Minutes*

Senate Committee on Finance and Planning
April 23, 1991

Present: Burton Shapiro (chair), Avner Ben-Ner, David Biesboer, Lael Gatewood, Virginia Gray, Michael Hoey, Kim Kantorowicz, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Mary Sue Simmons, John Sullivan

Guests: Senior Vice President Robert Erickson, Geoff Gorvin (Footnote), John Howe, Ken Janzen, Senior Vice President Leonard Kuhi, Deon Stuthman

1. Funding for the Recommendations of the Task Force on Liberal Education

Professor Shapiro welcomed Senior Vice Presidents Erickson and Kuhi to the meeting to discuss possible funding sources for implementing the recommendations of the Task Force on Liberal Education. He recalled the Committee concern about resources, given that the estimates of implementing the report ranged from $0 to $30 million with a best guess of about $10 million (all recurring funds). It also appeared to the Committee that these resources would not come from reallocated funds.

Dr. Kuhi began by pointing out, again, the very serious financial situation which the University faces; the reduction in the budget could be anywhere from $10 to $30 million for the biennium. The estimates of the cost of the Task Force report are uncertain, he said, because how the report will be implemented in the various units is not known.

One principle he would like to see followed, he told the Committee, is the use of redirected effort. Many things done at the University, he observed, are couched in terms of an addition. It is not that the University has a shortage of faculty or graduate student TAs for programs; it is a matter of where the effort is directed. One very important factor to be settled is the commitment of the faculty in the departments to the implementation of the report. In order to implement all or part of the report, departments must be willing to stop doing some things they are now doing and replace them with activities recommended by the Task Force. Both the report itself, and the cost estimates, do assume some redirected effort.

The report hits CLA in particular, he observed. The administration has committed itself to a $4.5 million increase in the CLA budget; while he does not want to make any commitments on how that money will be spent--and there will be no blank check delivered to the college--there will be opportunities in its use. There will also be opportunities in the $7.5 million identified for system-wide initiatives, of which the Undergraduate Initiative is a large part. Depending on the proposals which are made for the CLA and system-wide funds, it may be possible to use some of the funds to implement the Task Force report.

It is also true to say that the demands on the $7.5 million far exceed the available funds; it is seen

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as a kitty to which everyone can make application.

The point, Dr. Kuhi said, is that he would expect to see considerable reallocation of effort to the Task Force recommendations. The Task Force is strongly recommending the creation of new courses to meet requirements; it is to be hoped that in many cases these can be old courses restructured to meet the requirements.

Given the present budgetary climate, it is difficult to see how the University could implement the recommendations completely and immediately. If the faculty vote in favor of the recommendations, one should envision perhaps a 5-year plan to phase them in. It will take time to create new courses and for the funding and department restructuring to match.

Mr. Erickson seconded Dr. Kuhi's comments about the financial situation--which changes almost by the day. A major concern is what will happen on the question of the proportion of State funding provided for instructional costs. The most favorable estimate of what might happen is that the University would have $15 million less for the biennium; the reduction could be as high as $48 million. In addition, he recalled, there will be non-controllable inflationary expenses of at least $10 million for the biennium. And none of these figures include any inflationary adjustments in salaries.

All the budget proposals that been submitted centrally for review, moreover, have requested increases. Several have exercised restraint, but none have requested level funding.

A variety of options are being considered, Mr. Erickson said. Interest rates paid on temporary investment fund balances can be examined; the central reserves will also provide a buffer. The projected balance of those reserves at year end is now $33 million; what that number should be is not clear. The policy calling for $40 to $50 million makes sense, but the amount will require discussion. The cuts in the budget being discussed, however, make it clear that they cannot be absorbed by the central reserves.

Dr. Kuhi cautioned, however, that when he and Professor Ibele established the Task Force, they asked it to consider a liberal education program without considering the cost. That was the right way to ask the Task Force to proceed, he said. Even though the University faces a severe financial problem this year, it should not lose sight of the long-term goal, which is to implement better liberal education requirements. That is the way that the Task Force report should be viewed: as the long-range strategy towards which the University can work.

Professor Shapiro said he believed the Committee agreed with that view and that the implementation of the Task Force report should be incremental.

Dr. Kuhi was asked if CLA was aware that Academic Affairs expected that some of the $4.5 million in reallocated funds could be directed toward implementation of the Task Force report. He affirmed that it is, although Dr. Hopkins has already indicated that CLA will be seeking additional funds (from the $7.5 million in system-wide initiatives). It has been the understanding of the Committee, Dr. Kuhi was told, that implementation of the Task Force proposals would not come from any of the $4.5 million of reallocated funds. Dr. Kuhi replied that he finds the effort to restrict the uses of funds to be disconcerting. There is a long-range strategy--of which part is the Undergraduate Initiative and of which part is the report from the Task Force on Liberal Education--and to say that the $4.5 million can only be used for narrowly-identified purposes is not desirable. What the ultimate mix of funding will be to implement the Task Force recommendations cannot now be foretold; it will depend in part on how departments begin developing the courses called for by the Task Force. Why a new faculty member hired in a CLA department could not make a contribution to the liberal education program is not clear. The funds cannot be so cleanly identified.

Another Committee member agreed that Dr. Kuhi's views concurred with those of the Committee. SCFP did not take a position on the merits of the proposals because it is a finance committee, not an educational policy committee (although most SCFP members appeared to be in favor of the recommendations). In addition, SCFP is very concerned that the University not adopt new requirements which students must satisfy--and create a problem whereby there are insufficient courses available for students to meet them. The third point is that the Committee believes the report should be implemented as funds are made available. But this Committee does not believe that new funds will be available, in the foreseeable future, to implement the Task Force recommendations.

One Committee member expressed disappointment at Dr. Kuhi's view about the possible use of the $4.5 million by CLA. That money, it was said, is for needs which have already been documented, many of which are in teaching. In many parts of CLA those teaching needs are for majors and students already present. The Task Force requirements will have a disproportionate impact on CLA departments, depending on their numbers of majors. For one department, for instance, even taking into account redirected effort, there would be a need for 9 new faculty positions--on top of positions already identified as needed for other reasons. That would probably be true across most of the social sciences. It may be that other parts of CLA could do more in the way of redirected effort and absorb the new requirements more easily--but the units which have most of the majors will not be able to do that.

The total needs of CLA, Dr. Kuhi pointed out, are probably close to $15 million in new funds. One approach to the problem is to reduce the number of majors and the number of students being served. CLA has been trying to do that, he observed, and are right on target in the new freshman class. But there is no control on the number of continuing students or transfer students, so there has been no net reduction in the number of students (as had been planned). The University is trying to make progress toward an overall reduction of about 7,000 students, in accord with the agreement with the legislature; most of the reductions should come from CLA. They have not because CLA keeps improving its retention rate, for instance. With the efforts now underway, however, the college should have better control over enrollment in the future. But there is no question that the University faces difficult resource questions; Dr. Kuhi said he would welcome suggestions from the Committee on where additional funds might be found.

Dr. Kuhi was told that some departments have tried to limit the number of majors or to establish GPA thresholds for admission; the college has not permitted departments to do either. If departments could control the number of students they had, that would be fine. Dr. Kuhi responded that CLA should do so. IT has been controlling the numbers of its students, as have other colleges. IT's record is worth mentioning, he observed; it has reduced significantly the number of students it enrolls--by about 25%--but the number of its graduates has only dropped by about 5%. The University can no longer afford the luxury of admitting everyone.

One problem engendered by reductions in enrollment in IT, said one Committee member, is that the minors needed are not available--supporting programs students in other colleges may need. This has made it difficult for some of the interdisciplinary studies to call upon courses which they would rather not teach--but which they may have to teach if their majors cannot get into the supporting program. When course limits are set at the level which permits a department to train only its own majors, other students are excluded. Dr. Kuhi responded that the University needs to address the problems for major students first; it cannot do everything. The problem, it was observed, is that programs will be forced to begin teaching courses they need, courses which in the past have been shared.

The experience at Morris might be illuminating, noted another Committee member, because it has undergone an undergraduate curriculum revision in the past few years. The curriculum committee at Morris has recently voted to eliminate a very popular major in order to shift resources to the general education program. Another approach has been to redefine requirements so that they do not compel the addition of a lot of new faculty members. Support for Dr. Kuhi's views were expressed, as was a call for CLA to carefully consider reallocating funds in order to implement the Task Force recommendations. If the CLA faculty is committed to the new liberal education program, the college will have to consider reallocation to fulfill that commitment.

Dr. Kuhi noted that the discussion should not focus entirely on CLA. It is hoped, he noted, that the recommendations call for participation of faculty in a number of collegiate units in undergraduate liberal education. There could be even more than the report calls for, because there is the capacity and there is also expressed willingness on the part of many faculty to do so.

Professor Howe said that the Task Force recognizes the terrible financial situation of the University but said it would try to make its decisions fundamentally on educational grounds rather than on financial considerations. The budget realities are recognized by the Task Force; it also understands that the recommendations will have to be phased in. Before it disbands, he said, it will suggest priorities for the recommendations--which should be implemented first and which can wait; which might require the use of pilot projects and which not. Since the University only reviews these requirements every 20 years or so, the task must be taken seriously.

The $10 million figure is a hypothetical, one filled with assumptions. Professor Howe said he believes the figure is too high. Even if it were to cost $10 million to do everything recommended in the report, however, that amount represents only about 3% of the instructional budget of the Twin Cities campus--which gives it a different perspective.

Professor Howe also reminded the Committee that the Task Force has built into its assumptions a significant redirection of effort. Faculty will have to teach some courses less frequently so that they do some of the teaching called for in the report. Some existing courses can be restructured to meet the requirements of the Diversified Core Curriculum. This redirection of effort must happen.

He also agreed with Dr. Kuhi's observation that the effort should go far beyond CLA; how that can be made any more explicit than it already is, he said, is not evident. There will be many opportunities, especially in the "cross-cutting themes," for faculty in the professional schools to help. The problem will not be the opportunities; it will be the political culture in the professional schools--those faculty have not traditionally been involved in this set of responsibilities. Part of the problem, Dr. Kuhi added, is also the political culture outside the professional schools; there needs to be much more discussion across the boundaries.

One Committee member emphasized the need for start-up funds for faculty to develop the courses that will be offered; others joined in that opinion.

Another individual expressed concern that the Task Force effort may be running at cross-purposes with the focus, in recent years, on each unit doing what it can do best. Most faculty went to graduate school to teach in the disciplines in which they received their degree. It is worrisome to think that effort will drawn away from that activity, in a period of scarce resources, and redirected to the new student colloquium or in teaching writing, for example. The parts of the report which call for redesigning courses within disciplines makes sense, but to call on faculty to teach out of their areas is troublesome.

That concern arose at Morris as well, the Committee was told. What they found is that many of their resources had shifted to the upper division; part of the effort made at Morris was to re-establish the appropriate balance of instructional time devoted to lower division education. Although not perfect, they have found the process of change to be successful.

Many of the implementation and other issues will be considered by the to-be-appointed Council on Liberal Education, Dr. Kuhi observed. A number of the concerns expressed at this meeting, he said, will have to be taken up by the Council.

Professor Shapiro thanked Dr. Kuhi for joining the meeting.

2. Faculty Fringe Benefits

Professor Shapiro turned to one Committee member to explain the issue of concern. The Committee was informed that the University's total compensation figure appears high, in comparison with peer institutions, because graduate student tuition remission is included in the amounts identified for faculty fringe benefits--as is tuition for faculty who wish to take a course. Is this true, and if so, can the item be removed from the faculty fringe benefit item so it does not make University faculty appear to be overpaid?

Professor Ben-Ner reported that the Committee on Faculty Affairs has taken up this issue and will report to the Committee on the results of its inquiry.

This also raises the question of cafeteria benefits, Dr. Kuhi observed, including in the area of health care. There is certainly room for an increase in flexibility of benefits. He said he did not know the status of the discussions.

Another related issue, one Committee member said, is the "pooled" accounting used by the University in funding fringe benefits. Units which have a large concentration of highly-paid employees, for instance, pay disproportionately more for health benefits--because the funding is a percentage of the salary funds. In other areas, it works to their advantage, and the net result is probably fair. This is merely one example.

Mr. Erickson said that the question about the fringes provides the opportunity to examine several long-standing practices for which the rationale is not evident. One objective, over time, will be to obtain as accurate an assessment as possible of what it costs the University to do various things. Care will have to be taken, in such accounting, however, so that the cost of doing the accounting does not outweigh the benefit obtained. A major piece will be in health care benefits, since the University is contemplating separation from the State.

Is there a possibility that health care costs will increase in the next biennium and, with no salary increases, the actual pay of employees will decrease? Mr. Erickson affirmed that they could. Has the administration given any thought to how it might handle that eventuality? (In the long run, it was jokingly suggested, University employees will only receive health care and no salary, because the cost of health care will continue to grow to the point that it will consume the entire salary budget.) Another Committee member said that the University could be hit twice on health care: The low-bid premium will likely be higher than in the past, so the fringe benefit charges to units will increase and will have to absorbed by departmental budgets; at the same time, everyone except those in the low-cost benefit plan will face increased premiums, so their paychecks will be smaller. Both the departments and the individuals will see increased costs. Mr. Erickson said that was an accurate summary of what could occur.

Moreover, it was noted, there will be an increase in the Medicare premium for some faculty--which will have to come from the University's budget as well as from the individual's salary. This benefit, it was pointed out, will benefit units with highly-paid staff, because the additional premiums will be taken from the pools.

3. Definition of "Closing the University" and Other Financial Issues

Professor Shapiro pointed out that this issue included not only the possibility of closing University buildings but also "payless" holidays. He also recalled that President Hasselmo has said that although "payless" holidays are theoretically possible, it would be among the least likely possibilities he could envision as a solution to the University's financial problems.

What about closing the University between breaks or at the end of second Summer Session? Would this mean people could not work in their offices? Would they go without pay? Would the electricity be turned off? What does "closing" mean?

Mr. Erickson said that a variety of options are being considered; no one has reached the point of defining what "closing" would mean. Professor Morrison, he pointed out, has noted that there would be problems with the tenure code if the University were to propose "payless" holidays. At this point, he said, the idea of closing has come from the faculty rather than anyone in the administration. It is certainly possible but raises a huge number of issues. One could, for example, engineer a pay increase that would be offset by having "payless" holidays; the result would be no different but the base would increase. The administration is making up a laundry list of things to consider; none of them is anything more than that they are on a list.

It is surprising that the faculty are the ones who raised the possibility of closing, it was said. The concern is that the worst thing to do would be to lock people out of their offices. "Payless" holidays are one thing; to prohibit them from doing their work, whether or not paid, is quite another.

Mr. Erickson said that closing the University could conceivably save money, although the buildings would have to be maintained at certain temperatures and laboratories would have to considered. Dr. Kuhi said he did not view this as a serious option. Berkeley closes during winter break, to save energy costs, but the net savings were about $200,000. It turned out that about half of the buildings needed full utilities, and the faculty continued to come in and work. It is not a productive way to save money, he concluded.

Another idea on the table, Dr. Kuhi said, and which the University has announced publicly, is to make additional programmatic cuts to save money. A hiring freeze, however, is a very quick way to generate a lot of money. There are about 120 faculty positions vacant each year, and a large turnover in P&A and civil service employees. The problem is that this solution strikes at random. Other options being considered are increasing the attractiveness of early retirement, but that, too, strikes at random. If the financial situation becomes bad enough, however, all of these options will have to be considered. But no decisions have been made.

Mr. LaFontaine reported that he had learned of institutional closings from a State University of New York publication; the intent was to push all vacation time into the "window" of the period when the institution would be closed. Then during the rest of the year no part-time or temporary or intermittent help was necessary. They reported substantial savings from the experience.

The University has been closed once, but only for civil service employees. The unions, however, took issue with the step; the University, after facing arbitration, was required to pay employees their salaries for the day.

If the Committee has ideas, Dr. Kuhi urged, it should make them known. The administration is literally trying to look at all possibilities and what the options would be. Mr. Erickson agreed and told Committee members to call either him or Dr. Kuhi, especially if someone had ideas that should not perhaps appear in the press.

It was suggested that the Committee, shortly after the legislature has adjourned, should meet with the two vice presidents to discuss the impact of the decisions. There should be a plan for a thorough discussion.

The Committee discussed briefly with Mr. Erickson the budget for next year. At present the reduction looks to be in the range of $10 to $20 million, in addition to those uncontrollable inflationary increases.

4. Status of the Plan to Charge for Space Occupancy

Professor Shapiro next welcomed Mr. LaFontaine to discuss the status of the space occupancy charges. The <u>accounting</u> for space occupancy charges (not the charges themselves), Professor Shapiro noted, are supposed to begin July 1, 1991; the actual charges are to start in 1992.

Not a great deal has been done with the plan, Mr. LaFontaine explained, since the earlier discussions occurred. Many of the mechanics of attributing space costs to college are in place, he reported; the University could begin attributing costs on July 1. They actually would not start until September or October. He acknowledged, however, that this plan has not been a top priority. Professor Shapiro quickly assured Mr. LaFontaine that the Committee does not believe it should be a top priority; the approach of July 1, however, prompted the inquiry.

Mr. Erickson said that this information is important; to the extent it is available, it should be developed and examined. Whether or not the administration will recommend implementation of space charges is an open question. There has been much discussion of the issue, he said he has been told, and there is no unanimity of view in the administration, either. The question does get to the issue, however, that if anything is free, it is probably over-used. He told the Committee that he had instituted charging for space occupancy at SuperValu, and found that units suddenly discovered they didn't need as much space. It also provided a mechanism for giving additional space to a unit which needed it. Mr. Erickson cautioned, however, that he was working with a single headquarters building and there was no question about the heterogeneity of space as there is at the University. But there is a strong conceptual reason why something in the proposal makes sense; the question is one of implementation. He said he recognizes the very real issue of valuing very different kinds and qualities of space.

It is important, Mr. Erickson said, for the University to know, programmatically, what something costs. It cannot control costs if it does not. He recalled an experience involving the development of cost accounting with the Federal Reserve System; in one case, the bank was being charged for 25 more telephones than it had. Unless there is ownership, units and the University do not have proper control over expenses. It is important for the University to begin to think about space, although he said he does not minimize the difficulties that will arise. But if the University does not start to think about the issues, it will never gain control over its expenses.

It may be, said one Committee member, that as the costs are identified and allocated to units--without charging--simply seeing the costs would bring the issue sharply into focus, similar to what UBEEP is doing with energy. One major problem at the University is that it is literally falling apart and there are no funds for new space. Space is becoming even more of a precious commodity; encouraging efficient utilization will become critical.

One Committee member pointed out that the University embarks on a slippery path when it starts to charge for fixed capacity. At present the price is not zero; it is allocated centrally, but there is a shadow price. If a market mechanism is to be used, allocation will be very sensitive to price. But there is no "market" internally, by which the University could "price" various spaces. If prices are established internally, and they are incorrect, the "gain" will be negative. In addition, since the capacity is fixed, the price mechanism cannot be used to expand capacity in a rational way.

Mr. Erickson said the larger issue is that some functions are more space-intensive, and therefore have a much higher cost than other functions. If the University begins to communicate that information, it will help to make decisions about various functions and whether, in a total economic sense, what the University is doing can be justified. For example, if there is a high intensity of space usage in research, and high energy usage, it may lead to advocating allocation of more of those costs on a direct basis, rather than indirect, because the University may not be recovering its costs. Clearly, for the University as a whole, the sum is a zero, if costs are taken out of support costs and put into instructional budgets or somewhere else. From that standpoint, no one would be penalized. Allocations can only accomplish a certain amount, but they can sensitize the University to use and costs; before that occurs, there is no hope of controlling expenses. He expressed surprise, for example, that there is not individual metering for steam in every campus building; how can the University ever control energy costs unless it knows where they are? It is such fundamental things as this that must be considered.

Such information, Mr. Erickson also pointed out, can be used to communicate about the inherent differences among departments. CLA probably has fewer space usage costs than does IT, which would have more in research labs and equipment. That must be understood so the University can make proper pricing decisions on what outside groups will be charged for research activity.

Another aspect of ownership that has been discussed, Professor Stuthman pointed out, that creates problems, and that is at the departmental level: They "own" their space and they are not about to share it or give it away. That ownership is not helpful.

Mr. LaFontaine affirmed that allocation of costs is expected to begin in September and October and that the target date for beginning to charge remains July 1, 1992. There remains much work to do before that, however. He agreed that there would be ample time for additional discussion. The consequences, it was said, could be worse than the benefits, and there will need to be further discussion. Mr. Erickson said that first the information gathered will have to be examined; there will be all kinds of issues which will need to be addressed--that is inevitable. Once the basic information is available, people will be able to assess the plan on a much more rational basis--and that will be the time to have a thorough discussion.

Professor Shapiro agreed. He noted that there are two big problems: money and faculty morale. If there comes a big proposal which will not generate money but which will further decrease faculty morale, it warrants serious scrutiny. Mr. Erickson emphatically agreed.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota