Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 18, 2011
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair), Sarah Chambers, Will Durfee, Catherine Fitch, Lincoln Kallsen, Kara Kersteter, Cody Mikl, Richard Pfutzenreuter, Michael Rollefson, Ann Sather, Karen Seashore, Arturo Schultz, Thomas Stinson,

Absent: Jon Binks, Fred Morrison, Kathleen O'Brien, Gwen Rudney, Terry Roe, S. Charles Schulz, Michael Volna, Aks Zaheer

Guests: Jay Kiedrowski (Senior Fellow, HHH School of Public Affairs); Deans Steven Crouch (College of Science and Engineering), James Parente (College of Liberal Arts), and Sri Zaheer (Carlson School of Management)

Other: Jon Steadland (President's Office)

[In these minutes: (1) federal budget machinations: implications for the University; (2) differential undergraduate tuition/fees]

1. Federal Budget Machinations: Implications for the University

Professor Luepker convened the meeting at 2:05 and welcomed Mr. Kiedrowski and Professor Stinson to talk about the mid-range federal budget situation in Washington, D. C.

Professor Stinson began by noting that he and Mr. Kiedrowski had been asked to discuss how the recently enacted Budget Control Act might affect University funding. There is reason for concern, Professor Stinson said, because this law will produce large cuts in federal spending. The goal is $2.1 trillion in cuts over ten years. The cuts come in two parts. There is a cap on discretionary spending (with a very slight allowance for inflation) that saves $900 billion. Then the "supercommittee" is charged with coming up with an additional $1.2 – 1.4 trillion in spending reductions or revenue increases. If the supercommittee does not reach agreement, mandatory reductions take place, divided 50/50 between defense and non-defense spending. Those cuts would begin in 2013. The defense cuts would be $454 billion; about $294 billion would be cut from non-defense discretionary spending and an additional $170 billion in Medicare. All of these cuts would be over ten years. Professor Stinson noted in particular the cuts to non-discretionary defense spending because that is the category from which the University receives most of its federal funding.

If the supercommittee does not do its job, Professor Stinson said, the cuts to federal funding will be 6-8% per year. If it makes a decision to increase revenues, the cuts will be proportionately less. If there is a gap between what the supercommittee does and the $1.2 trillion, the gap will be met by pro rata cuts. It does not appear to make sense for anyone to agree to cut their program in the absence of a complete $1.2 trillion agreement because the combination of voluntary cuts to their program and the pro-

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

rata cuts needed to meet the target would likely exceed the pro rata cut required to meet the full $1.2 trillion target.

Pell Grants will see no immediate cuts, Professor Stinson said, because their funding has been guaranteed for two years by elimination of $17 billion in graduate-student loan interest forgiveness. The total federal R&D budget is $144 billion, $86 billion in defense and $58 billion in non-defense spending. Of the latter, $31 billion is for health, $9 billion for science, $6.6 billion for space, $2.3 billion for natural resources, $1.4 billion for transportation and $5.2 billion for other research including agriculture. The total federal R&D budget includes the funding for federal labs, so not all of it goes to universities. Of the $33 billion that went to universities, the University of Minnesota received about $390 million. If one assumes an 8% cut, the University would stand to lose about $30 million.

What has impressed him, Professor Stinson told the Committee, is that everyone is using figures from the Congressional Budget Office, which reflect the current law. That includes tax provisions that may not last, such as the expiration of the Bush tax cuts and the expiration of indexing of the Alternative Minimum Tax (AMT). If the tax cuts are not allowed to expire and the AMT is indexed, the outlook is much less optimistic—there will s be much larger deficits requiring substantially greater cuts than those being considered.

Mr. Kiedrowski said he wished to help the Committee think about the broader picture, given the details that Professor Stinson provided. The University could lose 6-8% of its federal funding. The question is "why?"

One reason is that the economy is still suffering from the great recession. The national economy is nowhere near capacity, so neither are tax receipts. That creates part of the deficit. Another reason is that people must understand there is an aging population and health-care costs are increasing at three or four times the rate of inflation. The demographic trend will happen and it is difficult to see how health-care costs will change, so the pressure on the federal deficit continues to rise. That is part of the Tea Party movement to reduce deficits. In 2011 the deficit was 8.5% of GDP; in 2012 it will be 6.2%; and 3.2% in 2013 (if tax cuts are continued, the 2013 deficit would 4.8% of GDP).

If the tax cuts expire, there will be more revenue and a smaller deficit, Mr. Mikl asked? That is correct, Mr. Kiedrowski said. But if the tax cuts are not allowed to expire, the cut in one year will be what is now being discussed for ten years, Mr. Mikl then clarified. Professor Stinson said that if the tax cuts are not allowed to expire and the AMT is not corrected, the only way to get back to a deficit that is about 3% of GDP will be with huge cuts in spending. At the same time that health-care and Medicare budgets are increasing, Mr. Kiedrowski added, putting more pressure on other budgets. Will the tax cuts expire, Mr. Mikl asked? The House of Representatives opposes allowing them to expire, Mr. Kiedrowski said, and President Obama only wants them to expire for those making more than $250,000 (but more of the revenue comes from those making less than $250,000). So both the House and the President want continuation of at least some of the tax cuts. The Senate could be less favorable to the Democrats after 2012, and if it becomes Republican, and there is a Republican House, it does not look likely that the tax cuts will expire. Under current law there will be a large change in the capital-gains tax, Professor Stinson said: It is currently 15% and will go to 20% in 2013 and there will be an additional 3% tax on unearned income for those making over $250,000.

Mr. Kiedrowski related that he had recently been at a conference in Washington that excellent speakers, including one who is former director of the Congressional Budget Office, who presented data to help understand the Tea Party movement and the conservative swing in American politics. The middle class, from 2000 to the present, has been losing real income, so it is poorer. There are also about one-half billion new workers in the developing world competing with the U.S. for jobs, which creates unprecedented pressure on the U.S. economy. It is difficult to see how the U.S. economy will get healthy in the short-run and it is difficult to see where the money to pay for health care will come from as well as retain the rest of government spending. If the Republicans take the Senate and keep the House, that will mean more cuts in non-defense domestic spending. It is, he concluded, difficult to paint a favorable picture of federal funding for the University in the future.

What is the deadline for the work of the supercommittee, Professor Chambers asked? It is Thanksgiving, Professor Stinson said. Is there a cone of silence around its work, Professor Chambers inquired? Could it recommend across-the-board cuts, or get rid of R&D spending?

According to the former CBO head, Mr. Kiedrowski said, there is only about a 5% chance that the supercommittee will reach a compromise, because some agencies will be able to see what the cuts will be and will not want them, preferring an across-the-board cut. The only thing that would help would be a tax increase, something to which the Republicans are not likely to agree. So the chances are slim that very much will happen.

How fast will the cuts take place, Mr. Kallsen asked? In FY13, Mr. Kiedrowski said. For grants, probably when they come up for renewal, Mr. Pfutzenreuter said, and other cuts would likely be made right away. Mr. Kiedrowski noted that grants are competitive, so the reduction could be less than $30 million (if the University obtained more grant funding)—or it could be less (if the University did not). On average, the reduction would be about $30 million. The University could try to increase its "market share" of grants, Mr. Pfutzenreuter agreed, but all other institutions will be doing the same thing, so the net is likely be a cut of about $30 million.

Professor Luepker asked about the dynamics of the AMT. To do nothing would mean it would apply to more and more of the population, Professor Stinson said, because the trigger for the AMT has not been indexed to inflation. So each year Congress does a workaround, but current law provides that the situation reverts to the original provisions for the next tax year. Every year the cost of a workaround is greater because more and more people are covered by the law, so more funding has to be provided to offset the increased coverage.

Professor Luepker asked next about Pell Grants and graduate-student interest subsidy. Professor Stinson explained that if one is a graduate student with a federal loan, one does not pay interest while enrolled. The new law requires that the student pay interest even when enrolled. That change will produce about $17 billion over ten years, and it pays for continuation of Pell Grants for two years.

Professor Luepker asked if defense spending is on the line, either all of it or special parts of it. Professor Stinson said that the wars in Afghanistan and Iraq are not part of the budget; they are an add-in, from the days when the Bush administration did not want to reveal the cost of the wars. So those costs are taken out of the equation. He said the Secretary of Defense would likely be given discretion to allocate cuts, and they probably would not be pro rata. Defense-based research would almost certainly be reduced. (Mr. Pfutzenreuter observed that the University of Minnesota does not do very much defense-based research.)

Professor Luepker said he had read recently that Minnesota is likely to lose about $273 million in Medicare payments. He said he did not know what share of that money came to University of Minnesota Physicians (UMP) but it is likely the amount is not trivial. At a recent meeting of the Faculty Consultative Committee, Dr. Friedman was asked if he was worried about UMP funding; he said he was not. But now he reads about this loss of funding, Professor Luepker commented, and wondered if there will be a problem.

Mr. Kiedrowski said the numbers are related to reimbursement rates for Medicare, and there is a $273-million problem if the rates are not increased. The rates have been increased in the last-minute budget deliberations. Professor Stinson added that there is about $30 billion per year in health-care-based research, and that Minnesota's share is about $250 million.

The point he was trying to make, Professor Luepker said, is that doctors lobby, and there is substantial funding for the Medical School from insurance companies, the largest of which is Medicare. Even murkier is the larger health-care picture, Mr. Kiedrowski said, with the case coming to the Supreme Court and all of the Republican candidates for President running hard against the federal law.

Mr. Rollefson commented that this discussion has mostly been doom and gloom; is the only thing that will make thing better an improvement in the economy? Professor Stinson said the CBO forecast for the budget is normal growth over the next ten years, so what is needed is stronger-than-normal growth to deal with the problems. The CBO predicts 3.6% growth per year over the next ten years, which is twice as much as the current year. Alternatively, what is needed is a different Congress or President, or a different Congress and the current President, Mr. Kiedrowski said, that would allow taxes to increase (allow the tax cuts to expire). If the economy does poorly, and the Republicans are in charge when it happens, one can wonder if there would be another New Deal kind of response down the road.

Mr. Pfutzenreuter said are games at the federal level. The cuts are to be across-the board, but in any year Congress can do what it wants and ignore the implementation of the cuts. Or there is a lack of will to make changes. The House wants more cuts, Mr. Kiedrowski said. Mr. Pfutzenreuter agreed but said the cuts will only happen if Congress does not change them. If they do change them, Professor Stinson said, that will be an increasingly slippery slope if no action is taken; huge deficits will get larger as a percentage of GDP and could explode. Mr. Kiedrowski said that Mr. Pfutzenreuter is correct about the picture over the next ten years but probably not about the next one-two years because of the current political landscape.

From an economist's viewpoint, Professor Stinson commented, it is difficult to argue for increased taxes, because that would reduce aggregate demand—and that is the problem, insufficient demand. If more money is taken away in taxes, that could make the problem worse. It is a delicate balancing act, he said.

Some would say that with the budget agreement last summer, Minnesota kicked the can down the road, Professor Luepker observed. He said he would like to hear the views of Mr. Kiedrowski and Professor Stinson about the next biennium. "Where will we be in two years?"

Professor Stinson said that in rough terms, if all goes as expected, if the revenue forecast is perfect, and expenditures are what are expected, in 2014-15 the state will face a deficit of $2+ billion, and $1-2 billion more if inflation is taken into account. So the state will be better off than it was going into last year's legislative session, but it will be worse off because it has run out of smoke and mirrors to use in budget fixes. Tobacco bonds are a last resort, the state's credit rating has been knocked down, and there is a limit to shifts in school aid.

Mr. Kiedrowski said that he believes that when Professor Stinson [the state economist] does the next revenue forecast, there will be a new state budget deficit for the current biennium. He said he did not know how big it would be, but the Governor and legislature will be back arguing with each other in the spring, and the deficit will grow further in the next biennium. And higher education, in Minnesota as in other states, is an attractive target for cuts in the middle of a biennium, Professor Stinson added.

Professor Chambers asked how federal budget cuts in the next one-two years will affect the faculty. Faculty will have to write more grant applications and the cuts will probably affect some colleges more than others. Can something be done centrally if a specific college is hit more than others? To the extent faculty members are paid on grants, Mr. Pfutzenreuter said, the colleges will need to move that salary expense to another source. On the non-faculty side, the colleges may have no choice except to lay off people. And to discontinue support for graduate students, Professor Seashore added.

Will each college have to address the problem or will the University say that it will not allow all faculty and students to suffer if one college is hit, Professor Chambers asked? There are no central funds available, Mr. Pfutzenreuter said. If the annual budget process suggests there is too big a problem for a college, the administration would have to re-deploy state funds. Has that happened in the past, Professor Chambers asked? Traditionally, these kinds of changes in funding have been the responsibility of the colleges, Mr. Pfutzenreuter said, but these may be unusual circumstances.

If federal grant funding declines, that will affect indirect-cost revenues, Mr. Rollefson pointed out, and declines will affect college budgets. And there might be fewer cost-pool expenditures as departments abandon space and have fewer FTEs, Professor Luepker said.

Professor Durfee commented that if there are 6-8% reductions, Americans probably will not care about higher-education research funding. Are there other cuts that they will care about? There may be a tipping point, Mr. Kiedrowski said—up to a certain point, the cuts will have no effect, and then there will suddenly be a lot of concern. But he said he did not know when the public will say that this is not the response it wanted. There are to be cuts of $2.19 trillion over ten years, Mr. Pfutzenreuter said, so if they cut $220 billion the first year, they will have accomplished the goal, if Congress does not change them.

Professor Chambers commented, apropos of allocating 50% of the cuts to defense spending, that it is her impression that defense spending is never cut. Would that part of the pain be felt more quickly? Professor Stinson said that defense spending does get cut but this would be an extraordinary reduction, and some have said a cut of this magnitude would be a threat to national security. They could cut equipment replacement, for example, Mr. Pfutzenreuter said, which would filter through the economy in cuts to plant orders, and so on. Mr. Kiedrowski said Mr. Pfutzenreuter is correct, and that all the focus right now is on jobs rather than on cutting spending, but people seem not to realize that cutting spending is cutting jobs.

But that will not be the logic, Professor Seashore said. People will say it is the government's fault because it has not fixed the economy. The jobs lost have been mostly in manufacturing and construction, Professor Stinson said.

Mr. Rollefson asked if the U.S. is in line to be another Greece, and to default. It is not, Professor Stinson said. The U.S. government will not default, but it is not in a good position and one does not want the situation to continue. Mr. Kiedrowski said the debt crisis last summer was silly. The federal government had the money to pay its debt service and it would have paid it; the question was cutting other programs. There was a surge in buying treasuries at the time because people saw them as the safest investment. But the country cannot fight wars and continue domestic spending when the economy is bad.

It is difficult for any university to address the situation in Washington, Professor Schultz said, and they have to swallow what comes. He asked Mr. Pfutzenreuter if there are ways the University should supplement its income (such as evening programs, etc.). The research enterprise is going to be hurt and the University has to plan for the worst. Mr. Pfutzenreuter agreed.

Professor Durfee asked if there would be effects on other parts of the University's funding portfolio beyond the $330 million in research funding. Funding from foundations will decline, Mr. Kiedrowski said; they used to figure an 8% annual increase from their holdings whereas now they plan for 6%. Is state research funding independent of federal research cuts, Professor Durfee asked? It is, Mr. Kiedrowski responded.

But there will be effects at the state level, Mr. Pfutzenreuter pointed out. The state government receives federal funding that it uses to pay for services. The University receives significant federal pass-through funding from state agencies, and they may not pass through the grant work the University does for state agencies that is funded by the federal government. Health and Human Services in the state will backfill some federal cuts, and if the state does not raise taxes, the University is likely to be cut.

Mr. Kallsen noted that Vice President Mulcahy has talked about expanding the non-federal side of the sponsored-research pie. Mr. Pfutzenreuter agreed but said he did not know about strategies to make that happen. The downside of that approach is that other sources pay less in indirect costs than the federal government, Professor Luepker said. Professor Seashore said that industry funding has been going steadily down for the last ten years, because the private sector is increasingly relying on the federal government to fund research.

Professor Stinson said there is one bit of good news, that is that Minnesota on a per capita basis the state receives less than most states. In 2010 Minnesota ranked 49th in federal government expenditures.
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Professor Luepker related that he had heard on MPR3 a program from the BBC that Minnesota was a successful state with high taxes, good education and low (lower than national) unemployment.

Professor Luepker thanked Mr. Kiedrowski and Professor Stinson for their report.

2. Differential Undergraduate Tuition/Fees

Professor Luepker next welcomed Deans Crouch, Parente, and Zaheer to the meeting to discuss differential undergraduate tuition. He noted that the Committee has talked in the past about differential tuition and the issue is back on the table. Some colleges already have differential tuition because of differential fees. The Committee would like to hear their thoughts. The policy now is uniform undergraduate tuition; should that continue?

Dean Parente inquired why the issue has resurfaced with the Committee now. Because of budget issues and the proposal from the Carlson School to move in that direction, and because some graduate programs are going outside the bounds of their financial resources, Professor Luepker explained. And the Committee is hearing that some want differential undergraduate tuition because there is differential demand.

Dean Zaheer spoke first for the Carlson School. She said first that there is no truth to statements that the Carlson School wants to go its separate way; that is a red herring. In addition, their proposal is not for differential tuition. Rather it is to increase the amount of the undergraduate differential fee, which is something that already exists across colleges. Their proposal would increase the fee for the Carlson School; of the increased dollars the fee would generate, one-third would be used for financial aid (especially for Minnesota residents) and two-thirds would be used for faculty hiring and academic and career advising. It is in the hands of the Provost and they hope it will be brought to the Regents in December. She said she would be glad to share the draft proposal with the Committee.

The proposal, Dean Zaheer emphasized, has nothing to do with governance. The reality on the ground, for the Carlson School, is that future is now: Business school research is rarely sponsored and the Carlson School now receives very little state funding. They would be happy to take back the $14 million in state O&M allocation that was provided in the past (about 17% of their budget then), instead of receiving the $4.1 million they receive now (which, excluding state special funding, is less than 4% of their budget). The change occurred in the context of a budget of $92 million, but business research receives no NIH or NSF or similar funding, they have little state funding, and businesses rarely support research directly (businesses are its research subjects). Faculty members do research with databases, experiments, and fieldwork, so it is not enormously expensive, and have done well: The Carlson School ranks 14th in the world (along with the Department of Economics of CLA) in the business and economics category (compared to 28th for the University overall) in the Shanghai ARWU ranking of the intellectual capital of universities.

The question is how they fund themselves, Dean Zaheer said. The student body grew from about 4,000 to about 5,000 between 2003 and 2010, but the number of tenured and tenure-track faculty has remained the same at 104. The Carlson School has the highest student-faculty ratio of any freshman-admitting college. The School receives $4.1 million in state funds and gives $21 million back to the University through the cost pools.

The good news is that there is a high demand for Carlson's programs, especially the undergraduate program. This year they had 6,675 applications for 470 spots. 87% of their graduates were placed within 90 days of graduation at an average salary of $50,500 (which is $2,000 higher than last year). Their students graduate with less debt than the average University of Minnesota student, and 46% graduate with no debt at all.

Of the schools in the CIC, Dean Zaheer reported, only one besides the University of Minnesota does not have differential fees or differential tuition, and that is the University of Chicago. A number of the CIC schools have differential tuition or fees for other colleges as well.

If the Carlson School is not able to adopt the increased fee, Dean Zaheer told the Committee, they do not see how they can continue to be high quality—they will be on a path to mediocrity, not excellence.

Dean Crouch next told the Committee that he recently went to a meeting of his counterpart deans (engineering) of the "Big Ten Plus" institutions (the Big Ten, plus Texas, Georgia Tech, Carnegie-Mellon, etc.). He asked his colleagues about differential tuition; the answer for the engineering schools appears to be that if the institution has an RCM-type budget system, differential tuition is less necessary because tuition is attributed to the college. [RCM = Responsibility Center Management.] Students in the College of Science and Engineering (CSE) take 77% of their course credits in CSE; most of the rest are in CLA, CBS and CSOM.

There is a philosophy of differential tuition, Dean Crouch related. One point of view is that the institution should charge more if the program costs more. That is true in engineering, with higher salaries, laboratory costs, and so forth. A second point of view is that the institution can charge more for a program because of the expectation that its graduates will earn more; this is a "charge what the traffic will bear" approach. None of his Big Ten Plus engineering dean colleagues favored the second approach.

Several of the engineering schools consulted have differential fees or tuition, Dean Crouch said. Purdue has $1,000 in differential tuition and does not have an RCM budget model (so the money goes into the general fund and only about 70% comes back to the college). Wisconsin charges an additional $1,400, but only for juniors and seniors—and Wisconsin had strong support from students because they were persuaded that lab equipment and such things would be funded from the increase. Michigan State also charges an additional $1,400 per year. Nebraska is just starting an additional charge this year, $90 per credit for engineering courses only. Illinois calls the additional charge a tuition surcharge, which is $4,000 per year for Illinois residents, or four times what Purdue charges; they also charge international students non-resident tuition plus an additional $2,000 per year—and 28% of their engineering freshmen are international students. One private institution in the group, Stanford, has differential tuition for graduate students, a practice that goes back a number of years and that the dean wishes could be eliminated.

Minnesota is unique by comparison to its peers because it has mathematics, physics, and chemistry with the engineering departments, Dean Crouch said. If one wants to argue that engineering courses are more expensive, it would make sense to have higher charges only for engineering classes, but chemistry and physics classes are also costly, especially the hands-on laboratories.

Dean Parente spoke next, and said that it is important to bear in mind, as Dean Zaheer said, the issue may be differential fee versus differential tuition. He said in the case of arts and sciences colleges across the CIC, there is often differential tuition between students in their first two years and those in their last two because upper-level courses are more expensive to deliver.

In a scheme where the University goes to differential tuition, the most difficult problem to deal with will be the liberal-education requirements. Students can complete the requirements in seven different colleges, Dean Parente pointed out, and the situation will be like flying on an airplane: The person sitting next to you could be paying more or less for the same class. Schools with differential tuition may have a different scheme, such as fulfilling general-education requirements in an undergraduate college and then moving to upper-division courses.

Another issue that could come up, Dean Parente said, is the potential for gaming the system. A savvy student could slide below the radar screen for three years and then transfer in his or her fourth year to the more expensive college. There would need to be high firewalls to prevent that from happening. The college to which the student is admitted is where he or she will stay for the four years to graduation, but if the student transfers to another college after three years, that will affect retention and graduation rates. He said he would worry about students coming into CLA because other colleges are charging more, students who do not really want to be in CLA nor want a CLA degree—and who will take courses in other colleges.

Dean Zaheer pointed out that it is as difficult to get into the Carlson School as a transfer student as an incoming freshman. It is difficult to complete CSOM requirements if one comes in as a freshman, and it is really difficult to complete if one comes in as a transfer student. Students could try to game the system, but they would need to be extraordinarily lucky and brilliant—and the University could install safeguards against the kinds of transfers that Dean Parente mentioned.

Dean Zaheer noted again that the Carlson School is not asking for a tuition increase, they are requesting an increase in the existing differential fee. They would be glad to have the state funding returned, but if that source must decline, they need the fee revenue. She noted that the University does not have a pure RCM model; the colleges keep the tuition but state funding is cut when tuition revenues increase, which is why they now only receive 3.6% of their funding from the state. It is not appropriate for the University to say that the Carlson School cannot have state funds, may not obtain other funding, may not increase the size of the faculty but should increase student numbers, and expect it to retain or increase its quality. They have to be allowed to do something. Michigan is an aspirational peer; it has 3,200 students (versus 4,800 at Minnesota) and 50% more tenured and tenure-track faculty members. If the Carlson School is expected to pursue excellence, and provide a tremendous education to its students, how can it do so with its hands tied behind its back?

Ms. Kersteter pointed out that the differential-fee models are based on the college; are they are any based on the course, so one pays the engineering cost in an engineering course and the philosophy cost in a philosophy class? Nebraska uses that model, Dean Crouch said, where the extra tuition is per engineering credit. Does that prevent students from gaming the system, Ms. Kersteter asked? That model is about as simple as one can imagine, Dean Crouch responded; one pays the extra tuition for the course no matter what college one is enrolled in. At the University of Minnesota, there was a time when a student could register in the forerunner to the College of Continuing Education and pay lower tuition, and many international students in particular would register that way and transfer the credits into their major. The University eventually realized what was occurring and changed the rules, shutting off the gaming.

Professor Chambers said if tuition is assessed by the college offering, based on the cost of delivery, could that affect where students go to fulfill liberal-education requirements? If arts and humanities are required, the student would go to that college. For science, the students would go to the college that has those courses. Might it result is greater efficiencies—colleges teaching to their strengths? Would they go where they could get the best price, Dean Crouch asked? Many go to community colleges before coming to the University, Professor Seashore observed. Dean Crouch noted that students in some colleges (e.g., a health-sciences college) might take a year of physics at a community college and transfer the credits in, but that is not the kind of gaming to which he was referring. He was thinking of within-University gaming, which students will do unless it is prohibited.

Professor Seashore recalled that her college did not admit freshmen until recently, and they've learned that freshmen need a lot of advising—freshmen cost a lot of money. She said that she changed majors four times while in college. Are they thinking about the ancillary costs, especially in the large colleges with attrition (which may not include the Carlson School)? Are they thinking about the costs of taking care of a freshman versus a junior?

Dean Crouch agreed that freshmen require special handling. CSE has focused on making the educational experience better for freshmen and sophomores in order to enhance retention. The college is getting better and better students and wants to pay attention to the students they have before admitting more. They have changed their advising to be similar to that in CLA, with professional advisers at the lower-division level. Students are not officially majoring in a program in the College of Science and Engineering until they are admitted to upper division. The cost of lower division is high, but CSE has introduced a non-credit "required" class about the freshman experience that most students enroll in. Dean Crouch agreed that there is an investment that needs to be made in freshmen.

Her question, Professor Seashore said, is how to pay for undergraduate education and whether fees are the right way to do it. The University had differential undergraduate tuition by college and students were able to game the system—and got awful advising because they were moving across colleges. That is also why many probably graduated with more credits than they needed. Tuition and fees need to be thought of as a total cost, and the University is stuck in the model that freshmen cost as much as transfer students. The institution should not go for an easy and quick solution.

They have thought about this issue for quite a while, Mr. Kallsen commented. If the campus goes back to differential tuition, he said he hoped people would look at the data. In the old system, there were many students who stayed at the sophomore level in order to save tuition dollars—and that affects graduation rates. He said he would also encourage the Committee to think about administrative complexity; administering a differential tuition scheme is not free. They will need to test any proposal against the PeopleSoft system to see if it works. It is interesting to think about charging differential tuition by courses but that could be an administrative nightmare. He said hoped that principles would be set on the table first: Will the rates be based on what the market will bear? On cost of instruction? (The latter is roughly what is done now, with college fees.) What is acceptable use of the revenue? Should University policy limit the expenditures to certain items or can the college use it for anything? Especially important is the financial-aid component: It would be a new wrinkle to have a direct subsidy by students in one college to other students in that same college. There are such subsidies now, but they are University-wide, not within a college.

Professor Olin asked if differential tuition or fees would affect students who wanted to take a course in another college, given that financial aid is tied to tuition. It would, Mr. Kallsen said. He said he would first like to see the philosophy check, to determine if the University wants to go in this direction.

Professor Durfee asked Dean Parente a question: CLA has the broadest range in the cost of instruction among its courses and departments (e.g., the languages and the performing arts are more expensive than other courses). How will CLA think about spreading the cost when it charges fees? Would it be desirable to have differential tuition within the college?

In the performing arts, and the other arts, there are course fees to help cover costs, Dean Parente said. Another scale in the college is different salary levels; some departments are lower and some, such as economics, approximate the salaries in the Carlson School. They have not addressed differential salary levels but they do address the costs of instruction with course fees. Is it working, Professor Durfee asked? It seems that the system is broken for the Carlson School. They have tried to manage resources at the college level, Dean Parente said. In such a large and diverse college as CLA, they must think about the equitable distribution of resources rather than having departments vie with each other.

Mr. Rollefson asked Dean Zaheer if they had asked the students about the higher fee. They have benchmarked themselves against other institutions but have not asked the students, Dean Zaheer said. Dean Crouch reported that the dean at Wisconsin said it would have been difficult to adopt the higher fee without the support of the students. Mr. Rollefson recalled that students on this Committee in the past have supported higher tuition as a means to retain quality. Professor Seashore recalled, however, that Ms. Stahre had complained about the opacity of fees. The Carlson School fee would be very different—would course fees go away if the new fee is adopted? Dean Zaheer said the course fees for things like the international experience would remain.

What does this look like to students, Professor Seashore asked? The problem students have pointed out needs to be addressed, which is that fees are an opaque way to raise money. Ms. Kersteter said she believed fees would be undesirable; when fees are explained to students, they ask why the costs being covered by the fees are not paid by tuition. There will be complaints about the fee, she predicted.

Dean Crouch reported that they have already seen that problem in the College of Science and Engineering with graduate assistants when the former technology fee became a "collegiate fee." The college used to waive the fee for graduate students with more than 24 credits but this evidently could not be done with the new charging mechanism. The result was that the students were charged an additional fee of $300 that could not be paid with grants funds so the college decided to waive the fee altogether for graduate assistants. The college probably lost over $600,000 in revenue in the process but the fee caused much misunderstanding and was more trouble than it was worth.

Dean Zaheer clarified that the increase in fees in the Carlson School would not affect current students; it would be phased in. They will explain to the students what the money will be used for. It can only be used for scholarships, for faculty salaries, and for career and academic advising, all of which directly benefit undergraduate students' experience in the school. Mr. Kallsen said that the University had the "University Fee" for 12 years and they were constantly asked questions about it. It is necessary to articulate the philosophy behind the fee—and if it is like tuition, the college should say so. It is essentially tuition, Dean Crouch commented. Mr. Kallsen reiterated his point that then the college should say so.

For graduate students on grants, it may matter if it is tuition or a fee, Professor Chambers observed. Is that also true for undergraduates? Not usually, Mr. Kallsen said. If there is differential tuition at the graduate level, it is all called tuition, but not at the undergraduate level? They colleges were told they could not charge differential tuition, Dean Crouch replied.

Professor Durfee asked if the College of Science and Engineering is considering a proposal similar to that from the Carlson School. It is not, Dean Crouch said. With the amount of tuition that CSE collects, and the growth in tuition revenue, and the fact that most of the tuition revenue stays in the college, they do not at present need to levy an additional fee. CSE has also lost some state subsidy (about $20 million in the past two years) in exchange for increased tuition revenue, but because enrollments have increased and more students are taking courses within the college, they do not need an additional fee. (CSE students take about 77% of their course credits in the college, compared to about 32% for the College of Biological Sciences, whose students take relatively many courses in other colleges, mainly CLA and CSE.)

Dean Zaheer observed that the Carlson School saw significant increases in tuition revenue and had state funds taken away as a result. That was because state funds have been disappearing, Mr. Kallsen, and the same thing happened to all colleges. Dean Zaheer agreed but suggested that the Carlson School had, in percentage terms, the lowest level of state funding of all the colleges. All the colleges are facing the problem, but it is most acute for the Carlson School right now. They recognize that the state funds will not be restored.

What helped his college, Dean Crouch said, is that research productivity has been very high and the budget model captures indirect costs funds for the college. They use those funds to pay a portion of their cost-pool charges. Professor Seashore said that research productivity in her college is also very high, but they receive only very limited amounts of indirect cost funds because they do more state-funded and foundation-funded research—sources that traditionally pay little or no indirect costs. They have seen a huge growth in research funds but face a different financial wall from CSE.

Professor Luepker summarized the conversation by noting that it started out as a discussion of differential tuition but moved into fees. The previous administration supported uniform undergraduate tuition, but with a new administration, it could be time to address the question again. The Carlson School brings the issue to the forefront in proposing a fee as a way to deal with reduced state funding. Professor Stinson talked about the budget negotiations in Washington, and there are cascade effects on the University. When the pot gets smaller, everyone gets less soup. The Committee needs to continue to ask questions, and surely the administration is doing the same, because the current funding system is under such stress.

Professor Luepker thanked Deans Crouch, Parente, and Zaheer for joining the meeting and adjourned it at 4:05.

-- Gary Engstrand

University of Minnesota