Minutes*

Senate Committee on Finance and Planning
Tuesday, March 2, 1993
3:15 - 5:00
Studio C, Rarig Center

Present: Irwin Rubenstein (chair), Carl Adams, Karen Geronime, Michael Hoey, Thomas Hoffmann, Julie Idelkope, Karen Karni, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Paul Sackett, Thomas Scott, Susan Torgerson [the Morris campus representatives participated by interactive video]

Absent: David Berg, Virginia Gray, Roger Paschke, Doris Rubenstein, Jason Schmidt

Guests: Vice Chancellor Cathleen Brannen (Morris), Senior Vice President Robert Erickson, Ken Janzen (Regents' Office)

[In these minutes: Budgets, next and future]

1. Discussion of the Budget

Professor Rubenstein convened the meeting at 3:20 and began by inquiring of Mr. Pfutzenreuter if he had discovered any predictions about academic inflation for the next several years. Mr. Pfutzenreuter replied that he had not, but he did provide the Committee with the inflation projections for urban consumers and employment cost index for wages and salaries and for compensation. Salaries for 1994 and 1995 are predicted to increase 3.1 and 3.2%; compensation (which includes fringe benefits) is predicted to increase 3.7% each year. Inflation for urban consumers is predicted at 3.2 and 3.4% for the two years.

The HEPI (higher education price index, which is only historical) data for the most recently reported five years are (from 1986 to 1990) 3.8, 4.4, 5.6, 5.4, and 5.1% increases (over the previous year). It was noted by one Committee member that if higher education inflation is closer to 5%, that becomes a consideration in setting tuition rates. Those HEPI rates, noted another, are significantly lower than the tuition increases of the same period; why? One argument is that higher education, specifically faculty salaries, fell during the 1970s, and the 1980s were a period of catching up--although, another cautioned, this argument is not likely to be accepted by the public. Vice President Erickson pointed out that setting tuition is not PRICING behavior, it is COSTING behavior; recent large increases in tuition were imposed to offset reductions in state funds.

Asked for an update on the legislature, Mr. Pfutzenreuter noted that the Governor will hold a press conference tomorrow to announce the new revenue forecast. There will be more money available; it isn't

*These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents. (These minutes may also be found on the web at http://www1.umn.edu/usenate/scfp/scfpmins.html) clear how much the Governor will wish to spend. It appears that the legislature, another Committee member reported, may be interested in taking care of the tuition problem and to continue the subsidy for practitioner-oriented Masters' degrees. If the Governor were to support the requests made by the President, Mr. Erickson reported, the University would receive an additional $17 million per year, reducing the projected 1993-94 shortfall (using University planning assumptions) from $38 million to about $21 million, and the state appropriation would actually increase by about $5 million next year.

One Committee member noted with alarm one figure on a handout from Mr. Pfutzenreuter; the University's current planning assumptions project a $38 million shortfall in 1993-94--and a $60 million shortfall in 1994-95. If a "patching" job is attempted for the $38 million, there will be an even greater problem the next year.

Attention turned next to the "budget propositions" prepared by Professor Morrison; Professor Rubenstein asked him to walk through the propositions. These were drafted, Professor Morrison said, in an attempt to figure out what the University ought to be doing. The University is acting too frightened of the possible $38 million shortfall, he said, and seems to be addressing the problem of the next fiscal year rather than addressing the long-term problem. The fiscal year problem needs to be addressed, to be sure, but the solutions will come over the long term--and the Committee and the administration should not spend a great deal of time addressing the shortfall for the next fiscal year.

The propositions were these (in summary):

1. The analysis should begin with the Regents' budget request, not the Governor's recommendation, and should assume a 3.5% tuition increase and a 3.5% inflationary increase on supplies and salaries.

2. The University should not proceed from a "worst case" scenario, lest a self-fulfilling prophecy be created. If it can be shown how the University will meet a shortfall, then it will almost certainly have to do so.

3. Increased costs on State Special appropriations should not be charged to O+M funds, unless the administration makes the case that the activity is more important than items already on O+M funds.

4. There should be a sharp differentiation between measures to deal with a 1993-94 shortfall and long-term solutions. The Committee should dwell on the long-term issues.

The longer term solution:

5. Should take the form of planned and targeted reduction of expenditures to more closely approximate resources and institutional needs. Reductions should not be apportioned. This is a planning effort.

6. Salaries drive the budget, particularly faculty and academic professional salaries. Consequently, the long-term solution must focus on appropriate staffing levels for each unit.

7. Staffing for each unit--which may be collegiate, may be academic department--should be set on

the basis of needs. Needs are based on a number of factors (enrollment, funded research, funded service), and could also include others (quality of program--if not adequate, it should be closed, critical mass, centrality of the program to the nature of a university, cost relative to similar programs elsewhere, availability elsewhere). The present size or cost of the program is NOT an appropriate criterion.

8-9. The focus should be on the state subsidy, not the total O+M budget of a unit; units self-supporting on tuition should still be examined, but more for quality than for fiscal reasons. The state subsidies must continue, but they have been used to perpetuate what was once thought good and no independent new judgments have been made. One difference with the propositions outlined last week by Professor Rubenstein is that if positions in a unit exceed those deemed necessary and appropriate, they would revert centrally--but if not, the unit would not have to fight every time to keep a position. In the case of units that shrink, they should plan to offer the program with fewer people.

10. Graduate programs should be reviewed; some might be discontinued. This would have a large impact on appropriate staffing levels.

11. Analysis may also identify areas which need additional funding or staffing and others which are at appropriate levels; such units should not be cut.

12. Units must study alternative ways to deliver service, especially in communications and technology, and there should be incentives for units to do so.

13-14. Management changes should also be made to reduce costs. Corporations in trouble look at their middle management; the University has developed an entirely new level of middle management that is neither central nor day-to-day operations. Asked if he meant the vice presidents, Professor Morrison responded that either the colleges or vice presidents may be organized wrongly--perhaps there should be more vice presidents and no deans, but are both needed? There are also a variety of administrative processes and reviews in place that appear to create duplicative administrative work. Such changes will not meet all the budget problems, but they would have an impact. The decision about management style should be made and adhered to, rather than having duplication of decision and function, as is now the case.

15. Items 5 - 14 can only be accomplished over a period longer than the next fiscal year; decisions about 1993-94 should be relatively mechanical while long-term decisions should be relatively judgmental.

The short term solutions include a mix of reductions in the "new expenditures," explicit one-year tuition surcharges, one-year soft-money cuts, or deferral of inflationary increases. Borrowing could also be considered, if there is a plan in place. In addition, buildings should be closed, other additional spending items should be carefully scrutinized, and salary increases should be assumed. It should be clearly understood by everyone that there is no difference between a retrenchment and a denial of inflationary increases; the two should be treated as identical. Finally, any short-term retrenchment should be "soft" in that it should leave the base budget intact, and should be calculated on the state subsidy, not the total O+M budget.

There are two major principles embedded in the propositions, Professor Morrison suggested: First, that planning and budgeting are two different enterprises, planning is more important, and budgeting should follow planning. Second, in the University, academic staff is the key number; civil service and other support staff numbers tend to follow from academic staff numbers (with some variation). It will be necessary to determine what the appropriate numbers are, something that has not yet appeared in the planning process.

One Committee member expressed support for the budget propositions but had two comments: First, planning needs some predictability, but the state appropriation to the University keeps changing, which makes long-term planning very difficult. Second, the University HAS done long-term planning (e.g., Commitment to Focus), and has moved around over $100 million, but no one seems to notice; how can the legislature be convinced the University is doing long-term planning and needs some stability?

Another Committee member, also agreeing with the propositions, wondered what the process would be by which the appropriate staffing levels (#7) would be determined. How, for instance, would the recent faculty workload document fit into the analyses? Efficiency issues were raised in the document, although not treated definitively. The propositions discuss state funds only; it appears that the state intends to support teaching and is unaware of the unfunded research being conducted by faculty as part of their regular workload, without external grant support.

Workload studies will have to come to bear on the decisions, it was agreed. The process will have to be centrally managed, it was said, because ANY unit will prefer more funds, or no reduction, and will only grudgingly accept fewer funds. For the last 25 years or so, it was argued, staffing increased as demand increased; when demand began to decrease, staffing stayed constant--and the people found other things to do--they were not lazy. The question is whether or not the University can continue the level of support it has for those "other things," or will it change to meet changed levels of enrollment and funding? In Germany, it was pointed out, some positions are identified as KW (kunftig Wegfallend, to be eliminated in the future), which means that no successor will be appointed. One need not identify specific people at the University, but there must be some steps in the direction of reduction in some places.

New fields should be supported and increased, and doing so will probably require taking resources from fields that are declining.

A fundamental issue is whether or not there should be any more across-the-board cuts. If there is an implicit reduction of funding in the budget, there should be no across-the-board cuts, it was argued. This position, coupled with the "next year" problem ("we'll move to planning next year; this year we have to deal with the budget"), mean the University should NOT have across-the-board cuts next year. The notion, pointed out another Committee member, is that program cuts will be made in a careful way, as a result of planning--and perhaps planning has not been done well, so let's be sure that it is. The role of the Committee may be to light a fire somewhere and make sure the process gets going.

This dilemma of short- versus long-term recurs, Senior Vice President Erickson agreed. That is why the first priority of his office is to develop a budgeting/planning process that will permit examination of the "inputs" and "outputs" in some detail. Professor Morrison's ideas about what must be accomplished are correct; the University must be able to justify what it does or it will NOT have quality. To do so, and to make the selective judgments necessary, requires getting the right mechanisms in place. At present, however, the numbers must balance by July 1.

It was suggested that balancing the budget may appear to be less difficult than it really is. But if certain judgments are made--will inflation be recognized? At 3.5%? At some other level? Will tuition be increased 3.5%? Some other amount? In order to develop a set of instructions for the units, one must make certain assumptions (about state appropriations, and including recognition of inflation and reduction of certain expenditures). One set, proposed by a Committee member, cuts the projected shortfall to $18.8 million. At that point there is about a 3% shortfall ($18.8 million on a base of $540 million), which units should be asked to address by proposing a 3% reduction through efficiency changes ("doing the same job smarter or utilizing technology"). Units should also be asked what they would do to accomplish a 3% program reduction (changes in volume or quality of work). Hard decisions may be required, and departments may be able to make productivity increases (as the rest of the world has been doing for some time). For example, a faculty member whose research productivity has not been great, and whose service activities have been minimal, might be expected to teach two additional courses. Or perhaps class sizes could be increased without a deleterious impact on quality. The University has not pushed strongly enough on productivity increases.

Student members of the Committee, asked about tuition increases, said the general feeling appears to be that they are not getting their money's worth now, and if there is a tuition increase, there should be a productivity increase as well--and students should receive more attention. Everyone recognizes, it was agreed, that the Channel 4 report did not reveal anything new, because teaching assistants have been used at research universities for decades and no secret camera was required.

Instructions to the units, Mr. Pfutzenreuter explained to the Committee, have been delayed for two weeks in order to see if the economic situation would lead to a reduction in the projected $38 million shortfall. No one has suggested seeking plans for 7% reductions, he said, although doing so would address the entire shortfall. One memo suggesting contents of the instructions had suggested the use of two percentages, as different possibilities for reductions; it is only the larger number that will be important to the units, it was said. But the purpose of the instructions to come from Mr. Pfutzenreuter, it was pointed out, was to obtain information for later use, not direction that any such cuts would be made.

This approach, objected one Committee member, is the one that has always led to short-term fixes, not long-term solutions. The only program cuts that can be accomplished by July 1 are through vacant positions--or through cuts in ancillary services--and no one looks at the size of the unit. Even the most liberal program change policy would not permit the necessary changes in the next year. When departments are asked how they can cut, they have three options: civil service staff, supplies, or academic staff/faculty. The first and second are possible, the third is not in the allowable time-frame. Either the University must recognize this is a short-term exercise, and move to the long-term solutions immediately, or begin to build in the long-term solutions now. No useful program reductions can be obtained by the time it is necessary to set the 1993-94 budgets, it was agreed.

One major question is who will make the decisions, it was said. If it is the departments, as asserted earlier, there will be no cuts. Under Professor Rubenstein's proposal, all open positions would revert centrally and Professors Hasselmo and Infante would decide how to reallocate them. One premise, it appeared to be agreed, is that the decision should be made above the level of the department/unit. Other Committee members concurred that identification of who makes the decision is important.

One reason to take issue with Professor Rubenstein's proposal, it was argued, is that it depends on when vacancies occur and it would lead to a lot of ad hoc appointments, requiring a lot of decision-points. It would be better to establish some notion about a reasonable level of staffing for a unit, related to students and research, and apply the standard to all units in the University. Doing so would lead to a presumptive number NOT driven by current faculty size or research levels; central administration could vary from the presumptive number on good argument, but they would be something to work toward. Departments could equally plan their future operations and plan hiring with a notion of how they would be configured 5 to 10 years from now. The problem with that, responded another Committee member, is that it is personnel version of the Minnesota Facilities Model: the model is a good exercise, but it is VERY DIFFICULT to get agreement on what the model produces and it is not a good decision-making tool. That may be, it was said, but using such a procedure would be a better starting place than is the number of positions that have been in the unit since 1957. And the University HAS the data it needs, in student credit hours, etc.; it doesn't use it!

The location of the decision, it was pointed out, will vary. Productivity and efficiency decisions must be made at the bottom because only the units can identify ways to accomplish them. Programmatic decisions, on the other hand, need to be made higher, because lower levels have a self-interest that cannot be overcome. One caveat, suggested another Committee member, is that some productivity decisions must be central (such as provision of video conferencing instruction; units cannot accomplish that alone). Further, noted another, principles, standards, benchmarks, and ideas can be generated centrally; Mr. Erickson agreed, and noted that the administration can inquire about what it is requiring of departments. In this respect, the pilot study in the College of Education is an attempt to learn.

Efficiency, said another Committee member, must not always mean the unit gives up the money; it must have the ability to reallocate the funds. At present everything is cut; there must be incentives for the units over the long-term. Mr. Erickson agreed that such incentives would be critical, moderated only by consideration of the total funds in the unit vis-a-vis the planning decisions.

Attention turned next to the allocation of possible salary increases. If the amount available is less than inflation, said one Committee member, should it be allocated as a constant amount for everyone? (Thus giving lower-paid employees a greater percentage increase, who, it was said, are more hurt by inflation.) Historically, Professor Adams pointed out, the University has favored all-merit distributions, with nothing for across-the-board increases.

Argument was also made that small salary increases should not be distributed on the basis of merit; in most units, merit increases will require assembling reams of documentation and time on reviews--all to justify a $70 annual pay differential. That time, given the ludicrously small amounts involved, could better be spent teaching or doing anything else. Another Committee member agreed, noting that the only question was about people who were not performing adequately; could they receive a zero increase? That question, added a third Committee member, should be left to the Committee on Faculty Affairs, which has long dealt with the issue. But the decision should be local, it was said; "I am not sure I want to be involved in determining if YOUR faculty are meeting minimum goals, but I CAN make that determination with MY faculty."

In terms of the instructions Mr. Pfutzenreuter must prepare for departments, it was noted that the information to be sought would have to do with programmatic impact. This discussion sounds somewhat like the school board that tells the public if there is no increased levy, certain things will not be done--

while the taxpayers think the same should be delivered with 3% less money. If the memo asks departments to identify program cuts, it will be out of touch with reality. The instructions, Mr. Pfutzenreuter said, will ask the units to seek efficiencies. It will be important to focus on efficiency immediately, it was argued, and a reduction in quality is NOT an efficiency improvement. But there are things that can be accomplished, through the use of technology or more effective use of personnel, that do not affect quality.

There will always be some game-playing, it was agreed; some units will propose draconian steps to try to avoid any cut. The School of Management might propose to cut services to non-majors, for instance; the rest of the University would tell it that was unacceptable. While such activities cannot be stopped, the budget office has analysts who can say "come on. . . ." and try to keep departments honest. The budget office cannot tell a department what to cut, but the departments need to recognize that they are all in this together and must deal with the problems realistically. If they do not do so, it will be one fire drill after another.

If there is little flexibility in how cuts can be made in the next year, then the administration has an obligation to provide help and ideas. Is it true, inquired one Committee member, that there are so few open lines that there is no flexibility? Or will there be sufficient open positions that this would not be the case? Eliminating TAs and RAs will do damage to both the graduate and undergraduate enterprise, and the supply budgets are not large enough to solve the problem. If there is no way out, however, the administration must help--perhaps it can close buildings, which units in a multi-use facility could never suggest.

Mr. Erickson agreed, but noted that when asked, people tend to focus on cuts rather than efficiencies. There are rigidities, such as introduced by tenure, but there is also predictable turnover. The University has not adequately wrestled how to capture that predictability and make use of it--and doing so will require information about adequate staffing levels in the units. Mr. Erickson concurred with the assertion that data about the units exist, but no one has been identified as the decision-maker.

In terms of efficiencies, said one Committee member, he would be willing to wager that if units were told they could only acknowledge inflation to the extent they could achieve productivity increases, the units WOULD achieve productivity increases.

The meeting adjourned at 5:10.

-- Gary Engstrand

University of Minnesota