

Minutes*

**Senate Committee on Finance and Planning
Tuesday, January 5, 1999
3:15 – 5:00
Room 238 Morrill Hall**

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Wendell Johnson, Gerald Klement, Eric Kruse, Jane Phillips, Peter Robinson, Charles Speaks, Susan Carlson Weinberg,

Regrets: Richard Pfutzenreuter, Terry Roe

Absent: Cynthia Gillett, Terrence O'Connor, J. Peter Zetterberg

Guests: Donna Peterson (Institutional Relations), Julie Tonneson (Office of Budget and Finance); Dean Steven Rosenstone, Suzanne Bardouche, CFO (College of Liberal Arts)

[In these minutes: biennial request; supply and expense budgets; discussion of IMG and the compact process with Dean Steven Rosenstone]

1. The Biennial Request

Professor Gudeman convened the meeting at 3:15 and welcomed Donna Peterson and Julie Tonneson to discuss the biennial request and a variety of other matters, such as supply and expense budgets and the Gateway Center.

Ms. Peterson began by noting that the legislature convened today, and that the University would be working with it immediately. The major competitor for funds this year will be tax rebates; how that issue is settled will determine how much will be left over to spend, which will be tied directly to how much of the University's request it will receive. One criticism of the University has been that it has asked for \$198 million in a year that will be devoted to tax relief; the University has pointed out that there will be money spent, even after tax relief, and points out the reasons why some of the state investments should be in higher education and the University. One argument is that the state is now reaping dividends from its previous investments in higher education, and should reinvest some of those dividends to assure returns in the future.

Ms. Peterson outlined the probable schedule of events at the Capitol. It will not be until about March 1 that actual decisions will be made.

The higher education issues that will dominate the legislative session include preparation of people for the jobs that are available (rather than economic development itself) and the role the University is to play in that. The farm economy will also be important, as will K-12 education quality and teacher

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preparation. The University will have to make judgments about how it will approach each of them, if at all.

One component of the request is for AHC funding, pointed out one Committee member; how will that be received? The Governor has made it clear that he would like to see the tobacco money used for health-related issues; if the AHC activities can fit his definition, it might receive some of the funds. The House and Senate do not agree on how the tobacco money should be treated, however. One question the University will confront--with the AHC and other areas--is whether the state should increase funding in areas where federal funds have decreased?

One Committee inquired about the most realistic projection for merit salary increases for faculty and staff. Ms. Peterson said she could not say, because decisions about the request are too far away; she did note that compensation constitutes about half the request. She suggested Committee members tell their colleagues to write their legislators; that would help more than anything, she said.

Professor Gudeman thanked Ms. Peterson for joining the meeting, and wished her good luck with the legislature.

2. Supply Budgets

Professor Gudeman next turned to Ms. Tonneson, who began by distributing a 1-page handout on supply budgets. Of the last four years, inflationary increases were provided to colleges for supplies for this year and last year in centrally-allocated funds. In the two prior years, there were no increases to colleges.

There is no increase for supplies in the biennial request; there was last time, but this request was put together in a very different way, with a strategic issues focus, so supplies were not seen to be part of it, nor likely to be funded. One Committee member surmised that at no time is a request for supply funding to be attractive to the legislature, but inflationary costs are real; if there is any reasonable amount of funding from the legislature for the items requested, does that free up any money that central administration can reallocate to supplies? That may be possible, Ms. Tonneson said, but the list of items that must be funded, apart from supply expense inflation, is long. She said she was uncertain supply funds could be increased.

The question is not whether supply budgets are increasing, but also that what is contained in those budgets is changing. Probably in many departments, one-third of the budget goes for telephones (e.g., Ethernet connections), and the supply budget only covers a small part of what is considered supplies. If departments are expected to engage in good planning and budgeting, they have budgets that are inadequate for the demands and must use such sources as released salary funds. This is not rational planning. It would be helpful to see what categories fall under supply budgets, in order to try to help departments be able to make rational decisions.

Ms. Tonneson said she had not brought such information, but had made a note of it and would do so. When inflationary increases have been provided in the past, all categories except personnel and utilities have been increased, which would include such things as telephones, computer equipment, and so on. SEE (supply, expense, and equipment) used to have an understood meaning; now it is considered to be everything not personnel or utilities.

It was urged that certain infrastructure items should not be in SEE budgets and should be funded in other ways. With the significant increase in electronics, and CUFS, there are replacement costs as well as staff to maintain them; do the latter come out of supply budgets? Not normally, Ms. Tonneson reported.

In the case of computers, some money is provided by the colleges, but some also comes out of supply budgets. Telephone costs alone consume the supply budgets in some departments, said one Committee member. If the University wants "high tech teaching," it was said, it has to think about how to fund it. Other needs are steep, said another Committee member, but the administration must understand that supply budgets are critical; there has been deferred attention to supplies, and in many departments, over 1/3 of the supply budget is from other sources of funding--because departments MUST pay their bills. The most common source of funds is released salary money; departments sometimes MUST have people go on leave so they have funds for supplies. Some of the items funded this way should be considered infrastructure, and separated from the supply budgets.

Another factor is that equipment cannot be depreciated over 10 or 20 years; often it is not usable for more than 2-3 years, and students want the most up-to-date equipment. The supply budget CAN be an attractive item, if described correctly (e.g., using it to purchase equipment to blow up DNA); it is the most exciting thing that some units use.

What is needed is to get supplies out of an omnibus category, it was said. Ms. Tonneson agreed that this was something that should be considered. In the past, supplies have been chairs and pencils, rather unexciting; programmatic elements in the supply budget should perhaps be considered differently.

One Committee member noted that the biennial request seeks 100 new faculty positions; has anyone, he asked, thought about the pressures on the supply budget that those people will create?

Ms. Tonneson commented that there will be meetings with each college when the annual budget is being set, and that will be an opportunity to raise this question. If conversations with the deans has taken place, is their message the same at the concern expressed by the Committee? Ms. Tonneson said it has been variable; when asked for high priorities, the deans do not all identify supplies and expenses.

It was suggested that the Committee be provided more data about the costs of telephones and other items, and data on the source of funds used to pay for department supplies. Ms. Tonneson pointed out that her office does not have information on how colleges distribute supply money to departments; that is a decanal decision. but certain expenditure information can be provided.

All units overspend their supply budgets, concluded one Committee member; the items in it have exploded, and it is no longer papers and pencils. There needs to be a new set of categories, with infrastructure considered separately. It is not a good system when departments must sneak a lot of items into one category. The problem often is that after salaries are taken care of, there is not enough left over to operate the department.

Professor Gudeman thanked Ms. Tonneson for joining the meeting; it was agreed that the operation of the Gateway Center, parking and transportation issues, and other matters would be deferred to a future meeting.

3. Discussion with Dean Steven Rosenstone

Professor Gudeman next welcomed Dean Steven Rosenstone to the meeting to discuss the compact process, IMG, and the interaction between the two.

Dean Rosenstone expressed appreciation for the opportunity to meet with the Committee, introduced the Chief Financial Officer of CLA, Suzanne Bardouche, and then made remarks about IMG and the compact process. He provided a copy of his remarks, which follow.

He began by noting that these are quite separate topics, though too often confused, and that each could exist without the other. Though taken them up separately in this discussion, there are three questions that might be considered in thinking about both of these issues:

1. What VALUES do they promote?
2. How do they contribute, or not, to the college's and University's MISSION?
3. Do they help provide constructive direction to college PLANNING AND DIRECTION?

IMG is a method of distributing tuition revenue, ICR revenue, and space costs, according to specific formulas. The ICR and tuition attribution formulas seem to be working, and they clearly provide some sensible incentives:

- the more external grants you generate, the more ICR the collegiate unit receives
- the more students you teach, the more tuition revenue you receive.

Before IMG there were few direct incentives at the collegiate level that led deans to be concerned about costs or to try to serve more students or to serve them better because there were no direct or immediate fiscal consequences to the college from doing so. Before IMG there was no way to automatically recover ICR -- resources essential to meeting A-21 requirements and building the research infrastructure of the college. Space "costing" under IMG needs much more work if it is to be effective. Right now, CLA receives \$5 per assignable square foot for all space assigned to the college; then, central removes that amount from its budget.

IMG puts into clear focus the subsidies that exist within and across colleges for various activities. Some of these subsidies were outside the control of CLA in the past, and they were continued year after year without much review. For example, in the past, large portions of summer school and extension courses were heavily subsidized by other activities. The college can now make deliberate decisions about whether to subsidize these activities, and if so, by how much, with an understanding of the amount of financial subsidy involved, as well as how that expenditure fits with respect to other competing academic priorities.

Much has been heard about the evils of IMG:

- IMG discourages interdisciplinary work
- IMG discourages cross-collegiate collaborations

- IMG discourages joint appointments
- IMG discourages hiring regular faculty
- IMG discourages quality education

This has not happened in CLA. This has not characterized CLA's relationships with other collegiate units. There is very much an El Niño effect here: everything that is wrong at the University of Minnesota, including problems that existed long before IMG was even on the horizon, is now attributed to IMG.

-- For example, there is nothing in IMG in itself that prohibits interdisciplinary work, but those who don't want to do interdisciplinary work with a particular focus can use it as a convenient excuse. Since the start of IMG, CLA has pursued new initiatives with IT and CBS to create new interdisciplinary minors and majors; we are also creating three new interdisciplinary minors within CLA.

CLA continues to fund nearly a dozen interdisciplinary centers, most of which serve many faculty and students outside of our college; we are partnering with other colleges in the funding of some of those centers.

-- Since IMG, CLA has created two new interdisciplinary institutes, one for the arts and humanities and another for Global Studies -- institutes that involve faculty and students from across the University.

-- The New Media Institute, though a CLA responsibility, is an interdisciplinary operation that has involved faculty from three colleges in the planning. It will serve the whole University community.

-- Since IMG, CLA has worked with the Medical School and with Agriculture on joint appointments. We share a joint chair with Carlson and another one with the Law School which provide powerful opportunities for interdisciplinary work.

-- Since IMG, CLA has INCREASED, not decreased the number of regular faculty.

-- Since IMG, the proportion of CLA's teaching staff comprised of non-regular faculty has not increased.

-- Under IMG we have invested new monies to improve the quality of the educational experience we provide our students; we have not tried to cheapen the quality of that experience.

Dean Rosenstone urged the Committee and faculty throughout the University to focus on some hard facts about behaviors and actions taken by colleges before jumping to conclusions about what IMG has done or has not done.

How is CLA managing IMG?

1. CLA is guided by a set of PRINCIPLES articulated in writing as part of last year's compact planning process and also reproduced in this year's document.

2. CLA HAS NOT AND WILL NOT pass IMG down to its departments: College decisions on the investment of new resources in its departments will be driven not by IMG, but by the intellectual and pedagogical benefits to be derived from those new initiatives.

3. Managing Tuition Revenue

-- CLA is working hard to carefully model revenues and expenses, and has been reasonably accurate in doing so. This is tricky, because enrollment increases or decreases in other colleges affect CLA's tuition revenue and instructional expenses. And, when semester conversion is thrown into the mix, accurately predicting future revenues is further complicated.

-- The consequences for CLA are huge, because nearly 2/3 of CLA's O&M budget is tuition revenue. CLA has enormous concerns about how tuition is charged under semesters.

-- CLA models enrollments, not just in CLA but in other colleges to understand the implication on the demand for CLA courses, the staffing it needs to provide, and the costs and revenues associated with the various scenarios.

-- CLA is NOT boosting enrollments to increase revenue. It is boosting quality and creating new programs that will make it more attractive to students in Minnesota, to students in other states. It is doing everything it can to help students graduate in four years, which will both provide a better and more cost-effective educational experience to students.

4. Managing ICR

-- CLA distributes 33% of the ICR it receives from Central back to the unit that generated it (using a 3-year average to smooth out any bumps). These funds allow the unit to meet its A-21 obligations and to see an increase in those resources as those obligations grow. The remainder of the collegiate ICR funds is used by the college for faculty setups, remodeling research facilities, and to meet some of the special needs created by the many departmental moves on campus during the building renovations.

Some General Concerns about IMG at the University Minnesota

-- IMG perpetuates historical inequities that were in place when IMG was adopted. When IMG began, some colleges were given 2/3 of their O&M budget allocation in the form of state support and only 1/3 in the form of tuition revenue they had to earn. When IMG began other colleges were given only 1/3 of their O&M budget allocation in the form of state support and 2/3 in the form of tuition revenue they had to earn.

-- The current implementation of IMG does not provide adequate central resources needed to support "collective goods" such as libraries and new strategic initiatives.

-- The Executive Vice President and Provost must provide the moral authority needed to ensure that the IMG principles that we have articulated are not perverted. The Provost must prevent:

-- "Duplication of Effort." Colleges should develop courses within their own areas of expertise. CLA should not be permitted to start teaching calculus or agronomy or surgery; other

colleges should not be permitted to teach literature, language, philosophy, economics, or political science. The University cannot afford this duplication of effort; it will produce a certain ratcheting down of quality.

-- "Mission Creep." Colleges that have not taught undergraduates in the past but have focused on professional and graduate education should not be permitted to recast their mission to now be a provider of undergraduate instruction or undergraduate degree programs.

-- "Building Barriers." Changes in curriculum or requirements that discourage students from taking courses outside of their college of registration should be stopped. Students in all colleges should be encouraged to avail themselves of the broad curricular opportunities that exist at the University of Minnesota.

-- Interestingly, 25% of the credit hours taught by CLA are to students from OTHER colleges.

-- CLA students take 35% of their credits (over 200,000 credit hours) OUTSIDE CLA.

The Compact Planning Process

-- The Compact Planning Process is an improvement.

-- Focuses discussion with the provost on priorities and on issues where help from central is required.

-- Provides an opportunity for units to identify a set of broader University issues that require central attention.

-- Compacts are evolving documents. They show what a college is focusing on in a particular time period. They are not planning; they are derived from planning.

-- Compacts allow faculty to help shape collegiate priorities; they make priorities known to the faculty; they show the faculty what priorities central is supporting and which they are not; they show what progress has been made on those initiatives.

-- Allows colleges to see what other colleges are doing. This is very useful.

-- Are useful in organizing and listing priorities. Forces deans to explain clearly in writing their directions.

-- CLA welcomes the Graduate School's involvement in this process to ensure that colleges are working together on the priorities rather than spending resources that cancel out the priorities each are trying to set.

-- Pulling together the various compact documents provides the Provost and other Central Officers with an overall sense of the direction of the institution, as well as issues that must be addressed.

Suggestions for Improving the Process

1. The amount of money available for compact initiatives is too small. What incentive is there to expend huge amounts of time on this process if the payoff is so small? If the compact process is a way for central to shape the direction of the University of Minnesota, then money is needed to do so. If the compact process is a way for historical inequities to be corrected, then money is needed to do so.
2. Move to a biennial cycle.
3. Time initial drafts better vis-a-vis creation of the biennial request -- the compact process should be a way of bubbling up ideas from the college that shape the legislative request rather than a process of aligning the college's compact with priorities that have already been set.

Consultative Processes within CLA this Past Fall

- The CLA Executive Committee (comprised of the Chair and Vice-Chair of the CLA Assembly, the Chairs of the Budget Advisory Committee, the Committee on Curriculum, Instructional Advising, and the Council of Chairs) discussed compact planning strategies at its September meeting.
- The Dean met with the CLA Executive Committee and department chairs and directors in September and October to discuss compact themes and ideas and seek further recommendations.
- The entire CLA faculty was invited by email to submit topics for inclusion in the compact document and to assist in fleshing out themes that had already been identified. This yielded over 30 written recommendations from faculty from a wide range of departments.
- The results of these consultations were been incorporated into every aspect of the compact planning document.
- The December 4th draft of the compact was circulated to all department chairs, members of the CLA Executive Committee and members of the CLA Budget Advisory Committee.
- Results of this week's compact meeting with the Provost will be shared on Wednesday, January 13th with department chairs and members of the CLA Executive Committee. Discussion will occur about how to proceed with the next iteration of the compact document.

The Committee then discussed with Dean Rosenstone a number of matters.

- Dean Rosenstone maintained that the way to get more money into the system is not by tinkering with tuition attribution; that would only multiply historical inequities. If there is to be a tax to support central initiatives, such as the libraries, it should be on all funds--faculty make the same demands on the libraries no matter the source of their salary funds.
- It is hard to do long-term planning with a biennial budget; how does the compact process help long-term planning? The other question is how to avoid doing what is expedient in the short term but what may not be in the long-term best interest of the college. The goals of CLA in five years will likely

not be very different (strengthen high-quality departments, improve diversity, increase the quality of undergraduate education, and so on); the compact strategy is to do what one can now to achieve those goals. Compacts are a vehicle to articulate progress. On some goals, one could reach a point where a goal has been accomplished (e.g., a high-quality department does not need additional lines).

-- CLA urges that the administration not allow certain things to happen; how can it do that (e.g., not allow duplication of courses, when the central administration does not review courses)? But central administration does review deans, Dean Rosenstone pointed out. Every college can tell what proportion of each college's students are taking CLA courses, all can monitor their curriculum, all can see what is going on. The Provost reviews the dean, sets salaries, examines where investments have been made, and can say "stop" or explain what is occurring. The Provost can also exercise moral authority. No one else can do it at that level. Furthermore, the deans can watch each other, and agree that certain principles are important and that they will make the University stronger. That has not been done yet, but they are working on it, and CLA is pushing hard on endorsement of such principles. CLA will adhere to them, and will ask the Provost to endorse them.

-- The amount of detail in the compacts should be sufficient for all to see what is occurring.

-- CLA has a strategy for dealing with a revenue shortfall; is it efficient for each college to have its own "insurance policy" against revenue fluctuations? Dean Rosenstone said he did not know; the administration is not a backstop, so the colleges had to devise their own plans. CLA is the college most exposed to risk at the conversion to semesters; it accounts for 25% of all tuition revenue in the University of Minnesota system, and if tuition falls by 2-4%, the college will be in trouble. The college has a rainy day fund to accommodate problems for a moderate length of time--18 months--if revenue remains down, cuts will have to be made. Dean Rosenstone said the convergence of high exposure to tuition fluctuations and the conversion to semesters was a mathematical occurrence, not a plot. CLA would be less exposed if different arrangements had been made with respect to dependence on tuition revenues when IMG was adopted, but that was not done. This issue, however, is the one that is most troubling; CLA has increased substantially funding for faculty, staff, graduate students, etc., and continuation of that funding depends on there not being a tuition shortfall. (CLA increased compensation by about \$1 million over the amount made available from central administration--but it is contemplating shortfalls of \$2 - 6 million.) Preventing shortfalls is extremely important to the college and the advances it has recently made.

-- Should compacts be more tied to strategic planning? Should there be a more bottom-up effect, more interweaving of college and university planning? Dean Rosenstone said that compacts, on a 1-2 year horizon, could drive central strategic planning. Also, if there were a biennial compact cycle, there would be time to look at ideas and turn them into initiatives which the administration could fund or for which it could seek legislative support. Right now there is no time for reflection.

-- What should be considered collective goods (such as the libraries)? Should those be kept at the central level? Without planning, they will not be supported. This is also a part of IMG, Dean Rosenstone observed. There is no central funding for these items. Institutional leaders must take ideas that cross colleges, evaluate the best investments, and provide the funds to support them.

-- The President has mentioned benchmarks. There are discrepant sets floating around; CLA has one, IMG has another (control costs). IMG does not provide benchmarks, such as making a profit; his success measure, Dean Rosenstone said, is to have no money left except that required for "insurance"

purposes. Any money withheld represents missed opportunities. The incentive is to control costs so funds can be used for college priorities. That could not be done in the past, when colleges did not receive tuition income. Tuition revenue will flow if the college offers great courses, quality programs, a quality faculty, and so on. The benchmarks are not financial.

-- If CLA will not impose IMG at the department level, how will it communicate the need to change? The college responds to good ideas. In liberal arts colleges, care must be taken in decisions, because if all were based on tuition, some very important departments might not be retained (e.g., philosophy, classical studies) and others would dominate the college (e.g., 25% of the tenured faculty would be in Spanish).

-- In terms of the interaction between the Provost and the college, the Provost should be provided ideas, and if they are attractive, the college can prepare more detailed proposals. The Provost should not set college priorities, but should discuss HOW they are set and the relationship between the college priorities and the legislative request. The colleges should also affect legislative priorities.

-- As for the possibility of a four-year plan, CLA (Ms. Bardouche) has built a system which allows it to make certain assumptions and then play out decisions for 2-3 years in the future. Many decisions have tails, which can create problems later. CLA is trying to build these decisions into its budget in the future. One question, however, is the extent to which tuition is recurring. CLA will gladly share its budgeting model; it is not to CLA's advantage to see any college suffer, because the administration will have to bail it out, which means everyone will pay. One thing IMG has done is made it imperative to pay close attention to decisions and tails; if mistakes are made, there will be much that CANNOT be done in the future as a result. The college is still paying the consequences of inadequate past consideration of tails.

-- The success of the University's budget request depends less on the cogency of its arguments than on the success of its athletic teams, said one Committee member familiar with the legislature. It is a concern that compacts might be tailored to what the University would seek in a biennial request, or to what it is thought legislators might agree to fund. That is not an indictment of compacts, Dean Rosenstone observed, but rather of how the University portrays itself to the legislature and others.

Professor Gudeman thanked Dean Rosenstone for joining the Committee, and adjourned the meeting at 5:10.

-- Gary Engstrand

University of Minnesota