

Minutes*

**Joint Meeting
Senate Committee on Finance and Planning
Senate Consultative Committee
May 1, 1990**

Present: (Finance and Planning) Burton Shapiro (chair), David Biesboer, Arthur Erdman, Virginia Gray, Nick LaFontaine, Cleon Melsa, Jeff von Munkwitz-Smith, Charles Speaks

Present: (Consultative) Karin Alexander, John Clark, Martin Conroy, Warren Ibele, Norman Kerr, J. Bruce Overmier, Tom Scott, Michael Steffes, Charlotte Striebel

Guests: Senior Vice President Gus Donhowe, Associate Vice President Edward Foster, Rabun Taylor (Footnote)

Professor Shapiro called the meeting to order and reminded everyone that its purpose was to discuss the 1990-91 budget proposal being submitted to the Board of Regents for information at their May meeting. Dr. Foster and Mr. LaFontaine distributed new copies of the budget plan to those present.

Mr. LaFontaine narrated a trip through the document for the Committees. Some of the high points:

- The budget document is all-funds; total University revenues will be \$1.7 billion. That income can be divided between current funds (support of day-to-day activities of the institution) and non-current funds (support of project or narrow purpose activities which are less predictable); the latter are not part of the budget plan, comprise less than 10% of resources, and include Plant Funds, Endowment Funds (income, not principal), and Student Loan Funds.
- The current funds, about \$1.5 billion, are made up of restricted and unrestricted funds. Of the \$1.5 billion, about \$420 million are restricted (and include such things as grants and the State Special appropriations).
- The current and unrestricted funds are broken into several categories:
 - The University Hospital and Clinic (\$282 million)
 - Auxiliary Enterprises [Support Services, Intercollegiate Athletics (primarily Men's, given accounting protocols), and Student Fees] (\$108 million)
 - Education and General Funds

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Mr. LaFontaine was asked if the inclusion of athletics in the budget document portended a change in the method of funding for intercollegiate athletics--would they be funded not on the basis of revenues

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but on an allocation basis? He said that it did not; the discussion in the text of the budget document about athletics suggests that there will need to be an examination of the growth in expenditures in both men's and women's athletics, especially since they are driven by different funding sources. Mr. Donhowe noted that the men's program is 100% self-funded while the women's program is funded substantially by state funds. The departments will be budgeted in the same way that support services are funded; both the revenue and expense side of the budgets will be considered.

Another Committee member inquired if the language in the document should be construed to say that the University is out of compliance with Title IX (of the Higher Education Amendments of 1972, banning sex discrimination in institutions of higher education which receive federal funds); Mr. Donhowe said it should. He explained that the per-participant expenditures for men and women were growing apart. Even when one discounts those elements of the men's budget which are not comparable (such as debt service, expenditures to generate revenue, etc.), there still remains the problem of football, for which there is no comparison with any women's sport(s). Even after the mitigating circumstances are accounted for, however, the University still has a problem. The increases in the men's budget create problems, in turn, because they imply increases which could be seen as necessary in the women's budget.

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Mr. LaFontaine next turned the attention of the Committees to "The Budget Plan," which consists of the centrally-allocated unrestricted funds, the Operations and Maintenance (O & M) appropriation from the legislature, tuition and fees, indirect cost recovery funds, interest earnings, and central reserves. He pointed out that this budget document does not take into account the \$2.235 million rescission ordered by the legislature; revised schedules will be presented to the Board which include the rescission.

- The largest source of revenue is the O & M appropriation from the State; it makes up about 65% of the Education and General revenue.
- The second largest source of income is tuition; Mr. LaFontaine directed the attention of the Committee to the Attachment which outlines the tuition increases planned for each collegiate unit.

The increases reflect progress toward a single undergraduate rate (the first of three steps).

There are several zero increases for professional schools (Dentistry, Pharmacy, Vet Med), which reflects the "third place rule" recommended by the Tuition Study Group (no professional school tuition higher than third place in the Big Ten).

Mr. LaFontaine commented that while the average increase of 9% in tuition was not insignificant, it is less than what the legislature had intended.

One change being proposed is treatment of minority students in non-reciprocity states; those who are in the top 25% of their class will be considered residents for tuition purposes--which should enhance the ability of the University to attract minority students. Asked if the University could adopt a race-specific policy such as this, Mr. Donhowe said it could. It will be up to the Admissions Office to ensure that these students are certified as

residents.

Another change would be revival of the emergency loan fund, which has been supported by student fees. Administrative problems in the program had led to inactivity; it is hoped it can be revived and jointly administered.

The budget also contains a proposal to invest \$500,000 in a need-based, campus-based financial aid program. This is a new initiative; the aid would be grants to supplement other aid available to Minnesota residents.

- The total Education and General revenues for 1990-91 are projected to be \$569 million (compared with \$536.5 million in 1989-90). There are also balances in the central reserve and indirect cost recovery funds which can be applied to the 1990-91 budget.

Next Mr. LaFontaine addressed the proposed expenditures for 1990-91. Highlights:

- The mandated reallocations of 2%. The additional reductions required by the rescission will be met by spending reductions in non-instructional areas of the University (with certain exceptions such as the library, academic computing, repairs and replacements, and fuel and utilities).
- Academic and civil service staff compensation is as has been announced previously (Academic: .5% for equity, 6.0% for merit/market, and .5% for fringe benefit increases; Civil Service: 1.7% for comparable worth, 4.0% across-the-board adjustments, and 1.0% for fringe benefit increases). Mr. LaFontaine noted that the Civil Service Committee does not endorse the recommendation on Civil Service salaries.
- Supplies, expense, and equipment budgets will increase by 5%.
- There are a number of categories of non-formula allocations, from the strategic funds pool, as follows:
 - assuring equity and equal opportunity
 - improving instruction, especially at the undergraduate level
 - investing in research and support for it
- The document calls, finally, for performance measures, including quality management and performance management.

Mr. LaFontaine then drew the attention of Committee members to the various attachments to the document:

- The all-funds summary, including the previous four years.
- The current funds for 1989-90--the operating funds broken down into restricted and unrestricted, and further subdividing the unrestricted funds between those which are centrally allocated and those which are generated by the units.

- The State Special appropriations.
- The auxiliary enterprise budgets.
- The student services fees.
- The tuition schedule for 1989-90 and 1990-91.
- Allocation of strategic funds, by program and by activity (the non-formula discretionary funding), including a comparison with 1989-90.
- Allocation centrally allocated funds (the center of the budget, the traditional budget plan)
- Summary of sources and application of funds
- A "scorecard" on Academic Priorities

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Mr. LaFontaine was asked about the "scorecard" and the progress towards the goals. It was clarified that the intent of Academic Priorities had been to reduce spending, in certain academic units, by a total of \$4 million and that by the end of 1990-91 about \$1.43 million of those reductions will have been achieved. Mr. LaFontaine also explained that 1990-91 will really be only the second year of reductions. Asked if the total reductions would be achieved in one more year, it was said they would not because of the moratorium granted to the College of Education; Mr. Donhowe added that some of the reductions may not be achieved.

Asked if the University was "forgiving" some of the reallocations that were expected, Mr. LaFontaine said it was not. Several of the units had, from the beginning, delayed schedules of reductions, so those cuts would not yet be made. In one instance, the reduction was supposed to take place by reassigning responsibilities; the current incumbent in the position cannot figure out the premises upon which the commitment was made by his predecessor. Asked if they could tell their colleagues that the University was on target with the reallocations of Commitment to Focus, Mr. Donhowe replied "yes." The University, in fact, he said, is ahead of where it was projected to be. Dr. Foster added that there has been considerable reallocation not listed in the reductions on the "scorecard"; resources have been made available by changes in various units and methods of operations and allocated in general accord with Academic Priorities.

One Committee member inquired about the 2% reallocation, reminding Mr. LaFontaine that the Committee had asked for a report on how closely the college reallocations matched Academic Priorities. It was said that there had been very little advance notice this year so that the match would not be good. With the one year lead time, it was asked, would the match be better? Would there be fewer across-the-board reallocations? Mr. LaFontaine expressed optimism that there would be; Dr. Foster demurred. Mr. Donhowe said they hoped that "old dogs could learn new tricks." Dr. Foster clarified that the colleges have said the 2% takes away all of their flexibility and they must retrench everything that is open. In some cases they may have taken it from areas they wished, but not in all cases.

Another Committee member said the question could be phrased differently. If posed programmatically, and one asks what programs were offered three years ago that are no longer being offered, what is the answer? Dr. Foster replied that the only degree programs eliminated are those which were moribund anyway, and not even South and Southwest Asian Studies has been eliminated.

It was argued that what will occur with these 2% reallocations, next year and each year thereafter,

will be an across-the-board shrinkage. The extent to which it will match college plans, or Academic Priorities, will be minimal. Dr. Foster disagreed, maintaining that in many colleges where positions are not centrally retrenched there is an intensive process to decide where those positions should be placed. The ultimate decision may not match the original plans in Academic Priorities but it will conform to current planning.

Dr. Foster was asked if Academic Affairs was compiling a list of what the colleges are doing. He said that colleges, when asked to come up with money for the next year, will typically "grab funds from wherever they can." It is only over time, when they are asked for more and more and more, that they will exercise the discretion to choose from where the funds will come. Mr. Donhowe observed that after about three 2% reductions the colleges will decide they do not want to do that any longer--and there will be at least four or five rounds of the reductions. And in a decentralized organization such as the University, he added, the central administration cannot micro-manage a college.

A question asked was whether there are any units which are trying specifically to take the 2% out of particular activities rather than across-the-board. Dr. Foster said several had targeted areas, although actual reductions depend on retirements or resignations. Granted that micro-management is inappropriate, Dr. Foster was asked if there is any plan to change the practice if a dean continues to impose across-the-board retrenchments: at what point does the administration stop saying this is a decentralized responsibility? One dean, Mr. LaFontaine pointed out, in allocating SEE funds, planned on reductions in some areas and increases of as much as 50% in others; it is clear that that college is not imposing reductions across-the-board. Faculty, it was responded, are hearing two different messages, one from the administration and one from the college, about this retrenchment; there must be more consistent messages delivered. Although not easy, sharing of University goals with the faculty is important.

Dr. Foster, in response to the question about reforming the deans, noted the painful and not particularly effective process of differentially retrenching colleges. This year there was also a uniform reallocation which included \$2 million of retrenchment from across the University; that occurred with some complaining but it is being accomplished relatively smoothly. The money is being taken away uniformly and being distributed non-uniformly; the central administration can hardly censure a dean who does the same thing. Although there is no plan to "lead deans to the woodshed," Dr. Foster said, he doubted Dr. Kuhl would very long support a dean who persisted in mindless budgeting for the college. There must then, it was pointed out, be some central tracking of what is going on in the colleges; Dr. Foster concurred.

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Mr. LaFontaine noted the final attachments to the budget document, lengthy additions covering the student service fees, the civil service pay plan (including a quicker achievement of pay equity goals), and the student employment plan. This, Mr. LaFontaine said, concluded his presentation of the budget plan.

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Committee members asked several questions about specific items in several of the schedules and about the nature of the process of regental action on the budget. It was suggested that there be better illustration of the amount of the budget devoted to improvement of instruction and, along with it, the

tuition increase. It is important, it was argued, to make the point that the University takes tuition seriously; the legislature "has left the students and the University out to dry on tuition" and students will need more advocacy from the administration if they are not to be forced to take the issue to the legislature themselves. Presenting a divided front to the legislature would not be to anyone's advantage but students may be pushed into that position because the breaking point on tuition may soon be reached.

Mr. Donhowe reflected, in response, that he doubted the legislature would change its policy on tuition in the next biennium (that is, the one-third contribution from tuition for instructional costs). The fiscal circumstances will probably not permit it. If the University wants to spend its political capital that way, he said, it can--but "my own judgment continues to be that you will get nothing for the expenditure." The University must also get through the next biennium before very large tuition increases, which are driven by inflation adjustments to the budget and a reduction in numbers of students, not because the budget is increasing faster than inflation. If the decrease in numbers of students had not occurred, he added, tuition would be increasing at about half the current rate. The problem, Mr. Donhowe concluded, is "this ugly arithmetic," which will continue for another two years--the time over which the number of students reaches the level intended. After that the arithmetic changes. But no one should hold out hope for any possibility of change in the tuition structure ordained by the state.

Not only is there no evidence the state would be willing to change the formula, Mr. Donhowe pointed out, one only has to look at what the legislature did with the bonding bill. All the evidence suggests that it will continue to seek shared responsibility for funding.

Dr. Foster also reminded the committee that the increase in the tuition rate reflects a concern on the part of central administration: To ensure that as student numbers decline the easing of pressure is converted into improved quality of instruction in colleges.

One of the student members of the Committee commented that the bonding bill included a rider about not increasing tuition to pay the University's share of the debt service. The rates are already increasing significantly; the University might turn to the students every time there is not enough money--and the students cannot keep coming up with additional tuition. Mr. Donhowe clarified that the moratorium on tuition increases for bonding was only for one year and was included purely for political reasons. After that the State Universities and Community Colleges will increase tuition--it is the only place they can obtain the funds. For the University, if the Ferguson Hall addition and the buildings in Morris and Crookston are to be constructed, there is no other source than tuition. That, moreover, is not a fall-back position, he said, it was the plan; that was legislative intent. All they said was "don't do it next year." They did intend that the debt service be taken from tuition in following years--for instructional buildings. Or the University could choose not to build the building, which is an option for the Regents to consider this summer. A decision will have to be made on one because if construction does not begin by November the University will lose a \$2 million gift (Ferguson Hall).

One of the Committee members recalled that when the University agreed to cut enrollment it was told by the legislature that it would not be penalized for doing so in terms of funding ratios. Now, however, tuition has increased and will continue to do so; is it not true that the legislature made the commitment, or have they not lived up to it? It seems that the students are being seriously penalized for the decision to cut back enrollment.

Mr. Donhowe replied that the commitment was kept and was memorialized in legislation. The commitment was that as student numbers go down, the legislature would not recognize the reduction in the multiplier used in the average cost funding formula.¹ The legislature never said it would "protect us on the shared responsibility, one-third/two-thirds--and if they did that they would be in such trouble with the other systems that it would be an impossible solution." So there was a commitment, the Committee member said, which the University or the students took to mean they would not be penalized if enrollment was reduced; what went wrong? Was there a misunderstanding, or did people not properly assess what was going to happen? The administration seems to understand that the legislature never made this promise; a lot of people, however, were misled.

The state, Mr. Donhowe said, did hold the University harmless; the reason students are paying more tuition is that there are fewer of them to share the expense of one-third of instructional costs. That was always understood by everyone involved, although it may have been mis-communicated. This, Mr. Donhowe was told, was not understood. He maintained, however, that before the legislature is criticized it should be recognized that there is a certain equity involved: If it costs the University 9% more in instructional cost per student, then it is appropriate to charge 9% more in tuition. The legislature says the University is spending more per student; it is fair, in their judgment, to then increase tuition by 9%--that is legislative intent.

Where is the increase in what students are receiving, Mr. Donhowe was asked? He said that they should be seeing faculty a little more and that faculty salaries are increasing.

The political realities, one of the members of the Committee argued, will pressure students into making a choice: Either the University will have to increase its advocacy for students, and will have to eventually try to change the one-third formula--or go around it--or students will be forced to lobby themselves, in contradiction to what the administration is seeking. Students, it was pointed out, especially this year, are very strong at the legislature; there would be considerable harm from having two different viewpoints argued at the legislature.

Another Committee member remarked that Vice President Donhowe was clearly right in terms of what was understood; it was equally correct to say, however, that the faculty and the students probably did not understand the implications of the reduction in enrollment. The only hope for getting around the dilemma may be to persuade the legislature that there are elements in the instructional budget which do not belong there, such as the library--which is a state resource, the costs of operating which are escalating

¹The state recognizes four categories of students at the University: Lower division, upper division, graduate, and professional; for each category there is an associated "cost of instruction." Enrollment-driven funding means that the number of students in each category is multiplied by the cost per student to determine the total (legislative) funding authorized for the University for instructional costs--of which tuition is expected to cover 33%. The legislature agreed that as the numbers of students declined the funding would at least be held steady if not increased--that is, the multiplication (of cost times number of students in each category) would not recognize the decline in determining the appropriation for instructional costs. As a result the total funding has not only not declined it has actually increased even though the number of students has dropped. This is the "ugly arithmetic" to which Mr. Donhowe referred: The legislature never said it would release the University from the obligation to fund from tuition one-third of the appropriation for instructional costs. There are fewer students and more funds, but those fewer students must pay one-third of a larger amount.

at a rate which have nothing to do with undergraduate instruction.

Dr. Foster informed the Committee that there was an Academic Affairs planning committee in the summer of 1987 which looked at the elements which led to Academic Priorities; the committee included representatives from MSA. They made a projection, then, of what would happen to tuition rates as a consequence of the planned changes in enrollment and increased funding; the conclusion was that rates would be held to a "tolerable" level of increase (5-6%) only if the funding for professional school students could be shifted out of the instructional budget in some way. Either those rates had to increase or the legislature had to moderate the costs of professional school instruction. That report, he said, was circulated campus-wide and there were both MSA and Senate fora with that paper as the discussion document. It is not accurate to say that the implications were unknown, he concluded.

Mr. Donhowe added that it would be far more feasible to try to change the elements in the instructional budget than to change the one-third rule. Students, he said, should pursue whatever they feel most comfortable with, but changing the items in the instructional budget has at least a small chance of being successful. Lowering the one-third rate, however, raises the cost of funding higher education so much that it simply will not be accepted by the legislature.

Another Committee member reminded the Committee that "while we are lamenting the present situation we need to remember that the alternative was worse"--that the state could not afford a large and diverse university unless the population of the state were doubled. So, the legislature said it would support the University if it had fewer students and engaged in fewer activities. In this sense the legislature has kept its part of the bargain. The University does not really want to go back to big enrollment pressures, a two-year lag in funding, and trying to do too much. What needs to be done is figure out how to work the formula to take the pressure off tuition--but the alternative is far worse. Mr. LaFontaine observed, in addition, that the University is the only system in the state which is experiencing real growth in the dollars available per student. That part of the agreement is working.

The legislature, it was observed by another, had kept its part of the bargain but the University had not. The 2% retrenchment is a tacit way of admitting that there has not been the will or the courage or the perseverance to drop specific programs.

The direction of the University had to change, it was agreed, but the problem is that it is a research institution, with increased emphasis on research and professional schools; the changes are being financed on the backs of the undergraduates. The reallocation will not improve undergraduate education but the undergraduates will pay for it. That, it was argued, was the whole idea--to move from an emphasis on undergraduate programs to one on graduate and professional programs because those are what the University is good at doing.

Mr. Donhowe demurred from the assertion that funds were not going to undergraduate education; in the past two budgets there were modest funds for the professional schools but significant amounts of the strategic funds were going to undergraduate education. Several Committee members noted that they had seen improvements in the delivery of education to undergraduates in their departments. Another, however, said there were no noticeable changes.

It was suggested that even though the Minnesota Campaign was only recently completed that at

least the alumni should be targeted to raise money for student assistance. Concentrated on those who have profited from a University education in the past, it might be possible to obtain substantial funds from them to help those now in school. Mr. Donhowe said that the President has this effort as a high priority; there need to be recurring funds so it may be an annual program. One reason is to obtain the money needed; the other is to broaden the number of people supporting the University. The Minnesota Campaign was supported by a very narrow group of wealthy individuals and corporations; the University does not have the broad base of support it should have, given the numbers of its graduates--who have done well. The Committee can assume that this effort will be launched soon.

In addition, however, there are large amounts of money in endowed scholarships in the Foundation and in University accounts (about \$65 million); the University isn't doing as well with those funds as it should and many go unused--something that should not be permitted to occur except in peculiar circumstances. If an annual program could be added to these funds the University must be about doing so. One Committee member pointed out that he sits on the Presidential Scholars committee; they have funds only for about one-third of those who qualify and the award is only \$1500--compared to \$15000 from Harvard. Anything that can be done to increase these funds should be encouraged because the University is losing a lot of good students.

It was clarified that the one-third of the instructional expenses the legislature expects to be funded from tuition is derived by a complicated formula established by the state; it is about one-third of nearly \$400,000,000. There has been work on removing some items from that total, Mr. Donhowe reported, and the University should be aggressive in seeking to remove others that it does not believe are a legitimate part of instructional costs.

One Committee member suggested it would be useful to be provided information on the cost of instruction to various groups, such as lower division, upper division, etc. If there were better understanding of these costs there might be less paranoia. The figures generated by MPIS, it was said, are not fully accurate in that they do not discriminate between contact with freshmen and sophomores and with graduate students.

Another Committee member commented on the scale of the expenditures for undergraduate education, such as \$600,000 for improvement of large classes. If that were taken seriously, he said, using some sort of model of contact between instructors and students, that amount would be \$8 or 9 million just to address large classes. While not arguing that the University should follow that route, the amounts involved are not especially significant in light of what needs to be done.

The Committee adjourned at 5:00.

-- Gary Engstrand