

Minutes\*

**Senate Committee on Finance and Planning**  
**Wednesday, January 19, 1994**  
**2:00 - 3:00**  
**Room 300 Morrill Hall**

Present: Irwin Rubenstein (chair), David Berg, Michael Hoey, Karen Karni, Craig Kissock, Gerald Klement, Fred Morrison, Richard Pfutzenreuter

Absent: None were considered absent inasmuch as the meeting was called on five hours notice

Guests: Senior Vice President Robert Erickson

Others: None

[In these minutes: Budget and Strategic Investment Pool instructions]

**Budget Instructions**

Professor Rubenstein convened the meeting at 2:10 and thanked those who were able to attend on such short notice. The closing of the University the preceding day had the result of canceling a meeting of the Committee, part of which was to have been devoted to a discussion of budget instructions to units. This meeting was then called today in order to provide some consultation on the budget instructions before they are duplicated and distributed on Friday, January 21.

Mr. Pfutzenreuter distributed a new version of the table containing the nine options (with variations in tuition rates, salary increases, size of the Strategic Investment Pool) that had been presented to the Committee earlier; this version also contained the Regents' option. The option approved by the Board was none of the nine presented because the Regents voted to hold the tuition increase to 3%, rather than the 5% recommended by the administration and the governance system. The net result was to increase the projected deficit--and required retrenchment--from \$7.5 million to \$10.2 million.

The President and the two senior vice presidents met earlier today to discuss the preliminary allocation targets to accommodate the deficit; the cuts will be allocated differentially. Information requested by the budget instructions will be due back on February 21; budget hearings will start the week of March 1.

Mr. Pfutzenreuter also distributed a draft description of the SIP and directions on how to apply for funds from it. There will be a standard form requesting standard information, he said.

The overall University O+M budget, Mr. Pfutzenreuter told the Committee, will go up by about

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4.6%.

Asked how widely the SIP instructions will be distributed, Mr. Pfutzenreuter said they would go to deans and to area/class managers (about 50), the budget contact people. They believe the information should be widely available but his office does not wish to short-circuit the college structures. They are emphasizing the need for communication within colleges, he said.

When the Faculty Senate approved U2000, one Committee member noted, it was with the caveat that consultation with faculty, staff, and students was critical--and that evidence of that consultation should be available. It might be worthwhile to have a specific requirement that the means of consultation be reported--and, were the administration willing to go that far--if evidence of consultation were not provided, the SIP request would not be considered. It is important that faculty and staff talents be sought to help improve the University; that is the only way they will support the planning effort.

One Committee member, reviewing the examples for which SIP funds might be used, mused that it appears SIP funds will not be used for educational programs. Improvement of the student experience is a broad category, Mr. Pfutzenreuter pointed out, and the list is by no means limiting. One constraint on the SIP, added another Committee member, is that half of it is soft money--and the examples are predicated on soft funds. But they are more infrastructure items than educational programs. That is only for this first round of the SIP, said one Committee member; the first round, it was rejoined, will define the SIP. These examples are short-term improvements, Mr. Pfutzenreuter noted, and one would need to know what is meant by the term "educational" before one could say that SIP would not be used for educational projects. Does that mean adding a course? Following brief additional discussion, Mr. Pfutzenreuter and the Committee agreed that language should be added making it clear that educational activities are clearly included in SIP activities that could be funded.

What, inquired one Committee member, of a unit that felt it was badly understaffed and wanted to improve; could it apply for SIP funds to improve staffing? Some CLA departments, for example, might say they cannot provide senior faculty for academic advising even for upper division students; in a strict interpretation of improving the student experience, such a request would not be accepted. It would be tough for a support unit to make that case, Mr. Pfutzenreuter speculated, and perhaps easier for an academic unit to do so--if the improvement were sought within the framework of the goals of U2000.

The SIP document is much more constraining than the planning directions in that it outlines objectives that are much narrower, observed one Committee member. Another added the view that the relationship between these objectives and U2000 goals is unclear; if the SIP will be created to advance the goals of U2000, should not the use of the funds be limited to the five goals? Mr. Pfutzenreuter commented that there has been debate about whether the uses of SIP funds should be restricted or broad.

One Committee member pointed out that units have done a varying amount of planning so do not start out equally competitive for funds. Moreover, the University needs a lot. These instructions should say that because of these circumstances, greater emphasis will be placed on such-and-such this year, and applications must be tied to the U2000 strategic directions. Another Committee member added that while all investments must further the five strategic goals of U2000, this year the use of SIP funds will be defined by the four themes identified in the draft instructions. Right now there is no plan to deal with U2000; SIP funds appear to be devoted to computers and facilities.

Part of the problem is the examples, said one Committee member; they make one nervous. That is a phenomenon peculiar to the University, Mr. Pfitzenreuter exclaimed--the concern that one will be excluded if not among the examples. Language could be added to allay the concern that the list is exclusive, it was suggested. A quick reading of the examples, however, leads one to conclude that the SIP is not for U2000 but rather to deal with some administrative problems. That, Mr. Erickson commented, is certainly not the intent.

Are units limited in the amount of money they can request from the SIP? Mr. Pfitzenreuter was asked. There is no limit contained in the draft budget instructions, he replied. They will advise units to be realistic. What will "realistic" be? he was asked. Mr. Erickson responded that that would vary with the unit--a \$50,000 request from a small unit for an important initiative might be a much larger percentage of the unit's budget than a larger request from CLA, for example. And one-time requests could be somewhat larger, Mr. Pfitzenreuter observed.

Mr. Erickson said it is his view that as the University begins to use the SIP, it is important not to start out by limiting its use. Even if funds might not be available to meet a request, a unit might be told it has a very good idea and that money might be available next year--or funds might be available over a period of years. The way the administration responds to SIP requests this year will establish how people think about it in the future, he said, and it is better to keep the view of uses of the SIP as broad as possible.

The current wording of these instructions, it was noted by one Committee member, preclude any request from a unit to offset the damage caused by the nearly 2% (average) retrenchment that will be required by the \$10.3 million projected deficit. Is that intended? Is there any way for planning to deal with the retrenchment other than to just take the damage?

This is only a prelude, Mr. Erickson reminded the Committee again. Budgets will be presented to the Board of Regents in April. Notwithstanding the fact that the Board adopted a 3% tuition increase guideline, the administration is not precluded from saying that additional investments and retrenchments to be avoided by adding 2% to the tuition increase are worthwhile. One way to view this, Mr. Pfitzenreuter added, is that tuition, the SIP, and enrollment are all "still in play," although limited by the Board's action.

In the discussions at the Board meeting on Friday, said one Committee member who had been present at the meeting, the Board implicitly said that if the 3% limit on tuition does not work, a larger increase can be requested. How will budget instructions permit units to put something on the table, and say it cannot be cut, and communicate that back to the administration? And with a \$10 million cut, how will units demonstrate the effects of cuts?

Units will be asked what actions they need to take to meet the retrenchments, Mr. Erickson said. The concern about the budget instruction language, it was said, is that this is a situation where there may be an immediate effect and a real effect. The immediate effect might be to lay off a secretary; the long-term real effect may be to reduce class offerings. One example offered was the elimination of sending a photographer to a unit to take pictures; instead, students will now be expected to come from the West Bank to have pictures taken--this is improving the student experience! How will units be allowed to

identify the damage that will be done by the cuts but also avoid the problem the President has talked about--that damage will be done if an item is put on the table, even if it is subsequently not the subject of a cut? What mechanism will be provided?

Each unit will receive its share of the \$10 million cut, although not across-the-board, Mr. Pfutzenreuter explained. They will be asked to describe, in the budget documents, the programmatic choices they must make to accommodate the cuts. Those documents and choices will serve as the basis of the hearings. After all the hearings are completed, the information will be digested and final budget recommendations to the Board of Regents will be prepared.

There is a difference, it was pointed out, between what is feasible and what needs to be done. For example, faculty cannot now be laid off because the date for notification is past--even though that is perhaps what should be done. So units may turn off all the telephones this year and dismiss all probationary faculty next year--does the administration only want to know about turning off the telephones?

The administration would like as much information as possible, Mr. Erickson told the Committee in order to inform the decisions. This is an earlier point in the process than has been true in prior years. He and Dr. Infante spent a great deal of time reviewing the numbers and information available, and within the framework of the situation, most units have the ability to accommodate changes. Most units, he pointed out, will not see actual decreases; the question is how much of an increase they will receive. This discussion is jumping ahead to budget numbers; the whole idea of the process is that there will be 60 to 90 days before the actual budget will be submitted to the Board of Regents--which is much more time than the University has had before to discuss the issues. And, he informed the Committee, the Board of Regents left open the door to recommendations to change the budget. There must, in addition, be an update on tuition revenues; the numbers used have been conservative but by March data from the first two quarters will be known and there will be a good notion of Spring Quarter data.

The issue of the transition to a better integration of planning and budgeting has been discussed before with the Committee, Mr. Pfutzenreuter observed. There have also been discussions of operational, tactical, and strategic decisions. For next year there is a one-year operating budget needed, but attention must be paid to subsequent years as well. A lot of information is being requested for this year's budget, but the administration does not want to get ahead of the strategic planning process.

Mr. Pfutzenreuter affirmed that the unit cuts would only total to the \$10.2 million (in addition to the Restructuring and Reallocation changes). If the units relate the impact of the reductions, and the administration believes they are more than can be managed, will they return to the Board of Regents with a recommendation to raise tuition? Or, added another Committee member, to reduce the SIP? Mr. Erickson said they would.

Another solution, in some cases, Mr. Pfutzenreuter pointed out, would be increased revenue from enrollment increases. Units will be permitted to suggest that they increase enrollment to the extent they have capacity that accords with institutional assessment. This, observed one Committee member, is increasing enrollment to improve quality! The difference, Mr. Erickson pointed out, is that these increases would be targeted; the enrollment decline under Commitment to Focus was unaccompanied by parallel reductions in staffing so that the two are out of line. These proposals would bring them back into

alignment.

One Committee member said that presumably units would not be able to seek to recoup retrenched funds through the SIP, in order to reveal the impact of the cuts. In that case, the administration should instruct units that it wishes to know the long-term impact of the cuts. Mr. Pfutzenreuter said that the budget instructions do not require units to say what the impact of the cuts would be over the next two or three years--although that could be added. Such an impact statement IS being sought for the SIP requests.

Another Committee member said such information about cuts should be sought, for two reasons. First, the cuts next year may need to be restored the following year because the cuts later would be different than the limited choices of immediate cuts required by next year's budget. For example, a unit might cut TAs this year and faculty the next. Second, the administration should seek information about the PROGRAMMATIC impact for the next two to three years, not just the budgetary impact.

Consideration would be given to a department that seeks to accomplish 25% of its goal next year and the rest in the future, Mr. Erickson said. The administration would be prepared to look for phasing funds to help units accommodate long-term change. The administration, he commented, is looking for changes that make the most long-term sense. Then, he was told, the administration should request long-term information about the cuts.

It is critically important that units think about the long-term, Mr. Erickson agreed. The issue is how to get to that point and to create the mentality that thinks long-term.

The administration will receive hundreds of tactical decision proposals and should want units to set priorities in their SIP requests to attain the University's mission, suggested one Committee member. It would be useful for the unit to do so and to involve faculty and staff in the decisions. And if they do not? asked another. The administration could say, it was said, that it would consider such requests in a less favorable light.

Asked if the administration would also ask units to rank-order the cuts that would need to be made, Mr. Pfutzenreuter said those priorities would emerge at the budget hearings. Whatever the cuts finally imposed, the unit decisions will presumably reflect its priorities.

If the expectation is that the SIP cannot be usefully larger than \$5 million with only a 3% tuition increase, will this process make people do a lot more teeth-gnashing than is necessary? This retrenchment, it was pointed out, comes on top of four years of retrenchment--and this is supposed to be a good year! Now there will be an average 2% reduction. The administration must accept the Regents' guidelines, of course, but his changes the balance in the proposal. The Board, Mr. Erickson observed, was very explicit. But the SIP is not sacrosanct, it was responded.

Nothing is sacrosanct, Mr. Erickson said, except perhaps the salary increases. This discussion is trying to jump to conclusions before the budget discussions, he repeated--and those discussions may demonstrate that the budget guidelines are unworkable. The issues need to be refined in going through the process. He reaffirmed that the culture must be changed so that tactical decisions are made that accord as much as possible with long term objectives. He promised to do whatever he could to facilitate the supply of bridge funding.

Asked about the coordinate campuses and the State Specials, Mr. Erickson pointed out that the latter budgets are set by the legislature. A few may have problems with salaries, Mr. Pfitzenreuter reported, because they will not have enough money to cover the full 6%. The coordinate campuses are eligible for the SIP funds and will take a share of the cuts.

If one anticipates that the SIP will be around for a long time, and that retrenchment will also continue, that information should be made available to units, one Committee member observed. In the past, deadlines did not permit long-term planning; if a part of unit thinking, they should begin to think about changes BEFORE such deadlines (e.g., termination or non-renewal notices) pass. Mr. Erickson said the SIP would likely be the principal vehicle to carry out strategic planning--and a logical way to identify issues and areas for discussion.

If this is a prelude, said one Committee member, the symphony is in a minor key. The outcome from this process is that the research and teaching missions will finance administrative services and the evening division. The University will take \$10 million out of operating units to finance an SIP that has a short list of objectives. The cuts, Mr. Erickson objected, will be shared broadly.

A major point at the Regents' meeting, recalled one Committee member, was that evening classes would be taught by regular faculty. That does not appear in these documents. In picking up on the discussion, said another, this spreads the cost of the SIP across the University and provides a relatively restricted list of objectives for which the funds can be used.

The SIP next year could have broader uses, pointed out one Committee member. The limitations are to some extent a result of discussions with this Committee and with the deans: that this time, because not all units are at equal stages in planning, the funds should be used for improvements across the institution. That rationale was to hold down the SIP, it was responded--now both it and the retrenchment are larger than what the Committee recommended while the purposes for which the SIP can be used have been held constant.

There is also no indication of how SIP funds could be used for research purposes, it was pointed out. Adding an example would help, it was suggested. Even generic language about fostering promising new research directions would be an improvement. Mr. Erickson agreed that because the SIP will become more important in the future, it should not be narrowly defined in its first year. If, after the budget process is done, the pain is too great, it may need to be scaled back this year. That should not discourage using it in the future, however.

One aspect of the discussion has not been mentioned up to now: When tuition was at 5%, it was said, of which 2% was to be for the improvement of the student experience, most saw that proposal as a way to "balance the pain" of program retrenchment and student dollars to the SIP. When the Board of Regents reduced the tuition increase to 3%, it violated that understanding. If students are not to contribute to the SIP through their tuition, faculty and staff should not contribute through increased retrenchment.

That is related to the mindset of the Board, Mr. Erickson responded. They have been very interested in looking for options and have been frustrated that they have not had the information they

need. Board members want to see what comes out of the process; he said he heard the word "challenge" several times during the Board meeting. The job of the administration and the governance system is to articulate whether or not the challenge can be met. The information received during the budget hearings will help to make the case. He emphasized, too, that these are GUIDELINES; there have been no hearings yet and people will be given the chance to identify the impact.

This process represents a dramatic improvement over the information available to him when he first came to the University, Mr. Erickson related. He had only one year's numbers his first year--and that isn't the kind of information a chief financial officer can act on. Now series data are beginning to be developed; they are not complete and performance data are also needed. The process must be iterative.

The Board of Regents, Mr. Erickson said in response to a subsequent comment, wants to see the impact of the decisions. In the past, there could be no significant debate or discussion because they approved the budget principles one month and the budget the next--it was all done too quickly. The administration will do whatever it can to articulate the case for the recommendation that it made to the Board, one that it spent a great deal of time on and thought was reasonable.

Professor Rubenstein thanked those who attended and said he hoped the suggestions made were helpful. Mr. Erickson said they were and that the dialogue is important.

It was agreed that the Committee would discuss the budget instructions at its meeting next Tuesday. Asked about an update on CUFS, Professor Rubenstein said he would prefer to defer that discussion until after the April Regents' meeting and the budget decisions. He also alerted Committee members to the fact that there will likely be a joint meeting of this Committee with the President and with Regent Keffeler to discuss the actions taken by the Board.

Professor Rubenstein then adjourned the meeting at 3:15.

-- Gary Engstrand

University of Minnesota