Minutes*

Senate Committee on Finance and Planning
Tuesday, October 25, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Virginia Gray (chair), David Berg, Mark Davison, William Gerberich, Thomas Hoffmann, Karen Karni, Craig Kissock, Gerald Klement, Patrice Morrow, Richard Pfutzenreuter, Doris Rubenstein, Anne Sales, Thomas Scott, Craig Swan

Regrets: Roger Martin

Absent: Mary Askelson, Carl Erickson, Ryan Fuller, Allen Goldman, Roger Paschke

Guests: Senior Vice President Robert Erickson

Others: Ken Janzen (Regents Office)

[In these minutes: Biennial request; instructional & non-instructional costs; responsibility centered management; status of planning]

1. Revised Biennial Request

Professor Gray convened the meeting at 3:20 and recalled that when the Board of Regents approved the 1995-97 Biennial Request, they added $10 million to it. She asked Messrs. Erickson and Pfutzenreuter to report on the request.

After the Board approved the increased request, it asked the administration to allocate the additional $10 million to compensation increases and to reducing the tuition increase. The administration is recommending adding $6 million to the compensation pool (the salary increase would go from 2.5% to 2.9%) and $4 million to lower the tuition increase (reducing the increase from 5.5% to 4.8%). The requested increase now appears as follows (in millions):

New state money	$ 87.7
New tuition revenues	26.3
Other revenue increases	1.5
New funds	115.5
Reallocation	28.2
Total New Investments	143.7

*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.

Mr. Pfutzenreuter pointed out, in response to a question, that of the $115.5 in "new" funds, $16.2 million is to keep the University at current spending levels, rather than being forced to reduce its budget to the $908 million spending cap set by the legislature and adhered to by the Department of Finance in its budget instructions.

Mr. Pfutzenreuter reported on a recent meeting with the Governor's staff; he said it was a very friendly discussion of the budget request, with little time spent on the $908 million cap. One Committee member noted that the Governor has publicly committed himself to supporting the original $77.7 million increase in state funds the University was seeking [before the Board increased to $87.7 million; see the table above]. He has not named a specific number for any other agency; is the atmosphere for the University different from other agencies?

Mr. Erickson recalled that there have been a lot of earlier discussions with the University, so the staff are more familiar with what the University is talking about doing. It has been reported back, after the gubernatorial debate in Duluth, that Governor Carlson is aware of the $10 million increase in the request and believes it appropriate that the University receive between $77 and $87 million. This is the result of a cumulative effort, Mr. Pfutzenreuter said, rather than anything different being done this year--perhaps, he speculated, it is a payoff for the decision to close Waseca, in that the University has built credibility and it is time for the state to help it get turned around. One must still worry about the revenue forecast, he cautioned.

The importance of having the Governor make a positive recommendation is critical, Mr. Pfutzenreuter told the Committee. Once that number is established, it is difficult to increase it by very much, because it means taking money from some other program.

One Committee member recalled that it often appeared, from the minutes of the Committee, that it had an adversarial relationship with the administration. In this instance, the administration should be thanked for doing a good job of positioning the University well going into the legislative session. Other Committee members joined in expressing this sentiment.

Mr. Pfutzenreuter then reviewed a set of handouts containing more detailed numbers about the biennial request and how the proposed increases would be allocated among the chancellors, provosts, and support units as direct and indirect benefits and new building operations. Some of the funds, those for Investment in the Learning Community (strengthen key disciplines, targeted faculty recruitment and retention, research and education grant matches, and excellence through diversity) will be withheld for the Strategic Investment Pool.

Messrs. Erickson and Pfutzenreuter also reported that the Department of Finance has issued instructions about submission of emergency capital requests. The legislature may expect to adopt a small bonding bill. The Capital Improvements Advisory Committee has defined "emergency" for the University and developed a short list of items (that includes such things as roofs, elevators, and code violations). The Committee will be asked to the review the proposed request in two weeks.

It was noted, using the Arts, Sciences, and Engineering provostal area as an example, that although $15.5 million is identified as "new" funds, $11.8 million of it would be used for compensation increases.

There would thus be about $3.7 million for "new" things (in addition to any funds that might be received from the Strategic Investment Pool).

The sense that some are getting, with respect to the reductions required for reallocation, is that Morrill Hall has made the decisions about what should be reduced in each area. Is that true, or will the decisions be made by each chancellor and provost? Mr. Pfutzenreuter recalled that the administration had been pressed for specifics, by both the Board and the Department of Finance, and the administration debated how specific it could be. Despite what the impressions may be, decisions have NOT been made. Budgets from the units will operationalize the reallocation decisions. (In a few cases, with the State Specials, the University was obligated to make decisions now; in the vast majority of cases, however, decisions have not been made.) Mr. Erickson affirmed that the budget process has yet to come, and that the provosts and chancellors will make the calls for their areas.

One Committee member asked Mr. Pfutzenreuter to gaze into his crystal ball and predict the chances are that this "good news world" will come to pass. Mr. Pfutzenreuter laughed and said he could not tell. But the University, he said, is positioned about as well as it can be. What the Governor has said, Mr. Erickson added, puts the University in the best possible position, and the legislative discussions have been encouraging. The only caution, concluded one Committee member, is that if the money does not show up, reallocation will be a real issue.

2. Instructional and Non-Instructional Costs

Professor Gray turned to Mr. Berg for an analysis of instructional costs; he distributed a one-page sheet summarizing expenditures (of state funds and tuition income) for 1983-84 and 1992-93. He recalled that about a year ago the legislative auditor did a study of the causes of the tuition increases, similar to a study the University itself had done, and concluded--as had the University--that the primary cause was a decline in state support, not increased instructional costs. The auditor also noted in passing, however, that non-instructional expenditures at the University had increased more rapidly than had instructional expenditures.

	1983-84	1992-93
Non-instructional Spending	$ 81,697.4	143,864.9
Associated Overhead	49,745.7	100,855.4
Total	131,443.1	244,720.3
Instructional Spending	173,800.2	272,122.9
Associated Overhead	97,258.6	117,421.1
Total	271,058.8	389,544.0

Overall, non-instructional costs during the 10-year period increased by 86% while instructional costs increased by 44%. Both amounts include the "associated overhead," and Mr. Berg explained how the overhead costs were calculated and attributed. He also noted that CUFS had been installed in the interval, and that accounting was likely more accurate now than it had been in 1983-84, so that changes in some items [details not included in these minutes] may be artificial.

If the trend continues, observed one Committee member, non-instructional costs will soon exceed instructional costs. Mr. Berg agreed, and told the Committee that the numbers come up in legislative discussions of faculty workload. When the University says the faculty work hard, legislators may agree, but say that faculty are not working on what the legislature wants them to work on, and they point to instructional and non-instructional expenditures.

Asked if anyone was looking at these numbers as a policy matter, Mr. Berg thought not. This is a major shift, argued one Committee member, if only by default, and some group should consider the issue so a deliberate decision is made in a wise fashion. Other Committee members agreed; one pointed out that the matter of definitions will be important, because some of the Outreach Council activities, for example, may really be instruction rather than outreach.

It may also be, said another Committee member, that for the University, organized research and other activities should have increased vis-a-vis instruction, as the University focuses its activities in relation to other institutions in the state.

It was suggested that a small group of the Committee look at the numbers in more detail and that Senior Vice President Infante be invited to join the discussion after that examination occurs. The Committee, however, needs to have a better understanding of the numbers.

3. Responsibility Center Management

Professor Gray turned back to Messrs. Erickson and Pfutzenreuter for a status report on Responsibility Center Management [hereinafter RCM].

Mr. Erickson began by explaining that RCM is concerned with the proper allocation of costs in order that the institution can better know how it spends its resources. In terms of the O&M funds, the University, he said, has no basis for how it spends that money, other than historical patterns; nor does it have any measures by which to judge how it ought to spend that money.

Because of the similarity in terminology, there is misunderstanding in the University community between Resource Responsibility Centers (primarily colleges and major administrative units) and Responsibility Center Management. The notion of the RRC has been adopted. RCM has not, but it contains several worthwhile concepts that should be discussed.

The concept behind RCM, he told the Committee, is to hold people accountable for what they can and do control. Faculty decide on courses to be offered and what will be taught, and should be held accountable for the decisions they make. Under RCM, a unit would be held accountable for the revenues it controls (e.g., tuition). It is important to create the responsibility so, for example, if there is demand for a course, the unit will have the resources to offer it.

The notion of "every tub on its own bottom" breaks down when considering the instructional budget, when the majority of the funds are from the state. The University needs to develop measures to decide how to allocate those funds. The concept calls for giving all elements of accountability to the departments, once the funds are allocated, and an open process of system allocation. Without such a system, there is frustration on the part of campuses and colleges about what is fair. But, he repeated, there has been no decision about RCM, and it needs to be broken into pieces so it doesn't create alarm about the lack of external funds, and so on.

In terms of revenue, Mr. Pfutzenreuter pointed out, parts of the University already have RCM; the administration, for example, does not control much of the funding in the health sciences. In practical terms, they generate and control much of their own money. The "every tub on its own bottom" is one extreme version of RCM; the University would fall somewhere short of that extreme.

One can worry about the educational implications of RCM, said one Committee member. For example, students might have less opportunity to move across colleges and departments as departments increase the number of credits required for a major, in order to generate student credit hours. A step taken for budgetary reasons could have profound educational implications.

Mr. Erickson said the state funds must be used as a balancing unit. In a period of greater accountability, decisions must be made at a lower level, by the people who have the best information, to accommodate needs.

Asked about other institutions that have adopted RCM, several private schools were mentioned. Indiana University has been having problems with it, although they have not abandoned it. Mr. Erickson said that both revenues and allocation must be changed, not just one--especially at Minnesota, where there is now no basis for the allocations that are made.

A similar problem could occur within a department, another Committee member observed. A unit may choose to put all of its money into salaries, and provide no supplies--make students pay for syllabi and blue books, provide no duplicating, and so on. Mr. Erickson said that an oversight mechanism would have to be built.

Another Committee member pointed out that this is the problem of sub-maximizing: if units control their decisions, without guidelines, the University's decisions as a whole will not be maximized. There are not many institutions that now use RCM, but a recent conference on it, abruptly called, drew attendees from a lot of major research institutions.

What happens next, asked one Committee member? Mr. Erickson said that the information base needed for RCM is being developed, and that will allow the University to analyze data in ways it has not been able to do before. As that base is developed, there will be more definition of what can be done. The administration right now has been tied up with reorganization and the biennial request, and RCM has been on the back burner; it will receive greater attention in the future. It will be important, he said, to go through a deliberate and conscious process in considering RCM.

4. Status Report on Planning

Professor Gray next welcomed Professor Scott to report on planning. Professor Scott began with a personal observation.

He became involved in the process about two years ago, he recalled, and had a number of discussions with this Committee, some pleasant and some not so pleasant. He was initially skeptical about planning in general, but now believes that the basic philosophy established by the planning process, if it can be accomplished, will put the University on the right track and has the potential to make the place work better. After two years, something has been created that will work and will make a difference--it will make it possible to get at questions that were raised earlier as well as address fundamental issues the University must face. Mistakes were made, but the process to gather and examine information, has been established.

Professor Scott distributed a document entitled Planning, Budgeting, and Evaluation, which constitutes the planning instructions to the colleges; it is the second iteration of a process begun last year. It describes what the colleges are to do as well how planning fits with budgeting and evaluation. The vice presidents and deans have these instructions; they are to provide reports by the end of November. Planning meetings will take place in December. The timing of the process is still a problem, because of the University's calendar, but it can be sorted out.

How the critical measures will fit into the process is not settled, Professor Scott said in response to a question, although they are clearly a part of it. One problem will be the development of meaningful measures for the units, and that won't be accomplished by the end of the calendar year. Institutional measures, one Committee member noted, will have varying application to the units, and the administration wants suggestions for unit-level measures.

Professor Gray thanked the various members of the Committee who had made presentations; she then adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota