

Minutes\*

**Senate Committee on Finance and Planning**  
**Wednesday, August 31, 1994**  
**9:00 - 11:00**  
**Room 238 Morrill Hall**

Present: Virginia Gray (chair), Ryan Fuller, William Gerberich, Michael Hoey, Thomas Hoffmann, Irwin Rubenstein, Karen Karni, Craig Kissock, Gerald Klement, Doris Rubenstein, William Rudelius, Anne Sales, Dianne Van Tasell, Albert Yonas

Regrets: none called for at summer meetings

Absent: none noted at summer meetings

Guests: Senior Vice President E. F. Infante

Others: none

[In these minutes: The 1995-97 biennial request]

Professor Gray convened the meeting at 9:00 and introduced herself as the new chair. She noted that there was only one agenda item, the biennial request, with the discussion to be led by Senior Vice President Infante.

Dr. Infante extended Associate Vice President Pfutzenreuter's regrets at being away; he had to go to the Capitol to be present for a legislative hearing on the spending caps for higher education. It seems that legislators were unaware of the implications of the caps.

Dr. Infante distributed two sets of tables and graphs and noted immediately that in the 1995-97 biennial planning estimates from the Department of Finance, the University budget cap of \$908 million is \$16.2 million less than the 1994-95 fiscal year doubled--or a reduction of 1.8% for the biennium. This means that if the caps are adhered to, the University's budget will be reduced by \$8.1 million per year for 1995-97. This same situation obtains for the other public higher education systems, Dr. Infante noted.

He then drew the attention of Committee members to a graph highlighting higher education's percentage share of state expenditures 1979-1997. The trend for the last ten years is a notable decline. The graph includes spending on financial aid for students. The \$908 budget cap would be the lowest percentage of state funds allocated to the University in 50 years. The changes are due largely to increases in the state's budget for health and human services and K-12 education--this is a structural problem in the state budget.

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Beginning with the \$908 million cap, Dr. Infante reviewed the University's needs. They include (in millions):

	<u>FY96</u>	<u>FY97</u>	<u>Biennium</u>
Maintain current spending	8.1	8.1	16.2
Investment, U2000 ('94 approp)	9.1	0.3	9.4
Investment, U2000 Crit Inits	10.8	22.9	33.7
Salary and Fringe Pool	15.0	30.4	45.4
Util & Bldg Maint Inflation	2.0	4.0	6.0
New Bldg Operation	1.9	4.9	6.8
Building Maint	5.5	8.5	14.0
Capital Debt	2.0	4.0	6.0
Totals	54.4	83.1	137.5

This is, Dr. Infante emphasized, a biennial budget request, not a budget. It is a means to establish the University's needs, to set a direction, and to identify possible ways to finance those needs. He also noted that the "Salary and Fringe Pool" is not a salary proposal; it represents a 2.5% increase on salaries and a 5% increase on fringe benefit expenses, at present expenditure levels. The Maintenance expenditures include an attempt to provide funding to meet the recommendations of the Brenner committee report about responsibility for facilities and equipment.

Dr. Infante then turned to the \$33.7 million for U2000 Critical Initiatives, which he described as CRUCIAL investments. Of that, \$15.2 million is an "Investment in the Learning Community," which represents an attempt to retain academic strength and invest in critical disciplines. Another \$3.9 million would be for student services.

Asked who would identify the key disciplines and how the money would be spent, Dr. Infante said it would be the deans and provosts who would do so. He said he thought the policy will be that funds will be used to shape the institution by putting money into critical areas and not putting it into other areas. It was said that planning by each provostal area will mean there will not be planning for the Twin Cities campus--something especially needed in such areas as biology and neuro-cognitive sciences, where each provost has programs involved. What is needed is the cluster groups to advise on how money can wisely be spent to shape the University. The direction should come from the faculty and should be University-wide, not limited to the separate provosts and chancellors.

Dr. Infante said he would take these comments to heart and understood the point. He added that the President will address these questions, and said he hoped the three provosts would address these issues together as well. The University will try to sustain high quality in some programs but will not seek it in other areas. The money for recruitment and retention (\$3.2 million of the \$15.2), Dr. Infante affirmed, will be tied to the key disciplines.

The remainder of the \$33.6 million Investment in U2000 Critical Initiatives is proposed for Student Services (\$3.9 million, including services for prospective and current students), Educational and Systems

Infrastructure (\$8.5 million, including equipment and technology, library resources, distance education, and human resources and student systems), and the Cancer Center (\$6 million).

Asked about the salary pool proposal, Dr. Infante said he believed the University would not receive a sympathetic hearing from the legislature in trying to generate faculty salary increases. The salary and fringe pool, however, will be the highest priority; he repeated that this is not a salary plan, which will be developed with the budget. He said salaries must be competitive, but significantly higher salaries will not be proposed to the legislature. It may be that the faculty will have to shrink in numbers in order to generate additional funds.

Asked about the last point, Dr. Infante said he believed that if the downward trend in state appropriations could be arrested, the University would be well-served by reducing the size of the faculty by about 10% in the next five to six years. But such a reduction must occur by shaping the institution. One Committee member expressed support for a reduction, arguing that a smaller, high-quality institution is more desirable than a larger one without quality. It must be made clear to the state, however, what the costs of reducing the faculty will be. When each dollar invested in faculty salaries brings in two dollars in external funds, the state will be the net loser when the number of faculty drops. Dr. Infante agreed, but pointed out that the University is not here to make money.

Another Committee member suggested that unless units can be closed, not very much will be accomplished, especially in a unit like CLA, where departments are one-half to two-thirds the size of competitive peers. Closing a unit also eliminates the income, Dr. Infante maintained, but does not eliminate the expenses. Closing Waseca meant losing \$1 million in tuition income but retaining \$1.8 million in faculty members. That experience may not be typical, it was argued; other units have been closed and the faculty left the University. People will be thinking of combining programs and transferring faculty, Dr. Infante replied; he is NOT at the point of thinking about financial exigency--that is not warranted.

A question was raised about the wisdom of opening the Cancer Center. With the cuts that will likely need to be made, is it appropriate to seek \$6 million for the facility and another \$2.3 million in operating costs? Dr. Infante said the question was a good one. Some of the funds will come from internal cuts in the health sciences. This has long been a high priority for the health sciences, he noted, and much of the money for the construction of the Center building has been raised from private funds.

Dr. Infante told the Committee that his presentation today is about desirable investments to be made; the question is how to finance them. He recalled that the administration believes an investment of \$137.5 million is required. The items that make up that total (see the table on page 1) are most important things the University MUST do, he said. One way to fund the needs, through a Partnership Proposal with the state, is to ask for:

- a 5.5% increase in state funds (\$77.7 million),
- a 5.5% increase in tuition (\$30.3 million),
- other revenue increases (\$1.5 million), and
- University responsibility (internal retrenchment) (\$28 million).

This is the plan the University proposes to introduce. The 5.5% increase in state funds will be tough,

given the need to increase the state's reserves and the likely increase in spending required in health and human services and K-12 education. Both 5.5% figures, however, are predicated on a 5.5% increase in disposable income for the state's citizens; the University is asking students and the state that its share of resources remain the same, rather than continue to decline. The University's share, internal retrenchments, will be difficult to generate; it averages \$14 million for each year of the biennium.

Part of the increased revenue (\$1.5 million) would come from asserting control over factors now uncontrolled, such as converting waivers for out-of-state graduate students to scholarships so that departments will need to limit the use of waivers. Some students are here for 8 - 10 years on waivers. The waivers would be retained as a recruiting tool, Dr. Infante said, but they should be used more carefully. The "devil will be in the details" in accomplishing the goal without affecting recruiting, observed one Committee member. Another Committee member expressed discomfort with a proposal that appears to be based on anecdote; one might suspect there are really very few graduate students who are around that long. Most are here a short time and go through their programs. Control should be asserted, but the ripple effects have to be considered. (Dr. Infante reported that a study of financial aid resources has recently been completed, and not all of the findings are pleasing. The University itself provides \$186 million in aid, and not all of it is used effectively. For example, students without financial need work more than those with need.)

This proposal would permit the University to shape itself, observed one Committee member. Dr. Infante concurred, noting that it could be done thoughtfully, with appropriate phasing.

The alternative, worst-case scenario (assuming that the \$137.5 million in needs will be funded by sources the University controls) is that the \$908 budget cap will hold and that the University will receive no funding increase from the state. In that case, tuition would have to increase by 12% per year, other revenues would need to increase by \$8.7 million, and the University would have to find \$61.2 million during the biennium--funds that would have to come from reallocation. This possibility is "horrifying," Dr. Infante commented.

What about the possibility of a change in attitude on the part of a new governor and new legislature, asked one Committee member? These two options are the ranges, Dr. Infante said. Another Committee member reported on faculty interviews with the five gubernatorial candidates; it appears unlikely, it was said, that the election of any of them would change the situation very much.

One Committee member inquired how the Regents viewed the positive scenario; would they accept a 5.5% tuition increase? Dr. Infante said he believes the Board is committed to the University remaining competitive. The administration has identified \$137.5 million in real needs; the question, he repeated, is how to finance them. One senses that a number of Regents want to keep tuition as low as possible, but the 5.5% proposal has been entertained. The 12% increase would create fundamental problems. There is a legislative auditor's report, plus the University's own study, which demonstrates that most recent tuition increases have simply offset a decline in state funding. That decline reflects a legislative belief that the benefit of low tuition should not be provided to those who can afford to pay, so funds to higher education have been decreased and funds to financial aid increased. Unfortunately, the data suggest that TOTAL higher education funds have decreased. The 12% tuition increase, which would not cover inflation plus the \$8.1 million per year required to maintain current spending, is a terrible alternative, Dr. Infante said, and he has asked students to help fight it.

When faculty salaries are 30th out of 30 among top research institutions, said one Committee member, using the phrase "remaining competitive" is inapt. The more appropriate term is "regain" or "aspire" or "restore."

One Committee member recalled discussions of program rather than line budgeting and the elements of U2000. If this request is to hang together, it was maintained, the strategic areas of U2000 as well as program budgeting need to be incorporated in it. Dr. Infante agreed and said that the request is primarily programmatic. Other Committee members made similar comments about the need to make clearer the links between U2000 and the biennial request.

Two years ago the Committee heard that no new buildings would be opened unless funds for recurring expenses were already identified, and the burden would be on those proposing to operate a new building to find the funds. This request proposes new buildings and the absorption of operating expenses for them. Dr. Infante said the University wants the request to describe things as they are.

Discussion turned to the levels of cuts that would be required to produce the funds necessary to meet the \$137.5 million in needs. Dr. Infante noted that the table Committee members were looking at addresses only reductions; there would be increases as well. He related that the faculty plus the infrastructure they need are what drives everything at the U, and said he argues there should be a reduction in faculty of about 30 per year, with a corresponding reduction in staff. The reduction must be made thoughtfully--not just where vacancies occur, which is NOT shaping the University.

Dr. Infante pointed out that under the optimistic scenario, the University's total budget would increase by 3 - 3.5%; under the pessimistic one, it would increase by 1.5 - 2%. Many people think only of cuts, not the investments that will also be made. In terms of the cuts, the University cannot be reshaped too rapidly; it must be accomplished thoughtfully and steadily. The President, he told the Committee, also wishes to identify funds for phasing. The Central Reserves are limited, but they have not decreased in spite of predictions that they would, so they may be one possible source of phasing funds.

It is possible to keep one's head and navigate on a steady basis, he continued. It would be a fundamental mistake to spend more energy on internal battles than on outside efforts to avoid disaster. To that end, the President and Vice President George (Institutional Relations) are developing as strong a set of presentations as possible, presentations that will go beyond the biennial request.

The decision not to close units was his, not the President's, Dr. Infante told the Committee. Rather, one must shape units, including making clear to some that they will not receive increased resources.

He has not talked of increased income, Dr. Infante observed. The numbers that were used were pessimistic and have been turning out better than expected. NSF funds are up, there have been no ICR caps, the number of students and tuition income has increased. There are, moreover, segments of the University that are under-utilized, such as Education and Nursing. Rather than just relying on the state and increased tuition rates, part of the solution to the budget problems is to increase total income from the private sector (fund-raising, research grants, increased numbers of students in some areas). It is also necessary to do program budgeting so units understand what they have foregone.

Professor Gray thanked Dr. Infante for coming to the meeting on very short notice, to substitute for Associate Vice President Pfutzenreuter.

In response to a query about an orientation, Professor Gray noted that there will be a briefing on the budget process at the Fall Retreat, on September 21, and that part of the first meeting will be devoted to setting the agenda for the year, and everyone should come with ideas about what they want to see discussed.

Committee members then commented on the presentation they had just participated in.

- It is doubtful that deans understand program budgets. If U2000 goals cannot be supported with program budgets, why were the units asked to go through the exercise of programmatic budgeting?
- What is missing is ACADEMIC planning. Financial planning has been strengthened, but the faculty have had no say in what should be strong academically and what should not. That is in part due to the collapse of cluster planning. The dozen or so clusters should have had a clear charge. For example, they might have been asked to identify five key areas of strength within the clusters, or areas where the University should be strong in the future, and then a total of 30 - 50 areas could have been selected for the University as a whole. When cuts are made, then one knows what they are being made for. That element of planning is completely lacking. Nor should the deans and provosts be the only ones doing it; faculty and staff must be involved because they need to "buy in" to the process and the result.
- What may be worse is that the Budget Office is the unit dividing the money among the three provosts and three chancellors. The Committee must inquire about that. Or, even more pessimistically, NO ONE is making the decisions.
- Despite assurances from the administration, the governance system must be involved in any reduction in the number of faculty and should insist on a process, rather than ad hoc decisions.
- The mission of the Committee this year should be planning rather than finance, it was suggested, so that the trade-offs are open and the process for allocating resources is known.
- The Committee must also make sure that budget categories are linked to U2000. There were expenditure items identified last year as advancing user-friendliness, items that surprised Committee members.
- There is a list of programs by quality, using a series of measures developed by a group convened by Vice President Petersen last year. A member of the Committee participated. One can see a convergence of measures; it is not that difficult to identify the top one-third of the graduate programs.
- The Committee should not be solely reactive to the planning process which it is intended to

oversee. Decisions must be made about new areas in which the University should invest, perhaps heavily. That goal should be articulated in the process, rather than the Committee simply reacting to the feelings of one of the provosts.

If so, the Committee must be prepared to spend more time than two hours twice a month.

These issues will require further discussion at the first meeting, Professor Gray concluded, and she thereupon thanked everyone for coming and adjourned the meeting at 11:00.

-- Gary Engstrand

University of Minnesota