chairs and deans should use their best judgment.

Asked when a decision on tuition increases would be made, Mr. Erickson said the Board of Regents would have to act on a proposal. Discussions are now underway; more information will be available when the Committee meets on May 28. Student leaders have expressed a preference for greater tuition increases rather than greater programmatic cuts, he said; one student member on the Committee echoed that view and the other declined comment.

Assuming that expenses are cut, one Committee member said, there could also be a reduction in the number of students (if programs are eliminated). If they migrate elsewhere in the University, there is no impact; if they go to another institution, there is lost tuition income. How does that affect the bottom line? Mr. Berg said it depends on the students; the gain to the University varies with the college or program the students were in. Not all program cuts being considered involve a reduction in student numbers, he added.

The Committee agreed that it wished to meet again next week.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota