

Minutes\*

**Senate Committee on Finance and Planning**  
**Tuesday, November 15, 1994**  
**3:15 - 5:00**  
**Room 238 Morrill Hall**

- Present: Virginia Gray (chair), David Berg, Allen Goldman, Thomas Hoffmann Karen Karni, Craig Kissock, Gerald Klement, Patrice Morrow, Roger Paschke, Doris Rubenstein, Anne Sales, Thomas Scott, Craig Swan
- Regrets: none
- Absent: Mary Askelson, Mark Davison, Carl Erickson, Ryan Fuller, William Gerberich, Roger Martin, Richard Pfitzenreuter
- Guests: Senior Vice President Robert Erickson, Ms. Carole Fleck (Budget and Finance), Acting Vice President John Q. Imholte, Associate Vice President Robert Kvavik
- Others: Susan Nemitz (Academic Affairs)

[In these minutes: The fifth year of R&R; direct lending to students; quarterly financial report; (with Associate Vice President Kvavik:) planning, budgeting, and evaluation]

**1. Restructuring and Reallocation**

Professor Gray convened the meeting at 3:15 and began by reporting that she had sent a letter to President Hasselmo expressing the Committee's concern about cancellation of the fifth year of retrenchment and reallocation. He had called her about it and left a message, she reported, saying that the retrenchments and reallocations would occur. She has heard from others, however, that the situation may yet be in flux, and a memorandum is to be distributed today clarifying the situation.

**2. Student Financial Aid Direct Lending**

Professor Gray then welcomed Acting Vice President Imholte and Mr. Paschke to discuss direct lending of student financial aid. As a prelude, Dr. Imholte announced that a new Director of Financial Aid has been appointed, which will be a major positive development. He also noted that the presentation today is similar to one that will be made to the Regents in December, for information.

Mr. Paschke then distributed a set of slides outlining the changes in the way students receive loans if direct lending is approved. The major change is that students will obtain loans directly through their school from the Department of Education and will no longer have to deal with lenders and guarantee

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agencies.

This is the first year of a test period, he said; the Department of Education selected 100+ schools, including UMD, to try out direct lending. Schools need to apply to the Department of Education; if they are accepted, they must execute a contract with the Department. All three other campuses of the University have applied; the Twin Cities has been accepted.

The goals of direct lending are "one-stop shopping," a simple process for students, a reduction in errors, and superior customer service. Right now students deal with any of 550 lenders, 15 secondary markets (where the loans may be sold and resold), and one of 45 guarantors. It is a complicated process, in that the students must deal with several outside parties as well as the institution. Direct lending eliminates all agencies except the institution and the Department of Education, and students interact only with the University--they apply to the University, which forwards the loan request to the Department of Education, and the funds are transferred electronically to the student account.

There are numerous advantages to the program, which Mr. Paschke outlined, most of which have to do with simplification and reduction in errors and confusion. There are also incentives to the institution, including improved cash flow and a long-term net revenue benefit.

There are potential disadvantages--whether the Department will continue to provide the same level of support, a slight increase in liability, federal policy changes could affect the program, there is no institutional control over the service agency used for collection of loans, and implementation must be timely. Now the Department deals with 5% of the institutions in the country; that would increase to 40% next year and more thereafter, and ultimately the Department wants all institutions involved. The Department appears to have been thorough and complete in its development of the program, and seems to have the ability to deal with the increased numbers, but private lenders are warning that with the huge increase in number of institutions, the program may not be well run.

The funds in the program, Mr. Paschke affirmed, are tax dollars. The program was begun in part because it carries with it the notion that repayment may be in the form of community service, which the federal government can control. The total amount of funds that could be involved is large; University students, in 1992-93, borrowed \$72 million.

The default rates will be examined closely, Mr. Paschke told the Committee; a high rate may pose problems for institutions. But they will not as easily control the default rate, because those are affected by the loan servicers.

The response to the program has been overwhelmingly positive, and receives high marks from students and parents, who are impressed by its ease of use and administration. The experience at Duluth mirrored that at other institutions.

There are start-up costs involved, perhaps \$300,000 to \$400,000 at Duluth, much of it for computers. That figure does not necessarily transfer to what it would cost on the Twin Cities. Many schools have seen a decrease in staff as a result of the program, and at the least there appears to be no increase.

Asked about savings, Mr. Paschke noted the cash flow improvement, but the major benefit is in service to the student.

One might imagine that if there is more institutional responsibility, there would be a need for additional staff to provide counseling to students. The lack of need to increase staff, Mr. Paschke speculated, may be because the present system is so complicated that many staff are needed to deal with problems; with this program, the problems go away and the staff can be more readily reassigned to counseling.

Committee members expressed support for the decision to apply to participate in the program, and noted that it appeared to fit well with the goals of U2000. The Financial Aid office has not had the best reputation in the past, it was noted; this program will not get caught up in what made the office dysfunctional in the past, will it? It will not only enhance service to students, Dr. Imholte observed, it will also help improve morale in Financial Aid; they strongly support it. As does the new Director.

Private lenders are concerned that the University is choosing to participate in the program, because they will not have a role in student loans. The University has talked with them, Mr. Paschke said, to explain the advantages it offers. With those organizations out of the process, but with the University not controlling the servicer, bad performance could reflect on the University. And if there are savings, they should be passed on to students. Mr. Paschke explained that the Department is selecting experienced external servicers.

He also explained, in response to a question, that students are not precluded from obtaining loans elsewhere, but the University will not support, through loan guarantees, private initiatives to obtain loans if it participates in the federal program. Students, said Ms. Sales, will not oppose this program; it's something they've all been waiting for.

In terms of service by guarantors, Dr. Imholte recited several examples where students' aid money was held up because of goofs by the agencies. A University mistake could affect a lot more students, it was pointed out; Mr. Paschke rejoined that it could also be fixed overnight because this is an electronic funds transfer system.

One concern expressed was that at present, students pay back a lending agency; under this program, they would constantly be reminded of the University when paying back their loans. On the other hand, it would help the University keep track of alumni! The former concern is not valid, Mr. Paschke said; the payments would go to the servicer, not the University. Defaults, he clarified, would not mean the University is left without the money; the servicer must collect it.

Asked about the number of students who taken out loans, Dr. Imholte told the Committee that 44% of undergraduates, 16% of graduate students, and 73% of professional students receive aid. 23.5% of students borrowed the \$72 million (for one year) in 1992-93.

Professor Gray thanked Acting Vice President Imholte and Mr. Paschke for their presentation.

#### **4. Quarterly Financial Report**

Professor Gray then welcomed Carole Fleck and told the Committee that this presentation was an experiment to learn if it wished to regularly be informed about these financial reports. Mr. Erickson said that the administration is trying to increase sensitivity about this information; they want every manager to look at the reports, and need to know what the Committee would like to see. There has been no history at the University of looking at these statements to see where the institution is, and they need to be improved, but he would like the Committee to review them.

Ms. Fleck then reviewed and explained the various schedules that make up the quarterly report. Committee members asked a few questions about the schedules, including whether or not there were any red flags in it; Ms. Fleck said there were not. There are areas identified through the audit where procedures need to be changed to improve the cash flow and to catch problems early.

Professor Gray asked Committee members to review the report and advise her what they would like to see in the future. She thanked Ms. Fleck for presenting the reports.

#### **5. Planning, Budgeting, and Evaluation**

Professor Gray then welcomed Associate Vice President Kvavik to the meeting to discuss the planning, budgeting, and evaluation process.

Committee members had seen the materials earlier, so began with questions. One issue raised was how the departments should look at the materials, and the process, and how information will flow up and down and back up, and who the planning office would work with (e.g., deans, provosts, department chairs).

Dr. Kvavik said his preference is that the planning office will maintain the planning process, will write the institutional plan on instruction from the President, and will write the Twin Cities campus plan on instruction from the President as Chancellor of the Twin Cities campus. They will assist, as requested, in preparing plans for the provosts and chancellors.

- With respect to provostal units, campuses, and colleges, the planning office will provide information to facilitate planning and budget assessment by the deans and the department heads. One important role of the central planning office, which now includes MPIS, is to maintain a high-quality data base. The institutional data bases that exist all over need to be examined and ways identified to make them available to the University's management structure--as far down as possible. In the past, budget and planning discussions have often gotten hung up because there was disagreement about data; there must be agreed-upon data sets or else there will be no confidence in the planning process.
- They will articulate institution-wide parameters for colleges and departments for the biennial request and U2000, but the departments should be planning where they are going, as should the colleges, through an iterative process. He said they expect to read the college plans to identify major commonalities, to help identify what the institutional foci should be.

- He would like to be able to interact with anyone about data and information--rather than through layers of administration--for efficiency reasons.
- Directions and content will be set by line officers; the planning office will NOT write plans.

Questions were posed about the process and its timing. College plans will go to the provost, the vice presidents, and to the planning office, it was said. Will the planning office disapprove of them? Dr. Kvavik said the planning office will receive copies, and there will be hearings on them; they will be presented by the provosts (or vice presidents, as is presently the case). If the planning office sees something that does not square with U2000 or the mission, they will raise questions with the provost. His view, Dr. Kvavik said, is that the provosts should be approving college plans and recommend to the President that the directions the colleges propose are the right ones. The planning office, as staff to the President, should advise him on approving (or not) those plans.

Provosts are to receive first drafts of the plans on November 28; hearings on them will begin in late December or early January, so they will have a month to work with them. Much of the information required is in earlier documents.

A variation on this same procedure will be used for administrative units; there will be extra attention to customers and business plans, along with reminders that they exist to support the academic enterprise. In the second round, administrators of these units will have access to academic data and be asked to respond to them.

Discussion then turned to the second phase of the process, which is budgeting. Associate Vice President Pfutzenreuter is preparing instructions, and they will build on the Planning, Budgeting, and Evaluation documents already distributed to the colleges. Budget hearings will take place in March. Next year's capital planning will be adapted to the new protocol.

Decisions will be made on the budgets; the planning office will look at them and try to determine the degree to which they will permit units to accomplish their plans. In the spring and summer, the planning office will focus on the critical measures.

The next round of planning (year two), Dr. Kvavik said, will have a much richer set of information as a result, which will be provided to the provosts. Modules 1-5 would probably not be modified a great deal in the second round; module 6 might be.

It is possible to see a discussion loop at the top levels of the administration, said one Committee member, with no discussion by faculty, staff, and students, depending on the time available. Dr. Kvavik said they have tried as best they are able to leave time available between decision phases for discussion, and they are trying NOT to have planning, budgeting, and evaluation all occur at the same time. The information to be provided to the administration is to be in summary form, it should be available to faculty and students; they intend to put it out on email so that everyone will have access to all planning statements of any unit. He acknowledged that in this first round participation may be mixed; as the iterative process recurs, it will be incumbent on planning leaders to involve people, and module 7 explicitly notes the Senate action calling for participation--and requests information on participation.

In the larger colleges, there has been no sign of participation; one has the sense that they are scrambling and improvising, said one Committee member. In the smaller colleges, Dr. Kvavik told the Committee, the plans exist; units have had a year to develop strategic plans, and for those that have, this is a half-day activity. The process ASSUMES colleges have plans; this asks for abstracts. It does NOT impose a structure on college planning, so that each college can plan in accord with its own norms and culture.

What is being asked for, added one Committee member, is not very different from what was asked for last winter and spring; this should not have been news to anyone.

The strength of this process is not what happens this time, but in the establishment of a pattern that should pay off over time. The information about what was done in the previous year will be most interesting, because what one really wants to see is changes. All the units, Dr. Kvavik added, have multiple-year calendars, and critical measures are being started now, so things should not be rushed in the future.

Dr. Kvavik said the development of this process was influenced by the success of the capital planning process. While one must be cautious about drawing that kind of comparison, a lot of time was spent developing it and it was launched knowing there would be problems. In the second year, what was a very complex process worked in a straightforward fashion, and the team had greater expertise and better questions to ask. One hopes to see that occur with this process as well. The first year will no doubt be sloppy, but the experience needs to be gained.

Success will depend on stability in the process, observed one Committee member, and that it not be different in two years. If it is to be cumulative, everyone from the President to department heads must learn it. It may be that stability in people will also be necessary.

In addition, it was said, fewer decisions should need to be made higher up, if micromanaging is to be avoided. That means the planning process must work through the strength of academic leadership; if the provosts are to have power, they must be key players in it. One can understand Dr. Kvavik's frustration at needing to go through layers of administration to obtain data, but thought should be given to the information needed so that it can be gathered systematically rather than on an ad hoc basis.

Finally, it was said, one worries about the information demands that may be placed on departments. Dr. Kvavik has talked about good information; most of that information resides in the departments. If more is needed, where will departments find the staff support and time to gather it?

Dr. Kvavik said that the planning office will not be asking for much of this information. If the deans need it, the problem is inside the college. He said he hopes that 95% or more of the information they need can be generated centrally; there are a lot of ways to measure things, and a decision needs to be made about what makes sense. It is for that reason they prepared a White Paper on what constitutes good measurement. He said he hoped the departments would use it.

Moreover, he said, they need only abstracts of information for the decisions that must be made centrally. The Transition Task Force is also working on the questions of who does what at each level. Given a great deal of available information, they would only see five or six items, those that are the focus

of institutional budget decisions.

Dr. Kvavik said his preference is that the central administration not hold pots of money and run activities in parallel with the provosts and deans; if they allocate money for research or international education or anything else, the decisions should be made in budget hearings and ALL the money should be allocated. The central administration, in his personal opinion, he said, ought not be in the small grants business.

Does the planning office, in addition to its facilitative function, also have a policing function, one Committee member asked? Do they police what happens with plans down the line? One hopes not. Dr. Kvavik said they do not intend to be a policing mechanism. There may be areas where they have a "police" function. For example, if colleges persist in planning without broad participation, the office may tell the provost they do not believe the plans have broad support. If a plan is contrary to U2000, or unrelated to the mission, as staff to the President, they may provide information so he can chat with those who report directly to him. But he will not tell deans what to do, Dr. Kvavik told the Committee, although he may say something about what they are doing. It will be up to the provost to do something. One Committee member observed that if he were a provost, he would not want Dr. Kvavik talking to one of his deans without him knowing about it.

Who will evaluate how the process works, asked one Committee member? There is an evaluation of the overall process built into the planning protocol, he said.

The only caution about critical measures, said one Committee member, is that people tend to make decisions about what they can measure, and centrally-available data could be overplayed. Some information is nebulous and not available centrally, although it is important to faculty, and one would hate to see things important to faculty overrun by central numbers. One must keep in mind a balance between central and decentralized data.

That issue was raised in the White Paper, Dr. Kvavik said; one must have a sense about to whom one is reporting and why. The University is proposing a "contract" with the state, and must need to show progress on the measures--its funding may depend on it, in part. He agreed that the potential for mischief exists and that care must be taken in how the measures are used.

One Committee member expressed some cynicism about the outcomes and the commitment to them; there is enough play in the language and the process that plans will be overwhelmed for internal or external political reasons. Those at the top must be responsible to those who put the effort into the plans that they believe will benefit the University and the unit. One can recall policy decisions, however, that benefit some units, to the disadvantage of others, because one unit happened to be more politically powerful.

When the planning hearings are completed, Dr. Kvavik said, there will be memorializing agreements between the provost and central administration, and administrators can be held accountable for those agreements. The next round in the process should include a restatement of those agreements. But agreements can be broken, he agreed--but that danger exists in any system. He said he has tried to develop a process that will get agreements on the table as best one can.

It is for this reason, one Committee member pointed out, that the possibility of canceling the fifth year of Restructuring and Reallocation was so painful; the administration would be renegeing on plans.

Professor Gray thanked Dr. Kvavik for joining the meeting.

**6. Miscellany**

Professor Gray noted the problem with student attendance at the meetings, and to a lesser extent with faculty members; Ms. Sales said she would get in touch with the appropriate people and seek replacements. It was noted that those who had failed to attend for three consecutive meetings were, by Senate rule, automatically removed from membership.

Following brief additional discussion of the fifth year of Restructuring and Reallocation, Professor Gray announced that Senior Vice President Infante would join the Committee on December 1. She also noted that the November 22 meeting of the Committee is cancelled, and adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota