Minutes[*]

Senate Committee on Finance and Planning
Tuesday, October 24, 1995
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), David Berg, Thora Cartlidge, Kathy James, Karen Karni, Gerald Klement, Patrice Morrow, Roger Paschke, Richard Pfutzenreuter, Peter Robinson, Doris Rubenstein, Charles Speaks

Regrets: Craig Dexheimer, Craig Swan, Steven Thelen, James VanAlstine

Absent: Allen Goldman, David Kittelson, Ryan Thrun

Guests: Professor Charles Campbell, Senior Vice President E. F. Infante

Others: Liz Eull (Budget and Finance)

[In these minutes: Subcommittee on Support Services; Resource Allocation Guidelines; Academic Health Center legislative request; Citizens League report]

1. Establishment of Subcommittee on Support Services

Professor Morrison convened the meeting at 3:15 and welcomed Professor Campbell. Professor Campbell explained that the Assembly Committee on Support Services did not meet last year nor is it meeting this year, in part because of a lack of a chair and in part because of confusion about its responsibilities. He explained that there is an appropriate role for such a committee and that it could perhaps function more effectively were it a subcommittee of the Finance and Planning Committee.

Professor Morrison noted that this would be the third subcommittee of the Finance and Planning Committee, that it would deal with cross-provostal issues, and that it could consult on activities, such as parking, on an ongoing basis. It was agreed that Professors Campbell and Morrison would work out appropriate language revising the bylaws to create a subcommittee.

2. Resource Allocation Guidelines

Professor Morrison next turned to Mr. Pfutzenreuter to lead the discussion of the 1996-97 Resource Allocation Guidelines (RAGs), beginning with a draft resolution to be adopted by the Board of Regents. The resolution declares the budget to be predicated on the state appropriation, an increase of 7.5% in tuition revenues, other income, and central administrative reallocation of $8.9 million.

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The resolution also calls for provision of sufficient need-based financial aid to mitigate the impact of the 7.5% increase in tuition revenues; Mr. Pfutzenreuter explained that the money is in budget plan. Nor is it any part of the money the Board recently voted to spend to continue minority student aid, Dr. Infante added.

The resolution also provides for non-recurring salary increases for 1996-97.

Mr. Pfutzenreuter then turned to a series of slides to explain further the RAGs. He noted the financial strategic issues and trends, including the assumption that "state support for public higher education institutions will not increase in real terms." This is true nationally as well, he noted. Other trends include tuition levels increasing faster than inflation, federal support for research and education likely to level off, a significant proportion of professional schools at public institutions will become largely self-supporting, and academic entrepreneurial activities will increase dramatically as sources of revenue.

Apropos the first, one Committee member noted that it says state support will be flat or decrease. Dr. Infante said he hoped it would not decrease, but said future projections suggest it will. He urged the Committee to read the recent Citizens League report on financing higher education; it would drastically restructure higher education finance. The strategic issues and trends, Dr. Infante noted, are from statements that a number of his colleagues in state universities nationally have identified as "megatrends" affecting all of them; he distributed a copy of the "megatrends."

Mr. Pfutzenreuter reviewed briefly the numbers associated with the 1995-96 and 1996-97 budgets. There will be a net increase of $21.2 million in 1996-97, of which $5.1 million is a balance carried forward, and is thus soft money. He noted the status of indirect cost recovery funds and the central reserves (the latter will have a balance of about $15 million beginning in 1996-97).

It is the O&M funds upon which attention is focused. In 1996-97 the University will receive $485 million in appropriations. Of that, by action of the House of Representatives, $27.5 million is non-recurring, which means that the starting point for the 1997-99 biennium is $457.5 million. The Department of Finance projections of "tails" on appropriations assumed the $457.5 million would increase annually by 3%, and thus projects an overall state budget deficit of $811 million by the end of the 1997-99 biennium.

Where the University will end up for 1997-99 is hard to tell. The situation will be difficult if the state faces an $811 million deficit and needs additional revenues and cuts to balance the budget. Moreover, that deficit does not include any cuts that may occur in federal spending. This will be a serious problem that the University cannot ignore and raises the question about where it will obtain funding in the future.

For 1996-97, there will be $21.2 million in new resources, plus $9 million from reallocation, for a total of $30.2 million that can be invested. Mr. Pfutzenreuter repeated, however, that the base budget must be reduced by $27.5 million if there is to be a "soft landing" in the 1997-99 biennium. Committee members discussed with Dr. Infante and Mr. Pfutzenreuter some of the implications of these numbers as well as possible decreases in federal funding.

If all else remains equal, what will the picture be for 1997-98, asked one Committee member? That depends on what one assumes for compensation, Mr. Pfutzenreuter pointed out. If there are zero salary increases, zero inflation, and no problem with the reduction of $27.5 million from the budget, then there will be no problem. They have identified $27 million in the 1996-97 budget that is non-recurring--but the money is still being used to meet institutional needs. ALL of the compensation funding is non-recurring; that is the choice that has to be made if there is to be the "soft landing" in 1997-98.

This is, commented one Committee member, an unreal set of assumptions and creates untenable situations. Salaries will drop by 2.89% to go into 1997-98. There is an intentional avoidance of hard programmatic choices by juggling the budget.

One Committee member pointed out that these budgets will rely increasingly on tuition, and yet, with the semester conversion coming, it is likely that tuition will decrease. Students who must work and go to school may take fewer courses in the semester system. Dr. Infante disagreed, and said his investigations suggest that there would be no significant difference. The dispute demonstrates why concern is appropriate, said another Committee member; the tuition income may be a pleasant surprise or an unpleasant surprise, but no one should be surprised that there will be a surprise. This is a gamble and there is no track record. There should be reserves to cushion an unpleasant surprise.

There is evidence that grant funds will decline, because people spend so much time on semester conversion issues that they do not write grant proposals.

Asked what difference there would be in a pie chart of the University's revenue, Mr. Pfutzenreuter said the percentage from tuition will have to be significantly larger than at present or than was the case two years ago. That increase will have to come either by rate or enrollment increases. It will be very difficult to obtain increases in state funding.

Asked if there were any possibility of new efforts with donors and alumni, one Committee member reported that there have been discussions of a new capital campaign, but it would not start before 1998, the amount to be sought is undetermined, and so is the use to which the money would be put. There is also a lag between a capital campaign and the availability of the money for spending; in addition, even raising $20 million would produce only about $1 million in spendable income, and probably less in the first year.

One Committee member inquired why one provision of the draft resolution for the Board of Regents calls for making a salary decision in 1996-97 that will be rescinded the following year? What good does that do anyone? This says there will be salary allocations in 1996-97 but they will be non-recurring. This is a major financial policy decision that the administration must know that the Board of Regents agrees with, Mr. Pfutzenreuter explained. It appears, it was said, that the administration is asking the Board for the money for next year and taking it away the following year. That is the only way that a "soft landing" can be accomplished for the 1997-99 biennium. One could ask for no salary increases, it was pointed out; these are not salary increases, they are one-time bonuses.

The parameters allow for only three other choices, said another Committee member. (1) Give recurring salary increases (at a cost of $14 million), and on July 1, 1997 there will be a retrenchment problem. (2) Retrench departments and the University $14 million now to provide the salary increases;

all know what pain that causes and the University is shying away from this alternative. (3) Give no salary increases, which also has consequences. What has been proposed is the easy way out, and still leaves the University with problems. The second alternative--deciding what the University will not do any more--could be decided at the University level, not at the departmental, it was said; that decision is one the University backed away from last year.

This asks faculty and staff to go through a great deal of work, because merit evaluations take time and deliberation, for a small amount of money that will not continue. Morale will be worse as a result.

There is a hidden bonus, pointed out one Committee member wryly; there will likely be very few successful searches next year, so with fewer positions, the money will not be spent. A related problem, it was said, is that units have raised new assistant professor salaries very fast, in order to meet market demands, so that some who have been here three or four years are making less than new assistant professors. While there is no good solution to this problem, the one identified seems to be the least attractive.

One Committee member asked to whom the Committee's concerns should be addressed. Mr. Paschke noted that this discussion conveys the concerns; Professor Morrison said he would prepare another letter.

Mr. Paschke agreed with the observation that there are no good choices. Freezing salaries is debilitating. The University could ask for another $14 million in recurring appropriations, the administration could retrench more, or perhaps there is some third alternative. None are attractive.

This proposal makes work for the faculty that they need not do, said one Committee member; it will be demoralizing. If they cannot have money, at least they could be released from spending the time on allocating non-recurring salaries. Another Committee member suggested the Committee could ask the administration to simplify the salary policy. Another possibility, it was said, would be to suggest that salary increases not be given to people who are not doing their work.

One Committee member said it has long been a concern that the assumption in merit adjustments is that salaries must always go up, sometimes even a stipulated minimum percentage, and departments are always told to justify smaller or no increases. No one ever deserves a cut. It should be made clear that there can be salary adjustments DOWN. That would be violation of the tenure code, said another Committee member; then it should be modified, it was rejoined.

A longer-term solution would be a base salary based on the tenured appointment plus a supplemental salary based on performance that could go up or down, although not below a set floor.

It is only a matter of time before there is a class action suit brought against the University, said one Committee member, for unequal pay for equal work that varies by discipline. The University says the salaries are different because of market forces. The precedent of the Rajender decree has been established, it was said, and the University would not be in a good position. The creation of a supplemental salary would help address that problem. The draft budget resolution calls for looking at comparable employee groups outside the University; presumably for faculty that means other faculty. In some fields, the universities occupy monopoly positions: the people with certain kinds of training can only do their work at a university. This proposal would perpetuate the differences, and there are people doing the same work who are receiving two or three times the salaries in different disciplines.

One Committee member noted the lack of comment on the 7.5% tuition increase; another responded that everyone is resigned to it.

It was noted that the budget resolution calls for continuing to align indirect cost recovery revenues with the expenses they are intended to pay by allocating a greater share of those revenues to the units that generate them; is this a result of Responsibility Center Management (RCM) or something else? It is identical to the language adopted last year, Mr. Pfutzenreuter said, although it is consistent with RCM. In the past, some funds went to the units, some to facilities, and some to a central pool for research expenditures; the central pool is being shrunk and more funds are being used for facilities and delivered to the units.

3. Academic Health Center Request

Professor Morrison noted that he had sent to the President a letter concerning the lack of consultation on the changes in the capital request that would provide additional funds to the Academic Health Center; today the Committee considers the operating budget request. There is proposed a two-year request (1996-97 and 1997-98) for $25 million; $10 million would come from releasing the University from the MinnesotaCare provider tax and $15 million would be appropriated for information technology systems and health care delivery improvements.

Several Committee members maintained that if this request is made, it will come out of the University elsewhere. It can be broken into two parts, said one Committee member: (1) a waiver from the MinnesotaCare tax, which is probably neutral in impact, and (2) an appropriation for the other items. It is hard to distinguish the list of needs in the second part from the needs of any other unit at the University; everybody needs computers. Since these funds are being requested at a time when the general University budget request is not in front of the legislature, that may also reduce the impact on the rest of the University.

One Committee member reported on conversations with some in the health sciences which lead one to question the assumptions in the request. The goal is to maintain current student levels and quality of education, but some parts of the Academic Health Center could be reduced in size, thus reducing the number of students, faculty, and support needed.

One Committee member asked about the $10 million (from the provider tax waiver) to be used for funding the education of students in the health professions: what will it buy? It was said at the last meeting that it will be used to offset the decline in funding that the practice plans can provide. Are there other segments of the University where there is income analogous to that from the practice plans, income that is also declining? The only remote analogy Committee members could adduce was research, where grant funds used to support salaries may decline. The analogy with consulting income was also drawn, although that money flows outside the University. The argument is that this $10 million is needed to keep up faculty salaries in order to retain faculty and educate students. It is not quite the same as in other units, however, because some Academic Health Center salaries are funded 60-80% from the practice plan income while grant funding may pick up a significantly smaller portion of other salaries.

Is this phenomenon new in the Medical School, asked one Committee member? It evolved in the last 30-40 years, and has produced entrepreneurial medicine of a curious kind: the University attracts to these positions people who are interested in making money, which is odd. Other institutions work the same way, it was pointed out, and the private practice plan money also went to support department overhead. The plan worked in varying ways in varying departments, said another Committee member; as reorganized under Provost Brody, the clinical/private practice plan income is separate but the University has direct control over it. The $10 million will also be used to replace declining federal funds, it was said.

More than one Committee member expressed concern at the request for $15 million for information technology systems and health care delivery improvements. Any college could have written the same paragraphs and bullets to support such a request. What is special about the AHC, in this case, that warrants special treatment? The AHC will expire faster than the rest of the University without these funds, said one Committee member; another said it is difficult to not ask for funds when the state is signalling that it is willing to provide them.

Professor Morrison said he had the sense of the Committee, that there is deep concern about this request. Even if the Committee unanimously opposed the request, said one Committee member, it would still go forward.

One Committee member levelled sharp criticism of the language used to defend the request; if one looks at the bullets in the request, it was said, they do not mean anything. They are nonsense, not fleshed out with any costs, and ask for funding for a pig in a poke. This will require a lot more explanation before any funds will be forthcoming, agreed another.

4. Agendas

Professor Morrison then contemplated the meeting agendas for November. Campus Master Plans will comprise most of the agenda for November 7; November 21 will be given to Responsibility Center Management and the Citizens League report.

Asked about the latter, Professor Morrison explained that it proposes a 30-30-30-5-5 plan for funding higher education. 30% of the funds would go to institutions for support, 30% would go to vouchers, 30% would go for financial aid, 5% would be for research, and 5% would be for innovation. The University's state appropriation would be cut by two-thirds and it would be much more reliant on tuition and a more cost-based institution.

One Committee member noted a "megatrend" that American corporations, over time, have reduced their research and development expenditures in order to enhance profits, and have turned increasingly to universities for research. One worries about the future of research motivated by the sheer intellectual curiosity of the faculty and without any apparent long-term payoff. Society is incapable of knowing what it will need in 30-40 years, and the University is the one place where people do pure research. This megatrend means the research function of universities is being eroded by immediate needs; even the vice presidential candidates talk about the value added of the University. This view forgets that the university does a kind of research that no one else does and it should be defended somewhere.

Professor Morrison suggested this topic be brought up in conjunction with the discussion of the Citizens League report on November 21. He then asked Mr. Pfutzenreuter to think more about longer-term projections of the fiscal realities of the University. The information presented today make one even more concerned about the 1997-99 and 1999-01 biennia, and raise questions whether the University can do anything about U2000, adjust for trends, or just be pounded on. The present plans call for it to be pounded on; the University is not being active in charting its course.

Professor Morrison adjourned the meeting at 5:00

-- Gary Engstrand

University of Minnesota