

Minutes*

Senate Committee on Finance and Planning
Tuesday, December 13, 1994
3:15 - 5:00
Room 238 Morrill Hall

- Present: Craig Swan (chair pro tem), Virginia Gray (chair), David Berg, Thora Cartlidge, Mark Davison, Thomas Hoffmann, Karen Karni, Gerald Klement, Roger Martin, Richard Pfutzenreuter, Doris Rubenstein, Anne Sales, Thomas Scott, James VanAlstine
- Regrets: Craig Dexheimer
- Absent: Mary Askelson, Carl Erickson, Ryan Fuller, William Gerberich, Allen Goldman, Patrice Morrow, Roger Paschke
- Guests: Dennis Cabral (Academic Affairs), Senior Vice President Robert Erickson, Senior Vice President E. F. Infante
- Others: Ken Janzen (Regents' Office)

[In these minutes: tuition policy; college cross-subsidies; Phase II budget instructions]

1. Regents' Policy on Tuition

Professor Swan convened the meeting at 3:25 and explained that Professor Gray was at a meeting with the central officers to discuss Phase II budget instructions but would be joining the Committee later. He then welcomed Dr. Dennis Cabral to discuss the draft of proposed revisions in the Regents' policies on tuition.

Dr. Cabral began by explaining that he is not an expert on tuition; there are only five people at the University who are, he commented wryly. He reported that there have been a variety of discussions about the tuition policy, and that it has become a pressing question with the changes--decline--in state funding for higher education. That decline in recent years meant the University HAD to take measures; the role of tuition in University funding is being seriously evaluated.

There have been discussions with a student tuition advisory committee for about two years, as well as conversations with faculty and constituents of the University, Dr. Cabral reported. He noted that the proportion of instructional costs covered by tuition has increased in recent years, and the most recent data put it at over 42%. The objective now is to develop a set of principles which will comprise a policy for the Board of Regents to adopt; a draft of the proposed principles were discussed at the December meetings, will be reviewed again in January, and presented for action in February.

*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.

Dr. Cabral outlined the context for the discussions.

- Tuition assessment must reflect the fact that education is a shared responsibility between students and the state. Students are customers who are investing in their education; the state is investing in the economy, the quality of life, and the well-being of Minnesotans. The primary sources of funding for these investments are students and the state (with other sources such as grants, gifts, and contracts).
- Tuition should have active incentives for access, progress, choice, graduation, and so forth.
- Tuition must reflect the realities of costs, in a competitive environment. Tuition must be realistic.
- Should there be a base tuition rate, to which additions are made? Where should that rate start? For a single credit? There are now tuition bands; should they be retained?
- Should there be lower division and upper division rates? Should tuition be uniform for undergraduates? Should there be sub-rates within any divisions?
- As the options are being considered, one should be aware that there is a pilot program for guaranteed tuition for a limited number of students.
- A difficult element that has been looked at more closely is fees. What kinds should there be, if any? Current Regents' policy prohibits fees related to instructional costs (although Crookston has them for computers, as does IT). Should these expenses be built into tuition? Students at Crookston did NOT want them included in tuition; they wanted the fee separate so they could be sure it was doing what it was supposed to. Should more fees be allowed? If so, how should they be handled? The answers to these questions are not self-evident. Some are opposed to fees while some support them. The President has said that if they are to be used, that use must be careful and directed to specific purposes.

Senior Vice President Infante has developed some principles that should be considered as the Regents' policy is developed. The administration has discussed these principles and draft policy with a lot of people and is asking for reactions to them.

An example of how tuition could be adjusted is to band tuition at 1-6 credits, and presumably encourage students to take six credits rather than three or four. Students have said that they will not necessarily do so, and will go elsewhere instead. The quality of advising will also have an impact; one hears a lot that students are told they cannot finish in four years, so see lower credit loads as OK.

Finally, Dr. Cabral noted that this will be Regents' policy, so it should be crafted at the appropriate level of specificity. There are, thus far, few instances where there is consensus on some of the more complex and volatile issues in the draft policy.

Committee members then posed a series of questions.

- Why is this policy being reviewed now, when the tuition policy on the books is very recent? Because of the changing environment, the University must constantly check its position and its options. The policy may not change. But if it is concluded, for example, that fees are desirable, then the policy would have to be changed.
- What are the other changes in the draft? A move toward more unified tuition at lower division and upper division.
- What does it mean to say that rates should move toward the all-University average? That has not changed since the 1979 policy, although it has been emasculated in recent years, it was said by another Committee member. The 1979 policy permitted any number of upper division rates, and they proliferated. The reaction in the early 1990s was an OVER-reaction, it was said, in moving to a uniform undergraduate tuition rate for each campus. It has become obvious that will not work, in part because the burden on liberal arts students is simply too great. This policy calls for uniform upper division and lower division rates, which is more reasonable.

There must also be discussion of tuition waivers and remissions; there is an endless list of waivers and remissions granted by the University, pointed out one Committee member. It must be recognized that waivers and remissions for some raise tuition for everyone else and that any waivers and remissions should be for general University purposes (such as recruitment of graduate students). There is also the view that waivers should exist at the expense of the group proposing them.

There are a lot of arguments for a base rate, at a level above the cost of a single credit; the University does have fixed costs, whether a student registers for one or more credits. But there is a political problem in how far to go with that base rate. As soon as there is talk about the cost, there is argument that one punishes those least able to pay, such as single mothers funded by non-AFDC daycare programs. To move the base rate above three credits could create a political firestorm.

There is a difference of opinion in Morrill Hall about the fee proposal, it was said. One Committee member expressed support for the long-standing prohibition on fees for instructional expenses. One problem is that with fees, the charging structure for students would be so complicated that no one would know what any student is paying. Fees could be imposed by major, by class, by location, and one would be unable to explain undergraduate tuition--or compare it to other institutions (which may not be an overriding consideration if the policy is otherwise sound).

A greater problem is that fees may not be covered by student aid. They are based on what the average student pays, and the University had to make an argument with HECB that the computer fee at Crookston should be covered. If selective fees are imposed, they may not cover fees. If fees were across a division or unit, they probably would be approved; if for a particular course, they probably would not be covered by student aid.

An additional concern, said another Committee member, is that when these charges are taken outside the normal tuition-setting process, the discipline of that process is lost. There is no mechanism, in setting fees, to force costs down. The use of fees could move into its own domain, similar to the student service fees, where groups regularly receive increases year after year without any discipline being imposed on them.

One Committee member pointed out that there is a national trend toward user fees, rather than taxes, similar to the issue of fees versus tuition, and also that there is a problem in handling any proposed fees in an orderly fashion.

Dr. Cabral noted, apropos the partnership between the state and students, that if the opportunity for fees opens up, the legislature may conclude that students should absorb, via fees, any new costs as they arise. The Regents would be caught in the middle. Unfortunately, the University faces increasing costs and few ways to address them; tuition is one way, and fees are a possibility. The issue will not go away, he said, and the proposal is intended to engender discussion. He invited the Committee to react as soon as it could.

The Committee should take a stand on these issues, suggested one member. Professor Gray, who had joined the meeting at this point, agreed that they would be brought back to the Committee at its first meeting in January. She thanked Dr. Cabral for presenting the issues to the Committee.

2. College Cross-Subsidies

Professor Gray turned next to Mr. Berg to review for the Committee data concerning the extent to which colleges and students "subsidize" other colleges and students. Mr. Berg presented a series of tables examining tuition income and state support by collegiate unit and explained them to Committee members.

It was suggested that the subsidy of lower division students deserves additional discussion. There is also extensive subsidy of graduate students on the Twin Cities campus, but that is a more explicit policy (a function of the tuition waivers and remissions that are granted). Mr. Berg noted that lower division students were specifically exempted from the Regents' 1979 policy calling for movement of all tuition rates toward the institutional average. That does mean, Mr. Berg agreed, that all other classes of students will pay more.

There will always be subsidies, Mr. Berg commented after discussion; the question is how much and where they will occur.

Asked if he had studied the price elasticity of tuition, Mr. Berg said he had, and that the University could gain revenues by raising prices, given where it is on the elasticity curve. But the elasticity is three times as great for freshmen as it is for students already at the University, which would suggest, strictly from the standpoint of revenue, keeping the entry cost low and focusing attention on other tuition rates. There have been no studies of price elasticity for transfer students.

Mr. Berg agreed that the tuition revenues for non-resident, non-reciprocity students should never equal less than 100% of their instructional costs; in those instances where it does, it means the University simply miscalculated the costs when setting tuition levels. Although this does not amount to a great deal of money, it is a matter of principle.

Professor Gray thanked Mr. Berg for his presentation and noted that this seemed to be a timely issue for the Committee to consider. It was agreed that the Committee would return to this issue in the future.

3. Phase Two Budget Instructions

Professor Gray then turned to Senior Vice President Infante for comments on the Phase II budget instructions. He told the Committee that the University is at the point where definite decisions on posture and process need to be made about U2000 initiatives. He said the University must be sure that those initiatives are at the center of plans; one problem is getting people to take seriously the need for contingency planning.

Mr. Pfutzenreuter then reviewed a series of slides outlining background information on the Phase II budget instructions. One series of comments were these: the partnership proposal will dominate budget planning, planning will be for two years, there will be contingent planning, there will be greater details about all funds, there will be central allocation of budget targets to provost, chancellors, and executive units (i.e., vice presidents) but not for colleges, the fifth year of R&R will be implemented, and there will be some fund restructuring (to align expenditures with the sources of revenue to pay them). The provosts (vice presidents until provosts are in place and functioning) and chancellors will translate the budget targets into budget plans for their units.

The instructions do call for longer-term planning; it may be that next year there will be a requirement for three years of planning.

Mr. Pfutzenreuter then reviewed the numbers in the Partnership Proposal the University is making to the legislature and the forecast for centrally-allocated funds for the current year (O&M, Specials, ICR, and Central Reserves). There is a predicted shortfall of \$2.8 million in O&M funds, because of a tuition shortfall; this shortfall reduces the base, so that means it will carry through the 1995-97 biennium. ICR funds, on the other hand, are projected to have a \$2.5 million surplus, which will be held for one-time expenditures. The Central Reserves, after cleaning out recurring expenditures by transferring funds out, will show a slight decline, to \$17 million.

The reallocations and reductions for 1995-96 total \$20.5 million: \$14.1 million from the Partnership Proposal, \$3.6 million from the fifth year of R&R, and the projected \$2.8 million shortfall from the current year.

Mr. Pfutzenreuter then reviewed the Strategic Investment Pool; of the \$10 million in it, \$3.5 million will be reserved for proposals to strengthen key disciplines, target faculty recruitment and retention, and to achieve diversity goals. These will be recurring funds; the instructions for submitting proposals will call for them to be very targeted, because the administration does not want \$70 million in proposals for \$3.5 million in available funds. There will be a total of \$10 million in SIP funds over the biennium--\$3.5 million over two years plus \$3.0 million more the second year. This is not a lot of money for the colleges, noted one Committee member.

Mr. Pfutzenreuter then reviewed the process and requirements as well as the special instructions that will accompany the documents, and mentioned that scrutiny is being given to the health care component of the fringe benefit rate and its allocation between academic and civil service employees.

He then discussed the nature and scope of contingent financial planning, noting that the Board of

Regents and the administration believe the University must do it. There is a concern about tuition income being down and the reductions of \$20.3 million required for next year. Contingency planning will focus on the second year of the biennium. Asked about the tuition shortfall, Mr. Berg said it is partly due to enrollment but that not enough is known yet to be sure.

Mr. Pfutzenreuter then reviewed the schedule and linkage between budgeting and planning.

Asked who would set the criteria and limitations for SIP requests, Professor Gray noted that the subject was under discussion. Both Messrs. Erickson and Pfutzenreuter were quick to point out that it would NOT be them. It is on that issue that consultation is needed, emphasized one Committee member; if people accept the criteria and process, there will be a lot less grief later. It is for that reason, Mr. Erickson pointed out, that the Adams Professors, along with Professor Gray, are being included in the discussions about budget instructions.

Last year, it was recalled, there were budget hearings about "tentative" budget targets that were actually the real targets, and that led to frustration when it was realized nothing would change. What is the incentive to deans to be serious about the information they present if there is no sense it will make any difference?

The scenario being considered is an optimistic one, Mr. Pfutzenreuter reflected; it is not at all clear that the legislature will come up with the \$87.7 million the University is requesting in the Partnership Proposal. If it does, the chance for colleges to make a difference will lie with the conversations they have with the provosts/chancellors about priorities, in SIP funding, and in generation of additional revenues through enrollment or rate changes. The provosts and chancellors will have to make hard decisions. All units will receive a net increase in funds, Mr. Erickson observed; the balance among them will be up to the provosts and chancellors.

It was noted that there is a 3.3% compensation pool, but that negotiations with unions have not yet taken place. There is no corresponding SEE pool.

Professor Gray thanked Mr. Pfutzenreuter for reviewing the instructions with the Committee, and adjourned the meeting at 5:10.

-- Gary Engstrand