

Minutes*

Senate Committee on Finance and Planning February 4, 1992

- Present: Burton Shapiro (chair), Avner Ben-Ner, Karen Geronime, Virginia Gray, Paul Hess, Michael Hoey, Craig Kissock, Fred Morrison, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks
- Guests: Senior Vice President Robert Erickson, Geoff Gorvin (Footnote), Senior Vice President E. F. Infante, Ken Janzen (Regents' Office)

1. The Capital Request

Professor Shapiro convened the meeting at 3:20, welcomed Senior Vice President Erickson, and asked him to comment on the status of a possible capital request.

Mr. Erickson recounted that there have been rumblings about a possible bonding bill, due to the state of the economy, in order to create jobs, and it would then be possible that the University would receive additional capital appropriations. In order to be prepared for that possibility, the administration took to the Board of Regents a rank-ordered list of capital projects prepared by the Space Advisory Committee (chaired by Associate Vice President Kvavik). The list was prepared in light of three principles: academic priorities, construction only (rather than create an additional backlog of projects years away from funding), and continuity with prior requests. Of the final list prepared, only the last two items were not in prior requests, and they are Archives Facility Planning (related to the renovation of Walter Library and the need for "swing" and storage space) and Campus Master Planning (to accelerate the process).

Mr. Erickson was asked if the operating and maintenance funds for new building have been identified; he responded that he did not know for each individual building. He pointed out that the Regents' policy on this question has recently changed, and now requires that the source of operating funds be identified when a project is brought forward. What seems to happen, it was suggested, is that when the carrot is dangled (possible capital funds), the University often leaps for them--and leaps off a cliff. Is there solid ground there?

In addition, it was said, if the carrot is there, to provide construction jobs (rather than because of any great interest in education), will it be possible to capitalize some of the deferred maintenance? Mr. Erickson agreed that this suggestion is a good one. The University has requested additional health and safety funds (which address deferred maintenance needs), but they are not enough. He related that at a legislative hearing he had raised the very question of deferred maintenance and told legislators that the University, with an older physical plant, has greater needs. He also said that any dollars spent on deferred maintenance would, it is to be hoped, reduce future operating costs--as well as make facilities more serviceable. He recalled that before the State Specials were vetoed, it had been the intent of the

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administration to educate the legislature on the deferred maintenance problem. That still may be possible, especially since the numbers have now been prepared for each building on the campus.

Another Committee member inquired where the funds would come from to pay the required one-third of the debt service the legislature requires for capital projects. Mr. Erickson concurred that that is the perennial question; on the Basic Science Building, for instance, one could argue that some of the cost should be borne by ICR funds (although everyone knows they are fully committed every year). The source of funds for these buildings needs to be identified, it was said; the carrot is easy to see. Dr. Infante has suggested that the University could build some facilities without state funding; the Committee should also see the source of funds for those buildings as well. Mr. Erickson noted two instances of facilities construction without state funds: the new athletic facilities (which will be paid for with revenues generated) and the Lions' research lab (which will be paid for with ICR funds and fund-raising).

These questions from Committee members, Mr. Erickson commented, reflect the reasons why the Regents have asked to move to a five-year capital planning process, a process which can include planning for the one-third of the debt service. The process would permit the University to consider the TOTAL cost of a facility.

Another Committee member pointed out that deferred maintenance would provide jobs just as would new construction--and might even provide more jobs, because it is more labor-intensive. Moreover, interjected another, deferred maintenance funding should not require a one-third contribution from the University. Also attractive is the balancing entailed with deferred maintenance--dollars are saved as a result of the expenditures. One could also examine the extent to which faculty and students benefit from new construction as against deferred maintenance expenditures.

Mr. Erickson agreed that deferred maintenance would provide new jobs. He also recalled that the University intends to abandon the "band aid" approach to repairs and maintenance (improvements for handicapped accessibility, then health and safety repairs, and later a coat of paint) and instead will "do" an entire building--fix it and be done with it. This kind of work is just as job-intensive, if not more so than new construction. The question of identifying funds, he concluded, is one that is being raised constantly by Assistant Vice President Markham--nothing will be done unless the funds for doing it are identified.

Asked if there was any possibility the legislature would change the requirement for the one-third contribution to debt service on new facilities, Mr. Erickson said he had heard nothing which made him think it would. Given the state of the economy, and the fact that the State is at or over its bonding limit, he speculated that if anything the legislature might look for MORE such devices.

Discussion turned briefly to the unranked list of possible planning projects and additional construction projects which might be included in the request; all have been approved previously. In reviewing the possible location of a humanities building and a possible new School of Management facility, Mr. Erickson noted that plans could be developed which identify areas of the campus which have a particular focus (such as the health sciences); many areas now have no focus. This is where the Campus Master Planning and new capital budgeting process could help; such decisions need to be driven by the priorities of the institution. There are a lot of buildings on the campus, he noted, that are where they are because somebody wanted to do something and pressed long enough until they were able to do it.

Related to these considerations are questions of circulation on the campus, and providing a sense of safety, and, in Minneapolis, taking into account the river.

A question of what space would be occupied or given up by Mechanical Engineering were the old EE building renovated led to a short discussion of space generally. Mr. Erickson reflected that around the University, once you get space, it's yours forever--and that concept needs to be broken. A five-year capital planning process would help in considering long-term space needs. Also, even though it is not popular, the proposal to adopt space charges are gaining acceptability because they would do much more than continued discussion to help rationalize the use of space; there would be economic incentives for a unit to get rid of space it did not need.

Asked about the extent to which the capital request list accords with the priorities of the reallocation plan, Mr. Erickson said he would defer to Dr. Kvakik in responding.

2. Health Plan Proposals

Attention turned briefly to the joint meeting which will take place on Thursday with the Senate Committee on Faculty Affairs; it was agreed that Professor Shapiro would chair the meeting. Mr. Erickson also clarified that any action ultimately decided upon would not require additional Regents' action; they are extremely interested in the issues, and would want to receive information, but the resolution the Board adopted earlier authorized the administration to proceed.

3. Contingency Planning

Professor Shapiro next welcomed Senior Vice President Infante to the meeting to discuss contingency planning. The Committee thought it important, he explained to Dr. Infante, to start discussions early in the event that the University must take another reduction in State funding.

Dr. Infante began by commenting that he had no problem with the discussion being open; his only concern is was that in doing what needs to be done with respect to planning for contingencies, there be no self-fulfilling prophecies created.

Last December, he then recalled, the Regents approved a budget plan for 1992-92 which contained a number of premises. First, that the University would obtain the \$451 million in State funds (which included the \$23 million in vetoed and now-restored State Specials). Second, that there would be 5% salary increases (and, therefore, approximately a 6% increase in total compensation)-- which would not be across-the-board. Third, there would be an across-the-board tuition increase of 9%, with additional increases in certain units. Fourth, the Restructuring and Reallocation Plan would be continued. Within the confines of these premises, cuts would have to be made; with respect to salary increases, funds would not be taken away but would have to internally reallocated to provide the increases. On the basis of these fundamental premises, estimates were made of how the units would go forward.

At this point, Dr. Infante said, two of the premises are in doubt. First, it is by no means certain that the University will receive the expected \$451 million. The President's Cabinet last week decided that contingency plans were needed, based on three possible alternatives: no rescission of funds, a modest rescission, and a major rescission. At this point the University has no good information on what might

occur; its first priority, however, will be to protect the base.

It is widely understood, however, that there will be a \$340 million shortfall in the State budget. It is also understood that the total University budget, on average, equals about 7% of the State's budget. One should resist multiplying those two numbers together, Dr. Infante urged--but they equal about \$24 million. The State budget, moreover, has many components which are difficult to cut, especially in tough economic times, so no one can be sure what the right numbers might be. In addition, however, the State has the reserve funds.

His own reading, Dr. Infante told the Committee, is that the budget will be reopened and there will be cuts. If there is a cut of X%, he noted, it would have to be made up in one year. One major question is whether any cut would be in the annual or in the biennial budget; if--as he assumes--it would be a PERMANENT cut, it will be critically important whether it is an annual cut or a biennial cut. If the latter, the annual cut would only be one-half of X.

He and some of his colleagues, Dr. Infante said, are determined that two of the fundamental assumptions of the budget plan not be altered: the 5% salary increases and the 9% tuition increases. There is legislative interest in seeing the 5% salary increases reduced to 3%. His logic, Dr. Infante told the Committee, is that the University has already settled some union contracts at 5% increases, others will be settled soon, and to back down for the remaining employees of the University would simply be wrong. The salary increases, he asserted, will be the LAST element of the budget plan that will be given up. As for the 9% tuition increases, he said, he would be reluctant to reopen the subject.

The President has decided he wishes three alternative possibilities explored (if one adheres to the 5% salary increases and the 9% tuition increases, and there is a need to impose additional cuts). The first, depending on the magnitude of the cut and whether or not they are recurring, is the possible use of the reserves for a transition period. Second, consider a possible new balance between cuts, salaries, and tuition. Third, and more complex, contemplate the possibility of a radically changed funding situation, such as adoption of the "Waldorf Plan," which would have significantly changed State support for higher education by substantially increasing tuition and putting much of the money back in the hands of students as support. If the legislature needs to deal with a \$340 million shortfall, it will be looking for \$100-million chunks--and the Waldorf Plan would save the State a great deal of money. The University, moreover, might come out a net (financial) beneficiary under the plan. So radical alternatives must be considered a possibility.

Next week, Dr. Infante told the Committee, he and Mr. Erickson and others will get together to consider these possibilities; materials will be prepared for the vice presidents and colleges. The process will involve three items: preparation of the 1992-93 budget, preparation of the next biennial request (which must be completed by the middle of the upcoming summer), and brief statements from each college, given past plans, how the plans have changed. The conversations will take place with vice presidents, chancellors, and deans by March 15; April 1 will be the target date for the major decisions.

The major decisions will be, first, about extraction of the money if there is a rescission. Or a thoughtful plan to use part of the reserves will have to be developed. Second, the plan must be highly targeted--but targeting will not extract the money; it will start the University in the direction it must go. Also complicating things are discussions about rearrangements of Minnesota higher education.

His own view, Dr. Infante said, is that it is inevitable that the University must undertake careful examination of the numbers, given the budgetary back-and-forth that is going on. He reiterated his belief that there will be a cut that is permanent and significant. Further, and as he has said before, he noted, there must also be a redirection of resources to the infrastructure of the University; he would like to be able to direct 1% of the total budget to the infrastructure. These represent the parameters of the contingencies.

One must also understand the other side of the coin, Dr. Infante commented. He said a recounting of the savings from the closing of Waseca is necessary. The total budget of the campus was \$6.3 million. Of that, \$1 million was tuition--and it is unlikely that tuition income will appear on other campuses of the University. Of the remaining \$5.3 million, between \$1.6 and \$1.8 million in faculty lines will have been transferred to other campuses by the end of the second year. Of the remaining \$3.5 million, because of the termination packages offered, the University has obligations of significance next two years. It will take several years to recover the funding; one could have expected it would have been recovered faster.

This illustrates that if there is a rescission, Dr. Infante said, it will be difficult to extract the money with the rapidity one would want--unless one were willing to create great havoc, and more than it would be sensible to create. On the other hand, one must start.

The lesson of Waseca is instructive, said one Committee member. Long experience tells the University it must look at the \$6.3 million rather than the \$600,000 realized immediately. Too often the University has concentrated on how it will obtain the cash necessary to operate for the next year--and has ignored the longer term planning decisions. The first exercise should be to deal with those long-run planning decisions; then, secondarily, the University should take other steps to address a short-term cash flow problem. These steps may be unpleasant, such as temporary take-aways from departments with a promise to return the funds when the cash flow problem is resolved.

A second proposition, it was said, has to do with the 600 retirements expected in the next five years. Those retirements should produce roughly \$18 million of salary increment funds--above base level, entering salaries. Dr. Infante cautioned, at this point, that the set-up costs for new faculty will be sufficiently high to absorb much of the difference between entering and senior faculty salaries. They are also not one-time, he asserted; he learned as dean that there is nothing temporary about set-ups--they occur every year for new people.

Irrespective of the amount, it was said, does the University have any plan for recapturing the money? When a person at \$60,000 retires, and a new person is hired at \$35,000, there is \$25,000 gained. At present, those funds stay in the department or college accounts. The University has the same number of people, but there is a bit of money left over. If there continues to be a need to fund salary increases internally, that can be the source of the increases--and if that is the plan, it can be managed. A second option would be to recapture the increment to meet institutional costs. A third option is that the increment stays with the department and permits it to expand--and this has occurred in some cases over the past two decades. The phenomenon represents growth--perhaps planned on the part of the department but not on the part of the institution as a whole. If moving into an era of diminishing resources, is there any way to tap those funds?

Dr. Infante said there is. One thing that will be provided to units will be detailed accounts of faculty, faculty salaries, student counts, loads, etc. One thing that will be used heavily will be the age distribution of the faculty. His sense is that it will be a mistake, at least at the Morrill Hall level, to do much more than unit budgeting--after careful conversations with what is being done in the colleges. The colleges have very different needs and problems. In the case of IT, for example, a faculty line will have to be left empty for three or four years in order to accumulate enough funds for a set-up for a new assistant professor. That might be very different from some components of CLA, where the set-up expenses might not be as significant.

Looking at things globally, however, and if there are going to be limited resources, the central cost factor will be the size of the faculty. Everything else flows from that number. As a consequence, besides trying to bring increased effectiveness and efficiency to support services, it is the size of the faculty that will control the budget. Faculty turnover in the past few years has been 3% per year--which is a very small number, so there is very little financial maneuvering room. The University has also lost approximately 7 - 8% in real funding, and if there is another cut (i.e., a lack of inflationary increases), that loss could rise to 10 - 12%. Second, Dr. Infante said, he hopes he never has to say to his colleagues that untenured faculty will be judged on anything but their performance as scholars and teachers--because they are the future of the University.

There are a lot of constraints; the biggest one is the 3% turnover rate. There is no indication that that rate will change significantly. Elimination of mandatory retirement will probably not affect the rate--unless the economic situation becomes so bad that people are worried about their income. One surprise, this year, was that fewer faculty than usual took early retirement; the drop in interest rates appears to have affected the decisions of a number who might have otherwise retired.

One Committee member expressed concern about Dr. Infante's point about the faculty being the central factor driving the budget and the (implied) suggestion that there should be fewer faculty. In parts of the University, such as CLA, many units have perhaps only two-thirds the number of faculty they should by any reasonable standard; what is the future for such units? Reducing the size of the student body? Leaving them in the situation they now find themselves?

Dr. Infante said that Dean Davis and Vice Provost Hopkins will make the decisions, but he noted that one of the basic premises of the Undergraduate Initiative is to put the money where the students are to the maximum extent possible. The number of students in a unit should be determined by the number of faculty in it, he said. He recalled that IT, during his tenure as dean, had reduced the number of undergraduates for that very reason.

There will be a great deal of trouble, Dr. Infante speculated. He said he would try, to the best of his ability, to redirect the 1% of the budget, and for at least three years in a row--and there is even a question about that. The more he looks at it, the more uncertain he is about the future of the libraries. If the future is the same as it is now, that is a huge amount of money. Acquisition costs are increasing 10 - 12% per year, and a number of discussions are taking place about agreements among libraries and using electronics. The total funding for the University from the State, in the past two years, has decreased by 3% in nominal terms. During the same period, the acquisitions costs for the library went up about 20%. Some of the libraries are spending 97% of their budgets on journals and only 3% on monographs and books.

If a unit targeted for reduction reduces the level of a service for citizens of the State, suggested one Committee member, thought should be given to how that service could be replaced, if possible. The University has failed to do this in the past.

There also needs to be a balance in restructuring and reallocation. If one looks at figures for the past 20 years in terms of real increases and decreases, one Committee member said, it appears there has been a major shift in favor of the Medical School; CLA stayed about the same while IT funding declined and then increased. The Medical School, however, increased by a substantial amount. One question to be asked is if that shift in balance be maintained or be reversed.

Dr. Infante noted that the budgeting and planning deal primarily with the funds that are appropriated by the State and from tuition. Careful assumptions must be made about the total funds (the all-funds budget) of a unit, particularly the research funds. He recounted that he had recently analyzed the last six months of grants received, in comparison to the previous six months; the health sciences are down 10% while IT is up over 10%. Something worrisome in this area is the decline in the ICR rate, which has dropped from 44% to 40%--and that money has already been spent. The University will collect about \$37 million in ICR funds--but at this point it is spending about \$40 million. Whether one looks at research funding or at State funding, the point is that the University will not have much elbow room--and whatever there is the University will have to create itself by looking far down the road.

One Committee member noted that the Waseca City Council will vote this evening on whether or not to turn the campus into a federal prison--an event symbolic of what is occurring in this society right now: Education will be underfunded and prisons will not be. It is to be hoped that the University does not neglect to continue to push the values of the educational system and the need to improve it.

In addition, the Committee and the University must look at the balance between the research enterprise--and the extent to which it drives the funding of the institution--and the instructional enterprise. Which of those two will the University value more highly, and which drives the institution--and which way, as a result, will the cuts be made? This is a fundamental issue that has not been addressed. To leave a faculty line vacant for four years, in order to accumulate set-up funds, is troubling; is that the way the University should be operating? Is one losing a program in order to create \$200,000 for a set-up for a faculty member to do research? Those are direct trade-offs, and the thinking demonstrated at this meeting is not wholly acceptable.

Dr. Infante reminded the Committee of the significant increases which had been made for teaching units. That was acknowledged, as is the terrible state of higher education in the country, but the number of faculty are nonetheless declining. If the legislature imposes another round of cuts, however, the value of education for society, and the taxation of students and families through tuition, are brought into question.

Dr. Infante recalled that the last thing he wanted, as he said at the outset, was to produce self-fulfilling prophecies. Second, the administration is going to work as hard as it can to protect the base budget. One of his counterparts at another institution, he told the Committee, informed him about a 13% cut in his budget--which follows a 10% cut last year. That makes it more difficult for him to complain, Dr. Infante said. On the question of balance, he said he would welcome Committee recommendations,

but noted that the University is committed to different units serving different roles. The Twin Cities campus is a research university and will stay that way.

Another Committee member rejected the sharp dichotomy between teaching and research. A faculty member provided \$200,000 in set-up costs will not only be bringing in research funds, he or she will also be teaching students. Another Committee member took issue with the proposition that there should be no significant shifts in funding among areas or units; the University, it was argued, should ALWAYS be shifting its emphases and resources to order to continually become the kind of institution it needs to be.

Discussion returned briefly to the Waldorf Plan and what analyses have been done. Dr. Infante said there has not been a great deal of analysis; he also said he is averse to the plan, although it may come. The Private College Council of Minnesota is pushing the plan, and it will probably be heard; this kind of discussion is taking place all over the country. Much of the argument is based on the proposition that public higher education is cheap for those students who come from families that are well off, and that they are not paying their fare share. Data from a student surveys, however, suggest that this is not the case; Dr. Infante said he intended to ask David Berg to closely examine the issues. Discussion of this alternative will occur, he told the Committee, and there will have to be developed a University position on the issue. Right now there isn't one--and taking one could be a political problem.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota