Minutes[*]

Senate Committee on Finance and Planning
Tuesday, November 2, 1993
3:15 - 5:00
Room 238 Morrill Hall

Present: Irwin Rubenstein (chair), David Berg, David Dahlgren, Mark Davison, William Gerberich, Michael Hoey, Karen Karni, Craig Kissock, Fred Morrison, Doris Rubenstein, Thomas Scott, Mary Sue Simmons, Susan Torgerson, Dianne Van Tasell, Albert Yonas

Absent: Carl Adams, Mary Askelson, Karen Geronime, Roger Paschke, Richard Pfutzenreuter

Guests: Senior Vice President Robert Erickson, Vice President Anne Petersen

Others: Ken Janzen (Regents' Office)

[In these minutes: Financial issues in strategic planning; Health Sciences reorganization (briefly)]

1. Report of the Chair

Professor Rubenstein convened the meeting at 3:15 and began by noting the handouts to Committee members: A report from CEE on degrees that can be obtained through its programs and excerpts from the Fall, 1993 issue of DAEDALUS, devoted in its entirety to "The American Research University."

One question about the CEE degree information, said one Committee member, is how many degrees are actually earned through CEE. It appears not to be a very large number.

On the agenda today are the other two documents to be provided to the Board of Regents about strategic planning (financial aspects and process) and the relationship of the Health Sciences to the rest of the University following the reorganization of the Health Sciences. Professor Rubenstein noted that when the Board approved the reorganization, it also approved hiring as quickly as possible a chief executive officer and chief financial officer--but at the same time the Board requested, for its December meeting, a description of the relationship of the Health Sciences to the rest of the University. He has asked Vice President Petersen to discuss those relationships with the Committee.

2. Financial Aspects of Strategic Planning

Professor Rubenstein next turned to Mr. Berg for a discussion of financial issues associated with strategic planning. Mr. Berg distributed a draft paper on financial issues and reported that he and Mr. Pfutzenreuter have been designated the lead writers on this aspect of strategic planning. He apologized

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for dropping a document on the Committee and said that it would continue to be revised so that there would be time for the Committee to review and react to it. He also explained that Mr. Pfutzenreuter was meeting with the Commissioner of Revenue so was unable to attend.

Mr. Berg began by cautioning that the document is NOT a financial plan for U2000--one cannot have a financial plan when the details of the plan are not clear. As the planning process goes forward, however, it is useful to have an idea of the financial constraints that exist; this paper tries to raise issues that are latent in the U2000 plan even if the University's mission is not appreciably changed.

He then reviewed the current revenues of the University. Of the total, 27% comes from the state. That may not seem a lot, Mr. Berg commented, but it is important to realize that it makes up 42% of the "Education and General" revenues--the chart is not intended to denigrate the state portion; it is the University's single most important source of revenue.

Mr. Berg then noted a chart demonstrating that higher education's share of Minnesota tax revenues has declined in the past ten years and that the University's share of those revenues has also declined by about 10% during the same period. The reason for that decline, in part, is a result of the shift in state policy from financing institutions to financing students. An alternative way of considering these data is to look at funding for higher education, and the University, as a percentage of Minnesota personal income; again, both shares have declined. The decline in the University's share occurred primarily in the last two years.

Attention then turned to tuition revenues (as distinct from RATES). Revenues have increased significantly in the last two years. The RATES have increased 29% over the rate of inflation in the last ten years--of which, Mr. Berg pointed out, 75% IS DIRECTLY ATTRIBUTABLE TO THE WITHDRAWAL OF STATE FUNDS. One hears that tuition increases have been the result of growth in administrative staff and more favorable staff to student ratios, but that is largely not true at Minnesota. It is ironic, observed one Committee member, that the legislature sometimes blames the University for limiting access when tuition is probably the single largest factor in limiting access.

Federal support to the University, Mr. Berg then pointed out, has gone up steadily over the decade--the faculty have been remarkably successful in obtaining more and more federal funds. A couple of observations about this phenomenon are in order, however. First, one must not make the mistake of thinking that federal dollars are in any way substitutable for state or other institutional funds--and the University must make certain that its publics understand that. Second, federal funds are not always an unmixed blessing. There have been reductions in indirect cost funds and increased requirements for matching funds, so the University often faces a tradeoff--it must divert money from other programs to obtain the federal funds or it must defer such things as plant maintenance and equipment purchases--or perhaps even divert funds for faculty retention.

Mr. Berg then noted the auxiliary revenues (from such sources as parking, food services, the bookstores, and so on); those funds have fluctuated over the last decade but have not increased or decreased by any significant amounts. The question can be raised whether or not these operations present an opportunity to make money that could be redirected to educational activities; in the past the Board of Regents has not approved such a philosophy. It should be made clear, pointed out one Committee member, that the numbers on this particular table are NOT profits and losses. These revenues, like federal funds, are also not fungible, Mr. Berg noted. The point, said another Committee member, is that the University is not subsidizing the auxiliary enterprises; that, Mr. Berg responded, is not clear--and the University must be certain that it is not inadvertently subsidizing them.

One of the discussions that has continued with respect to financial issues is how to encourage enhanced productivity and efficiency, incentives that might be used, and how the gains, if found, might be shared. Another issue is "right sizing": there are a number of programs that could add students and the tuition revenue generated would exceed the marginal increase in the cost of educating them.

On the issue of faculty compensation, Mr. Berg told the Committee, the University must face the fact that its salaries are not competitive. For the purposes of strategic planning they have decided to use the AAUP data; while it has some flaws--as do ALL salary data--they present an accurate picture. The AAUP data use salary and compensation figures in a generally accepted manner from the top 30 research universities; Minnesota ranks 24th in that group.

The document also needs to speak to the question of staff salaries, it was suggested. Mr. Berg agreed but said he needed the advice of the Committee on how to include them. Inter-institutional comparison data do not exist. He recalled that he served for nearly five years on an AAU committee that tried to develop staff salary comparisons; they finally gave up because the positions are so variable (there are comparison data for identifiable administrative positions such as president, vice presidents, deans, and so on, but not for professional staff generally). It may also not be appropriate to compare staff salaries with other institutions, he suggested; the local market may be more pertinent.

One could look at the total cost of upper administration as a percentage of the University's budget, it was suggested. Those data do exist, Mr. Berg said; the University is about average. That point itself should be made known, it was said.

One Committee member argued that the salary numbers cannot be looked at naively; the cost of living, for example, varies widely among locations. Moreover, this issue is being dealt with in so many other fora that the Committee should just drop it.

Other Committee members demurred. Messrs. Hasselmo and Infante have been making the point, declared one Committee member, that people must realize that if the University wants to move into the top 10 research universities it must pay its faculty and staff accordingly. An argument that the University should pay average salaries is not acceptable; doing so will result in an average faculty. The connection between salaries and quality MUST be made. The University has not bitten the bullet on the salary issue--but overall, it will in the final analysis determine faculty quality.

One can agree that the data are always open to criticism, Mr. Berg commented, but cost of living isn't usually a major factor. Indiana, for example, ranks low on these tables--but it has no Medical School, Agriculture, or Engineering--so it will ALWAYS be low; their salaries are actually better than the table suggests. However, he added, having done the cost-of-living studies and studies that controlled for other factors, he said he could state that the University's faculty are badly paid--there is no argument about that. This is a central issue in planning--if the University wants quality, it must invest in faculty salaries.

The University also has to invest in the support services and staff that undergird faculty effort. The document should say so. Mr. Berg again solicited the guidance of the Committee on what such a section should include. The salary indices, he said, suggest that while University staff may be paid slightly less than State employees, they are nonetheless doing appreciably better than the local labor markets. The important measure, reflected one Committee member, is the NUMBER of staff; departments are losing people and not replacing them, often making it difficult for people to get their work done--and that is very costly. Mr. Berg agreed.

The point about faculty salaries, suggested one Committee member, is more than an equity or fairness argument. It must be described by the damage the lack of competitiveness causes and the labor market difficulties. The University is not typically competing with Augsburg and St. Olaf; it is competing with those 29 other top research universities in a national labor market. That is where salaries are critical. But that point is sometimes not made. How is the University to get better? By successfully recruiting the same faculty who are being recruited by Stanford and Penn State.

Asked about the number of faculty who have actually left in the last five years, Mr. Berg said there have not been that many. That is not to say they won't in the future, however--the University has been slipping in salary competitiveness (as has the entire Big Ten).

One Committee member commented that in terms of academic and professional staff, one has the sense that many have had their salaries reduced or been invited to apply for their own jobs--or been replaced--at lower salaries. Are there are any data on these kinds of positions? Mr. Berg said there are not.

Mr. Berg then turned to the last table in the paper. It identified the major sources of University revenue (nine categories) and projected each of them out for the next six years under (21) different assumptions of growth or lack of growth. Three of the totals were then selected for planning (a high, low, and tentative estimate amount). The optimistic projection suggests there will be an additional $250 million (in real dollars) available to the University by the year 2000. The pessimistic projection points to a reduction of $90 million. The tentative estimate projects an increase of $170 million.

The purpose of that exercise, Mr. Berg said, is so that as planning proceeds, the costs of what might be proposed can be inserted into the model to see how they compare with the revenues expected. As more information becomes available, a more sophisticated model can be used. These numbers are intended to introduce ballpark estimates into the process without killing all dreams and aspirations in planning.

One problem is that of the nine major sources of revenue listed, only two (state appropriations and tuition) significantly affect planning; the remainder of the funds are largely dedicated. Mr. Berg pointed out that endowment income and private giving could be used, but agreed that they are not large amounts. The result is that at the end, there might only be an additional $65 million from the state and perhaps $25 to $30 million in tuition revenues--not $170 million. Mr. Berg concurred; the narrative emphasizes that possibility.

The assumption at this point, observed one Committee member, is that all three of the strategic planning documents to be presented to the Board of Regents will be in some sort of final draft form by early next week and will be published for Faculty Senate discussion. The next meeting will not be too late for the Committee to comment on the drafts--but it will be too late to affect the documents that are presented to the Senate.

Professor Rubenstein thanked Mr. Berg for presenting the materials to the Committee.

3. Health Sciences Reorganization

Professor Rubenstein next welcomed Vice President Petersen to the meeting and explained what he had told Committee members at the beginning of the meeting. Will there be anything in writing, he inquired, about the relationship of the Health Sciences to the rest of the University? Many faculty are concerned about the creation of a provost and the possible separation of the Health Sciences from the University.

Dr. Petersen said there should be a written document soon. A subset of the vice presidents met within the past two weeks and talked about the issues that needed to be addressed; Senior Vice President Infante agreed to draft a report. She was pleased, she told the Committee, because the discussion made it clear that major concerns would be addressed.

Asked what those concerns were, she cited specification of expectations about collaboration and interaction on academic issues. How much specificity there will be in the document is not clear; some felt it more appropriate to set general expectations. ICR funds, she said in response to a question, would continue to be treated as a University whole, not dedicated to the Health Sciences. She has appointed a University-wide committee to look at, first, the new A21 guidelines on how costs must be laid out in grants. One major change required by the new A21 guidelines is that clerical staff cannot be counted in direct costs; this could cost the University about $10 million until clerical costs can be incorporated in and recovered from indirect costs. Second, more general issues to be addressed include the general tendency among universities, she said, to link the distribution of the ICR funds to the basis upon which--the costs--the rate is calculated to cover--ICR funds do, after all, reflect costs. How the funds should be allocated--off the top for space and maintenance? to the units or centrally?--needs to be discussed.

Senior Vice President Erickson emphasized that this is NOT a separation of the Health Sciences; the term is used but it will not be separation. While Dr. Infante is setting out academic principles, his office is establishing financial oversight principles (as well as for the entire University). The Vice Presidents agreed that there will only be one ORTTA and only one office of federal and state relations, even though additional effort may be required in the health sciences.

Given what one hears that faculty are concerned about, it seems unlikely that principles being drafted will respond to those concerns, said one Committee member. The Committee needs a piece of paper with principles, not an outline of good intentions. One concern is that it is only the Vice Presidents who are meeting--and their concerns may be different from those of the faculty. Moreover, the Committee should review the draft principles BEFORE they go to the Board of Regents--or it can only speak to the Board of Regents, not to the administration. Vice Presidents Erickson and Petersen both assured the Committee it would have that opportunity.

There seems to be no written proposal that the Committee can react to, one Committee member said, so the issue should be put over to the next meeting. This proposal met with general assent.

It was agreed that the meeting next week would be devoted to a discussion of the planning documents and the Health Sciences principles.

There being no other business, Professor Rubenstein adjourned the meeting at 4:20.

-- Gary Engstrand

University of Minnesota