

Minutes*

Senate Committee on Finance and Planning
Tuesday, January 4, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Irwin Rubenstein (chair), Mary Askelson, Mark Davison, William Gerberich, Karen Geronime, Michael Hoey, Karen Karni, Craig Kissock, Gerald Klement, Fred Morrison, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott, Mary Sue Simmons, Dianne Van Tasell, Albert Yonas

Regrets: David Berg, David Dahlgren

Absent: William Rudelius, Susan Torgerson

Guests: Senior Vice President Robert Erickson, Associate Vice President Robert Kvavik, Controller Karen Lauritzen

Others: Ken Janzen (Regents' Office)

[In these minutes: Budget recommendations to the Board of Regents; health sciences (briefly)]

1. Resource Allocation Guidelines

Professor Rubenstein convened the meeting at 3:15 and wished everyone a happy new year. He asked Senior Vice President Erickson to introduce the new Controller, Karen Lauritzen; Mr. Erickson did so with warmth and enthusiasm. Ms. Lauritzen's principal responsibilities include development of systematic ways of acquiring needed information and development of financial policies and compliance mechanisms. Committee members also introduced themselves to her.

Professor Rubenstein then turned to Mr. Pfutzenreuter for a review of the budget materials that had been faxed to Committee members earlier in the day. These materials included the administration's recommendation to the Board of Regents. Mr. Pfutzenreuter began by reviewing the nine options that had been presented to the Board; they involved combinations and permutations of tuition increases, funded salary increases, non-salary inflation, and a Strategic Investment Pool (SIP). Mr. Pfutzenreuter note that the projected balance was increased by \$5 million because tuition revenue forecasts have been updated.

The administration recommendation to the Board of Regents is this:

-- A 6% funded salary increase

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- A \$8.5 million SIP
- A 3% non-salary inflation adjustment
- A 5% tuition increase
- \$7.5 million in cuts to balance the budget

Mr. Pfutzenreuter pointed out that tuition income is up this year--essentially a windfall--but is not necessarily recurring. The University must be careful, in spending the \$8.5 million in the SIP, not to spend more than about \$5 million on recurring items, because \$3 - 3.5 million of tuition income is non-recurring.

Asked how these numbers relate to ICR funds, Mr. Pfutzenreuter said he was meeting tomorrow with Associate Vice President Brenner to discuss ICR funds. The data presented at this meeting deal only with O+M funds, but ICR funds cannot be ignored; if there is a shortage, a question is whether or not it could be made up from O+M funds. Asked if deferred and ongoing maintenance costs could be paid by ICR funds, Mr. Erickson said they could be and the issue is being considered.

Mr. Erickson emphasized that the numbers being presented today are a prelude to the major budget hearings that will take place over the next few months; those hearings will produce budget recommendations to the Board of Regents for information in April and action in May. Where the \$7.5 million in cuts are to be made will be the subject of a great deal of discussion over the next several months. That these numbers are now available means that much more participation in budget discussions will be possible than has been the case in the past.

Asked how the \$8.5 million SIP number was arrived at, Mr. Erickson noted that the parameters of tuition rates, funded salary costs, and the size of the SIP had been discussed extensively over time. A meeting yesterday had led to the administration's final recommendations on all those ingredients of the budget--and they are, he pointed out, RECOMMENDATIONS on the best mix to the Board of Regents. In response to an exclamation about the size (\$7.5 million) of the retrenchment that will be required, Mr. Erickson observed that with the funding of the salary increases, units will have some flexibility because of personnel turnover.

Quick calculation, reflected one Committee member, leads one to deduce that the average retrenchment will be about 1.3% of the O+M base. About this one can make several observations: first, the administration has said the reductions will not be across-the-board; second, there are areas, such as Facilities Management, that are already short, so they are not likely to be cut; third, such items as fuel and utilities cannot be reduced. These factors, taken together, mean it is more likely that academic units will be cut, and probably cut MORE than 1.3%. In addition, given that the actual cost of salary increases in units comprised almost completely of bargaining unit employees has been calculated to be about 5.3%, some units will have extra funds to use.

Mr. Erickson said the last point was incorrect; the actual amount recommended for salary increases (\$19.3 million) takes into account the known costs for bargaining unit employees. There will need to be additional work with the units to determine their actual costs. President Hasselmo, he also said, is averse to across-the-board cuts.

One Committee member inquired about the possibility of another shortfall, similar to the one that

occurred in tuition revenues late last year. Mr. Erickson observed that ANY projection carries a risk but that conservative assumptions have been used in order to minimize the possibility.

Another Committee member inquired about the rationale for fully funding the salary increase, given that FCC, at least, was not certain that was necessary. Mr. Pfutzenreuter said that the decision was both because of the difficulty of trying to micro-manage from Morrill Hall the percentage a unit should receive and a lack of information. Some units will have a lot of turnover of faculty and staff and some will have little; generally speaking, the larger the unit, the more flexibility they will have in administering salary increases.

One member of the Committee said that a rationale or plans are needed for the SIP because the University will retrench \$7.5 million in order "to do an \$8.5 million something." One would be happier if there were \$1 million in the SIP and no deficit--and thus no retrenchment--and if there are additional revenues, they could also go into the SIP. But it is hard to understand how the University will spend \$8.5 million next year.

Mr. Erickson said that the Regents must decide the issue. He maintained that everyone is frustrated at the current situation. The University has set its budget, for a very long time, on an incremental/decremental basis. No one likes that and all recognize the University must change. Both President Hasselmo and Senior Vice President Infante believe that the University must make a start on the change. \$8.5 million is a large number, but the process of going through the challenge is healthy for the University. He repeated that the figures before the Committee are a PRELUDE to the budget hearings. It may be ambitious, but it is critical to begin the process if the frustration heard around this table is to be addressed. Challenging the status quo is a healthy exercise, he repeated, and subsequent discussions will reveal if the numbers presented today need to change.

Two things are bothersome about the nine scenarios provided to the Regents, said one Committee member. First, only one is close to the view espoused by the Committee (that is, a smaller SIP)--the choice is either \$2.7 million or \$7 million (or more). With nothing in between, the flexibility of the Board is reduced. Mr. Erickson responded that one could provide any number of options, and with the information in the table presented, one can [with a calculator at hand] devise any scenario one wishes--there are really only four numbers to play with (tuition, salaries, non-salary inflation, and the SIP). Mr. Pfutzenreuter added that it is not necessarily true that there will be retrenchments of 1 - 2% in academic programs. For example, further reductions in central support units might occur or efficiencies might be achieved to meet these needs, added one Committee member.

Asked again about the plans for the SIP, Mr. Pfutzenreuter explained that by the time budget instructions are sent out on January 21, there will be a clear process for applying for SIP funds. There will also be a differential allocation of the \$7.5 million to be retrenched--and central support units will NOT be exempt from retrenchment.

The current Restructuring and Reallocation Plan, begun in 1991, included \$7 million for system-wide initiatives, it was recalled, and units were supposed to be able to apply for them. Whatever happened to that money and how was it distributed? Is this another set of numbers, funds to improve the system, that in retrospect were never there? Mr. Pfutzenreuter said he could find no evidence that there was ever \$7 million set aside for which units could apply. There were system-wide initiatives, but not

funds to be applied for.

Another Committee member argued that units would apply for the funds and the applications, presumably, will be weighed in terms of how well they further the five strategic goals of the planning process. As a result, the details would have to come from the units.

A number of questions arise, said one Committee member. By January 21, somebody is going to take \$7.5 million out of existing budgets and put it into a black box. About mid-March, somebody will take the \$7.5 million from the black box and puts it in the SIP. First, this Committee should be reviewing the outcomes and the principles articulated, what ought to be--NOT the individual decisions, but "have the principles been followed? Can one articulate a rationale for this budget?" Second, who will that "somebody" be? Will the decisions be on an institutional basis? By vice-presidential area, each insulated from the other? A year ago, it was recalled, the concern was about across-the-board retrenchments at one (high) level, with all levels below that to be based on judgments. The Committee learned later, however, that the cuts were across-the-board all the way down to the departments. Who will make the decisions? And will there be a process for justifying them?

Mr. Erickson replied that the ground rules for consultation and administration needed to be clarified as they are often mixed up. The administration is charged to make recommendations to the policy body of the University, the Board of Regents. The administration takes consultation seriously, but its job is to make the recommendations. The task is not an easy one. The discussions of tuition, the SIP, salaries, etc., are productive, and everyone has the information to review, but ultimately it is the administration's responsibility to make recommendations that the Board must act on. The process is evolving rapidly and sometimes people want specificity earlier than it is possible to provide it. There will be plenty of time to discuss the budget after the January 21 budget instructions are sent.

The earlier statements were not a challenge to the job of the administration, it was said. After January 21 and sometime in March there should be a product. One job of the consulting bodies is to say to the President that the product conforms to the principles--or to say that it is not very good and should be rejected. The Committee should NOT change things in the budget, but should evaluate the outcomes, perhaps in February and April. The Committee should express its view on whether or not the budget advances U2000. The Committee should NOT make individual budget decisions--that is indeed the job of the administration. But it should in April say that the administration did a good job under tough circumstances--or it should say the administration did not and the Committee opposes the budget.

Mr. Erickson pointed out that the University is trying to develop a budget process that includes all revenue sources--something that would be unique at the institution. It is to be hoped that when judgments are made, it will be recognized how far the University has come as well as where it is going. It is also to be hoped that the process will permit consideration of ALL the data and time to discuss the issues.

It is his intention, as well as that of Mr. Pfitzenreuter, Mr. Erickson told the Committee, to strengthen the link between the strategic planning process and the budget--but that they are only at an early point in doing so. The Committee will be asked if the process being developed will enable the University to do what it needs to do and make the changes needed.

One Committee member concurred that the situation is much better but returned to the theme of a

justification for the SIP. Mr. Erickson pointed out that the discussions about the size of the SIP have been going on for a long time and that he agrees with the view of Drs. Hasselmo and Infante that a start on change must be made--and that \$1 million is not a start. The numbers can be reviewed as the process goes along, but if the University does not try to change something, one knows it will not do so. If standards are not set, they will not be achieved. This will not be easy, but if the University wants to be serious about making changes DRIVEN BY STRATEGIC PLANNING, the process must begin now.

Another Committee member said the SIP is the carrot of the planning process; if changes are to be proposed, the SIP is the way to fund them. Another way to look at it is to view it as a mandate to change about 1% of the budget each year. What is unclear is whether or not the SIP is to be a permanent part of the landscape or a one-shot affair; also unclear is whether or not it will stay at about 1% of the O+M budget or increase in the future.

As to the first question, Mr. Erickson said that the SIP is intended to be permanent; the AMOUNT to be in it will need discussion in the future. The CONCEPT is what is critical. How will the University change if it does not have an SIP?

The Committee view of the SIP, it was said, was that it is a good idea; the question is about timing. The planning process is not far enough along and the money may not be well spent. In addition, observed another Committee member, the colleges are at different stages in planning, so some units would have an advantage in applying for funds. It may be that the administration should fund highly visible changes that affect faculty, students, and staff in a general way, rather than provide the funds to collegiate units.

It was agreed that the Committee would review the general budget instructions to be given to the units (on January 21) at its meeting on January 18.

Another area that will require difficult decisions, observed one Committee member, will be the \$7.5 million in cuts; those are even more worrisome. With the SIP the least that could happen is that no great good would be done; it will not do harm. The cuts, however, with units already cut to the bone, could do harm.

The allocation of the \$7.5 million in reductions will be done in a preliminary way by January 21, as will instructions on how to apply for the \$8.5 million, Mr. Pfutzenreuter told the Committee. Decisions will be based on units providing information about how the cuts will affect them. After the budget hearings, a decision could be made that there will only be \$6 million in cuts and \$7 million in the SIP. It is also possible that some reductions could be made up by enrollment increases, so there will not simply be a series of cuts.

Asked what principles would guide the cuts, Mr. Pfutzenreuter said the President and vice presidents would be meeting the next day to review that very issue. Some of them will be cuts in central administration; others will be cuts based on what the vice presidents know and what want to see happen.

The question is, what principles will be used to make the cuts and what principles will be used to allocate the SIP money. The consulting process exists to deal with those kinds of matters. Mr. Pfutzenreuter said it was too early to do so. Mr. Erickson agreed and said the discussion will be better later; the process has been moved forward on the calendar so that budget do not have to be set in 30 days.

When one looks at the numbers in the all-funds budget, interesting issues begin to arise. Mr. Erickson agreed to provide the information to the Committee.

Mr. Erickson also noted, again, that ultimately it is the job of the administration to make recommendations to the Board of Regents. They will be preliminary, and subject to discussion. Will they be perfect? No; they will be judgments based on the best information available--information that needs to be improved in the future. It should not be forgotten that the process being put in place is allowing for more discussion. He said he is an optimist and also committed to making the process work to identify strategic priorities as established by the planning process. The process will be messy, he concluded, but he hopes that everyone will conclude that things are moving forward.

Following a brief discussion of ICR funds, one Committee member inquired when the college planning document would be out and when the documents would be integrated this year. Dr. Kvavik had joined the meeting at this point and reported that he had received a lot of comments from the deans about the planning documents he has been preparing and is working to integrate those comments. It should be out in the next day or so; the instructions for support units will follow shortly, in a form similar to that for collegiate units. Decisions in the planning document will not have an impact on the 1994-95 budgets; this is a first step to develop a protocol that can be used in the future.

The due date for the planning documents is still February 15, Dr. Kvavik told the Committee in response to a query, and most of the information needed is already available. Colleges will be asked if the document makes sense and to fill out as much of it as they can; the process will be more complete next year. He agreed to provide the document to the Committee.

Asked if the role of University College has been spelled out, Dr. Kvavik told the Committee it has been taken out of the document. It will need to be approved as part of a separate planning process. [The Committee is to hear a report on the concept of University College from Vice President Allen at its meeting on January 11.] Clusters, he told the Committee, have also been detached from the process; he said he believed they needed to be reconceptualized and a new draft is being prepared to better frame cluster planning. He said the administration had heard repeatedly that cluster planning had not been well enough thought through so it is being reconsidered.

If collegiate planning is not intended to have an impact on next year's budget, then what was the meaning of all the discussion about the SIP earlier in the meeting, inquired one Committee member. Mr. Erickson responded that there is much information available and much that can be challenged at the University. The administration must develop a budget for the Board of Regents in April that benefits from the budget hearings. There could be changes in the numbers presented today, he repeated, but the challenges it calls for will be beneficial. 1% is NOT a huge amount of the institution's budget to have to evaluate--but if it is not even that much, one can question whether or not the University is serious about challenging itself.

There are, Dr. Kvavik added, institutional initiatives that would be a part of ANY future plans--such as funds for the libraries, for classrooms, and so on. One can develop a legitimate list of good investments at this time--and also believe that the planning process MUST drive the budget. That cannot mean, however, that the University should sit still when there are things to be done, even though the planning process may not have run its course yet. And it is important to have the SIP established.

Planning, moreover, is not directed exclusively at funding, observed one Committee member; colleges are being asked to do a lot of other things as well. There is a danger, when setting up a pot of dollars, that those dollars will then drive planning more than they should.

How will this be linked together? Mr. Pfutzenreuter said there are four items to be considered in the budget process; the instructions ask for three things:

- a narrative on the mission and vision, in accord with the strategic planning directions, and future and present budgetary issues;
- financial budget (historically and planned for 1994-95);
- performance measures, compatible with the planning process. The first year these will be skeletal; the administration wants to work with units to develop measures that they want to be measured against each year. In the future, with the SIP or with cuts, one will resort to the planning documents to see how to advance the plans or to evaluate what can be reduced.

Recent Senate action called for a demonstration of evidence that there has been consultation with faculty, staff, and students, it was recalled. Dr. Kvavik responded that the instructions are explicit about requiring information on consultation and about how it will occur. He told the Committee he will meet with every dean about the first two points (in the preceding iteration of points) over the next two months in order to try to understand what will work and what will not in order to design a better long-term document. He said he expects also to work with the governance system and student groups.

One Committee member said there was considerable overlap in the information being requested; it was also suggested that mission and vision, as well as performance measures, should be in the planning documents in the future--although perhaps not this year. Mr. Erickson said he thought not because they are inseparable from the budget.

One Committee member offered the observation that the budget seems increasingly to be driving planning. Another Committee member took issue with the assertion, contending that the units are to make action plans that foster the strategic planning directions of U2000, attach a price to them, assign responsibility for them--and when those unit plans begin to be accomplished, there will be a sense that the University is moving toward the goals of U2000. This is NOT budget-driven planning; it is using dollars as carrots.

Dr. Kvavik emphasized the point Mr. Pfutzenreuter had made, that as with the six-year capital budgeting plan, one has a first year budget and a five-year plan. Year one requires thoughtful consideration, then planning for the next biennium must occur, and then planning for the remainder of the six year period.

Professor Rubenstein thanked Dr. Kvavik and Mr. Pfutzenreuter for leading the discussion.

2. Other Issues

One Committee then inquired about an item in the University's annual report having to do with a social security liability, from 1985 and 1986, of \$5 million; will there be, Mr. Erickson was asked, additional liability for the years since 1986? He said he did not know and would check. He said that the University has discussed this a great deal and that it has begun to accrue funds for social security liability.

Another issue raised was whether or not the Committee should talk about the document dealing with the relationship of the health sciences to the rest of the University. There are potential positives and downsides, for example, depending on changes in health care and the national decisions made. The issue is not being discussed elsewhere in the governance system and this Committee should consider it for the long-term health of the University.

Some expressed reluctance that the Committee take the issue up. It is likely that many of the decisions made by the Hospital will be made on economic grounds as it tries to survive.

It was pointed out that the potential liabilities of the Hospital, for instance, make the proposed \$7.5 million retrenchment minor. The decisions it makes, it was said, could be at the expense of other parts of the University. One wants the Hospital to survive--but one can argue that it must be part of a system or it will fail. But one does not see the University moving in that direction.

Mr. Erickson pointed out that changes are occurring at an incredibly fast pace. There has been discussion with the Regents, and there IS tremendous risk involved--the largest of which arises if the University does nothing. The new UMHS (University of Minnesota Health System) is exploring options. Things are changing so fast that the Committee could have general discussions, he said, but it would be difficult to keep up with changes. Everyone is concerned, he said.

It would be helpful if the Committee could meet with the (unidentified) author of the briefing paper prepared for the Board of Regents on the health sciences; it raises excellent questions but provides no answers.

It is an important point, said one Committee member, to recall that there are implications for the long-term financial health of the University in the health sciences decisions, and it is important for the Committee to discuss them and provide faculty/staff/student advice.

Mr. Erickson said, in response to a question about with whom the Committee should speak, that he and Professor Rubenstein should talk with Senior Vice President Infante about the issue. He also pointed out that there is much misinformation abroad: for example, the Hospital has significantly cut its costs recently--in a way that makes it much more competitive in the local market; in terms of numbers, the Hospital has not lost market share and may have actually gained some; it has no net long-term debt. The issues are serious but the University is moving quickly on them--and it starts with a strong financial base.

Faculty are concerned and the Committee should discuss the Hospital, it was said; many do not see the Hospital as doing anything. The discussions should not impinge on its ability to act, but it would be helpful if discussion could at least clear the air of misconceptions.

Professor Rubenstein adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota