Minutes[*]

Senate Committee on Finance and Planning
Tuesday, June 8, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Cynthia Gillett, Wendell Johnson, Gerald Klement, J. P. Maier, Terrence O'Connor, Richard Pfutzenreuter, Jane Phillips, Terry Roe, Charles Speaks, Susan Carlson Weinberg

Regrets: Peter Robinson

Absent: Eric Kruse, J. Peter Zetterberg

Guests: Executive Vice President Robert Bruininks; Gordon Hirsch and Judith Martin (Senate Committee on Educational Policy); William Van Essendelft (IMG Oversight Subcommittee)

[In these minutes: review of the budget for next year; final report of the IMG Oversight Subcommittee]

1. The Budget

Professor Gudeman convened the meeting at 3:15 and welcomed Executive Vice President Bruininks, who joined Associate Vice President Pfutzenreuter in presenting the budget plans to the Committee. Mr. Pfutzenreuter distributed copies of a 73-page handout detailing 1999-2000 budget plans and associated matters. This is a view from 65,000 feet, he told the Committee, an accountant's view. The President will present the budget to the Regents and amplify on what the University is buying for the money.

For 1999-2000, the total current, non-sponsored funds is:

Beginning balance	328,435,000
Revenues/net transfers	1,545,575,417
Total net resources	1,874,010,417
Expenditures	1,573,280,534
Ending Balance (6/30/00)	300,729,883

Mr. Pfutzenreuter explained that the ending balance was higher a year ago, and that he did not expect expenditures to actually be made at a level that reduced the balance to $300 million.

[*] 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.

For centrally-distributed funds (which includes state funds, the state specials, central reserves, and approximately half of the Indirect Cost Recovery funds), the numbers are as follows:

Beginning balance	(1,003,988)
Revenues:	
Operations and maintenance	546,321,128
Tuition	234,414,331
State Specials	83,113,500
ICR	54,632,773
Total	917,477,744
Allocations to academic, support units	916,818,412
Ending balance	659,332

These are the funds of most interest, and provide for the core educational functions of the University; they represent about half of the total $1.8 billion budget. The remainder of the funds are in parking, housing, etc.

Of the centrally distributed funds, about $56 million is new money, distributed as follows:

Compensation	18,374,764	32.9%
Targeted academic investments	12,741,843	22.8
Core admin services	5,232,334	9.3
Common goods-facilities	5,807,237	10.4
Common goods-technology	12,650,836	22.6
Common goods-misc	1,131,821	2.0

This does not include funds from the tobacco endowment or other special dollars, or general inflation.

The targeted academic investments include compact funds, 30 new faculty, system-wide (8 the first year, 22 the second), undergraduate academic investments (study abroad, research opportunities), Rochester, faculty service awards/Regents Professors/teaching awards, etc. Core admin services include EEO community education, ICR rate development, financial management, etc. Common goods include new building operations, repairs, U of M debt, Gateway leases, technology-enhanced learning, libraries, distance education, enterprise and grants management projects, web development, classrooms, financial aid, and the State Fair building. Mr. Pfutzenreuter reviewed a number of these items in more detail for the Committee.

Of the $56 million in new centrally-distributed funds, about 71% come from the state appropriation, 11% from the enterprise assessment, 10% from institutional revenue-sharing, 5% from one-time balances, and 3% from central reserves. Of the money from central reserves, about $1 million is being spent in accord with the NIH settlement, so the University funds its own grants (which are still peer-reviewed).

Mr. Pfutzenreuter then noted for the Committee that expenditures of the new $56 million for 1999-2000 had been divided into two categories, "Fixed Obligations and Prior Commitments" and "Essential Additional Investments." The former includes academic investments, debts, new building operations, utility price increases, and the like; the latter includes compensation increases and technology infrastructure support/maintenance. The "Fixed Obligations" total about $13.5 million; the "Essential Additional Investments" total $42.5 million.

The State Specials increased about 3%, if the tobacco endowment funds are excluded, with some specials increasing more and others decreasing or flat. The tobacco endowment funds, Mr. Pfutzenreuter said, are being treated as restricted funds.

The Committee then looked at a table of data for budgets going back to 1995-96, with revenues and expenditures by source. A question was asked about "other restricted" and "other unrestricted" funds, which are projected at a total of over $300 million for 1999-2000. Most of those funds come from the endowment, Mr. Pfutzenreuter said, but it might be possible to obtain more flexibility in the use of those funds, in order to fund more common goods.

Asked about the anticipated drop in tuition revenues because of the change to semesters, Dr. Bruininks said the tuition revenue projection is conservative, and that the University expects students to take .25 to .50 fewer credits, on average--although, he added, faculty and advisors have done a tremendous job during the transition in counseling students not to let their academic workload drop. One Committee member reported that credit loads are down 1.25 in CLA thus far, although Dr. Bruininks observed that the base may be inflated because students rushed to complete degrees before the change. He agreed that the University must be cautious in evaluating the data. ALL institutions that made the change to semesters saw a decline in the average credit load.

One Committee member applauded the clarity of the presentation, and the fact that this budget appears to capture most of the second-year expenses (which has not usually been true in the past), but urged that salaries be moved into "Fixed Obligations and Prior Commitments." Mr. Pfutzenreuter said it had been difficult to decide which items should go into which category, and it may be that only debt should be in the "Fixed Obligations" category.

One problem that remains is that the "Fixed Obligations" and "Essential Additional Investments" total $13.8 million more than is available. There have been no assumptions made about a tuition increase, or about additional state funds, and this problem needs to be addressed. It may be that the budget task force, chaired by Dean Rosenstone, will consider how to pay for common goods.

It would appear that the only logical way to solve the problem, observed one Committee member, is to cut expenditures in one of the two categories, and the most logical place appears to be compensation. Dr. Bruininks said the administration's goals include raising the money necessary to cover the shortfall and to avoid increasing assessments on the colleges for the next fiscal year. Tuition and internal budget cuts can both be considered, and the number, in light of the total University budget, is quite small. He assured the Committee regarding the commitment to budget support for the compensation funds.

Asked if this was the first time that a two-year budget had been prepared, Mr. Pfutzenreuter said that they have always prepared a preliminary outlook, but this year they tried to achieve a firmer budget.

It is possible they have missed things, or mis-judged the numbers, but he said he was quite confident about most of them.

Asked if the colleges or the central administration would need to do anything more to achieve 3% salary increases, Dr. Bruininks affirmed that that is the case. He also said he doubted that number would change (and confirmed that the funds include the corresponding increased cost of fringe benefits). One issue that arose in Big Ten discussions in which he was recently involved was how to deal with rising costs of such items as technology, laboratories, and salaries. All except Minnesota appear to have a central budget mechanism in place to deal with them, but they also all said those mechanisms were imperfect. The University attributes more funding to local units than other Big Ten schools--and that means there must be a shared responsibility for institutional costs.

One Committee member inquired if the administration captured the difference in salary if a highly-paid senior faculty member retires and is replaced by a lower-paid junior faculty member. Dr. Bruininks said it did not; those funds remain in the colleges. It is also increasingly the case that there are not significant savings when turnover occurs, because of the higher cost of recruiting junior faculty.

Inasmuch as the budget is going to the Regents very soon, what the Committee can do at this point is to learn about it, remarked one Committee member. Dr. Bruininks said that this budget is the result of a lot of decisions over the last several months, with much review, and also results from decisions by the legislature and the Regents. Final approval will come by the Regents at the end of June. It is something the Committee will revisit in the fall, Professor Gudeman concluded.

Dr. Bruininks commented that the budget will also be the focus of the faculty-administration task force chaired by Dean Rosenstone. The President wants a comparative analysis of budget processes at other Big Ten universities as well. He also agreed with the observation that the budget is to some extent a rolling plan, and that revenues and expenditures will be updated. One aspect of the discussion should focus on how the University uses existing funding. Most time is spent analyzing the use of legislative funds--which are very important--but it is important to think about all funds, including current resources.

Professor Gudeman thanked Mr. Pfutzenreuter and Dr. Bruininks for the report, and promised that the work of the task force (which is meeting over the summer) will be brought to the Committee in the fall. Dr. Bruininks said he would provide a copy of the task force charge to the Committee.

2. Report of the IMG Oversight Subcommittee

Professor Gudeman now welcomed Professors Hirsch and Martin from the Committee on Educational Policy, the other "parent" committee of the IMG Oversight Subcommittee. He turned to Professor French and complimented her on the two years of work of the Subcommittee; it did yeoman work, he said, and it was deeply appreciated.

Professor French reported that in the past year, subcommittees of the IMG Oversight Subcommittee worked on issues related to IMG in both the narrow and broad sense of the term. The subcommittees included: (1) review of compacts (investigating how they might be modified to address IMG-related issues: e.g. level of risk, course duplication, interdisciplinary activities, outreach, quality) [Carl Adams, chair]; (2) investigate mechanism to direct revenue streams to administration, libraries, etc. [Carole Bland, chair]; and (3) impact of IMG on outreach and cross-college interdisciplinary activities

[Tom Soulen, chair]. During winter and spring quarters, subcommittee members revisited the deans and associated department heads to investigate how units have fared after the first full year of implementation of IMG. The report contains the committee recommendations and a series of appendices containing more detailed summaries of the subcommittee reports and a summary of the interviews with deans and department heads categorized according to topic. [A full copy of the final report of the Subcommittee can be found on the web at http://www1.umn.edu/usenate/img/imgfinalreport.html]

Professor French then reviewed the recommendations of the Subcommittee, which are as follows:

I. 1 General

- Charge a task force to investigate the perceived historical inequities and methods to remedy those inequities. Now that IMG has been in practice for two years, it is time to revisit the issue of historical inequities. The compact process might be considered as a possible mechanism to remedy the inequities through shifts in the state subsidy allocation or in the distribution of new resources.

- The impact of institutional policies (e.g. semester conversion, tuition banding, etc.) on the budgets of particular academic units should be investigated prior to implementing new policies. Mechanisms to adjust units' budgets accordingly should be investigated (possibly through the compact process). There are a number of instances where institutional decisions impact academic units directly or indirectly via IMG. One such institutional decision is the switch to semesters, another example is tuition banding. The quarter to semester change policy decision will more heavily impact programs with budgets that are more dependent on tuition income.

- Evaluate a means to buffer the immediate impact of IMG. The annual variations in tuition and ICR can have a significant impact on the budgets of academic units. Some of the causes of the variations in revenue may be out of the control of a particular academic unit (e.g. semester conversion, another college offering a new "competitive" course offering or becoming freshman admitting, loss of faculty member who generates large amount of ICR, dramatic shifts in funding agency priorities, etc.). As a consequence, academic units must deal directly with budget anomalies through layoffs, cuts in supply budgets, or unfilled academic positions.

- Budget reserves should be protected and remain within the control of the individual academic units. Units have been encouraged to hold a certain percentage of their income in reserves as good fiscal practice to "smooth" out the bumps in income and expenditures. With nearly every academic unit building up their own reserves, there is concern that these monies may be targeted by central administration or the legislature as a potential source of revenue. These funds should be protected and used as a source of initial seed money for academic units to fund some of their own new initiatives, etc. Mechanisms should be available for smaller academic units to pool resources.

- Central administration should assume a role in providing training and tools/resources for academic units to better facilitate budgeting/tracking/planning. As an example, there is a wide variation among the colleges in terms of tools used to track and estimate enrollments. Some colleges are adept at modeling enrollment in other colleges as well as their own in order to understand the demand for courses within their own unit (particularly if they offer service courses); other colleges have difficulty accessing the necessary data and tracking funds for their own college! Central administration should provide a mechanism for sharing resources/training to avoid unnecessary duplication; every college should not have to reinvent the wheel. There was a notable turnover in deans who might benefit from training with regard to IMG.

- Central administration should provide guidance/resources/templates to academic units that require assistance in working out agreements among other colleges. There have been some implementation issues with IMG that have led to confusion regarding cross-college teaching attribution and sources of interdisciplinary graduate program revenue.

- The issue of course cost variation relative to revenue generated should be evaluated. For some courses, the cost of instruction may far outweigh the tuition revenue income. In the revenue neutral implementation of IMG, this was automatically taken into consideration. There is a difficulty in offering new expensive courses for which tuition income may not cover the cost of instruction. The compact process might serve as a possible mechanism to fund such new courses.

- The use of least expensive means of instruction (e.g. part-time, adjunct, TA) to teach courses should be monitored. In addition, canceling of relatively low enrollment courses should be monitored.

I.2 Compacts

- The faculty should be better educated regarding the compact process and its potential impact on their programs. The compact process provides the vital link between planning and budget, and as such, faculty should be interested in providing critical feedback during the compact development.

- Modification of the compact process cycle should be investigated. The current compact process is generally “reactive” to the biennial request. One might consider an alternating cycle during which the compact would be “proactive” in alternate years, devoted to the development of initiatives and priorities considered in the *development* of the biennial request. In alternate years, the compacts could be “reactive,” as now, tied to specific initiatives the President submits as part of the actual biennial request.

- Trends in the single page profile sheet should be reflected *year-by-year* over a 5-6 year period. The profile data sheet provides valuable information, however, the current beginning and end points are too volatile to determine a trend. Measures that contribute to institutional critical measures (e.g. graduation rates, NRC ranking, etc.) are also important to identify.

- Target performance measures should be identified and agreed upon in the compact process. Progress made in achieving the performance measures should be evaluated annually.

- Mini-compacts should be developed between the colleges and the departments. The single most consistent concern expressed by department chairs during the interview process was that they were not adequately informed about the priorities and resource management arrangements for their units.

- Mini-compacts should be developed between cross-college interdisciplinary programs and their designated “home” program.

- It is recommended that additional information be required in the compacts between the central administration and academic units regarding at least the following three areas:
  - involvement of academic units in cross-college interdisciplinary programs
  - identification of curriculum initiatives that might impact other units or that might comprise mission creep [On this point, Professor Martin noted the recent appointment of the SCEP Subcommittee on Twin Cities Curriculum, which is intended to serve as an appeals body to monitor this issue.]
  - proposed new faculty hires.

  This information will enable communication between the academic units and central administration regarding institutional priorities (e.g. interdisciplinary activities are encouraged) and balance across the university in terms of curriculum and level of risk.

I.3 Funding central support services

- There should be clear accountability of resources. There is interest in understanding why the costs of central services are increasing at the rate they are and increasing over the amount budgeted for them. Even though the university is receiving an *increase* in budget from the state, it is facing a shortfall in basic central costs.

- Overarching guidelines need to be developed regarding what portion of the total budget should be used for central costs, what is clustered under central costs, and how funds are provided for these costs. These guidelines should be enduring, not changing each year. A stable policy is the key requirement to facilitate planning from both a central perspective (to facilitate in making decisions regarding the programs/costs to be supported **within** the budget) and an academic/support unit perspective (to anticipate the impact on the individual programs).

- It is recommended that an oversight committee of faculty and deans work with central administration in preparing the guidelines. Central administration should prepare for the committee an explanation of the current revenues for the services and their costs. The committee should work with central administration to determine the appropriate portion of the total budget that should be spent for these costs/services and the source of funds to cover these costs (e.g., portion of the state appropriation, levels of tax and the funding sources to be taxed, and special fees or assessments, etc.). The committee should develop with central administration, an incentive system for the units and an ongoing accountability system that would provide information regularly to this committee.

- Issues to be investigated include the inability of central support services such as the libraries and the Graduate School to generate income in the IMG model, even though demands on these services may increase with increased IMG revenue (e.g. when faculty are successful at writing grants, more ICR is generated; however, there is no source of income to offset the costs of the added activities imposed on SPA and the library, etc.). Regarding sources of funding to cover potential taxes, there is some feeling, particularly expressed by units that generate a high proportion of ICR revenue, that the ICR revenue is already taxed by the 49% captured by central administration; whereas none of the tuition income is taken to support central support services even though these activities also rely on central support. An equitable solution should be sought.

I.4 Interdisciplinary programs

- The subcommittee strongly recommends that a mechanism be created to ensure that quality interdisciplinary graduate programs are supported in such a way that those programs have some sense of stability regarding their resources. Operationalize the flow of funds from tuition, etc. to the interdisciplinary program. If allocations depend on good will, the sources of funds and institutional memory may be lost in the change of a dean or in budget crises. Mini-compacts could be developed between "home" academic units and interdisciplinary programs to negotiate the agreements.

- The designation of an independent unit (e.g. the Graduate School) to validate the interdisciplinary programs and to serve in an advocacy role for these programs should be investigated. In the current system, interdisciplinary programs have a designated "home" academic unit, which might be different from that of the Director of Graduate Studies. Over the long run, housing intercollegiate interdisciplinary programs within a single unit might discourage faculty from other colleges from participating in the programs. This situation should be monitored. Identification of collegiate involvement in interdisciplinary programs should be identified in the compacts as something that the university values.

- Whether or not the interdisciplinary program is housed within the Graduate School or a single academic unit, it is imperative to investigate how to create a climate that encourages deans to promote involvement in interdisciplinary programs.

Professor French also reviewed briefly the findings of the interviews with the deans and department heads, which were as follows:

II. SUMMARY OF KEY POINTS OF INTERVIEWS WITH DEANS AND DEPARTMENT HEADS

II.1 General

- IMG operates on the margin (approximately 20% of the academic units' budgets) not on the base.
- Few faculty, outside of administrative positions, are believed to know about IMG or even have heard of it.
- There are some colleges that extend IMG directly down to the department level. For the most part, however, IMG seems to reside at the college level. In many cases, this has made it difficult for department planning/budgeting, but some departments are pleased to be “shielded” directly from IMG issues. At coordinate campuses (Crookston and Morris), IMG resides at the “collegiate” level. At the other extreme, there are some individual centers that are responsibility centers within the IMG model.
- In general, the deans are pleased with IMG. Overall, most of the colleges have had increased revenue in the first year of implementation and morale is up. CSOM and General College are particularly pleased with their IMG success.
- Two of the colleges that have been “hit” hardest during the first year of IMG implementation are COAFES and University College. Some of the dramatic changes in budgets may be associated with an initial “shakedown” upon implementation of IMG. It is anticipated that in the future, budget changes may be less dramatic.

II.2 Positive and Negative Implications of IMG

- IMG has prompted both positive and negative reactions. It clarifies the costs of programs, and there is more conscious thinking about enrollments and quality of instruction. On the negative side, there is concern that IMG promotes decisions based on the "bottom line" rather than on "educationally sound" principles.
- There is some evidence of competition for students/courses.
- The use of part-time and P&A faculty is mixed.
- There have been a number of instances in which courses have been canceled at the last minute and there is incentive to use the least expensive instructor (e.g. part-time, adjunct, TA).
- If successful under IMG, a unit can continue to grow without regard for "proper" balance at the University. There are two issues in this regard. The first is that the University may become unbalanced because IMG tends to promote programs based primarily on tuition dollars (e.g. encourages courses that are inexpensive to run, but which can generate high tuition dollars). A related imbalance may be the generation of a large number of degrees in an area that may far exceed the external demand. The second issue is that central administration does not have any control over increased numbers of tenure-track faculty of units successful at generating income. New faculty hires are not restricted to particular revenue streams (i.e. all funds "green" approach, subsidy, tuition, ICR, etc.). If some of the funding sources are more tenuous then others, it has the potential to put the University at risk of supporting those tenured faculty lines after certain revenue streams may suffer a decline.

II.3 IMG "Formula" and Revenue Neutral Implementation

- IMG has led to the perpetuation of historical inequities. These should be revisited.
- The distribution of tuition and ICR seems reasonable in general. Some discussion indicated that the tuition distribution should more adequately reflect the cost of instruction. In some cases, the cost of instruction is greater than the revenue generated (e.g. lab courses). A mechanism must be created to fund new initiatives.
- For some colleges, e.g. Public Health, the substitution of state subsidy with ICR funds creates too much variation in the budget from year to year.
- A concern is that administrative decisions (outside of the control of colleges) may have a significant impact on budgets. For example the change to semesters, may have a significant impact on those colleges (e.g. CLA) that rely on tuition as a major portion of their budget. Historically, other colleges that have changed to semesters have noted dramatic reductions in enrollments or number of student credit hours taken by students on average. Other changes in policy that may affect colleges differentially across the campus include tuition banding.
- Reserves are typically being generated (via withholding some ICR and tuition income) and held at the college level to alleviate some of the "bumps" in resources created by IMG.

II.4 Resources/Training/Tools

- There has been a lot of turnover in deans. This affects how well acquainted some colleges are with IMG. Central administration should offer training to educate the deans in the IMG system.

- There is a wide variation across the colleges in terms of tools used to track and estimate enrollments. Some colleges are adept at modeling enrollment in other colleges as well to understand the demand for courses within their own unit (particularly if they offer service courses); other colleges have difficulty accessing the necessary data and tracking funds even for their own college! The more "interdisciplinary" a unit is, the more difficult it seems to track and model. Benefit may be gained by sharing tools. Central administration should provide a mechanism for this exchange/sharing. There is a great deal of effort duplication going into the development of methods/tools by each college. More sophisticated infrastructure and staff training is required.
- Colleges should be given information regarding where they can find information, resources that are available, templates for drafting "deals" between colleges, etc. One department heard about the use of "Clarity" to track enrollment attribution from another department, had to send staff to track it down, figure out how to use it. A list of tools such as this should be distributed with explanation for purpose of the tool and how the colleges/departments might use it.

II.5 Changing Roles

- The role of the deans is changing from academic leader to manager.
- The role of UC, Summer Session, GC, and the Graduate School seems to be changing due to decentralization.

II.6 Compact Process and Supporting Central Services

- The compacts are good in that they tie planning to the budget. Involvement of faculty/departments in the compact process is mixed.
- All agree that the provost needs resources to fund compact initiatives and the common good (e.g. libraries); however, there is not a lot of flexibility in the budgets of academic units to pay taxes. Stability is essential--it is difficult to accommodate abruptly imposed taxes, and more importantly, there should be accountability of the use of funds from central administration.

II.7 Effect on Interdisciplinary Activities/Outreach

- Effect on interdisciplinary programs is mixed. In some ways, IMG has facilitated interaction because partners know real costs, and there is more "trust."
- Faculty teaching across colleges is mixed. There has been some difficulty working out agreements among colleges. More problems seem to be associated with the revenue neutral implementation of IMG and tracking revenue (true also of interdisciplinary graduate programs). Some of the problems may be associated with the lack of understanding of the implementation of IMG. For example, in the implementation of IMG, state subsidies were adjusted such that when ICR and tuition revenue from course designators and college of advising was attributed to the colleges, the state subsidy was adjusted to maintain the unit budget at a revenue neutral status. As a consequence, some colleges had faculty that taught under the course designator for another college. Since the revenue from the course designator was going to the college with the designator, rather than the resident college of the instructor. This has led to loss of excellent faculty involvement in CBS courses.

Professor Gudeman again thanked Professor French for the report. He and Professor Martin agreed that it should be distributed widely.

The meeting was adjourned at 5:00.

Gary Engstrand

University of Minnesota