Minutes*

Senate Committee on Finance and Planning
Tuesday, May 14, 1996
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Kathy James, Gerald Klement, Richard Pfutzenreuter, Peter Robinson, Charles Speaks, Craig Swan, Steven Thelen, James VanAlstine, Peter Zetterberg

Regrets: Thora Cartlidge, Craig Dexheimer, Karen Karni, David Kittelson, Patrice Morrow, Doris Rubenstein

Absent: Allen Goldman, Roger Paschke

Guests: Dean Hal Miller and Associate Dean David Grossman (University College/CEE), Dennis Cabral (Academic Affairs); Pat Spellacy (Budget and Finance)

[In these minutes: University College/CEE merger; update on budget and financial issues; parking; policy on external sales]

1. University College/CEE

Professor Morrison convened the meeting at 3:20 and welcomed Dean Miller and Dr. Cabral to discuss the evolution of CEE to University College. [The presentations at this meeting were similar to those at the Committee on Educational Policy on May 1, and readers are referred to those minutes. Dean Miller described the transition process; Dr. Cabral outlined the partnership programs with the technical colleges.]

One Committee member inquired if most of Minnesota's peer institutions have a continuing education function, by some name (they do); if so, is there any fear that support will be lost in the community because of the name change? Dean Miller said there is and that they are taking extra steps during the transition to make their students aware of the change. The name continuing education will remain as part of the title even after the transition.

Dean Miller said, in response to a question, that they are using the same consulting firm as the Academic Health Center, but only used them in a very small way and spent very little money--and were pleased with the help they received.

Asked about language suggesting the University College (UC) could assess need and offer new courses, and the possibility that this treads on the terrain of the colleges and departments, Dean Miller said that UC would do market research and give departments and colleges the right of first refusal; they would not take over or try to duplicate offerings. He said that if a department believes a course would be

---

*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.

academically undesirable, UC would not offer it. They will, however, offer a course if a department says it cannot offer it but UC can go ahead.

One Committee member inquired about the tenure status of instructors in the partnership programs. Those are vocational programs, the needs for which change rapidly. Traditionally, CEE has relied on tenured faculty; if these programs will change rapidly, who will teach them? Traditional faculty plus others not on a tenure track, Dean Miller replied; as the programs are incorporated in the University, there would be a more traditional approach.

If the programs have a short life, why would they be incorporated into the University? The programs might not have a short life, Dean Miller cautioned; they will be reviewed after four years, during which time they are considered experimental. After that they could be continued longer. Another Committee member expressed the concern that these are VERY market-driven programs, and the University must not make long-term commitments to a bachelor of information networking degree--which will likely disappear in ten years, but not four.

Dr. Cabral said these are experimental programs, and the University will not be locked into them. At the end of the four years, plus four more years, they will not be a permanent program, said one Committee member--but unfortunately, the University has a history of being unable to discontinue things once they are established, even if there is no need for them.

There would be three options at the end of four years, Dean Miller said: close the programs, extend them for X years, or it will be obvious they should be a part of the University. Who will decide, one Committee member inquired? The faculty assembly, Dr. Cabral said, and ultimately the Board of Regents. Market demands will also affect the decision, Dean Miller added. In some cases, the needs projected are for the long term, Dr. Cabral said.

One Committee member asked what the essential reason for having UC--granting that one can understand the reason for a CEE and for a General College. Dean Miller said it can foster interdisciplinary work, provide cross-college options for students, permit students to try out courses without enrolling full-time, and so on. The CEE function would have to continue in some fashion. Does that require a separate administrative structure, it was then asked? The implication is that if there were not a CEE, CLA could not offer inter-disciplinary or cross-college degree programs. They could, Dean Miller agreed, but have historically not done so.

Asked about the bachelor of applied business degree, Dean Miller said the degree is from the University but it is not technically a 2 + 2 program. It has part-time students, with upper division work completed at the University after prerequisites are met.

It is understandable that the University wants to increase revenues; one can question if it should become a vocational institution. Dr. Cabral said that the state, the President, and the Regents have said the University should look at emerging needs for new skill sets that are not purely academic but that are also not purely vocational. These are a new blend, to make possible something that is needed now.

Do the programs pay for themselves, asked one Committee member? They will at the end of the third year, Dean Miller said; the two programs in place are on their way to meeting the goals, including paying for faculty compensation. The University did provide seed money. He affirmed that the students enrolling generate tuition revenues that go back to the instructional unit. The revenues do not cover the physical plant or deferred maintenance.

Professor Morrison thanked Dean Miller and Dr. Cabral for joining the meeting.

2. Update on Budget and Financial Issues

Professor Morrison turned next to Associate Vice President Pfutzenreuter for a report on activities. Mr. Pfutzenreuter distributed copies of Governor Carlson's letter to Regent Reagan about the University's financial position (the letter cited in the press saying the Governor foresees a $300 million deficit by fiscal year 2000), as well as Regent Reagan's response. He also distributed materials that were provided to the Governor's Economic Development Roundtable, a set of articles about higher education funding and some of the University's future financial planning data that were presented to the Committee earlier (Options A, B, C, and D). Those various options and the data were included in the University's planning document in order to stimulate discussion and lead to an investment plan, identification of how much would be required, and what the appropriate level of investment should be. He developed these options, Mr. Pfutzenreuter related, because he was concerned that the performance measures adopted by the Board of Regents are unrealistic, because the aspirations do not match the financial outlook.

The Governor got into the discussion, and asserted the University would have a $300 million deficit in the year 2000 if it did not change course. (This number was derived from the most expensive option.) He said he has spent some time with the Department of Finance and others because of that prediction; he has been in a series of meetings to explain that the future financial planning data were not projections, they were different possibilities that could be considered as choices are made. Mr. Pfutzenreuter said he believed that most of the misunderstandings have been cleared up, and that it has been made clear the University is not playing with the numbers; these are realistic projections that show the University has great needs.

In the discussion he was at before this meeting, with the Governor's Economic Development Roundtable, the group reviewed the numbers, agreed they were reasonable, and then stalled on trying to decide what to do next. There will be a meeting of that group with the Governor on May 28, at which time the University's financial framework and other higher education issues will be discussed. It could be that the financial framework will have a positive result, because it has gotten political and business leaders to begin to understand what the University needs. Once they understand the problem, they may want to help try to solve it.

In response to a question, Mr. Pfutzenreuter explained that he had made no attempt to solve the problems; his only purpose was to identify the situation and help the University decide what its needs are. The Department of Finance jumped right to trying to solve the problem, and does not appreciate the internal process the University uses to get agreements and understandings about what it will do.

Mr. Pfutzenreuter then distributed slides copies outlining the biennial request process and principles; it has been reviewed with the President's Executive Council, he said, and they believe it important that the University community see them. He is very concerned, he said, that the University not break into separate camps over the request, and that it remain an institutional request.

Eight months ago the Committee was told about the planning process, said one Committee member, then was later told there were a lot of new things in the budget. Is this an attempt to avoid repeating that process? Mr. Pfutzenreuter affirmed that it is, but cautioned that the University must be prepared to strike when the iron is hot when opportunities present themselves.

Mr. Pfutzenreuter explained briefly the process that would be used in developing the request, and that there would be two "strategy committees," one composed of alumni and external leadership, another of deans, faculty, students, and others; the latter group would actually build the request while the former group would build external support for the University. There would be a core working group that would actually prepare the request, and ultimately the two strategy committees would have to come together in support of the request by the time the Board of Regents must approve it in October, 1996.

When will faculty and students be involved, asked one Committee member; the schedule appears to require participation during the summer. There is the implication that the faculty governance system will be actively engaged in the process, but it is not clear how that will be possible. Mr. Pfutzenreuter noted that this is the same process that was used in the past, and he agreed that the schedule for developing the biennial request, from May to August, is a problem.

Professor Morrison announced that the Committee will continue to meet on a regular basis through the summer. It is fine to involve the faculty and deans, through a strategy committee, he added, but the general concepts of the request must come before this Committee for comment to the President and Board of Regents, and later rather than sooner; it should come in late August.

How does this relate to the ongoing planning process in the colleges, asked one Committee member? Will the deans be told they need a new plan in two weeks, to fit this request? One must recall what the biennial request looks like, cautioned one Committee member; the document does not tell much about the University. It is constrained by the format required by the Department of Finance. A key question is whether to try to give the request a theme, so it is more than a simple document provided to the Department of Finance. The general view is that it should have a theme, and should be limited and focused. The strategy groups must think about the theme and reflect on both what is going on at the University and what will appeal to the legislature. The document, however, does not enable the University to tell much of its story; it provides the Department of Finance with information it wants and sets up conversations at the legislature.

The question is how much opportunity there will be for strategy committees to make key decisions, said one Committee member. Another said two decisions need to be made. One is about the theme, and the second, absolutely vital decision, is what to ask for and how the request is formulated: whether the request will be scattershot or single, large or small, recurring or non-recurring. Some elements of the request will be more attractive to the legislature; others will be more attractive internally; the request must have maximum appeal. There could be a third issue, it was said, tied to what the Governor talked about: how many of the costs can be accommodated internally at the University. What the message says in terms of how much the University itself will accomplish will also be important. These are critical decisions that affect the next four years of the University.

A key decision that will influence the document, added one Committee member, is the position the Board of Regents takes over the next biennium. If they want to say that the University will not increase undergraduate tuition above inflation, that will mean a different relationship with the legislature, and a different approach. One profoundly hopes the Board will not take that position; if it does, then the legislature in effect sets the University's budget and resources. The Board will need to say something in July, added another Committee member, if it does not find itself presented with a document in September that it does not like.

There is a difference between saying (1) tuition will be X if the legislature does Y, and (2) tuition will be X no matter what the legislature does.

The University told the legislature, when it made the partnership proposal, that tuition would only increase 3.5%, but that tuition would increase by more if the state did not deliver the funds. It did not do so, and tuition increased more. The question is if the Board will take the position that there will be no large tuition increases. It is important to remember, it was said, that the University is in the hands of this governor for the next four years, because there will not be a new governor until January of 1999--and that new governor will be able to do little about the request.

With respect to the hope that the request not be fragmented, asked one Committee member, how will decision-making be sorted out between the provosts and the Senior Vice President for Academic Affairs? They are all members of the Executive Council, along with the Chancellors, it was said; they will have to come together there.

3. Comments from the Chair

Professor Morrison went off the record for a period to discuss a request from a member of the Board of Regents to hold forums on the budget situation.

4. Parking

One Committee member inquired if there had been any response from the Senior Vice President for Finance and Operations about the parking rates. Professor Morrison said there had not, really; there had been expression of regret, an assurance that they should consult, and let's get on with business.

Will the increases stand? Professor Morrison said he wants the President to come and talk to the Committee about the parking rates and other things.

5. Policy on External Sales

Professor Morrison next welcomed Mr. Spellacy to the meeting to discuss the proposed policy on selling to external customers; Mr. Spellacy distributed a handout.

One Committee member began the discussion by inquiring if not ALL University activities were not external sales. Mr. Spellacy said the policy differentiates between internal and external sales. An academic department generates $30,000 in tuition, delivers credit hours, and so on, it was said. External sales does not include tuition, Mr. Spellacy pointed out. This means, the Committee member replied, that customers are different from students. Another Committee member noted that even at Target, one is no longer a customer, one is a "guest."

One Committee member noted that the policy is to be effective June, 1996; has it been adopted already? It has not, Mr. Spellacy told the Committee. It has gone to the Executive Council, and changes were made; they want to be sure that the sales relate to the University's mission or maximize the use of existing resources.

Mr. Spellacy noted the unit perspective on the policy and the questions a unit should consider if it contemplates external sales. One Committee member asked for examples of what might be sold; another Committee member mentioned video tapes, items from the University shops, and so on. Could the Accounting Department set up its own income tax service? Could French offer a translation service to Minnesota businesses? How would this be different from patients in the Academic Health Center? A lot of these kinds of sales go on all over the University, pointed out one Committee member.

The issues, said another Committee member, have to do with insurance, taxes, and legislation; there are all kinds of problems with external sales. One Committee member said that if asked by the faculty what external sales were, he would be unable to answer.

This is an overview, Mr. Spellacy explained; there is a need for a guide, with examples of external sales and what is taxable and what is not.

One Committee member said there should be no policy issued until people can figure out what it is and there is a support structure in place to help answer questions about it.

Another Committee member said the policy should not be issued until it is brought to the Committee, and not simply in the form of a cover sheet. In addition, this is another example of the typical solution in the University: the department head is supposed to manage a department, but all the controls are put in the FMC building. Prior approval is required; the department head is not trusted to make a decision, and is given no instructions on how to make them. Nor does it appear that any prior approval would ever come from the administration, because it will not do the paperwork; there has to be a management system that works and that has trained people.

The prior approval is not intended to be central; the policy only seeks to have prior approval SOMEWHERE, Mr. Spellacy told the Committee. The only central role, he said, is to provide support for department decisions, to provide information. There needs to be central involvement in some cases, such as if there is to be an exclusive contract, on issues of tax reporting, and so on, but they seek minimal central involvement.

There is a University policy on the use of educational materials, to protect intellectual property, one Committee member observed; that also needs to be factored into this policy.

As part of the budget process for the past two years, reported one Committee member, colleges have been asked to report the prices of everything they sell; the CLA document is an inch thick. What is troubling is the way prices are set; there is no guidance on how departments should think about prices.

There is also an effort, Mr. Pfutzenreuter said, to develop an internal service organization (ISO) policy on rate setting and competition. There are A21 compliance issues all around the University. Some units do not segregate revenues. The University has exposure on external sales, and must deal with the issues, he said.

Another Committee member agreed, but noted that this effort reflects the usual schizophrenia of the University in pushing decision-making both down and up. If something is low risk, departments can do it; if it is high-risk, prior central approval will be required but departments will be held responsible. No dean or chair in their right mind will call anything low risk. No one trusts anyone, so six signatures are required on the form--and everyone thinks the previous signer reviewed the proposal, so the University sold ALG. There has to be training at the appropriate level, not having someone in some office sign off on the form.

This is viewed as a coordinating effort, Mr. Pfutzenreuter assured the Committee, not an approving role. Although, he cautioned again, central approval will be required at certain levels of risk.

Asked about the issue of things given away that could be sold, Mr. Pfutzenreuter said that is something both for this policy and for the ISO policy. In setting rates, for example, it would not be wise to use state funds to subsidize an activity, which activity competes with the private sector. On the other hand, pointed out one Committee member, the University does do things that compete with the private sector, such as the veterinary clinics, that are subsidized with state funds, provide free service and information, and of which everyone approves.

Some things may be charged at marginal cost, others at full cost, it was pointed out.

Given the pressures on the University's revenues, Mr. Pfutzenreuter commented, it is likely there will be more external sales in the future, and they felt there should be a policy as well as a place where people could get information and could be helped to understand the risks. He said he did not know where the approval process should stop.

What about the overlap between faculty consulting and departments selling things, asked one Committee member? A lot of faculty would be qualified to sell translation services, it was pointed out. Mr. Pfutzenreuter said that if the money flows through the University and into its accounting system, then it is external sales; if it flows to the faculty member, that is a different issue.

The University of Chicago, one Committee member recalled being told, the University purchases the ENTIRE professional service of the faculty member, so there is no consulting except through the University. Faculty are paid 50 - 75% more than elsewhere, but copyright and book royalties and consulting fees all flow to the University. Minnesota cannot afford that, but one cannot use the Chicago model on one side and not on the other. The consulting policy and insurance policies included the understanding that if one did something through the University, one is covered; if not, one is not.

Professor Morrison asked that the policy be brought back to the Committee before it is provided to the Board of Regents, and then adjourned the meeting at 5:10.

-- Gary Engstrand

University of Minnesota