

Minutes*

Senate Committee on Finance and Planning
Tuesday, June 15, 1993
3:15 - 5:00
Room 608 Campus Club

- Present: Irwin Rubenstein (chair), William Gerberich, Karen Geronime, Virginia Gray, Michael Hoey, Thomas Hoffmann, Karen Karni, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Doris Rubenstein, Paul Sackett, Mary Sue Simmons
- Absent: Carl Adams, David Berg, Julie Idelkope, Roger Paschke, Jason Schmidt, Thomas Scott, Susan Torgerson
- Guests: Associate Vice President Mark Brenner, Senior Vice President Robert Erickson, President Nils Hasselmo, Associate Vice President Susan Markham, Associate Vice President Richard Pfutzenreuter
- Others: Ken Janzen (Regents' Office)

[In these minutes: Continued discussion, 1993-94 budget; ICR funds]

1. The 1993-94 Budget

Professor Rubenstein convened the 27th and final meeting of the Committee for 1992-93 at 3:15 and distributed copies of a letter sent by one Committee member to the President about the budget after the meeting of the Committee last week with him. He also said he wished to make a statement about the meetings last week. This is not a budget committee, he observed, and it does not have the information necessary to scrutinize the budget and make decisions about it. The Committee should look at policies and procedures to set up the budget, and it is incumbent on the administration to have conferred with the Committee on those policies and procedures. For example:

- Should it be University policy to privatize those activities for which fees are charged (such as child care, recreational sports)?
- When new programs or commissions are created, should it be policy that the funds must be obtained from old commissions and programs, rather than tax everything at the University for them?
- When a program obtains new space, who should pay for it? Should the colleges be charged? Is there a way to handle space costs without charging the whole system? (e.g., the new medical Basic Sciences building will cost about \$2 million per year in operating costs.)
- Can the maintenance of space be privatized? Can the University put out for bid the taking

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

care of buildings?

These are the kinds of things the Committee should consider, rather than do what it was challenged to do last week, which was to look at the budget and make specific recommendations for cuts. The Committee cannot micro-manage.

One Committee member said he would add to the list the proposition that there should NEVER be an across-the-board cut and that administrators should make reasoned decisions, not arithmetic ones. The Committee has expressed these views all year, he said, and the budget did not reflect any of the Committee's concerns. Perhaps the Committee should have adopted a stronger resolution last week, telling the administration it has not taken the Committee's advice, and the Committee should also tell the faculty what has occurred.

Another Committee member commended Mr. Pfutzenreuter for keeping up the flow of information to the Committee and encouraged him to continue doing so. Another question to be added to the list, she then said, is that when the University negotiates a contract or grant, it must stay in the driver's seat. It is not a good idea that the University can only receive a \$4 million donation if it agrees to open the Art Museum by a certain date.

The administration needs to be challenged to develop principles on how it will put budgets together in a time of constant rather than increasing funding. A major question, Mr. Pfutzenreuter responded, is "what are the boundaries?" The Budget Office--right now, two people--is being asked to put an analyst in every office. No, it was responded, the Committee is asking that the responsible academic administrators make decisions--an associate vice president or a vice president should make decisions about programs. Some see this budget as a fight between accountants and academics to set priorities; while one might not wholly agree, decisions should be made by the vice presidents, not accountants--although accountants could make decisions at a cheaper rate. Mr. Pfutzenreuter protested that his model was not that of accountants but of analysts and that he has consistently said his role is to provide information and analysis, not to make decisions. Asked if he would have time to make decisions about the elements of the list of expenditures, Mr. Pfutzenreuter expressed doubt that he could obtain the necessary information or that he even knew where the information was.

One reaction to this budget, observed a Committee member, is that the administration made conscious and rational decisions about half of it--the items that are to be supported or added. But it also decided that everything else at the University is less important than those things because they cut everything else. No one made any decision about the "budget challenges" (the 2.64% reductions), and the budget says everything the University has done is less important than UBEEP, for example. There was a conscious evaluation of half of the budget, no evaluation of the other half.

Mr. Pfutzenreuter acknowledged that anyone could have imposed across-the-board reductions. He noted, however, that the departments made a serious effort to identify how they would impose 4% and 6% cuts; they provided among the best information he has seen. Which cuts will now not be made, it was pointed out.

One question that can be asked about the President's letter on the budget is if the cuts will only be across-the-board at the vice presidential level. Is there a statement on how far down the across-the-board

cuts will be made? It appears that every college will take the 2.64% reduction as well. Only one vice president made differential allocations of cuts, Mr. Pfutzenreuter reported.

One Committee member commented that he would rather have Mr. Pfutzenreuter make the decisions on cuts than have them be across-the-board. Another Committee member said it would even be better to have them made by an academic officer--but better that SOMEONE makes a reasoned choice. These cuts were made by an adding machine. Mr. Pfutzenreuter responded that the central administration will not make the decisions until the level of control of budgets is decided.

The units, however, provided information, said one Committee member; central administration could have made the decisions if it had the nerve--and that is what is upsetting the Committee. Instead the easy way was taken, which is detrimental to the long-term health of the University. Someone must make decisions that are not across-the-board, added another Committee member; the vice presidents got to make the easy decisions, but they are the ones being paid to make the hard decisions. The question, Mr. Pfutzenreuter agreed, is who should make the decisions. There are 49 funds (representing different sources of funding--legislative, endowment, contracts), 700+ areas (basically, departments on the academic side and similar administrative entities), and 30,000+ orgs (the basic payment unit, identifiable activities within departments). What is the model? he inquired. Responsibility center budgeting? Block increments? That question must be decided or nothing will get done--there must be a decision on the level of responsibility.

Asked if any university had solved that problem, Mr. Pfutzenreuter said he was going to explore the issue. It appears, he said, that the problem is the same all over.

One Committee member recalled Professor Rubenstein's question about cost of space and noted that the University now has 46,000 students, compared to 50,000 earlier. If one accepts the principle that for new space, an equivalent amount of old space should be eliminated, there should then be a constant maintenance budget. Mr. Pfutzenreuter agreed that there are some peculiar arrangements for the use of space on the campus.

Is it his view, Mr. Pfutzenreuter was asked, that this budget sorts out and brings into the open all of the off-budget, side arrangements that have accumulated over the years so that the University knows where it stands? He said it is, but said he did not know how many more such arrangements remained. There is another "time bomb" coming in the cost of fuel and utilities, he added. Another problem is that there are too many funds; they should be consolidated. For example, when ICR funds increase and O+M funds decrease, there is an implicit decision that activities funded by ICR money are more important than those on the O+M budget--because there are two funds.

Discussion then turned to the letter sent to President Hasselmo. One Committee member inquired after the President's response to his meeting with the Committee last week; Professor Rubenstein said he did not know, but the list of items the Committee identified for reduction or elimination is being considered in Morrill Hall. For the Committee to have compiled the list may not have been wise, but at least it got some attention. One Committee member argued, however, that he did not believe it was a mistake for the Committee to have made the suggestions; any changes will not come dramatically but rather through a series of \$100,000 reductions.

The author of the letter related that he had sent it to the President, after the Committee's meeting last week with him, upon receipt of the President's letter to Committee members about the discussion they had had. He said he had found the letter "annoying" in that it continued to speak about going forward with the 1991 Restructuring and Reallocation plan and implied that the budget was a desirable one. This is a "Dr. Pangloss approach to the budget," he argued, an almost classic case of denial that there is a problem. Three-quarters of the budget is mindless across-the-board cuts. There are different dynamics in play if one asks where cuts should be made to provide salary increases: In this budget, faculty and staff receive a pay freeze, programs are cut, administration is increased, and students get low tuition increases. A pay freeze to avoid cuts might be acceptable; cuts made to provide a salary increase might be acceptable. Both a freeze and cuts are not acceptable.

The suggestions made in the letter to the President include:

1. Make a strong commitment to make reasoned, not arbitrary across-the-board, adjustments to the budget base in the future, beginning with the 1994-95 budget. This will require REAL planning, and a commitment to the outcome of that planning.

This says no more across-the-board cuts, period. Pressed on the issue, he said, the President never made a commitment to stop across-the-board cuts. One suspects there is an absence of political will to make reasoned cuts.

2. Change the 2.64% cut this year from a "hard cut" to a "soft cut." That will make your decision-making process for next year much harder, but at least the outcome will be based on decisions, not mere calculations.

This would give decision-makers eight or nine months to decide, not two weeks.

3. As a first step in restoring faculty and staff morale, establish the fund for self-directed professional development which you mentioned, with sufficient resources to provide some support to all faculty and . . . staff.

4. Review all of the new allocations, remembering that each of them is resulting in a cut of TAs, support services, and other parts of the academic process. Can they be reduced, postponed, or eliminated? Particularly scrutinize the \$1.25 million mentioned above [for distance education and polytechnics] in comparison to the academic programs it is replacing and with special concern for its potential for "tails." Also scrutinize other large block grant allocations, e.g. those to the Vice President for Research, to see if they can be postponed. Apply all savings to a reduction of the 2.64% retrenchment.

5. Apply all other savings, such as excess tuition receipts, to reduction of that retrenchment immediately upon receipt.

6. Make a credible commitment on the compensation issue, even if this means additional tuition increases or more targeted programmatic cuts.

Regents' Professor Berscheid's letter, he continued, is not unrepresentative of faculty opinion, and it

MUST be addressed. One must be "terribly frightened" at the downward spiral this budget creates, and continued denial will not help the University. The administration does not seem to want to face this.

Senior Vice President Erickson joined the meeting at this point and reported that the President would appear shortly. In terms of changing the cuts from "hard" to "soft," he told the Committee that the University has too much "hard" and "soft" labels--funds tend to recur. The administration has tried to avoid over-committing the Central Reserves, but the concept of making the cuts soft is possible. The strategic planning process will accomplish that same end, he said. He acknowledged that the budget is frustrating, and said the University has been using a lot of inadequate tools to assess the impact of decisions, thwarting much that the administration wishes to achieve. Units will be examined in their entirety this fall, so there will be discussion and debate. In the long term, he told the Committee, the tough decisions will be made.

It is easier to take away the same from everyone and then return funds differentially, observed one Committee member; the second recommendation of the letter proposes to do so, within the context of planning. Next year, the author of the letter agreed, all departments would have the 2.64% returned to them and reasoned decisions would then be made. That would mean an additional \$13 million problem to deal with in the 1994-95 budget, Mr. Pfutzenreuter pointed out; it was agreed that the problem would indeed be very large. There will be even more of a problem if there is an additional 1% cut because of a State revenue shortfall and if there are additional prior commitments that need to be acknowledged in the budget.

Senior Vice President Erickson took issue with the description of the cuts as without reason. A number of adjustments were made, he noted, and the administration wants an open budget about which value judgments can be made. They also thought it important to recognize facilities and other costs that have long not been acknowledged in the budget.

Before he arrived, Mr. Erickson was told, the budget had been characterized as half reasoned decision and half had been made by a calculator. No one quarrels with the portions made on the basis of reasoned decision, but the decision was made that all other University activities are less important those and face, probably down to the department level, a 2.64% reduction. There was much consideration given to the additions to the budget, none to the minuses and their impact. The budget reflects priorities, but they are not academic priorities.

Mr. Erickson noted that the budget assumptions had included certain levels of tuition that had not been achieved; had they been, the problem would be \$3-4 million, which could have been dealt with. Once the tuition shortfall was discovered--and it is seen as recurring--what was the University to do? He, Dr. Infante, and the President spent endless hours grappling with the problem. He would like to be in a position sometime where he is not Mr. Doom and Gloom, he related--and he has a sense for the impact of this budget, he assured the Committee, because he has had to lay off people (most recently in the ALG program).

Mr. Erickson admitted sounding like a broken record, but emphasized again the difficulties caused by the poor quality of the information systems at the University. Given the shortfall, the administration agreed that significant program cuts were required, and they considered quite a few; each time, however, they concluded they did not have sufficient information to make the decision. The administration is

serious about getting to the point where the University has good information--that is the thrust of the strategic planning process, and one wishes the information were available sooner. He has told people that if he does not succeed in establishing a system to provide information, he should be fired. Once in place, reasoned decisions can be made. Mr. Erickson said he remained optimistic, despite the doom and gloom, that there is an underlying vitality to the University and that things will get done. In the meantime, he, Dr. Infante, and the President have reluctantly concluded this is the best budget they could develop.

Given all of that, reiterated one Committee member said, it is rational to treat the 2.64% reduction as soft and handle the retrenchments next year.

The President joined the meeting; Mr. Erickson reviewed the proposal that the 2.64% reductions this year be soft. President Hasselmo recalled that when units have faced hard cuts in the past, they have been told the cuts should be programmatically sound and that the administration recognizes phasing may be required. It is clear that the University is phasing into program cuts now. There is sound reasoning involved, although a question if at the institutional or unit level. The units are being put on notice that there will be cuts and the administration will help phase them in. It is not desirable to make cuts where vacancies happen to occur or where TAs happen to be; that is why he opposes blanket freezes. The President agreed that the proposal to make the cuts soft this year should be considered.

The University must face the situation and have no illusions that the budget will "snap back" next year. He told the Committee he had a letter from the Governor today reminding him of the possible 1% reduction--and that not all state agencies will be cut the same, so the reduction could be greater than 1%.

One Committee member said his concern was the programmatically sound cuts may be not distributed evenly among departments; these cuts ARE evenly distributed, without regard to soundness--and one suspects the across-the-board cuts will go down to the departments. There is not now time to absorb the \$13 million with sound decisions, and it would be better to retain the base and impose the reasoned cuts next year.

Another Committee member pointed out once again how the current juxtaposition of the program cuts, the Governor's budget, no salaries, and the cleaning up of the budget have caused the faculty considerable harm--and some words, at least, are necessary to help. The faculty believe in the University and have always been able to finagle what they needed to do their jobs; that ability to finagle has been stopped at the wrong time.

The President, he said, has talked of a new contract with the State. In the meantime, the institution is being restructured and people are trying to figure out what the future will be and how to get there. One must look at the short-term, however, and figure out how not to lose the support and good will of the people who work at the University. Some kind of vision needs to be provided on where the institution is going, and it has to be a mix of long-term and short-term considerations. One can sense, moreover, that Morrill Hall is struggling to get to the long-term vision.

The President said that was helpful. He said the disagreement is not over the long-term; he has heard the Committee speak in realistic terms about future funding levels and the need for the University to adjust to current or even lower levels of support. He has also heard the Committee say, he related, what the administration tells itself every day: the University must be structured for the future to preserve

the quality of what is central and shed what is not. He said he took comfort from the agreement. What the Committee has also been telling him, he said, is that the administration is not living up to the agreement, and that proposition he disagrees with.

The Committee has rejected his arguments, he recalled, but he said he would try again. The 1991 Restructuring and Reallocation plan was a "major bootstrapping" effort, a sea change in the institution, that is still to be implemented. It has been argued by this Committee that the amounts involved are small, but it is more than \$4 million when one includes the internal college reallocations--on top of which there have been large budget cuts.

The strategic planning process has begun, but this budget is not the basis for a major adjustment; it comes between two major efforts. In addition, it is an honest budget--the first he has seen, he related, that includes items previously not in it or that were covered during the year.

Professor Rubenstein reviewed for the President his (Professor Rubenstein's) opening statement: that the Committee should be involved in policy and procedure, not specific items, and he repeated some of the examples. He challenged the administration to come to the Committee with ideas on how the budget should be structured at a time when it is likely to be constant. If anything is added, he pointed out, the result is to tax everyone else.

The President agreed that this would be an appropriate way for the Committee and administration to interact. He then turned to the recommendations in the letter he had received. In terms of the first one (reasoned decisions, not across-the-board cuts), he said he agreed "absolutely" and said he has been committed to such decisions since he assumed office--and that he has made hard decisions. The strategic planning process will produce decisions as difficult as the one to close Waseca, he told the Committee.

In terms of the second recommendation (make the 2.64% cut soft, not hard, and make reasoned decisions next year), the President repeated that the administration has tried to avoid arbitrary permanent cuts because of what is available to be cut and has tried to assist with phasing the cuts.

In terms of the third recommendation (the fund for faculty and staff self-directed professional development), the President reported that the senior officers have been talking about the possibility of raising the amount from \$500,000 to \$2 million. It must be clearly understood, he said, that this is a one-time allocation to support critical activities by faculty and staff. The idea, reported one Committee member, came from the understanding that the State University System faculty receive \$750 annually for travel and professional development activities--while faculty at the University have to pay out of their own pocket. The administration should consider making permanent such support, over the long term. Mr. Erickson observed that the University generally does not put much money into staff development--and it is an important activity. The money, the President added, is not for training, but for such things as faculty travel to professional meetings.

Asked how the money would be administered, the President said he wanted a minimum of "administration." It may need to be assigned proportionately, the President said, and he welcomed suggestions on how to distribute it.

On the fourth recommendation (review all the allocations), the President said the administration is

doing so, and finding it hard to make significant changes in the recommendations, although they will continue to evaluate them. In the area of distance learning, for example, he said he is learning that the University is "woefully behind" in what is a major trend in higher education, and remains so at its peril. He said he was very concerned that the University has not had the funds to invest, especially since the State is now providing funds. Mr. Erickson said it is important for the University to extend its reach--a research university, by definition, has a lot of quality, and this is a critical activity for the University.

In terms of the fifth recommendation (apply all savings to reducing the retrenchment), the President said that in the face of a further 1% or greater additional reduction, against which the only buffer is conservative estimates of income, it is not realistic to think that excess tuition revenues can be used to reduce the retrenchment.

The President then noted, apropos recommendation six (make a credible commitment on the compensation issue), that this is also a political question. The Governor and legislature made a big point of allocating funds so that they could NOT be used for salary increases; how the University acts is a political issue. It is in good faith negotiations with the unions, he repeated, and all employees WILL be treated equitably, depending on what happens. The President said he did not believe the University could deviate from no salary increases without considerable peril.

One Committee member said he was reassured to hear that the budget decisions would be based only on planning and that they may need phasing. But he is increasingly concerned, he said, that the list of questions/issues for the planning process is taking the University toward the authorship of a novel, not a financial plan. Unless there is a financial plan, and financial data are gathered, next year there will be a narrative with no numerical base to apply it to.

There has been a commitment, said another Committee member, that answers to some of the issues will be forthcoming by November or December. There is in place a largely invisible effort now to obtain data. Two issues are being dealt with now: the programs essential to a research university (much is being done in Vice President Petersen's office to develop criteria for research programs), and whether or not the University should be the primary baccalaureate-degree granting institution in the Twin Cities (data are also being analyzed on this question). The latter issue will have to be addressed in the very near future and it is critical the University knows what its view is. The former question is fundamental to making any program cuts.

The problem is not with the strategic planning questions, it was responded; the problem is when answers are obtained, will there be enough information available to translate planning into budget? That process has not yet started. Mr. Erickson said it has started and said there is a great deal in the budget infrastructure that he hopes to have in place.

The planning process will lead to decisions about what the University will spend money on in the next budget and will be made in March or April, based on objectives from units established in response to a regental statement, in November, of directions for the University for the next five years. The units, leading up to March and April, will propose what they will do, who will be responsible, what it will cost, and to what goal it will contribute. Each unit will have objectives; the administration will decide what will be funded; this is the basis upon which funding will be driven by planning.

In conjunction with strategic planning, Mr. Erickson added, will be a revision of the budget planning process. One weakness at the University has been its budgeting system--it starts late, precludes taking the time to deal with issues and take a long-term look at things, and puts people under the gun. It needs to be stretched out and made into a more interrogative process.

What the University wants to do will NOT spring from financial analysis, the President commented--we must decide what kind of institution we want to be in the future, which is separate from financial analysis. As changes are made in the direction chosen, however, they must be accomplished in the most cost-effective manner possible--but cost-effectiveness will not drive the decisions. One should have no illusion that strategic planning will lead to the identification of activities that should be cut from the University; there will be painful and complicated decisions that will not have unanimous support. Some major decisions have been made--the University is out of 2-year education and out of 4-year teacher licensure programs; the principles must be found that can be applied to the University to preserve the core functions. Part of that effort will require looking inside the colleges and asking what internal configuration is appropriate.

The Committee has been looking for a statement on compensation because it has been frustrated with developments. The administration position has been that it will negotiate with unions in good faith and treat employees equally; the faculty reaction to that position is that one receives a salary increase because the unionized faculty did so. That does not play well. The President acknowledged the problem and pointed out the dilemma: The decision has been made that there will be no salary increases for 1993-94; the University is required by law to negotiate in good faith with unions; the administration has decided itself that all employees will be treated fairly. He said he wished there were some other way he could say it.

Asked if there were any statement he could make about the second year of the biennium, President Hasselmo said there will be salary increases in the second year. He noted that the legislature had provided funds for such an increase.

The President emphasized that it is important that the Committee and the administration "have it out" on issues so that they can determine where they disagree. He said again he took comfort from the fact that the differences were not on the general direction but on the perception of the way the administration is carrying out the task.

Professor Rubenstein thanked the President for joining the meeting.

2. Indirect Cost Recovery Funds

Professor Rubenstein next welcomed Associate Vice President Brenner to the meeting to explain the distribution of the Research Support Fund (ICR funds). Dr. Brenner distributed a set of graphs and tables outlining the distribution of the Fund and briefly explained them to the Committee.

Dr. Brenner told the Committee that there were a number of constraints on the formula allocations to units. First, there had been an assumption that total federal grants would be less (although that assumption has turned out not to be valid). Second, there are major expenses that need to be addressed. The plans include a one-time major commitment (\$3 million) to an analysis of the University's ICR rate;

the administration is convinced that if such a study is not conducted, the University will lose money when negotiating with the federal government. The University already has among the lowest rates in the country, and while it has no aspiration to reach the level of private universities, its rate can likely be adjusted upward with appropriate documentation. Third, there has been a substantial investment of new funds in Facilities Management in activities that affect research; the only way to get these tasks performed is to fund them--and the intent is to avoid nickel-and-diming principal investigators. These two major activities, plus several other smaller ones, required \$5 million from the Fund, which will be obtained from cuts in other areas. He also said that rent and debt service demands on the Research Support Fund have been growing rapidly and will continue to do so.

Committee members discussed with Dr. Brenner a number of items on the tables, including matches, formula allocations, and the relationship between ICR funds generated by a unit and the funds it receives. Concern was expressed about the funds for new centers and interdisciplinary research and that there is apparently no mechanism for faculty participation in the decisions; Dr. Brenner explained that none have yet been funded and the structure for determining funding allocation has not been established. He agreed that funding for such units should be tied to the strategic planning process.

Discussion also touched on the increased fringe benefit rate for graduate assistants and how ICR funds will be used to assist in bearing the additional cost. One result, Dr. Brenner said, is that a planned \$1.5 million reserve has been virtually eliminated.

Professor Rubenstein thanked Dr. Brenner for meeting with the Committee.

3. Regents' Open Forum

Following brief conversation, the Committee agreed that Professors Rubenstein and Morrison should request slots on the Regents' Open Forum on the budget.

The meeting was adjourned at 5:20.

-- Gary Engstrand