Minutes[•]

Senate Committee on Finance and Planning
February 9, 1993

Present: Irwin Rubenstein (chair), Carl Adams, David Berg Virginia Gray, Michael Hoey, Thomas Hoffman, Julie Idelkope, Karen Karni, Craig Kissock, Richard Pfutzenreuter, Paul Sackett, Jason Schmidt, Thomas Scott, Mary Sue Simmons, Susie Torgerson

Guests: Arnie Christianson (Planning and Programming), Senior Vice President Robert Erickson, Elizabeth Grundner, Ken Janzen (Regents' Office), Harvey Turner (Planning and Programming)

[In these minutes: Minnesota Facilities Model; tuition comparisons; budget update]

1. Review of the Minnesota Facilities Model

Professor Rubenstein convened the meeting at 3:20 and asked Ms. Simmons to provide an overview of the report of the Subcommittee on Facilities Management on the Minnesota Facilities Model (MFM).

Ms. Simmons began by explaining that the Subcommittee had reviewed the various sections of the model, as well its and their own assumptions. One of the most difficult notions to be conscious of, she related, is the proposition that NO ONE OWNS space at the University. The Subcommittee had several questions about the MFM that Ms. Simmons pointed out: Is there a "depression mentality" about space right now, because times are bad, which could make the University reluctant to say it needs space that will in fact be essential for the long term future? With recycling and new varieties of office equipment being developed, is the amount of square footage assigned to offices sufficient? When the MFM is applied in units for the purposes of space planning, will the people in the units be consulted? Does the Model provide for sufficient study space/computer use space for night students? When the Model is revised, will it be used to keep a schedule of renovation to assist people working on deferred maintenance, handicapped access, and fire and life safety improvements?

Decisions about space often take on emotional overtones, Ms. Simmons pointed out, and as one Subcommittee member observed, one cannot make decisions about space in isolation; one has to walk through it and get a feeling for it. The MFM appears to be a good planning tool, but when space is the subject, it is easy for people to straddle the line--or go over the line--between being citizens of the University versus citizens of their department.

Among the major points raised in the ensuing discussion were these:

-- In response to a query about the application of the subjective or judgmental parts of the Model (having to do with quality of space), Mr. Turner explained that his office intends to work with the zone managers, using a "good/fair/bad" standard; what they seek is

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consistency and fairness, and want to measure quality as objectively and simply as possible.

-- At present Programming and Planning does not have records on all research space at the University, although it does have drawings on most space. Part of the capital request, if approved, includes funds for a new software program that would permit a significant increase in their ability to track the use of space and to provide information about it.

-- It is important to have the kinds of standards or benchmarks (supported by external data rather than historical practices at the University) that the MFM provides, one Committee member observed, but one must simultaneously recognize that nearly every case will be an exception--which is appropriate to this kind of institution. That many instances may be exceptions will put pressure on the decision-making process. People must, however, be prepared to make tough decisions. It would not be helpful to have these benchmarks and then conclude that all will go smoothly--an important issue will be the process of making the tough decisions.

Mr. Erickson agreed. All assumptions must be on the table and decisions need to be based on them. The revision of the MFM is the first step in a systematic decision, what the next steps should be are less clear, and it will be necessary to have an evolving process. But there must be accountability for space, and it is his view that without economic incentives, there will be no decisions. Other discussions now occurring will bear on the decisions, such as what expenses should be centrally-funded expenses and which should be departmentally-funded.

-- The MFM, Mr. Turner repeated, is a planning tool that can be used in whatever decision-making process the University settles on. His office, he pointed out, does not make decisions about space; if a college plan is approved by the Provost, they try to provide the best space possible. The MFM as a tool should be reviewed more often than every 10 years, but standards and data from other institutions suggests it is a valid tool, one that is tailored to the University of Minnesota. The Subcommittee, Ms. Simmons pointed out, did consider the number of square feet used as standards for various activities, especially research, but did not try to decide if all of them were appropriate.

-- The University has benefited from the MFM as a planning and tracking tool, it was said, but it is not clear that the same tool can be used if the University moves to charging for space. Ms. Simmons responded that the Subcommittee did not consider this issue.

-- Student members of the Committee reported experiences with a lack of student amenity space. Mr. Erickson said that problem--and he agreed there are deficiencies--would be addressed; while the MFM does not directly address it, certain principles proposed in a draft master planning document speak to the need for student space. His objective, in Finance and Operations, is to make the campus as user-friendly as possible, including provision of space where people can linger.

In terms of what disposition the Committee should make of the Subcommittee's report, Senior Vice President Erickson concurred with the observation of one Committee member that revision of the

MFM is the first step in a process to decide how to deal with space costs. Over the next several years, he told the Committee, decisions will have to be made about how to incorporate space costs into the budget; one step was taken last year in that information about space costs were provided to departments, which is a way for people to begin thinking about space. The process cannot start with inequities, however, which is one reason for updating the MFM; some departments are space-poor, some are space-rich. One question to be answered is how to begin the process without penalizing or rewarding departments on the basis of current circumstances. There may not be, he added, a good answer to the question.

It is not a foregone conclusion, Mr. Erickson commented later, that charging for space will be the right answer--there must be discussion of the issues involving accountability for space. And if there is to be ANY space management, there must be evaluation of the quality and quantity of space departments have, not just gross numbers of square feet. While there may be slight disagreements about the particular standards of the MFM, it is overall a reasonable tool that provides the basis for discussion, and it must lead to understanding of what it costs the University to carry on its activities. It has too long been the practice to look only at direct costs, and not indirect costs; revision of the MFM moves in the direction of looking at total costs.

Mr. Turner told the Committee he believed the existence and use of the MFM will be helpful as the University deals with the Governor's office and the legislature. The University can demonstrate that it has standards for the rational use of its 22 million square feet of space--uses that differ from those of the other higher education systems. Without it, one might speculate that the University would be vulnerable to external direction to the University about its use of space.

Space is a big problem for the University, observed one Committee member, and one where it is difficult to get decisions, this Committee should perhaps be more "proactive" so the University can make significant decisions. Relying on the market (economic incentives) might work if the initial conditions are acceptable. The Committee, Professor Rubenstein responded, has tried to move the issues forward; at this point, he said, the ball is in Mr. Erickson's court. When the administration has a proposal, the Committee will discuss it. The next step, Mr. Erickson said, will be to apply the MFM across the institution and to develop a sense of all the space that the University has; data should be available by about June 1, Mr. Turner added.

The Committee voted unanimously to approve the report of the Subcommittee and to forward it to the administration for response.

2. Tuition

The Committee went off the record for a brief discussion about the response to the resolution about tuition it had adopted at the previous meeting, and then proceeded to a consideration of the tuition data that had been provided.

Mr. Berg explained that the data were provided to the Board of Regents in December as a periodic report on tuition, including the relative tuition standing of the University vis-a-vis other institutions. The information included valuable data on AAU public universities compiled by the University of Missouri, a study which goes to some length to ensure that the comparisons are valid and reasonable.

The general conclusions (concerning primarily undergraduate tuition) that can be drawn from the report are these:

-- Minnesota ranks 5th in the Big Ten (now including Penn State) in tuition, a position it has occupied for the last several years.

-- Of the 30 or so institutions in the AAU study, over the last ten years the median increase in undergraduate tuition has been 130%, Minnesota has increased 112%. For the last five years, the group median has increased 57% while Minnesota has gone up 50%. Last year both Minnesota and the median increase was 12%. While there may be some questions about the consistency of the data over time, given the changes in tuition philosophy at Minnesota (towards tuition based on program cost, then a reversal to uniform undergraduate tuition), one can certainly say, Mr. Berg concluded, that the University, by comparison with its peers, has not had runaway tuition increases.

-- The University has become more dependent on tuition revenue; in 1980 tuition accounted for 24% of the O+M budget, while this year it accounts for 32%.

-- Student aid has not kept up with tuition increases, since 1982, tuition per FYE has increased 170% while aid has increased only 109% (the 170% increase cited here does not reconcile with the 112% cited in the AAU study because of different methods of calculation).

-- The reciprocity agreements are increasingly becoming an incentive for students to go elsewhere. Mr. Berg explained the history of the reciprocity agreement with Wisconsin, which provides the most glaring example (Wisconsin students attending Minnesota will pay about 2/3 the tuition Minnesotans will pay to attend the University of Minnesota).

-- At present it is not the case that resident tuition at Minnesota is higher than nonresident tuition at other research universities (although that WOULD be the case if tuition were required to pay for 67% of instructional costs, as proposed in the Waldorf-Jaros bill last year--which is not now before the legislature). The Governor's proposal calls for tuition to cover 45% of instructional costs; the private colleges may propose that it cover 50%.

-- Nonresident tuition in the professional schools is relatively low, Mr. Berg explained in response to a question, because there are almost no non-residents in the programs, so little attention has been paid to the rates.

-- The reason similar studies for graduate tuition have not been conducted is because no one can figure out how to do them; Mr. Berg said he has been trying for ten years and concluded that there may not BE a way.

-- While one can do these comparisons, maintained one Committee member, the more important matters are the premises upon which the University operates: Does it want to be competitive with Wisconsin? What are our goals? Do we agree with the philosophy of high tuition/high aid?

These data, several Committee members agreed, will be important in the discussions about the "three legs of the stool" that the University controls in terms of its budget (inflationary salary/supply increases, tuition increases, and program cuts).

3. Update on the Budget

Professor Rubenstein next turned to Mr. Pfutzenreuter for a report on the anticipated budget for 1993-94.

Mr. Pfutzenreuter distributed a two-page handout and briefly reviewed the numbers ("planning estimates"):

For the 1993-94 O+M budget: The Governor's recommended appropriation for the University is \$343 million, a decrease of \$11 million. The tuition income is \$179 million, which presumes a 3.5% increase; the Governor recommended \$193 million in tuition income, which includes removal of the state subsidy in selected Master's programs and an increase in undergraduate tuition to bring it to 45% of the cost of instruction. Other revenues are projected to remain about the same (although the income from investments may prove to be lower than anticipated, given the decline in prevailing interest rates). <u>Total resources are projected at \$538 million.</u>

On the expenditure side: The 1992-93 base budget is \$540.8 million; assuming a potential 3.5% inflationary increase in salaries and supplies add \$18.9 million (about 3/4 of which is related to compensation and benefits costs), and there is an additional \$18 million increase in other expenses (new facilities, debt service, mandated programs & legal obligations, etc.). <u>Projected expenditures total \$577.77 million.</u>

The projected shortfall is \$39.7 million for the next fiscal year.

For the State Specials, the corresponding shortfall is projected at \$2.5 million.

These numbers are intentionally conservative, Mr. Erickson pointed out, and the dialogue must begin on the choices that must be made. The University might obtain additional state funds, the tuition assumption may require re-examination; the degree to which inflation will be recognized can be considered. It will be important for the University to consider all three of the elements over which it has control.

Asked where the figure of a previously-reported figure of a \$27 million cut came from, Mr. Pfutzenreuter said he believed it came from a strict counting of the reduction in state-appropriated funds for the biennium.

Asked if the Governor's proposed freeze on salaries includes the University, Mr. Erickson said he believed it did. What happens will be settled in large part by the collective bargaining agreements the state reaches, those will set the pattern. But the Governor has not proposed LEGISLATION that would freeze salaries, and if a unit wished to deliver increases, presumably it could do so from its own resources. The Governor has only made it clear he will not recommend funding for them.

What do these numbers say about anticipated load? inquired one Committee member. Another Committee member suggested they imply the University will get smaller; others demurred. It was pointed out that if the University permits enrollment to drop below the numbers it and the legislature agreed on in 1987, the legislature might be inclined to adjust the appropriation accordingly. At the least, it was said, the budget presumes the same size student body and the same level of activity.

Asked about projected non-state spending, Mr. Erickson said that picture is not any better. Federal research spending is likely to be down (rather than up 17%, as was true last year). At the same time, the three (or four, if one counts State Specials separate from O+M fund) pieces of central funding (state fund, ICR funds, and central reserves) are not likely to increase. The latter two pieces (central reserves and ICR fund) total about $50-55 million, and are, Mr. Erickson confirmed, part of the "base" activities of the University, in that they have been committed for continuing activities.

Asked if the colleges have been asked to identify 5 - 7% to cut, Mr. Erickson said no decision has been made. The University community must be informed of the numbers and realize that there could be a significant deficit that needs to be made up. The legislature controls the net state funds provided to the University, but we control the other three legs of the stool, and we must now decide how to proceed.

Budget hearings with the colleges will begin about March 20, and to hold them, the units must express their views on how they would make cuts. This does NOT make assumptions about whether or not programs will be closed.

In terms of salaries and the pattern set by the state: there are other options, such as a freeze on hiring or a reduction in positions by attrition. But there will be a lot of pressure on the University to do what is done at the state. Mr. Erickson said the administration has resisted a freeze on hiring, because it hits so unfairly, he also noted other options, such as an "interest holiday" for temporary balances (which, he added, is NOT on his list of proposals). The community will have to decide on the balance between tuition increases, program cuts, and salary/supply increases. And in this institution, he pointed out, all the cards are on the table.

Asked about the second year of the biennium, Mr. Pfutzenreuter said that if the deficit problem were not solved in the first year, the deficit would be $100 million at the end of the second year.

One Committee member vigorously expressed the view that the legislature and Governor must be told that the University DID impose a salary freeze two years ago, and to do so again would be a disaster. All three legs of the stool must be part of the decision-making.

Another Committee member suggested how the administration might proceed. Assume, it was said, that there WILL be inflationary increases in wages, and look to two sources to balance the budget. First, unit heads must make programmatic reductions; second, unit heads must be asked to identify efficiencies that can be had so that the same work can be accomplished at less cost--and do not allow anyone to say it cannot be done, because that is not the way the world works. Leave open the tuition question until after the other questions about program reduction and efficiencies have been answered.

There are units, it was responded, that have taken cuts over and over again--and that do not have the flexibility to take any more reductions or achieve efficiencies. Either the University must fight with the Governor and legislature or there will be a slow decline of the quality of this institution that would be difficult to rebuild.

The University can, of course, it was said by the Committee who proposed program cuts and efficiencies, go back to the legislatute and Governor and say that if it does not receive the money, it cannot do certain things. But as an institution, it CANNOT say that an increase in effiiency in what it does is not possible--EVERY organization in society is doing so, and the University cannot say it is different and cannot do so. But if that notion is acknowledged, and efficiencies are sought, THEN the University can tell the legislature it simply cannot do the job it has previously done without the necessary funds. While it is true that it damages a program to be identified as a possible target for reduction or elimination, the University cannot go on raising tuition and seeking more tax dollars.

Professor Rubenstein handed out a sheet outlining one approach to the budget problems and asked Committee members to think it over.

It was agreed that the Committee would meet next week, at 4:00, for an hour, to consider budgetary issues once again.

The Committee adjourned at 5:20.

-- Gary Engstrand

University of Minnesota