

Minutes*

Senate Committee on Finance and Planning
March 30, 1993
3:15 - 5:00
Room 238 Morrill Hall

Present: Irwin Rubenstein (chair), David Berg, William Gerberich, Karen Geronime, Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Roger Paschke, Richard Pfitzenreuter, Doris Rubenstein, Paul Sackett, Jason Schmidt, Thomas Scott, Mary Sue Simmons, Susan Torgerson

Regrets: None

Absent: Carl Adams, Virginia Gray

Guests: Senior Vice President Robert Erickson

Other: Ken Janzen (Regents' Office), Janet Warnert (Finance and Operations)

[In these minutes: budget instructions and update on the budget; planning]

1. Budget Instructions; Update on the Budget

Professor Rubenstein convened the meeting at 3:15 and began by noting that in a recent meeting of the deans and central administration, many of the deans questioned the need for the 4%/6% cuts requested by the budget instructions, with the concomitant effects on departments. Why, he inquired, were 4% and 6% chosen?

Mr. Pfitzenreuter said he would respond, but said the budget instructions needed to be placed in context, and he distributed a handout detailing the current status of the budget proposals before the legislature. The Governor's March budget recommends an increase of \$117 million for higher education (over the fiscal year 1992-93 base). The University is recommended for a slight increase (\$4 million) while the recommendations for the other three systems are decreases. The Higher Education Coordinating Board (HECB) is to receive an additional \$150 million for student aid, in the Governor's budget. The House has added about \$15 million to the Governor's recommendation, at last reckoning, while the Senate has subtracted about \$10 million.

Mr. Pfitzenreuter said he did not know what impact, if any, the House increase (\$15 million) or Senate decrease (\$10 million) would have on the University. He pointed out that the legislature is likely to take a significant percentage of the Governor's recommendation for HECB and redirect it to the higher education budgets--perhaps as much as \$80 million of the \$150 million. The University, clearly, would

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hope to receive part of that money (if the usual distribution pattern were observed, where the University receives approximately 40% of the higher education funds, it would receive \$32 million if \$80 million were removed from HECB). The decision will be made in the next couple of weeks. The legislature could put strings on this money, Mr. Pfutzenreuter said in response to a question, but the House Education Division chair has made it clear the legislature does NOT want to micro-manage the higher education systems.

Mr. Pfutzenreuter then drew the attention of the Committee to the budget forecast for 1993-94, based on the Governor's revised budget and University planning estimates (tuition increased by 3.5%, inflationary salary/expense increases of 3.5%, and \$16 million in "unavoidable" expenditure increases). Using these projections, expenditures would exceed resources by \$30.8 million, a 5.35% shortfall. Senior Vice Presidents Erickson and Infante, he explained, concluded that by asking units to plan for reductions of 4% and 6%, a "band of options" would be created. to the possible shortfall. If cuts of 4% were required (making up \$23 million of the \$30.8 million shortfall), another \$7.8 million would have to be identified to bring the budget into balance, either through increased revenue or other expenditure reductions. If cuts of 6% were required, there would be a surplus of \$3.7 million.

Mr. Pfutzenreuter disagreed with the assertion that the budget assumes all \$16 million in "unavoidable" expenditures would be incurred; if 4% cuts are imposed, he pointed out, there would remain a \$7.8 million shortfall, some or all of which could presumably be eliminated by not incurring the full \$16 million in expenditures. One Committee member noted that discussions have included the possibility of raising tuition by 5%, rather than 3.5%, which would raise an additional \$2.7 or \$2.8 million, but the \$16 million in "unavoidables" is still subject to questioning. Mr. Pfutzenreuter concurred, and told the Committee that they all need to be justified at budget hearings, and if they are not, they will not be funded. The Committee should also discuss the items on that list, it was said.

Mr. Pfutzenreuter then explained to the Committee a series of simulations that the University has provided to the House Higher Education Division; each simulation made different assumptions about tuition and inflationary increases (e.g., no salary increase in the first year of the biennium, 4% the second year; 3.5% increases in salaries and supplies and 5% tuition increases, etc.). Each of the simulations carries with it an implied increase in funding for the University; the increases (for the biennium) range from \$32 million to \$72 million.

If the University were to receive the additional \$32 million, NO program cuts would be required, said one Committee member. The figure, Mr. Pfutzenreuter reminded the Committee, is for the biennium, and how it affects the University could depend on when it is provided (i.e., less money one year of the biennium than the other). Mr. Erickson pointed out that there would still be no provision for salary increases, although, one Committee member responded, the University could still retrench in order to provide the increases--the legislature will not appropriate funds for an increase, however.

One of the student members of the Committee inquired about the odds that there would be a 5% tuition increase; Mr. Pfutzenreuter said the legislature will probably build the 5% assumption into its appropriation, although they could assume a smaller increase as well, another Committee member observed. The final decision will be up to the Board of Regents.

The "bottom line," in terms of instructions to the units, one Committee member observed, is that

one important parameter has not yet been set: Whether or not there will be salary increases the first year of the biennium. The unionized systems/campuses will be free to bargain for whatever they can get during the upcoming summer--after the legislature has adjourned--and the systems could be faced with strikes, or with retrenchments to fund any salary increases agreed to in the bargaining process. The University practice, it was pointed out, has been that the non-unionized employees will receive salary increases equal to what bargaining unit employees are given, so the question of salary increases remains on the table.

Of the \$30.8 million shortfall now projected, it was pointed out, additional tuition income (if the increase is 5% rather than 3.5%) would reduce the shortfall to about \$28 million; if the HECB funds are appropriated to the University, that shortfall will be further reduced by perhaps another \$16 million (one-half of the possible \$32 million from the HECB funds), so the final projected shortfall could be approximately \$12 million. [$30.8 - 2.8 - 16 = 12$] Why, given these projections, are units being asked to plan for cuts that produce \$23 and \$34 million (the 4% and 6%)?--these amounts seem not to be related to the numbers of the projected budget.

Mr. Erickson observed that this Committee has been vigorous in its opposition to across-the-board cuts, and the budget instructions, moreover, had to be sent out before these numbers were known. The requested reductions, however, will permit the University to make judgments about cuts--they "put things on the table." One hopes the cuts will not be necessary, but the University must have the ability to make selective cuts, and the responses to the budget instructions will permit it.

The problem, it was said in response, is that the cuts are coming so late that they can only be taken from items in departments such as fellowships, because units cannot reduce faculty lines except through vacancies. The result is that 80-90% of a budget is inflexible, requiring a 40-60% cut in the remaining portion to meet the 4%/6% reductions requested. These are not reasonable planning decisions. In a year, units could make sensible choices, but many options are now foreclosed.

One possibility would be to provide temporary funds to departments that cannot immediately make the necessary cuts, Mr. Erickson said; that option has not been made explicitly available, although it was last year. It is for this reason, he added, that they feel it important to develop budgets in September and October in the future; this is a transition period.

Mr. Pfutzenreuter affirmed that the biennial shortfall is essentially "flat": if the \$30.8 million deficit (requiring permanent cuts) is met in the next fiscal year, there will be no deficit in the second year of the biennium. This says, one Committee member argued, that acting now, making quick decisions, will balance the budget--precluding the need for hard decisions the following year. This is troublesome, it was said; it would be better to have principled decisions about the entire base budget than quick decisions now to balance the budget next year. The budgets have to be balanced by June 30, 1994, not July 1, 1993, Mr. Pfutzenreuter pointed out. This, it was responded, is not the way departments budget, because most of their expenses come in year-long blocks.

These plans, Mr. Pfutzenreuter explained, are a way to try to accommodate the shortfall--and he reminded the Committee that \$15 million of it is because of projected salary increases. The instructions are intended to start people thinking about how to accommodate the shortfall; until there is a decision, they are only plans. Once decisions have been made, however, then the plans will be implemented.

Asked what principles would guide the decisions to cut or not cut particular units, Mr. Pfitzenreuter agreed that it would be helpful to have a strategic plan in place. One Committee member then said it would be better to postpone decisions to cut until there IS a plan in place, rather than have more ad hoc decisions which in the long-term will be inexplicable and all targeted at the small areas of the budget accessible to cuts.

The problem, Mr. Erickson then pointed out, is that there are no central reserves or other funds to permit buffering or deferring the reductions for a year. Prudence requires that the cuts be made now, although it is to be hoped they will be smaller rather than larger--and that will depend on state actions and what the University decides to do about recognizing inflation.

2. Planning

Professor Rubenstein next asked Mr. Paschke to explain recent activities with respect to planning. Mr. Paschke recalled that Senior Vice President Infante had spoken to the Committee about the second phase of strategic planning, and that he--Dr. Infante--had assembled a group of people (the two Senior Vice Presidents, Dean Julia Davis, Professors Carl Adams, Irwin Rubenstein, and Tom Scott, and himself) to develop a process to be used in the next phase. That process will be presented to the Board of Regents in April for discussion, and will include why it will be used, what is expected from it, the schedule, what will be involved in the parts of the process, and who will be responsible.

There are three components to the plan, Mr. Paschke explained. First, identifying the major set of strategic planning issues that need to be addressed by the process; second, acknowledging that there is not at present a continuous process of strategic planning in place and how one can be established; and third, reviewing how the University is organized and how it should be organized to support strategic planning in the future (including the budget process).

The review with the Regents will include the scope of the process, examples of strategic planning issues (which will be identified through the planning process itself), the approach, and the roles and responsibilities of the various stakeholders. The end result is expected to be a process that will lead to conclusions before the next biennial request is to be developed--which means that by the summer of 1994 the planning process must provide the blueprint to develop the 1995-97 biennial request. (Later in the meeting it was clarified that August of 1994 was the LAST POSSIBLE time that the results of the planning process could be brought to bear on the development of the biennial request, given the timelines with which the University must comply in providing the request to the state.)

This statement, clarified one Committee member, means that in two years the University has been unable to decide what it is up to or develop a notion of what it ought to be doing. The current planning process started in the summer of 1992, and now it will be the summer of 1994 before conclusions are reached. There are two periods to the process, responded another Committee member: First, from now until the autumn, the administration must "get its act together"; then from autumn into next year, the units must "get their acts together." This is not just central administrative planning, it was pointed out. True, it was said, but since last summer the University has been planning to do planning, and it will have been two years that the University is without a sense of direction except from Commitment to Focus or Access to Excellence (which are based on revenues that will not be realized). This schedule, moreover, means that not only will there be no principles to guide the immediate budget cuts required for 1993-94, there

will also be no principles in place to guide cuts for 1994-95. It has long been true, it was said, that serious decisions at the University are made on an ad hoc basis, and then a planning process "meanders along" without reaching a conclusion.

Another Committee member pointed out that this Committee has spent a lot of time discussing planning this year; is all of that work, it was asked, now discarded? It is not, Mr. Paschke assured the Committee; the next phase builds on what has gone before, and there was no intent that the earlier phase reach any conclusions.

Another Committee member observed that it is NOT true to say that the University is without direction; this is the third year of a 5-year Restructuring and Reallocation plan--as any unit required to retrench under that plan knows, because the payments are still being made. That plan is NOT completed. It is true that the current resources are different from those envisaged under Restructuring and Reallocation, but there is still a plan that has implications for the colleges. It is clear that not all is working out as originally intended, but there is a set of decisions that are being implemented.

Mr. Erickson commented that it may be possible to accelerate the second phase of planning--the unit planning--or overlap it with the first phase. The information must be available to the units so the administrative and unit plans can be blended, but some of the analysis can perhaps be occurring simultaneously. Everyone involved in planning has concluded that the University is actually in better shape than it was thought, in terms of getting the process in place, because a tremendous amount of work has already been done.

One question, said a Committee member, is how financial planning will be meshed with unit planning; will there be any "reality check," or will the units be permitted to engage in "pie in the sky" planning? Information and trends will be gathered and identified, said another Committee member, and goals will be set with those in mind. For units right now, the most important external climate--the University--is an unknown, and it is to be hoped that what the University thinks most important, and not important, will be known by next fall. Professor Scott said that there, first, is a strong commitment centrally that there be a tighter link between planning and budgeting, and that it should be a continuous process. Second, he said, from the institutional perspective, some environmental scanning will address financial prospects (e.g., research funding, potential markets increasing or decreasing); important financial data will be developed--and it will, he added, have differential impacts on parts of the University. Mr. Erickson said he would guess the unit plans would be merged by next spring and that strategic directives, it is to be hoped, would be available earlier, permitting more extended planning and budgeting discussions.

The Committee will revisit planning on April 13, Professor Rubenstein told the Committee; the planning committee making the report to the Regents in April want to present it first to this Committee for comments. The Regents, he added, are VERY interested in getting an institutional strategic planning process in place.

Another Committee member, noting an earlier allusion at the meeting to the University as "they," noted that "they" will gather information and do the large-scale projections that affect the University--but it is not clear who the "they" is that the process will identify as the decision-makers. Who will decide, for example, that a college will shrink or grow? One can suspect that all units will plan along the lines "if we

receive more money. . ."--and that is no guidance at all. Some units should be thinking about how they will do with less, but no unit will voluntarily self-destruct. It will be important to know HOW decisions will be made. Professor Rubenstein concurred and solicited the views of Committee members on how to pick the "winners and losers": should it be by vote? By decision of the Hasselmo/Erickson/Infante triumvirate? By some other method?

The University has used several methods, reflected one Committee member. One, by a series of ad hoc decisions (such as the ones implicitly proposed today), where there are no principles to guide decisions and the two Senior Vice Presidents must identify winners and losers. This may be why the University has had so many vice presidents--without principles to guide the decisions, they must use other bases for the choices, and eventually lose support. An unacceptable way to proceed, it may nonetheless be the only option open for the next and the following year because planning has been so delayed.

A second way to make the decisions is to establish principles or strategies to pursue. This would still leave flexibility in the hands of administrators, but they could then say they are pursuing accepted objectives. This second approach is much to be preferred. Another Committee member agreed, but asked who it is that establishes the principles. The triumvirate? the Board of Regents? a standing committee? an ad hoc committee? Any or all of these could be part of the process, it was said. Everyone would be better off if the principles are known in advance--if units are to plan next year, having such principles available would be useful.

Does the planning process envision continuing marginal changes, asked one Committee member, or will it include an option for more radical changes? Mr. Paschke said it would include the option to consider radical changes.

One of the members of the Committee observed that to be fair to the administration, there have been principles in place (e.g., Commitment to Focus) to guide decisions; Mr. Erickson has been restructuring the Finance and Operations side of the house so information can be integrated into the planning process; and this Committee has been consistent in requesting the vision or framework guiding decisions. Mr. Pfutzenreuter, it was said, did not respond when asked how the 4%/6% amounts would be decided upon, which is worrisome--and the source of frustration for the Committee. (Mr. Pfutzenreuter clarified that he did not respond because the responsibility for making those decisions will rest with the academic side of the institution, and most assuredly not in his office.)

At the same time, it was continued, the Committee has criticized the planning process thus far for not being broad enough, but the University is then confronted by the state with budget cuts. It is difficult to plan for a period of years in the future when there is no stability.

Now, however, it appears that collegiate actions will define what the institution is all about (because of the budget decisions they have been asked to make). The Committee, however, is asking that the institution decide what it is about and then guide the colleges. The requested 4%/6% plans for cuts is not leadership. One has the sense that the planning committee identified earlier will decide on the vision and strategy. Professor Rubenstein denied the accuracy of the last reflection and said the committee would only develop a process and establish a calendar; it will not make decisions, he said.

Who should make the decisions? Deans and faculty should clearly be involved, as should students

and staff. It will be important that whatever is established at the institutional level be based on consultation at the unit level. If it is only an institutional plan, developed without consultation, it will not work. One Committee member urged that new and broader means of consultation be considered (such as the town hall, broadcasts) rather than relying on "reams of paper." Professor Scott agreed that this is an important point, and said that part of the process will be development of a plan to increase interactions between stakeholders and interested parties, both inside and outside the University.

In terms of who makes the decisions, it will ultimately be the Board of Regents, said one Committee member. The Board will be informed by recommendations from the top administration; a critical issue is how the administration will interact with deans and faculty and students and committees. The Board, however, runs the University, and it is actively interested in this process. Another Committee member said the idea that colleges would make the decisions would not work, nor should this Committee or other committees make the decisions. The administration must receive advice and then direct the planning process, or it will not go forward--there must be leadership. Yet another Committee member pointed out that the Regents will act on recommendation of the President; in this case, when fundamental decisions will be made, the consultation must be broad and innovative. One earlier instance, it was recalled, involved the widespread use of forums so that everyone understood the document at hand; the Regents were surprised that a document could be brought forward as a product of broad consultation. Ultimately, however, it must be recognized that decisions about what recommendations to bring to the Board will be made by the President--and not everyone will be happy.

One Committee member inquired if the new President of IBM could tell investment bankers that he would have answers in 18 months? Mr. Erickson replied that the planning process at SuperValu took 14 - 15 months. The University must deal with recurring decreases in state funds, and needs to recognize the status of its playing field as it critically examines itself. It must overcome 25 - 30 years of benign neglect of its infrastructure (buildings, accounting, personnel systems), and is trying to deal with a large number of problems, developing policies where there have been none before. The process is complicated, he told the Committee; there has been much academic planning over the years, but little strategic planning on a comprehensive basis that includes all pieces of the University.

Mr. Erickson: Is this timetable acceptable? Yes. Does it make him happy? No. Will there be attempts to shorten it? Yes. It is receiving the highest priority. In a highly decentralized organization such as this, he said, the community must decide on broad principles and not get bogged down in details. This is a view, he said, the Board of Regents and administration share. Moreover, he said, he is concerned that there not be unrealistic promises made, although the process will be expedited as much as possible.

Mr. Erickson also said, in response an assertion, that the 1994-95 allocation process will NOT be ad hoc. If the timetable laid out is met, the allocations for FY95 should have the benefit of the overall philosophical statement. Having such a statement in unit instructions, it was agreed, would be a help.

This is a tougher place to manage than IBM or Delta, it was observed; the University does not have the option of laying off 19,000 employees at all levels. It also has a tradition of consultation; the top cannot decide, because that is not the way the place works. The result is that things take a long time. The Committee, said another individual, only wants assurance that there will be consultation between the academic and strategic planning sides, and that hard decisions will then be made. Mr. Erickson pointed

out that Finance and Operations exists to facilitate; the academic side of the house makes decisions.

One concern he has, Professor Scott cautioned, is that people should not expect magic, and that planning will solve all the problems. The most important thing to be realized, he said, is a cultural change in the way faculty and staff do business and how they spend their time--in teaching, research, outreach. In the long-term, the University must find ways to change the way it operates. One cannot cut and add people and programs--that does not happen in higher education--but it will not be business as usual. If so, said one Committee member, then part of the strategic planning process should aid faculty and staff in making those changes. It will also be important that the public understands the changes, so their expectations can also be altered. Professor Scott agreed that both points are important.

Even with strategic planning in place, Mr. Pfutzenreuter pointed out, there is also tactical planning to consider; there needs to be a process for that as well: Who makes the tactical plans?

Mr. Erickson announced that he is planning a presentation to the Audit Committee of the Board of Regents in May on overall budgeting, and said he would like to make the presentation to this Committee in April. Professor Rubenstein said the Committee would be glad to schedule it.

The Committee adjourned at 5:10.

-- Gary Engstrand

University of Minnesota