Minutes[•]

**Senate Committee on Finance and Planning**
**October 8, 1991**

Present: Virginia Gray (chair pro tem), David Berg, William Gerberich, Paul Hess, Michael Hoey, Thomas Hoffmann, Craig Kissock, Allen Mackenthun, Fred Morrison, Jeff von Munkwitz-Smith, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks

Guest: Senior Vice President Robert Erickson

Professor Gray called the meeting to order at 3:15, explained that Professor Shapiro was still out of the country, and that the single item of business was the budget proposal.

Professor Gray noted with some dismay that some news coverage of the budget proposal said that the budget cuts were being made because the faculty wanted a raise--there was no mention of the legislature and the Governor. Others noted this as well. Is there administrative disappointment with the coverage of the cuts? One of the most difficult things for the University to do, but what it must do, Mr. Erickson said, is to create some simple messages that the average person can understand. There are too many numbers to deal with; people are unclear about what is occurring and what is proposed. Not only was the legislative cut not mentioned, he pointed out, there has also been no notice of the failure to provide funds for compensation increases. What must be stressed is that the faculty and staff are taking the brunt of the cuts through loss of purchasing power--and that it would be unfair to ask people to go without compensation increases for two years in a row.

Professor Gray reported that she had received several questions from Professor Ben-Ner (who was unable to attend); the first one had to do with public and private goods and the move to place a number of units "on their own bottom." Will this theory work when units don't have full control of the profits and when profit centers in universities ignore externalities (e.g., engineering is more of a private good while comparative literature might be considered more of a public good--so engineering must subsidize comparative literature). The University should be careful about moving to an organizational structure that might work in the private sector but which is inappropriate to a university.

Mr. Erickson noted that the concept is limited to three units (Law, Public Affairs, and Management); the changes in CEE and Morris have different philosophical bases. The intention with respect to the post-graduate units is that they will keep the funding. The Law School is perhaps the "purest" case--it is one of the top institutions in the country while its tuition is about half that of the other law schools in the State. The Law School has indicated it would like to do a number of things; the increased revenue will permit it to do so while at the same time freeing up State funds for other institutional uses in units which do not have the same elasticity of demand or competitive position. Also a consideration is the earnings potential of students who leave these disciplines. Further discussion of the general concept may be needed, Mr. Erickson agreed.

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Professor Morrison concurred that the proposal would work. The Law School will be competitive both with local schools as well as the best public law schools in the country; the question becomes an economic one. It will remain competitive even if tuition increases. It may be necessary to increase financial aid, perhaps through drawing on current tuition income.

It is useful to use the budget-center concept to identify what programs really cost, he said. Comparative literature should not be "a tub on its own bottom," but the University should know what it costs and make explicit choices about what it is worth. The University must look at such programs as comparative literature and decide what they are worth and what they cost. He would give them a high value, he said, but the University ought to identify these costs and decide what it can support. Some of these decisions, it was noted by another Committee member, are proposed in the budget document.

A comment was made about the tuition changes for post-baccalaureate programs not in the Graduate School. It is desirable that this matter be addressed, but there are two major incentives for programs to develop outside the Graduate School: they are not subject to the same quality controls (in admissions, requirements, examinations, external reviews) and they can set tuition low and attract large numbers of students. At the least, since the budget message will not address whether or not they are under the aegis of the Graduate School, the tuition should be set at 100% of the Graduate School rate, rather than 75%. Others on the Committee concurred. (The programs are professional Masters degrees offered in Agriculture, Public Health, Technology, and Education.)

Mr. Berg noted that the budget proposal continues in a direction begun several years ago, when it was realized that students in these programs were being charged at the undergraduate rate. This did not seem to be proper, so tuition was increased. The present Regents policy requires that the tuition in these programs be greater than the undergraduate rate but not as high as the graduate rate. A change in the Regents policy would be needed if the tuition were to be set at 100% of the Graduate School rate (and such a change could be sought); 75% was chosen because it appeared to be a big enough jump for one time. The administration chose not to make the leap to the Graduate School rate all at one time, although the rates are clearly floating upward. The actual dollars involved in the increase were not available, but Mr. Berg said that moving to 75% did mean a 40 - 50% increase over current rates.

One alternative which would save a lot of money, it was suggested by one Committee member, would be to abolish the Graduate School as a separate administrative unit. The suggestion was serious, it was emphasized; to a substantial extent it duplicates administration. Others expressed doubts. The existence of the Graduate School, it was argued, basically says the deans are not doing their jobs. But most do not see graduate education as part of their jobs, it was said, and others noted that most major institutions have a graduate school. That is not necessarily a good reason, it was pointed out. Another Committee member said it would be hard to handle interdisciplinary programs without a Graduate School. The scholarship program could be distributed among the colleges, it was said, but others disagreed.

Discussion moved to CEE; one Committee member inquired why restructuring of it was not considered, rather than simply increasing tuition. The present structure fails to address what is happening in the world: there are non-traditional students that departments should be accommodating in their scheduling of classes (evenings). Now when that is done there is no course credit for it and there are disincentives built into the system. Students get short-changed because classes are not taught by regular faculty; the faculty get short-changed in the sense that they teach in CEE to earn extra funds--but then do not have time to do research. The entire CEE arrangement in the University is poorly structured and needs to be examined.

Mr. Berg noted that the question of CEE is examined every time there is a budget crisis, and it was so examined this time. The departments, he corrected, do get credit for the hours taught, even if that is not well known. But the question of the structure of CEE is now under consideration in Academic Affairs and some changes may be forthcoming; it is not at the point, however, where it could be combined with the budget proposals. Nor is there unanimity of opinion on what should done, he added. One Committee member said it appears that CEE, in the budget document, is being spun off (in the sense that it is receiving less State support). Another observed that most of those CEE classes appear to be Day students; they find it more efficient and a better fit with jobs. Mr. Berg said that CEE students are about 30% Day and 70% not.

What will happen to tuition for Day students in CEE? Will they pay Day school rates? Mr. Berg said the document is not clear on this point; the proposal (not yet decided upon) is to raise the CEE rates for everyone by 10% above the Day school structure (at present the rates are supposed to be equal). This will do two things: First, it will create an incentive for Day students taking CEE courses to take them in the Day school instead (which is seen to be desirable). Second, it will not unduly price-out the non-traditional student in CEE and who is the reason for CEE.

Mr. Berg observed that there is another way to look at this, as mentioned earlier by one Committee member: Perhaps the University should be teaching traditional students during evening hours. Making a transition to that would be difficult. The original proposal was to charge non-degree-seeking students in CEE a much higher rate. That could be politically suicidal.

Mr. Erickson was asked about the plans for Crookston; he might not wish to speak to the academic issues, but could perhaps address whether or not another four-year institution could be cost-effective unless other institutions were to be closed. Is this good public policy? Mr. Erickson responded that from the standpoint of the University, it is important that there be a presence in northwest Minnesota. With the exception of the southwestern part of the State, the University is present around the State. The incremental funds required to make Crookston a four-year program are not great, although the numbers will have to looked at carefully. The direct costs per student are less than the indirect costs; the indirect costs would remain where they are while the direct costs would not increase very much--so the average cost per student would drop significantly. The offerings at Crookston would be modified in order to attract additional students and allow the University to continue its presence in the area. No final recommendation has been decided upon, although the administration is leaning toward the development of a four-year program.

Committee members asked to receive the financial estimates, expressing doubt about the minimal costs that are projected. The information about the change should be reviewed both by this Committee as well as by the Committee on Educational Policy. The proposal may be necessary for political reasons, but it is hard to believe it will not drain funds from the other campuses in order to make it work. Mr. Erickson said it should not drain funds from other campuses because the additional tuition would essentially cover the additional costs. Mr. Berg said that they could not assess--it was not in their purview to assess--whether or not the additional faculty Crookston proposes would produce a quality program. If what they propose is true, then he said he was convinced the proposal could be "done on the margin" with the marginal tuition income. No one who has looked at the proposal for any length of time takes issue with the availability of students. What is at issue is the quality of the program and perhaps the cost. It is assumed that the existing institutions in the area would continue; if one or more closed, the situation would improve. There are two key factors not normally recognized: Moorhead is absolutely full--it has increased 50% in three years, and the demographic outlook for the Crookston area is not bad--it is better than for the State as a whole. The University, it was noted in response to a comment, is doing with Crookston exactly what it said it would do when Waseca was closed: A decision would have to be made that either Crookston has to close or it has to change. This budget proposes that it change. It is important to recall, Mr. Erickson said, that the financial implications are far less than the discussion would seem to indicate. Crookston at present has a budget of $7 - 8 million; it might take another $1 to 1.5 million (estimating conservatively) to make the changes. The actual amount may not be known until the effort is actually made, but in any event would not involve huge sums of money. The commitment to the northwestern corner of the State is important, and either there must be offerings consistent with the rest of the University or it should be closed. But an explicit decision must be made either way, he agreed.

It was agreed this would be an item at a future meeting.

One Committee member next inquired about the dual registration systems for Day school and CEE: Why are there separate procedures and documents associated with the two classes of students--in the same class? It seems to be an inefficiency. Another Committee member reported that Student Support Services had offered to include CEE in the new registration system it currently has under development. CEE declined, deciding instead to develop its own system with the aid of an outside vendor. Summer School registration, it was affirmed, is handled by the Registration Office.

What does it cost to have a Summer Session office, it was asked; why does it exist and what would be saved if it were to be closed? There is no Fall Session office. Why not offer four sessions per year and leave it up to the good judgment of the deans and faculty to try to rotate the faculty so that 9-month appointees can cover 12 months? It was agreed that this was a good question. Mr. Berg said that the financial implications are not large and noted that it ties into the question about CEE: Is the University a single institution or a collection of special interest offerings? It was noted that while the Committee might inquire about changes in Summer Session, many faculty see it and CEE as an opportunity to earn extra money, a consideration which should not be ignored during a time of frozen salaries.

What the Committee discussions appear to be suggesting, commented Professor Gray, is that the administration was not bold enough in its budget proposals.

Apropos tuition increases, Mr. Erickson affirmed that the general 9% rate increase would apply to graduate rates as well as undergraduate.

Mr. Erickson was asked about personnel reductions in Finance and Operations units; the document does not appear to call for them. He said that the units were exempted from the 3% reduction because the units had gone through an aggressive zero-based budget review and were not to be hit twice. They had already proposed to reduce expenditures by $5 million. Between the Restructuring and Reallocation and this budget, he explained, Finance and Operations is approaching a 20% reduction in its $60-million personnel and non-utility budget base.

A question was raised about the $2.958 million in program changes in Academic affairs exclusive of Agriculture, Health Sciences, and Arts, Sciences, and Engineering; what are those? No one at the meeting appeared to know; Mr. Erickson said the information would be obtained.

On the question of computing, one Committee member commented, it appears that the private sector is moving in generally the opposite direction of the University--away from big computers to little ones. Mr. Erickson said there are two different phenomena to be noted. The University is moving quickly away from many mainframe applications, but there are a number which require a common database for management purposes. The University does wish to take as much off the mainframes as possible for the purpose of managing data; much of the CUFS system will permit downloading so that units can do so without building a separate database. There is no inconsistency, Mr. Erickson said, and the final decisions about programs have not been made. Right now there are six computing centers, each of which requires "babysitters" (the presence of computer operators is required). It does not make sense to have this duplicated in six different locations. Some information and data processing also now occurs on less cost-effective equipment than is desirable. One Committee member observed that this change makes sense in the long run, although there will be short-run dislocation. A couple of Committee members urged that there be consultation with the departments that use the services of the computer centers and with the staffs of the centers. Mr. Erickson noted that there will be consultation with the Committee on Computing and Information Systems and said he understood there would also be consultation with users. It was suggested that there is considerable concern about the changes that are planned. It was also suggested that the issues have not been well-presented, especially as they relate to the Supercomputer Center; the wording of the document is not felicitous in terms of the relationship of existing computing operations to the Supercomputer Center. Some clarification is needed. Mr. Erickson agreed that the other organizations will not be eliminated and concurred that the language needed amplification. But there will be unavoidable uncertainty for the next two months or so until the specifics of the plans are more fully developed.

Another question raised was about comparison of the University's budget cuts with those made by similar institutions; have any data been developed? Mr. Berg said such information is available from the AAU, but expressed doubt that it would be especially useful in the political forum. It was agreed the information would be provided to the Committee.

It appears that the different units are being asked either to retrench or increase tuition in order to fund salary increases in their units. In the past, money has been distributed centrally--will this lead to the rich getting richer and the poor poorer? What process will be used to capture and reallocate the 5% for salaries? To what extent are the funds being controlled centrally? Mr. Erickson said that the plan presumes 3% will be generated from each unit through internal reallocation; the other 2% is a combination of tuition increases and cost savings. The administration may have to become involved at a much lower level--at the department--in looking at what is being done and where future resources should be directed. Historically at the University, Mr. Erickson observed, people tend to ask more about where the money is coming from rather than what it is being used for. The philosophy must be changed to focus more on where the money is being used and the results associated with that use. To the extent that units have the ability to generate more funds, other money may be pulled back. But there will have to be an academically-driven, active process in examining where the dollars are directed.

Will the increases in salaries paid from tuition increases in such units as the Law School be a one-shot affair? If the legislature funds salary increases for the University in the next biennium, would the salary increases in those units come from legislative funds or from tuition? Mr. Erickson said the situation would have to be examined at the time to determine the appropriate funding source. To the extent that it would be possible for those units to fund the increases themselves, they might be asked to do so. Mr. Erickson concurred that any cap on salaries for the University would probably apply to those units, even though they might be able to generate sufficient funds for a larger increase for themselves--although the question could be raised in the future. It would be a matter of central University policy, it was agreed.

Computing and CUFS bring up issues of concern to department heads, it was noted. Will the units incur costs they have not previously had before? There needs to be a proviso for fixing things when they go wrong, as happened last year. Another Committee member also noted that there have been notices of reduced services and increased costs, so there is a perception that these will be more changes that adversely affect departments. Mr. Erickson agreed that there will be additional work in the implementation of CUFS. When the on-line phase is reached, and the paper flow is reduced, there should not be any increase in burden. That entire process will have to be carefully monitored, he agreed, and promised to do so. If the shadow systems can be eliminated, there are opportunities for improvements.

Committee members discussed with Mr. Erickson a number of points about the CUFS system. One point made emphatically was that it appears that the units will be burdened with increased costs despite whatever improvements the system may bring. It was agreed that the Committee might benefit from a discussion with Mr. LaFontaine about the system.

One Committee member noted that it has been projected that 600 faculty would retire in the next six years; on what assumptions is that number based? Mr. Berg said it came from a survey his office conducted, assuming nothing would change (before the retirement packages were offered), to learn how the faculty and academic staff would respond to various incentives. It turned out the payment of health insurance through to the point of eligibility for Medicare is the most attractive plan that can be offered. The 600, however, came from what the faculty said their plans were prior to the offer of the packages; the number was a surprise, and is a little conservative.

What is being assumed about the replacement of these individuals in terms of salary--replacement but at a lower level? There is no specific assumption, Mr. Erickson said. One difficulty with making projections is the expected shortage of faculty, which will clearly have an impact on the market. Within the tenure system, Mr. Erickson observed, things can be done, but only over a long period of time--which places a premium on effective planning. If more resources are required in some areas, and fewer in others, the shifts can be accomplished over a period of time. It is not clear the extent to which this kind of analysis has been consistently conducted in the past; it will have to be done in the future.

One Committee member inquired about the 3% reduction: (1) Why was the decision made that all vice presidential areas were equally well-funded and so deserved equal cuts? (2) To what extent, and how, will there be consultation, and with whom, over the decisions that will be made? (The vice presidential levels at which the decisions will be made appear to be one step below the consultative level for the Committee or for SCEP and one step above the faculty at the collegiate level; this middle range of administration has no faculty consultative counterpart.) (3) Taking the typical collegiate budget, is a 3% cut for next year feasible, and if not how will the budget be balanced?

Mr. Erickson responded. To the first question, he said, Senior Vice President Infante must really provide the answer; he inquired if Mr. Berg were privy to the rationale. The subject was discussed centrally, Mr. Berg said; the 3% is not to be across-the-board within vice presidencies but is to carry forward Academic Priorities. The decision among vice presidencies was simply that Academic Priorities is the plan that attempts to adjust inequities, and that plan will continue, but balancing the budget is not to affect the plan. The University cannot, in every case, use every tool for the purpose of implementing the plan.

This was, said one Committee member, the easy way to do it but not the proper way to do it. The University just went through a $60 million reallocation plan, with the dollar shifts presumably reflecting a careful analysis of the entire institution on the academic side. Presumably the standing among units in that plan has not changed in the last 12 months; why would it have not been logical to have used the same formula among vice presidents as was developed in the reallocation plan to generate the 3%? Mr. Erickson said the same criteria are being applied; the cuts will not be across-the-board. Moreover, he pointed out, no funds are being taken away from any unit; these funds are being internally reallocated for salary increases.

As far as consultation is concerned, Mr. Erickson said, the original plan was to take the plan to the Board of Regents in November for action. Because of the lack of specifics in the plan in terms of programs, the budget will presented for information in October, a specific listing of proposed program cuts will be offered in November, and final action will be sought in December. Most of the vice presidents have specific things in mind and they are not across-the-board. Once the details become evident, that will be clear, he said; the principles of Restructuring and Reallocation will be embodied in the changes. There is time to consult before action is taken; much is occurring now. Development of the budget plan during the summer also presented difficulties in the timing of consultation. There will be limbs cut from the tree, he warned; it is beyond the point of merely pruning.

The University has not addressed the $23 million in vetoed funds; the clear expectation is that those funds will be restored. If they are not, there will be additional difficulties. The University takes the position that the veto, if the funds are not restored, eliminates the programs--with the exception of women's intercollegiate athletics, which must be continued to comply with federal regulations prohibiting sex discrimination. (In that instance, either the men's program must be drastically modified or additional funds must be found.) "But what's cut is cut."

The Committee agreed not to take up a specific resolution at this meeting.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota