

Minutes*

**Senate Committee on Finance and Planning
Tuesday, August 14, 1990**

- Present: Virginia Gray (chair pro tem), David Biesboer, Bill Chambers, Læel Gatewood, Kim Kantorowicz, Craig Kissock, Nick LaFontaine, Cleon Melsa, Fred Morrison, Nancy Ann Root, Charles Speaks, John Sullivan
- Guests: Senior Vice President Gordon Donhowe, Ken Janzen (Regents' Office), Senior Vice President Leonard Kuhi, Professor Geoffrey Maruyama

Professor Gray convened the meeting at 2:40 and explained that she was serving as chair at the request of Professor Shapiro, who is out of the state.

Professor Gray welcomed Senior Vice Presidents Donhowe and Kuhi to the Committee and noted that the reason for the meeting was to discuss the status and development of the biennial request.

Mr. Donhowe led off the discussion by outlining the fiscal circumstances which obtain as the request is being developed. The Commissioner of Finance has been pointing out that the state budget would be balanced only if there are no inflationary run-ups on the existing budgets; the Governor's office will recommend no change-orders in the budgets and no inflationary increases. He explained the implications of the tax bill of the previous year as well as the increases in entitlement programs and that there will be no increase recommended for the school aid or for salaries. The Governor is basically saying that the budget recommendations will total no more than the revenue predictions.

The request will be submitted in late October, Mr. Donhowe commented, but there will be unknowns even thereafter: The first post-Kuwait revenue forecast (which will not likely be a pleasant one) and the November election results. No matter who wins, however, the bleak economic circumstances will not change. There are commitments made by prior legislative action which will cost significant amounts of money and which will sharply restrict flexibility.

The good news, Mr. Donhowe said, is that the University has an entire year to prepare for the resource constraints; aggressive work on plans which lead to program redesign, which in turn lead to significant reallocation, will serve the institution well.

Asked if there was any possibility, given the gloomy picture, that the University would face a mid-year retrenchment, Mr. Donhowe said there was but that there is no clear danger of such an occurrence. The gloominess of the situation is apropos the next biennium, not the 1990-91 year.

One Committee member inquired if the University would consider raising tuition beyond 34% of instructional costs in order to generate additional revenues if the state provides insufficient resources. The only alternatives will be increasing revenues or decreasing expenditures. Mr. Donhowe noted that

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tuition would have to increase, next year, by 2.8% simply to keep the same amount of revenue (because of the declining numbers of students paying the 1/3 of instructional costs). Other than that, he said, there has been no discussion of increasing tuition beyond increases in the cost of instruction; that alternative would have to be considered "long and hard" before it might be adopted.

Mr. Donhowe observed that the legislature will not wish to see no salary supplement bill and no increase in the school aid formula. They will try to find some additional revenues; providing money for the school systems will, for equity reasons, also include higher education. There may, he concluded, be some small inflationary adjustments once the legislature has acted--although even those numbers will not, he warned, equal the anticipated real rate of inflation.

Asked if there has been any thought given to stopping the enrollment decline, Mr. Donhowe said the Governor intends to treat the agreement as he treats all other statutory claims on revenues; the agreement on enrollment decreases will remain in place. There is no contemplation being given, he added, for an institutional change in position; to do so would completely contravene the arguments the University has made for the past five years (it is the only way the University can obtain sufficient resources per student). To turn around and argue the opposite now would defeat the entire plan. The University, he pointed out, is the only system which shows a growth in appropriation per student in real terms.

Mr. Donhowe was asked how much of the Governor's recommendation was political posturing and how much was real; he was also asked how these recommendations would affect the 2% annual reallocations. Mr. Donhowe responded that there was certainly some political posing in the Governor's stand, given that he faces difficult political races in the primary and general election. The reality, however, is that there is a fiscal crunch which cannot be explained away--and will not go away unless someone talks about raising taxes.

What effect will these circumstances have on the biennial request planning, Mr. Donhowe and Dr. Kuhi were asked. Much of the planning thus far, both of them agreed, may have to be redone. Dr. Kuhi said he would explain what the University had intended to do, before this message came, and said he would appreciate the views of the Committee on what should be done now.

Some time ago the deans were asked to describe their needs for the biennial request some time ago, Dr. Kuhi reported. Those requests, plus the requests from the administrative and financial side of the house, were assembled and discussed at the end of July. Considerable attention was given to priorities; a general set of figures was also developed. Dr. Kuhi explained that the figures he provided now were only "ballpark"; no decisions were made and everything will need to be reviewed in light of the Governor's recommendations.

Academic, civil service, and SEE increases would have been pegged at 4% for each year of the biennium, for a total of \$72 million. (1/2 of 1% of the compensation funds for faculty, in the first year, will be diverted to fund elimination of the "notch" in the faculty retirement plan.) Tuition increases would have been approximately 9% each year--of which 2.8% is due to the decline in enrollment and about 1% in the second year is due to the sharing of the debt service on capital construction.

Once that tuition amount is set, of course, the limit on funds for instructional purposes is set

because of the funding formula; the total increase in instructional funds would have been about \$49 million (if tuition increased by 9%). That \$49 million would have been allocated among four broad categories:

- University-wide issues (access, academic salaries, physical assets). "Access" funding would actually appear in HECB funds to provide additional student aid; the category would also include increased professional school subsidies and increases for recruitment and retention of minority faculty and students. An additional 2% increase in faculty salaries and fringe benefits would also have been included in order to keep them competitive, especially in certain colleges and departments. The deferred maintenance budget for the Twin Cities campus stands at about \$300 million; approximately \$15 - 20 million would go to this item. The University would also request money for new space maintenance, which the legislature has declined to appropriate.
- Instructional issues (the Undergraduate Initiative, the infrastructure). The improvement of the core arts, sciences, and engineering is the President's number one priority; there would have been \$9 - 10 million allocated. The infrastructure includes the libraries, instructional equipment, and academic computing; the total requests in these areas far exceed the funds that might be available. Graduate and professional education would also have received additional support.
- Research, which includes new initiatives, the State Special appropriations, and the request to eliminate the remaining offset against the Indirect Cost Recovery funds. The Specials would have been proposed for increases on the order of \$13 million.
- Public service, which also includes some of the Specials; about \$6 million in increases would have been proposed.

The total increase requested would have been roughly \$100 million, of which \$49 million would have been instruction and the remainder not. Another possible element of the request might be telecommunications but this seems to be open-ended. Changes in the laws concerning disabled students have changed, requiring the provision of additional services; the cost of those services is not yet known.

Dr. Kuhl said that the guiding document and philosophy for the request remained Academic Priorities; its contents must be re-examined in order to set priorities for the next 5-6 years. That process of review must begin in the near future.

He also stressed that the Undergraduate Initiative is not meant to take away emphasis on research; there has been considerable misinformation about the Initiative. Money for instructional improvement, he pointed out, includes money for equipment and for graduate education; the intent is solely to restore the balance between undergraduate instruction and the research effort. Expenditures and bonding requests over the past several years have been oriented heavily to research. No one, he observed, is shutting down the research industry at the University. Given the continually increasing funding from external sources obtained by the faculty, he added, the faculty are doing much better than they are perhaps given credit for; their achievements have been remarkable.

With the zero-increase recommendation from the Governor's office, Dr. Kuhi reported, there have been discussions of strategy. The preliminary thought was to argue first for restoration of the inflationary increases. The remainder of the request would be decreased and emphases placed in only a few areas: the repair and replacement of the physical plant, instructional improvement (as the top priority), and the indirect cost recovery offset. There would be no increases in any of the Specials.

As far as the 2% reallocations are concerned, Dr. Kuhi said, if the biennial appropriation is as small as appears to be the case, it will be necessary to make serious internal reallocations. There is no reason to assume that the 2% reallocations will not continue. If, moreover, the appropriation includes no increases, the spending power of the University will be reduced--and it will be necessary to face the very difficult task of deciding where to take cuts. Salary increases will probably not be zero but they will likely be small; should the University again reallocate funds and put them into salaries? The general feeling is that it may be necessary to do--which is unfortunate, because the purpose of the 2% reallocations is for program change. Most of the 2% reallocation last year went to salary increases.

The Committee could address three issues, Dr. Kuhi concluded: 1) Whether or not to increase tuition beyond the 1/3 required by the State; 2) use of reallocations to make up possible loss in spending power and where to cut; and 3) salary increases for faculty and staff. The last will become of increasing importance as the University recruits new faculty. Advice on these matters, he added, would be helpful.

Mr. Donhowe was asked how much of a "bare bones" budget is essential--needed to get the buildings open in the morning and fuel costs paid. Of the funds which come from the legislature, he told the Committee, about 34% is non-instructional; presumably there are price inflators in various elements of those expenditures.

The reallocation process, he said, needs to be "driven up a whole different level and accelerated at the same time if we are going to have any semblance of an institution that we would like to be associated with" and that would carry out its important missions. It appears that it will be necessary to make distinct linkages between what is said in the plans and our strategy; that will mean "major program redesign," which will in turn lead to significant reallocation. The faculty will need to be deeply involved; it is they who are most knowledgeable about a program that is not meeting its objectives and where redesign is appropriate and feasible. It is necessary to find effective ways to transfer efforts from units which have declining enrollments and, in effect, a surplus of faculty to those which have a shortage.

"Major program redesign" includes asking whether or not there are programs where the quality is such that it no longer makes sense to fund it as a Ph.D. program rather than a service unit? Is it necessary that every single sub-specialty is one in which the University is obliged to offer the Ph.D. in, "regardless of whether they're worth a hoot or not?" Everyone knows there are some which are not, Mr. Donhowe observed, in answer to his own question--and faculty in candor will agree. It is perhaps time to deal with them, even though doing so will put strains on collegial relationships, in the interest of sustaining and enhancing the quality of the institution during a period of very severe fiscal restraints.

The Committee and the two vice presidents discussed briefly whether or not Commitment to Focus still guided institutional decisions (it does) and whether or not progress continues to be made (it is). Asked about specific programs which might be considered for retrenchment or elimination, Dr. Kuhi suggested that those which have very small enrollments and which produce very few degrees (at the

undergraduate and graduate levels). Another group of units are those in which enrollment has dropped noticeably although still remains healthy; these units could be examined for transfers of effort to other units where enrollment has increased.

Mr. Donhowe mentioned a recent study completed at the University of Michigan which addressed the issue of improving quality in the context of fewer resources. That study included asking whether it was necessary to be a completely comprehensive university and whether or not it was necessary to have every field and specialty in order for Michigan to carry out its mission. More institutional cooperation, Dr. Kuhl observed, may be in order. Teaching loads were also examined; should there be a ceiling, where the average is much lower, or should the loads be a measure of central tendency? For certain faculty, because of age or energy or discipline, it might be possible to substitute some increase in teaching for a decline in research productivity--and such service would be recognized as contributing to the mission of the institution and recognized financially. It may be necessary to look also at departments or specialties and ask "can we fix them? Can we find the resources to fix them? Or should we simply say `that's something worthwhile doing but it's not the most important thing for us to do'?"

It was suggested that obtaining such reports from other universities would be helpful.

One Committee member expressed doubt that the legislature would permit adoption of a budget which would affect the entire state so adversely; at least this time the University is not being singled out. The situation does, however, require that the University will be competing against all other organizations--and perhaps the University should think about speeding up the 2% reallocations in order to reach the objectives. Doing so would end what will be a slow and painful way to get to the same point. Perhaps more dramatic shifts can be made.

Faculty salaries must remain a high priority, it was also said; it would not necessarily be bad if reallocated funds went into salaries. Given the current market and demographics of most fields there will be no one left if the University has zero increases.

Dr. Kuhl was asked about the balance in decision-making power between collegiate units and central administration in terms of where to make cuts and whether or not to make across-the-board cuts. Will colleges be free to make their own decisions or will there be central directives? The goal of reallocation, Dr. Kuhl pointed out, is to shift funds among units in light of priorities; how the college decides to do so is up to it. There has been a clear message, however, that across-the-board cuts are unacceptable. If it is known that the 2% cuts will continue--which it should be by now--units can better plan for them.

One suggestion that has been made for implementing retrenchment, Dr. Kuhl continued, is for central administration to hold perhaps half of all vacant lines as the kitty for reallocation. Some Committee members expressed support for such a step.

The University, one Committee member cautioned, should not just roll over and play dead in the face of zero-increase budget recommendations from the Governor. Dr. Kuhl agreed. The University, it was then pointed out, has been in "a retrenchment/reallocation mode for the last 25 years"; it should move away from that mindset and get a little ahead of the game. The discussions at this meeting suggest that has not occurred; the 2% reallocations will be across-the-board without any view of institutional

priorities. The reallocations will not accomplish the objectives of the institution, it was argued; they punish the many for the problems of the few. Further, the process by which the retrenchment decisions are made, especially in the worst case, will be important; announcements that colleges or units will be eliminated, prior to decisions, has a devastating effect on morale.

Mr. Donhowe acknowledged that the 2% reallocations are unpleasant. He pointed out that there are no institutions--public, private, for profit or not--in society which do not go through these processes and stay healthy. Large institutions "go to seed" without that discipline occurring on a regular basis. There was no disagreement with this assertion but concern about the mentality of constant retrenchment without a clear focus of where the institution is going. Mr. Donhowe contended that there must be occasions for frank discussions to consider options without setting off fireworks all over the place.

Nothing in the way of improvements is seen by most faculty, it was pointed out. Dr. Kuhi responded that 80% of the 2% reallocation last year went into salaries; of the remainder, CLA (among other units) received an increase (contrary to the article in the Daily). Mr. Donhowe also pointed out that there are cumulative effects of the implementation of Academic Priorities; of the \$35 million to be moved, \$18 million in hard money has been moved thus far and another \$8 million in soft funds are funding changes. The University is within \$10 million of the \$35 million target. People may not believe the numbers, or may not themselves see it, but the money has been moved. Mr. Donhowe also pointed out that if the changes are made fast rather than incrementally--and this is the right time to do so because in times of fiscal restraint everyone understands "that the wolf is at the door"--when the University is beyond the next recession the incremental resources will be spent on a pruned and more vibrant institution.

One Committee member made several points. First, the data suggest that there are few small graduate programs which drive the costs of their unit. The small Ph.D. programs, according to a study 10 years ago, are not costly.

Second, somewhere there should be, for public consumption, the larger biennial request. Perhaps it will not be submitted to the legislature or Governor but the public should understand what it is the University believes is necessary. Without that it will be easy for politicians in St. Paul and the faculty to know what it is the University thinks is important--and for the faculty to know what it is that the administration thinks is important. Dr. Kuhi responded that the needs of the University will be made known; words, Mr. Donhowe added, will be submitted to the Governor and the legislature, even if not requests for funds.

Third, it will be necessary to reallocate more than 2% if no additional funds are forthcoming from the State but adequate faculty and civil service salary increases are to be awarded and essential physical plant operations maintained. The ability to make such reallocations must be made early in the year if there is not to be great dislocation.

Fourth, the two vice presidents were cautioned against a hiring freeze; Academic Affairs will have to hear appeals from all over the institution on "critical needs." Further, everyone knows that a freeze is not really a freeze; it will eventually end. Additionally, unit which lose faculty suffer a large retrenchment while those which do not lose faculty do not--and such changes may have nothing to do with institutional plans and priorities. A freeze should not be adopted.

Another Committee member commended for consideration the possible central reversion of vacant academic lines; it would make real reallocation possible without a hiring freeze.

It would also be useful to know what the University spends on retention cases; there is often, it was argued, a knee-jerk reaction to someone who obtains an offer: It should be met. In some cases that is perhaps not necessarily the case; a University response of "we wish you well" need not mean the individual is bad or mediocre but simply that the institution could do as well with fresh blood.

There is, it was also said, something more demoralizing than retrenchment and decisions to reorder priorities and programs; worse is to go through all of the planning and have very little happen. Perhaps not feasible, but it might be more useful to have larger reallocations for a shorter period of time rather than 2% "for as far as the eye can see." The 2% reallocations make it too easy for the college deans to assess a substantial proportion across the board. A larger figure would make it impossible to pass the reallocation along to departments across the board--and would force the larger changes that many would like to see. Another commented that holding positions centrally would help to achieve this end.

One Committee member inquired about plans which will increase the costs of administration (such as creation of a separate School of Music). Dr. Kuhl said that those changes will have to be seriously considered; new colleges cannot be established without putting new money into them.

To what extent are State Specials sacred cows, it was asked. Some are essential; others seem to have minimal justification, which require a significant investment from the University, and which do not represent the direction of institutional scholarly effort. They are, nonetheless, built into the base and considered part of the University's funding; is there any way, vis-a-vis what could be done with new buildings (i.e., decline to build them), that the University could decline any new specials? Mr. Donhowe said he was certain there would be no new State Specials; the question will be whether or not the University can reallocate existing Specials into the O + M base. The Governor has supported that alternative for some time but the legislature--which has authored virtually all Specials--has declined to permit such reallocation. It has grouped the Specials and permitted the University to move money around inside the groups as it wished. It is possible, Mr. Donhowe said, that some Specials might be worthy targets of major reallocation, in this kind of environment.

Professor Gray thanked Mr. Donhowe and Dr. Kuhl for meeting with the Committee.

The Committee adjourned at 4:15.

-- Gary Engstrand