

Minutes*

Senate Committee on Finance and Planning
Tuesday, August 29, 1995
8:00 - 12:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), David Berg, Thora Cartlidge, Virginia Gray, Thomas Hoffmann, Kathy James, Karen Karni, Gerald Klement, Patrice Morrow, Roger Paschke, Richard Pfitzenreuter, Doris Rubenstein, Anne Sales, Charles Speaks, Craig Swan, Steven Thelen, James VanAlstine

Guests: Provost C. Eugene Allen, Michael Berthelson (Office of Budget and Finance), Provost William R. Brody, Senior Vice President E. F. Infante, Provost W. Phillips Shively

Others: Liz Eull, Julie Tonneson, Janet Warnert (Office of Budget and Finance)

[In these minutes: Discussion of the budgets of units that report to Academic Affairs; discussion of the budgets of the colleges reporting to the three provosts; discussion of fees; the capital request]

1. Discussion with Senior Vice President E. F. Infante

Professor Gray convened the meeting at 8:05 and noted that the first part of the meeting was to be devoted to a series of questions that Professor Morrison earlier had directed to Senior Vice President Infante: explain the items that remain under the direct jurisdiction of the Office of the Senior Vice President; the reductions and retrenchments made; the principles that guided the allocation of reductions; the relationship between (1) the reductions and principles and (2) the overall priorities of the University; possible impact on operating areas because of the transfer of functions or expenses; possible impact of the adjustments on the "common services" such as the libraries and information technology; and impact of the adjustments on the ability to move to a realistic University College delivery system. Professor Morrison assumed the chair and called for introductions. He then turned to Mr. Pfitzenreuter to bring the Committee up to date on the budget.

Mr. Pfitzenreuter distributed a set of tables of data and reviewed the operating budget plans for 1995-96 and 1996-97 that were adopted last spring. The original partnership (legislative) proposal called for \$28 million in reallocation for the biennium. Because the state did not fully fund the request, there were tuition losses, and additional spending required, an additional recurring reallocation of \$11.4 million is required for 1995-96 and yet another \$8.9 million in recurring reallocation in 1996-97. For the latter, the tuition revenue is based on regental approval of a 7.5% increase in tuition revenues. Given that, and no change in state funds or tuition loss, there would be the additional cut of \$8.9 million.

The Regents requested that the President report to it in October on the programmatic implications

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of the additional approximately \$31 million in reallocation (\$11.4 plus \$11.4 plus \$8.9 million). The President asked the vice presidents, provosts, and chancellors to explain by September 15 the implications of the additional \$11.4 million reallocations beyond the original partnership proposal. There will be a presentation to the Regents in October.

The 1996-97 reallocation of \$8.9 million has not been allocated to any specific unit. The President, however, has determined that this "will be accomplished through central administrative process re-engineering and redesign, as well as through cost savings brought about by the elimination of programs and services supported by budget allocations to central support units. Provosts and chancellors will not be given additional reallocation targets." Thus, the \$8.9 million will be a Twin Cities central administrative responsibility.

Since the President made this decision, Mr. Pfutzenreuter told the Committee, a memorandum has been sent to central support units (Academic Affairs, Finance and Operations, Institutional Relations, the President's Office, the Board of Regents, and General Counsel) asking that they review budgets in a number of areas (e.g., service cutbacks or operating efficiencies, consolidations, etc.). Those reports are due on September 10 for evaluation. One goal is to identify savings as soon as possible and begin saving the money; another is to have a description of them for the Regents at their October meeting. The memo indicates that some of the changes may require changes in the policies and practices of the University, and is tied to the administrative process re-engineering effort that is underway.

The final page of the handout listed the reallocations (both under the original partnership proposal and the additional recurring \$11.4 million) by provostal, chancellorian, and vice presidential area. Allocation of the \$8.9 million is not yet allocated.

Senior Vice President Infante then distributed a table of data that outlined the allocations and reallocations for each unit that reports to his office. The table enumerated the units that report to him and budget information for each; he reviewed each of them briefly.

- Of the \$7.5 million allocation for his office last year, most of the money is pass-through; the actual expenses are about \$800,000.
- Academic computing (about \$7.8 million in 1995-96) has corresponding units elsewhere, notably AIS, and there is a large amount expenditures for computing all over the University.
- Of the \$38.8 million in O&M funds identified for CEE, about \$25-27 million is from tuition. There are other non-tuition revenues as well, so the total allocation of STATE money to CEE is about \$3 million.
- The Planning unit is new, comprised of parts of three formerly separate offices ([1] some personnel in Academic Affairs; [2] Management Planning and Information Systems; and [3] three units formerly in Student Affairs: admissions, financial aid, and the registrar.) There is a corresponding reduction in the budgets of other units to reflect the increase in this unit.

Asked if there is a logic to placing the three units from Student Affairs in an office of planning, Dr. Infante said the office actually has two components. One is an analytical function; the other,

consists of the three offices from Student Affairs. The title should be changed, suggested one Committee member, to avoid questions like this.

- Much of the funding identified for the Vice President for Research and Dean of the Graduate School is also pass-through.
- In Student Development, the O&M amount decreases, to reflect the transfer of the three units; the State Specials increase to reflect incorporation of the \$2.9 million special for women's athletics.

Dr. Infante noted that the budgets of the colleges that formerly reported to his office have been moved to the provosts, but that the budgets for several units that formerly reported to the President are now in Academic Affairs (principally intercollegiate athletics and the office of planning).

One Committee member commented that identifying an allocation of \$50,000 to CURA as "strengthening key disciplines" is misleading. There is nothing wrong with allocating money to CURA if doing so is appropriate, but that is not "strengthening key disciplines."

Another Committee member noted that changing to the semesters will be very expensive; with retrenchments in the colleges, where will the funds to pay the expenses come? The planning unit? There is one person in central administration working on the change, Dr. Infante said; otherwise the units will have to absorb the expense of the change. There is money for system conversions, part of a larger package, but no pass-through money to the units. There are three components to changing to semesters, Dr. Infante said: the systems that support it, changes in all the institutional publications, and, the largest and most costly although difficult to quantify, each faculty member in each unit must redo his or her courses. There are two ways to approach the change: to take advantage of the opportunity to do some things, extensively, or to do the minimum necessary to accomplish the conversion. He and Committee members discussed the recently-reported change at Moorhead State. Other Committee members expressed concern about the central funding for the change; one said that unless there is strong management leading it to ensure that everything happens, there will be undesired results.

Another Committee member urged the administration to announce the steps that will taken and when they will occur. Dr. Infante explained that a number of decisions need to be made before any announcements are spread about: when the change to semesters will be made (three or four years); whether or not the entire University will move to the same semester system (it would start after Labor Day, because of the Twin Cities and the State Fair); and provision for notice to students and the changes that will affect them. He also suggested that the University have the discipline necessary to recognize that for every three courses now being taught, there should only be two after the conversion. After those decisions are made there will be an announcement.

One Committee member urged that the administration appoint, jointly with the governance system, a task force to make the decisions; the University cannot wait to involve the faculty until after major decisions are made. They need to be involved in selecting the path of change, because this is a major change in how they do their work--the biggest in their working lives at the University. They need to be involved from the beginning. The only document available thus far is the one presented to the Regents last spring, and it was cause for a lot of faculty concern.

Another said it will be imperative for departments to have both a timeline and the steps in the process in order to conduct their planning in an orderly way. Dr. Infante said he hoped that major parameters could be set and made known to units by January or February. One person in the planning office will not be sufficient, it was reiterated.

Dr. Infante then reviewed the details of the cuts in each unit, totalling about \$5.5 million in the units that report to him. An additional several million will need to be cut as a result of the President's decision to limit the \$8.9 million retrenchment to central units. Most of the cuts are being made in personnel.

One Committee member expressed concern that as central funds for support units are reduced, those with monopoly power may be able to raise prices for departments. In some areas, Dr. Infante noted, use of a service has been increasing at an exponential rate (e.g., computing) and the University cannot provide the needed funding. Either the budget has to be increased or there has to be a mechanism to find alternative sources of funding. The University is not keeping up.

One Committee member said that there will be major investments required that do not appear in the allocations. For example, fixing ORTTA will probably not be possible with the budget proposed. One can doubt that the semester system will be put in place and running well. Computing will not be funded as needed with the budgets proposed. In addition, the budgets presented here will be cut another \$2 million. One can question if what is going to happen on the academic side is what happened on the building maintenance side--erosion of the infrastructure because of a fear of facing the programmatic problems. The Committee has not heard from Mr. Paschke on how Finance and Operations will absorb its cuts; will there again be erosion of building maintenance? Both parts of the infrastructure will be damaged, in order to protect programs for a year or so, but the ability of the University to deliver the programs will be reduced.

That is everyone's concern, Mr. Paschke said, and the intent is to look programmatically at changes that can be made. There are opportunities to make not piecemeal cuts but rather to evaluate all the programs delivered and how they can be delivered more efficiently and without the redundancies that are built in many of them. They will look at central administration in total, and will return to the Committee in the near future with some ideas. Deferred maintenance is an issue they do not want to slip on.

The Committee will want to look at the allocations, Professor Morrison said. Mr. Paschke agreed.

2. Budget Discussion with Provost C. Eugene Allen

Professor Morrison next welcomed Provost Allen to discuss the budgets and reallocations made in the units that reported to him. Professor Morrison reviewed briefly the questions that were posed to the provosts.

Dr. Allen distributed a handout outlining the reallocations for each of the units and briefly describing what was cut, the impact, and the implications for each unit. He then said he wished to talk about the principles used in guiding reallocations as well as points that stand out about these units.

With few exceptions, these units have programs that face external accrediting associations. In each

area where they exist, the University faces decisions related both to budget as well as program decisions that would be easier to make if there were not also accrediting issues raised. One example is the requirement of several programs for course work in survey methodology; the question is why it has to be taught in five different areas? In many of the units, however, there could be accrediting questions if the issue is not addressed systematically. The offerings in a number of cases are duplicated, and internal decisions would be made if the accrediting agency problems could be dealt with. He agreed that taking on the accrediting groups would be another possibility, but that is beyond the scope of this discussion; it is, however, a major issue that universities are going to have to take on.

A second issue has to do with the critical mass in a program area or unit. He noted that of the units that report to him, the Humphrey Institute and Architecture and Landscape Architecture are the smallest in terms of their O&M and State Special funding. Another complication is that only 15% of the Humphrey Institute budget comes from this source, however; the rest comes from gifts and grants and endowments. In allocating cuts, one factor that must be considered is what is needed for a critical mass and when can it no longer be maintained. This is a question that exists with respect to programs in some of the colleges that report to him.

A number of these units, Dr. Allen noted, make extensive use of adjunct faculty. The balance between adjunct and regular faculty needs to be monitored. In one college, for example, working practitioners are brought into the teaching and research program, and it is a "beautiful marriage" of people in practice bringing that experience into the classrooms. It is this marriage that allows the college to spread its resources over a larger amount of expertise at a lower cost; it also allows the unit to continue to meet accreditation requirements.

These units also share an obligation to look at state and regional needs; they cannot make programmatic decisions based only on what they as a college or department would like to do. It is not only disciplinary considerations that come into play, because several of them carry out parts of the land grant mission, addressing state and regional needs.

This also means that in a number of the programs there is extensive planning and cooperation with neighboring states. In some cases, these activities are being accelerated, in part because of the availability of educational technologies that permit activities that would have been difficult in an earlier era. The University is behind in its investments in this area; it needs to increase that investment in order to capitalize on the opportunities. Doing so would also allow the University to take some of its very best programs out not only to Minnesota but to the world. Several programs are looking at that possibility.

The funding sources and opportunities for these programs also warrants consideration. The Humphrey Institute was cited earlier; the significant grant and endowment funding permits reliance on fellows who bring a great deal of expertise and research and outreach to the activities of the Institute.

These are some of the common themes of the units that report to him, Dr. Allen concluded. Then one must look at workload guidelines and productivity with respect to classroom teaching, outreach programs, and research grants and contracts. The University still has a significant need for current data in order to answer questions it faces; it is still difficult to obtain the data one needs in order to make appropriate comparisons.

One Committee member inquired what the appropriate ratio between adjunct and regular faculty is. That varies between units, Dr. Allen said. One must be careful about comparing simple headcounts with specific needs for a program. In one unit, for a specific course they can more effectively bring in an adjunct faculty member rather than hiring a regular faculty member.

After discussion of the need to reconcile figures from Mr. Pfutzenreuter's office and from the provosts, Dr. Allen noted that the number for the Experiment Station included only fringe benefits, accounting, and central functions; the rest of the expenses are assigned to collegiate units and are under the deans' jurisdiction.

One Committee member recalled that Education and Human Development has been retrenched repeatedly in recent years; is that done or will it continue to be cut? Dr. Allen agreed that the college was the target of major reductions over the last five years, on the order of \$3.2 million; the net faculty decrease was between 15 and 20% of the total. What about the future, he was asked? In terms of societal and national needs, he replied, it must have a higher priority than it has in the last five years; it cannot face those kinds of reductions again. As it has been downsized, commented one Committee member, few of the reductions appear to have addressed the question of redundancy across the University that he mentioned earlier. Some of those units have been well preserved. Some of the programs are very strong and will not be given up, Dr. Allen said; in other cases, he and Provost Shively intend to make hard decisions about the offerings across the campus. They have had several discussions on this issue.

The units are going to make Strategic Investment Pool proposals for 1996-97, Dr. Allen confirmed, and said he believed that funding is firm. He said he did not know if the funding would be one-time or recurring. Mr. Pfutzenreuter said the figures provided to the Regents included allocations for the SIP for both years; there will be no additional money, but the commitments for both years are firm and will be a mixture of recurring and non-recurring.

Another theme of the last few years has been that the professional schools would participate in the undergraduate liberal arts curriculum, allowing some redundancy to benefit the University. To what extent is that occurring, inquired one Committee member? With few exceptions the units are participating, Dr. Allen said; in Agriculture, Food, and Environmental Sciences (CAFES) there are 23 approved courses in the liberal education curriculum. There is similar participation by the other units; progress has been made. He said he personally feels very strongly about this; one of the strengths of the University that MUST be capitalized on is what the professional schools have to offer to undergraduate education. This is how the University can be better than some of the finest private liberal arts colleges in the country.

All of the budgets for which he is responsible, Dr. Allen mentioned, will be affected by contract settlements with the unions; in some cases, the impact could be severe. In addition, they are following quite closely the events in Washington; they know that in the Extension Service and Experiment Station there will be cuts for the coming year. It is expected that the cuts in those programs will be about 3% for the next six or seven years, so the federal role in these partnerships in these programs is diminishing.

Another issue he said he wanted to take up with the Committee was their experience with the terminal retirement program. Across the University, the unit that requested the most such retirements was CAFES; they requested 29 and received 19. Others requested smaller numbers. One Committee member

inquired about the mean and range of the age of those approved; Dr. Allen said he did not know but guessed that the range was 59 or 60 up to 70 while the mean, he estimated, was probably about 64 or 65.

This is an issue the University is going to have to deal with. It will also have to figure out how not to do terminal agreements with faculty who are going to retire anyway, if there were some way to know it, said another Committee member. Do not statistics show that most people retire about the same time, even though mandatory retirement has been eliminated, asked another Committee member? He has no doubt, Dr. Allen said, that the program was helpful in decreasing the age at which some people chose to retire. What is interesting, from a strictly personal financial point of view, there were some individuals who could have taken the offer and been better off--but chose not to. There is a dynamic going on; some want to continue to be productive in their discipline and do not want it to be thought the University is buying them out to move them out of the program. There are subtle factors at work that are not readily identifiable, but he said he was surprised that more did not take it.

One Committee member said that in one college the existence of the program has the potential for creating severe morale problems. What a department must say that if it recommends someone for this program, it is saying it can get by without the position. Two faculty in one unit wanted it, even though they intended to retire anyway; the department would not recommend to the dean that they be included in the program. That is a morale problem. The problem was dealt with differently in the units that report to him, Dr. Allen responded. In some cases, faculty had to be hired back; the programs were not among those to be eliminated in the unit's plans.

As Committee members review the summary sheets, they will notice a significant number of people have retired. One cannot look at those areas and conclude that the positions have been eliminated; there has already been backfilling. The secret to carrying out the program is the number of retirees, which ones are filled, and where they are located. That is where the plans come into play; they gain breathing space in the budget for personnel items. Only a fraction of the positions will be filled again, and then in the highest priority areas. The hire-back program varied with the units, but that is an interim approach; in a number of units faculty positions are frozen to help pay off the costs. Even at that, two units have required significant loans to fund the retirements.

Dr. Allen then touched on another point. They are completing a set of fact sheets on each of the units that report to him, two to three pages in length with a common format, that provide a glimpse of program, budget, and so on. If it would be useful, he will provide copies for this Committee and FCC.

On the question of professional school offering undergraduate education, one Committee member inquired about tuition: in an era of Responsibility Center Management, does it make sense for those faculty to teach undergraduates, who pay relatively low tuition, when they could bring in much more tuition revenue with graduate or professional students? Dr. Allen agreed it was a good question. In an RCM model, it would cost the Law School a lot of money to teach undergraduates. The trade-off may be class size, offered Professor Morrison; one could teach 40 law students or 90 undergraduates and bring in the same revenue. This also depends on how tuition is allocated, observed another Committee member; if totally on teaching or on enrollment or some combination.

Dr. Allen was asked about the possible sale of land to generate income to deal with budget cuts. He said there was no such pressure, and any sale--such as the land at Rosemount, divided between the

Agricultural Experiment Station and the Research Center--would be reviewed very seriously. Parts of the Research Center are used for University purposes, but most of it is undeveloped land; other uses for it are being considered. He reviewed the work going on at the Rosemount site and assured the Committee that no land currently being held by the Experiment Station will be sold. The University is, however, selling parcels of land elsewhere. Moreover, added another Committee member, any land sale proceeds would likely not go into the office of the Provost for Professional Studies.

Professor Morrison thanked Provost Allen for joining the Committee.

3. Budget Discussion with Provost W. Phillips Shively

Professor Morrison welcomed Provost Shively to the meeting and reviewed the questions about principles and reallocations that he had posed earlier.

Dr. Shively distributed a one-page handout containing highlights of budgetary changes in the Arts, Sciences, and Engineering (AS&E) colleges. At the same time, he told the Committee he doubted that the \$8.9 million in reallocation for 1996-97 [discussed earlier at this meeting with Mr. Pfutzenreuter] would be sufficient to cover unanticipated costs. He assured the Committee he was not delivering any revelation; he noted only that last year budgetary needs of \$5 - 6 million had developed by spring of last year, and it seemed probable such needs would reappear this year. One example is urgent new space needs that have cropped up in one of the AS&E departments, because some of the buildings it currently occupies have been condemned.

One of the questions he was asked was about the priorities and principles he followed in assigning cuts, he recalled. The first principle he uses in deciding on college budgets--although it may not be obvious--is the priority of programs. Working at the high level of aggregation that he does, there are not huge differences among the groups. They can be detected in the overall net changes from last year to this, which were outlined on the handout.

Another basic principle was the needs of the different units, which varied somewhat more. CLA was the college treated best in the AS&E group, and that was deliberate. Both he and his predecessor tried to protect CLA to some extent because there has been a general recognition throughout the central administration that CLA has been historically underfunded. That is why, in the last five-year planning effort now concluded, CLA was favored in reallocation. IT, on the other hand, in this planning period has had trouble with salaries, and received the highest increase in salary funds of any of the units. The salary increases for faculty and staff actually dwarfed other shifts. General College had a lighter retrenchment than the other units because it had little flexibility to deal with them.

In his first year, he concluded, taking all decisions together--retrenchments, salary, reallocation--there have been relatively small differences, except that CLA was protected significantly.

Asked if any of the 14% retrenchment in the Provost's office was what might be called pass-through money, Dr. Shively said it was retrenchment, but almost all the money in his office except for salaries is pass-through. He does not try to hold on to money. Some of it was for two positions in his office; other of it was flexible funding that would have gone to colleges for emergencies or other uses. So what would have gone to units could be shown in the columns for the colleges; Dr. Shively agreed. It is

hard to say where it would have gone, but the retrenchment means opportunity costs and lost flexibility. His flexible budget now is about \$500,000, which does not go very far in support of over \$100 million of budgets in units. He tries to use the money only as leveraged one-time or short-term commitments, rather than recurring allocations, because he simply does not have very much of it.

In terms of how the cuts were made, he said, half of them are his; the others were made by Dr. Hopkins. This is the story of two cuts; the first one, last fall, totalled \$3.3 million for AS&E. With one major exception, the units were able to make the cuts in accord with their priorities. The exception was that both CLA and IT swallowed their fifth year of reallocation; he said he had to assume that the reallocation was all high-priority money that represented opportunity costs: it was not that something was eliminated, rather, it was that something was not done. There were some cuts; Biological Sciences, for example, closed the Gray Freshwater Biological Institute. That was not a painless cut, but it was a unit less productive than other parts of CBS. Even cutting so-called low-priority activities does not mean they are not good things; it only means they are lower priority, and it was deemed wiser to cut the GFBI than take the money out of one of the departments.

This is an example of what will be faced in other units, observed one Committee member. Education approached it differently, while CBS said close a unit.

IT in the first round cut a special for one of the centers and, in the second round, closed the Underground Space Center. CLA, in the first round of cuts, took faculty lines primarily from lower-priority programs and cut sharply soft money for replacement teaching. The dean's office believes, however, that the amount cut could be handled while making the replacement teaching funds more focused.

The second cut, which totalled \$2.8 million, was basically taken wherever the colleges could find it, to be frank, Dr. Shively said. Much of the money came out of high-priority programs; searches and TA lines were closed, for example. He said he is working with the deans to develop a new approach to that kind of cutting. This is what has occurred at the University for the 20 years he has been here: good plans have been made, but the amount of money moving on a planned basis has been smaller than the amount of money moving in response to emergency cuts. (The amount is probably about the same, speculated one Committee member.)

Emergency cuts usually come from available money, Dr. Shively said, and that is TA lines, supply budgets, support staff, and open faculty lines. Year after year of doing that has left the institution with predictable results: there are virtually no hard-line TAs anywhere in the University; supply budgets are a fiction; the faculty is under-supported in terms of staff (the people are good but too few); and open faculty lines are often the result of faculty attracted to other schools--or an aged faculty. Even though there are periodic efforts, such as the Strategic Investment Pool, to invest in high priority programs, year by year positions are also pulled from those departments. The end result is probably about neutral: departments recognized as high priority over the years have stayed at about the same size. That is highly impressionistic, he said. It is not that the University does not plan and move money on a planned basis, but there is this "other stuff" going on that operates in a systematic bias that negates much of the effect of the planning.

One Committee member expressed doubt the effects were so systematic. One would like to believe

there is a high correlation between (1) retrenchment and reallocation and (2) the college's plans and priorities. That may be impossible and may come closer to being random. In one college, the budget committee spent months advising the dean on how to handle the initial retrenchment; at the last meeting it was told it had to find an extra \$1 million. At that point one does not consider priorities and planning; the money is taken from the first place it is available. What is being done this year so that colleges can know in the fall that "this is the highest retrenchment you will face next June"?

There is not something in place to do that, Dr. Shively responded. A good guess could be made. In an effort to address that, Mr. Pfutzenreuter said, the administration went to the Board of Regents this spring with a two-year budget, in essence: an operating budget and a financial plan. The Board was provided with the parameters with respect to compensation, investments, tuition, and so on; the only certain item is the state funds. If the Board does not decide on a 7.5% tuition increase, there will be more cuts. And state funds are not CERTAIN, although more certain than most things.

The question now, Mr. Pfutzenreuter said, is whether plans for reallocations beyond the \$8.9 million should be made. They have moved to looking at the budget for a two-year period, and it would be better to do so for a longer period. But it is correct to say that the University should decide now whether it will do another contingency reallocation beyond the \$8.9 million, and not do it next spring.

Dr. Shively said that the main things done for next year were done last year. Of the \$65 million two-year problem, over \$55 million in cuts were taken last year. That leaves \$8.9 million, by the best current guess; the decision to take the money out of central administration was deliberately made in order to try to give academic units a breather, if possible. When he says there is nothing in place to handle last-minute cuts, Dr. Shively commented, he means that if there were \$6 million of accrued needs that accumulated last year, one can guess that there will similar needs accrued this year. If the sky doesn't fall in on the other assumptions, the actual cut will be \$8.9 million plus something. The "something" may be small, by the standard of last year's cuts.

One of the concerns of graduate students at the University, said one Committee member, is that as cuts are made, fund for graduate students are often reduced. What plans does he have, or have with the Graduate School, to identify what will happen? What students have been told for several years is that there is a lag in the process, so that one does not know until the following year where the positions will be cut--so that students coming in have less information to work with. This will have an impact on the ability of departments to recruit outstanding graduate students.

Dr. Shively agreed. He said that some units overreact and do not make commitments to graduate students they are recruiting until September. That will close a graduate program. He said that he doubted that graduate student support would become hard funding again--it will continue as soft. That is acceptable; everything should be on soft funds except those that require a commitment of more than three years, because doing so provides more institutional flexibility. Service operations and centers should not be hard funded; tenured faculty appointments should. Over time, the institution may want to support some programs more and some less. So it is fine to have graduate support on soft funds, but the funding needs to be anticipated.

The solution to this problem lies in making the budget more predictable, Dr. Shively said. His own thoughts on how to do this will be laid out to the AS&E deans this year. What they, and the University,

should do is realistic budgeting for five or six years. Instead of making budgetary estimates on rosy scenarios, they should be based on the best realistic estimate of revenues.

Part of the reason for the "spring surprise" this year was that the fall budgeting was based on the assumption of obtaining the entire legislative request--which everyone knew was unrealistic. There are good reasons for doing this; one problem with anticipating that the University may not receive the full request is that the legislature will believe that sounds fine and will be quite willing to accommodate the assumption of a lower appropriation. It is a difficult problem to decide how to do this, but the University has hurt itself a great deal by a succession of late-year cuts.

Right now, he said, he is anxious to pursue a realistic five-year projection of revenues. The University could take the state's study: if the laws stays the same and the tax code stays same and so on, entitlements and demographic changes suggest the state will be faced with a \$250 million deficit every biennium for the next ten years. Under those circumstances, the University can anticipate a decline in state support in real dollars for higher education, and some fairly good estimates can be made about the state subsidy. Those will obviously be based on assumptions that may change, but assumptions can be made. Similar assumptions can be made about the future of research funding and tuition income. If a realistic estimate of revenues can be made for the next five or six years, that will allow the University to do several things (if, for example, it appears that revenues will be down by 20%). First, the University can try to identify new sources of revenue. Second, it can make longer-term decisions about programs, and even though there may be year-to-year fluctuations, it can tell departments that they should be aiming for size x at the end of the five- or six-year period. If that were to be done, and done right, it will be as likely there will be happy surprises as unhappy surprises, and the University should be in better shape.

It is critical that that be done starting now, said one Committee member, because of the conversion to the semester system. With that change, if the units are told to plan for x , that planning can take place as part of the conversion.

Even if this kind of planning were to take place, Dr. Shively cautioned, there would still be emergency cuts, because there will continue to be unhappy as well as happy surprises. There will be times when unanticipated cuts will have to be made. What he is starting to do this year is try to have such cuts dealt with in a way that does not distort priorities. It was said earlier in the meeting that the process is random; the one systematic element in it is that departments where vacancies appear are more likely than not to be high-priority departments--because they are likely to be departments that have active faculty who leave for other jobs. Many good departments at the University--not all--tend to have good people coming in and going out all the time. At least there appears to be a correlation there.

What he has instructed the deans to do--it is difficult, and not fully accomplished yet--is identify which of the cuts made this past spring came out of higher-priority programs or activities. Where they came out of such programs, the deans are asked to establish an explicit three-year plan for how money will be drawn back out of the general reallocation process within the unit to replace those funds. Some of the funds will have come out of lower-priority programs; those will not be replaced. But there needs to be an explicit plan to replace the money in higher-priority programs. This uses the higher-priority programs as a bridge for handing cuts, rather than--as has been the case for a long time--taking cuts from both high- and low-priority programs and saying "this is unfortunate, it just happened this time, and we'll do better next time."

Dr. Shively was asked about his comment that anything not to be funded for more than three years should be on soft funding; does this mean soft funding from colleges to departments or from his office to college deans? This is not a plan, Dr. Shively first responded, and then observed that soft money is soft money. Most of the critical decisions on planning have to come from the college offices; he is too far away from departments to make those decisions. The question is about where the decision about allocation is made; that should be the colleges.

Mention was made of the Campbell Committee report, said one Committee member; buried in that report was a recommendation for division of CLA, major structural change. Does he envision reconsideration of that issue; will it be resurrected? Dr. Shively said he thought it might be; the President has asked the provosts to develop a plan, by September 15, for looking at all kinds of academic unit reorganizations. As yet, however, it is not clear whether such reorganizations will involve administrative arrangements; thus it is too early to say whether division of CLA or other colleges would be part of the considerations. This is to be an examination of the structures in place, to parallel re-engineering efforts going on elsewhere in the administration. The academic administration that has developed over the last 40 years could best be analyzed by a crystallographer.

It is not surprising that the President would like the concept of dividing CLA, it was said, because he is familiar with it, but one Committee member urged that the President seek the counsel of the CLA faculty, and inform them at the earliest stage. There are rumors circulating now; the problem is that no one centrally has informed the faculty that these considerations are now back on the table.

Dr. Shively explained what will happen. The President has asked the provosts to consider all kinds of reorganization. The group farthest ahead in thinking about this are the biologists, and it is in that field that the first activity will likely take place. All three provosts are agreed, he assured the Committee, that the only way to proceed with reorganization is to do so through broad consultation. The plan that will be presented to the President will lay out a structure for doing so this year. There are a number of possibilities for reorganization that have come up over the years; one is a rearrangement of CLA, IT, and CBS into a set of "divisional" colleges, which came from a group of CLA chairs. Initially, even though he has always thought this a good idea, as a CLA faculty member, he believed there was enough on the agenda that this was not a good time to consider this as well. He concluded, however, that this was a serious group of faculty who had clearly thought hard about the issue and it should not be swept aside by an administrator deciding it should not be raised. He then told Dean Davis that he thought it should be considered, at least tentatively; since then he and Dean Davis and the group of faculty have discussed it.

All of those faculty, said one Committee member, were department chairs acting as a self-appointed committee; they did not represent any governance in the college. All he is saying, Dr. Shively said, is that it is a serious proposal by a serious group of people, and if all things are to be on the table, this should be included. He repeated, however, that it is not certain that administrative structures will be part of the Provost's draft. He acknowledged that he has in the past believed the proposal had merit, but he said he will not do anything about it unless there is support for it. CLA and the other college have to decide what they want to do.

Another Committee member recalled that when President Hasselmo came to the University, there was interest in having tripartite division of CLA; at that point it was decided not to divide the college.

The only thing that has changed since then is that the University has a lot less money; the argument about increased administrative costs is more telling now than it was at that time. The issue must be aired in the college.

Dr. Shively said that CLA is a well-managed college but that he had thought its division was a good idea, as a CLA faculty member, because the intellectual span of the college makes it rather undefined. If one considers the Law School, the Carlson School, the Dental School, the Humphrey Institute, Biological Sciences, there is a definable, central intellectual core of activities that the faculty are engaged in. The only thing that defines CLA is that all of its faculty teach undergraduates. The span from statistics to music is difficult to encompass. He recalled doing a gedanken experiment as faculty member on what it would be like to be CLA dean; what he thought of were primarily budgetary and political--the things the CLA deans probably spend most of their time on. Doing the same experiment for a dean of the college of social sciences, what he thought of immediately were things that would link programs, who are people that could bring things out of all the programs, what were the interdisciplinary linkages that could be established--all related to the intellectual endeavor of a college. Thinking of CLA, those things did not come to mind. It is in THAT sense that the proposal has some merit, and the provosts could take on the economic and political issues.

This conversation illustrates a point related to priority programs, said one Committee member: priority is in the eye of the beholder. There has been talk about identifying and concentrating on high-priority programs. Perhaps it is more important to ask about the basis for determining priorities. Apropos the point he just made, in one context the basis was based on financial issues while in the other it was based on intellectual content. There is a constant problem of shifting priorities. It was said that allocations are random when made at the end of the year; what really happens is not random, it is that the basis for identifying priorities has changed. In the first and more orderly process, thought was given to the programmatic and intellectual content priority; in the second, the switch is to purely financial considerations. This had to be recognized when one talks about supporting the top priority programs.

Dr. Shively said that for him, a very high--and perhaps the most basic--priority is that the University must be a first-rate research university; it is the one thing that distinguishes it from other higher education institutions in the state. Its special contribution to undergraduate education is to provide a research university for undergraduates. Its special contribution to outreach is to provide special research for agriculture and industry, and a research seedbed for new firms. If the University's research is mediocre, it will be doing a mediocre job at all those tasks. A very basic priority is the University's research capacity.

Another basic priority is that the University have enough revenue to support itself. Yet another is building diversity on this campus. Sometimes these priorities will run in parallel; sometimes they will conflict, to some extent. They have to be balanced.

Beyond saying that it wants revenue and excellence and diversity, Dr. Shively said, the University has not yet done a good job of fine-tuning those priorities. One example is priorities in excellence: "we have to support our nationally excellent departments" is as far as it has gotten. That's an obvious first step in figuring out priorities to build academic excellence; it's cheaper and easier to keep a program or unit good than it is to take a program that is not good and make it good, inertia being what it is in academic units. A part of any plan to build academic excellence is going to be supporting first-rate departments.

But that cannot be enough, and the University has not yet gotten beyond it. Doing it is purely a defensive strategy, and any scientist knows that everything in the world is subject to some rates of decay, including first-rate programs. At some point one or more of those programs will decline; if the institution has not been grooming new programs to be excellent, it has not been doing everything it needs to do to build academic excellence. In the time he has been at the University, it has not gotten much beyond the statement that it will protect its good programs.

What does it mean to say that the University has a priority to develop excellence, and one thing is to protect excellent programs while another is to select other programs to invest in? The University has a long way to go in developing these priorities. When deans made cuts, some of which had to come from high priority programs, he asked them to tell him which cuts came from those programs, however defined by the current plans of the college. The deans are now working on him with this, but there is a ways to go.

One Committee member inquired about Responsibility Center Management (RCM), and recalled that a question had been posed to Provost Allen about whether faculty in the professional schools were participating in the undergraduate liberal arts curriculum by teaching undergraduates; he indicated they were. Then it was noted that the impact of this practice will depend on whom the enrollment is attributed to. Does he have any fears about professional school faculty teaching in the arts and sciences? The reason for posing the question, it was said, is that one hears from other institutions that have tried RCM about business schools raiding economics students and policy institutes raiding political science.

Dr. Shively said he had some fears, although not necessarily only about professional schools. There are two ways RCM could help the University develop revenue. There are also two ways that units could start competing for tuition revenues; one would be to compete for students among units. This would not increase the University's revenue and would not help anybody--except perhaps by competing in doing well by students. Some of that competition could be bad and some could be good. One thing probably needed is a University curriculum committee to police this, to make sure there is not fruitless or inappropriate competition occurring.

He said he could also see ways that RCM could have a positive impact on increasing revenues, both for the unit and the University as a whole, through professional school faculty teaching undergraduates. The University has been trying for years to have those faculty teach undergraduates; the effort has always fallen apart over the issue of incentives.

RCM offers professional schools incentives for getting involved. They will probably do better at a more advanced level because that will play to their special strengths, not in developing competitors for introductory English and economics. The undergraduate colleges have a lot more experience in delivering introductory courses, they have structures in place to do so, and it would be hard for professional schools to duplicate those efforts. Right now, however, he is working with the Department of Physiology to develop an undergraduate major in neuroscience; that is a major that may attract about 150 students and would appeal to bright students.

If the University were to get professional school faculty involved in something that is an ADDED service to students, it could increase the incoming number of students without diluting things being done

elsewhere. The carrying capacity could be increased by developing a larger number of faculty doing a wider range of activities. These are the ways that professional schools will find they most easily develop undergraduate activities--it will be easier for them to develop new niches than to fight over niches that are already occupied by people who've been doing it well for quite a while.

Were there to be 150 neuroscience majors, perhaps half would come from Psychology, which may now have too many majors. Perhaps half would be new to the University. Those new students would require coursework in other parts of the University, so the resources would be needed--and they would show up under RCM. Some of what would be occurring would be new instruction of undergraduates by professional school faculty, a pure add-on.

Professor Morrison noted that the time was up, but said that it would helpful to have Provost Shively discuss, at a future meeting, how the financial situation affects the ability of the University to achieve U2000. He thanked Dr. Shively for joining the meeting.

4. Budget Discussion with Provost William Brody

Professor Morrison welcomed Provost Brody to the meeting, whose presentation was a set of slides.

Provost Brody began by reviewing the major issues associated with the budget of the Academic Health Center (AHC). A bar graph demonstrated clearly that the largest source of income for the AHC is clinical income; over the past five years, state and federal funds have remained relatively stable while private funds have increased steadily. He pointed out that 45% of the income comes from the Hospital and Clinic; the rest from University allocations (18%), research grants and contracts (18%), restricted accounts (14%), and the rest from other sources.

Dr. Brody then discussed RCM. He said the provosts need to be involved in ALL major fiscal and academic decisions for the University, that the AHC needs to use resources more effectively, that they need to develop strategies to respond to the marketplace, compensation needs to be redesigned to reward productivity, and that issues related to tuition, allocation of overhead, and so on, will be critical to the support for RCM.

He noted that a surgeon may bring in \$1 million per year in clinical income; the money goes into the department practice plan. The practice plan underwrites a number of expenses, including the surgeon's salary (which may be one-half or one-third of what he or she could make in private practice); the difference goes to support academic expenditures. In the case of one department, the physician must bring in \$230,000 of revenue before there is any money available to pay clinical salaries; the \$230,000 goes to support secretaries, some faculty salaries, other research staff, supervision of the residency program, etc. Surgery, for example, receives 4% of its income from state O&M funds, so whatever educational and research activities it engages in must be funded from non-state sources.

This situation is different enough from the rest of the University that it calls for a system that recognizes that rewards faculty performance. It also creates more conflict between academic and clinical issues, as the marketplace demands that somebody who will be in private practice do that as a full-time activity. No longer can faculty members be 30% research, 30% teaching, and 40% clinical; they cannot

compete for NIH research grants on a 30% basis and they can't be effective clinicians only 40%. They are having to rethink the allocation of time.

There are open (department) chairs in a number of Medical School departments, and there are also a number of chairs who are close to retirement. There is the issue of having to recruit between 10 and 15 chairs in the Medical School in the next few years; this is causing the dean to rethink the department structure. Typically, as in most scientific departments, when a chair is brought in there is also a dowry of substantial size; the resource requirements to do that are not available.

Moreover, in the clinical departments that have a two-check system (where an individual receives two paychecks, one from the University for the salary and one based on earnings), some faculty have seen the total of the two salaries drop by 20 - 30%. This is a source of significant concern, especially if the high-performing faculty are seeing those kinds of cuts.

One Committee member inquired if there would be savings if the Medical School were to abandon external searches for chairs and heads, and if so, what the disadvantages might be. Dr. Brody said there might be a lower cost if searches were internal, although not necessarily; the bigger issue is finding faculty with the leadership skills who are committed to a radically new way of doing things. The old model for academic medical schools has played out; there are not many faculty who have the academic credentials to win the support of their colleagues and who are also able to run large, multi-million dollar departments with several hundred faculty. That calls into the question whether the present organization, that requires that kind of leadership--whether external or internal--is appropriate. On the other hand, there is no clear alternative model to follow.

The Hospital has seen a decline in admissions and patient base over the last few years, but it has stabilized now. It is expected, however, that there will be a loss of 1,000 hospital beds in the Twin Cities market over the next 3 - 5 years, which will mean several hospitals closing or a number of them downsizing. That is the concern. The Hospital operates on roughly a break-even basis, but receives about \$20 million annually in Medicare and indirect medical education subsidies to offset the cost of education; that subsidy is on the chopping block. The Hospital is budgeting \$5 million less for the coming year in anticipation of those reductions.

In addition, there is the pressure on Medicare reimbursement. The Twin Cities has the lowest Medicare reimbursement rate in the country, so the Hospital is facing much greater pressure. Were it in Miami or New York City, it would receive 51% higher reimbursement rates. There is no rhyme or reason on how those rates were set.

Aggregate health care costs in the Twin Cities are 18% below the national average. Minnesota and UC San Diego have the dubious distinction of being the only two Stage 4 markets in the country. The UCSD hospital and medical school are in serious financial difficulties; they, like Minnesota, have networks; their hospital has a 50-patient census. The Minnesota problems are serious, but not that bad.

RCM has been discussed by the Committee, Dr. Brody noted. He recalled that he has been at two centrally-managed universities and one very decentralized; he said he could not discern any difference in the collaboration across boundaries or the course competition issue that was raised. His view is that course-competition must be stopped at the dean or provostal or presidential level; someone must tell units

they cannot do certain things.

On the other hand, there are major advantages to RCM if it is effectively implemented. Whether a decentralized or centralized system, it is more the quality of the people administering RCM that makes a difference. Either system can be effective or a disaster.

A big issue is allocation of overhead, tuition, and indirect costs. At one institution he was on the faculty budget committee; there was a formula for allocation of indirect cost. The university had one rate, but each collegiate unit had separate rates; some varied by 20 percentage points from the average. If the medical school, the largest grant recipient, had an increase in grants, and engineering had no increase, the medical school argues that the engineering school should not get a large increase in the indirect cost funds. These issues will recur.

The major AHC U2000 initiative is re-engineering, brought about two observations. The situation for health professionals has been turned upside-down: who is trained, how many are trained, how health care is delivered has changed dramatically and calls for a different approach. Second, the supposition is that all of the AHC revenue sources--state, grants, clinical--are expected not to grow. As one retrenches in professional schools, there is risk of losing accreditation. The solution to that problem is to consider how to bring units together in different ways, to take advantage of commonalities in basic science programs and anatomy departments.

In the five-state region in which Minnesota sits, there are eight medical schools with eight anatomy departments, all teaching relatively small numbers of students. Would not a consortium be possible, to provide anatomy education with fewer faculty? Yes. Can it be done? That is unclear.

The field of pharmacy has changed probably more dramatically than any other. Twenty-five years ago, education included learning how to make the drugs as well as dispense. Now the drugs come pre-packaged, robots count them; pharmacists are now getting involved in patient care, and are licensed to prescribe in six states. The College of Pharmacy has been a leader in the pharmaceutical care initiative and has been on the front line in retraining pharmacists.

At a time when the nation is calling for more primary care physicians and fewer specialists, some of the networks in the Twin Cities are saying they have plenty of primary care physicians and are going to nurse practitioners.

They need to make big investments in information systems; that will be critical for the AHC. The key to success of the health care system as a service provider is having more sophisticated information systems than everyone else, not necessarily having a bigger hospital.

They have a committee of faculty, with staff participants and an outside consulting firm to act as facilitators. The charge to the committee is to start with a blank piece of paper and redesign the AHC from the view of the provost with no constraints. They have been asked what the AHC must do to be competitive; once that is figured out, then they must try to get there as quickly as possible.

Re-engineering is a disciplined process to achieve significant change in large organizations in a relatively short time (in months, not decades). The process requires that rather than focusing on internal

problems, there be conversations with external constituents, customers, and find out the real issues: what are the needs of people who hire the students, what are the needs of the students, what are the needs of patients who come to the AHC, what are the needs of the business community. They start from a market-driven need and work back to change the process. Education is a process; this could lead to developing very different kinds of curricula and perhaps changing profoundly the organizational structure.

Some things will have to change, such as the ability to offer rewards and incentives for performance, the ability to make changes more rapidly, the ability to weed out the faculty and staff who transgress the rules, and the education and research must be delivered in a more cost-effective way--or the AHC will not be able to deal with retrenchments.

The committee, Dr. Brody said, has started gathering data, by surveying all of the AHC faculty, several hundred outside constituents, surveying the students. It will be a very intensive process; the committee is working three full days per week. They have a \$1 million budget to pay for faculty time and outside consulting and space and systems. It is a stressful process that requires a lot of communication with both internal and external stakeholders.

One Committee member asked Dr. Brody to comment on the plan that emerged in the legislature for a four-year medical school in Duluth. He said he believed Duluth is a significant strength of the AHC, but the worst thing that could happen would be to establish a second free-standing four-year school. It would be financially suspect, and would only duplicate resources that already exist. They are, however, having discussions between the two deans to create a four-year clinical program that is integrated with the Twin Cities program in order to provide a unique educational offering in Duluth but that would share the resources, most notably those of the basic science faculty. As Duluth has been retrenched, they have had to eliminate non-tenured faculty positions; it cannot continue to downsize. But that program offers very innovative educational programs that he sees as important, along with the offerings in the Twin Cities, and a virtual medical school could be created. He said he would also like to see the Mayo Clinic participate.

One Committee member commented on the Hospital, noting that there would be fewer hospitals in the Twin Cities because of a shrinking patient population and changes in the health care system. There is a bulge in the population now; what about in 20 years? Will the aging of that group of people be addressed? Dr. Brody said that in any trend, there tends to be an exaggerated response, and in some ways managed care is too much of a good thing. Eventually there will be a return to the realization that specialists can do a better job of treating certain kinds of illnesses and diseases. On the other hand, the old system was out of whack, but the pendulum will swing back. It will not swing back as much for hospitals, because technology is driving much of the hospital change. There is, for example, now being tested technology that does open-heart surgery laparoscopically. Mortality and length of hospital stay would decrease dramatically. But there is a risk, he agreed, that the downsizing of hospitals will go too far. In order for the AHC to survive and get there, however, it must survive the next few years.

One of the concerns of the Committee is about the allocation of the overhead budget, said one Committee member. The Committee just heard from Provost Shively that the University will have to deal with the problem of a building for one department. Is the University in a situation where it may have to bail out the Hospital as well? The Hospital has generated substantial reserves, in excess of its debt; the University makes money on the debt because of the interest payments. That is not a problem. The

concern is not about where things are now, but about the trend continuing. The biggest issue is how to manage the expenses. They do not want the Hospital to be in a position where the University has to bail it out; the concern is serious enough that has led a number of universities to sell their hospitals or to spin them off.

Four years ago the head of the Hospital told this Committee that spinning off the Hospital was a possibility, recalled one Committee member, so that in the worst case the University would not be liable for losses. Has that been considered recently? Dr. Brody said he envisions three different scenarios; they are evaluating each. One is whether they can operate a 150-to-200-bed, tertiary-care hospital--which is where the Hospital will be if the market evolves as projected (average patient census now is about 325 patients). Can a hospital about half the size of the present hospital survive? A second scenario is that there be created a public resource model, where there is a continuing flow of patients as a matter of public policy--perhaps through a voucher system, perhaps by requiring put State employees in a system requiring use of the University Hospital, or a number of other things. The third scenario is spinning off the hospital into a merger or consolidation with other hospitals. All three are being evaluated.

One Committee member inquired about AHC re-engineering and recalled the remarks about the reorganization of biology at the University. That affects the AHC. His concern is not about that discussion, Dr. Brody said, but about focus and trying to solve one problem at a time. The most difficult problem in the AHC and University as a whole is that it does not rank problems and solve the them serially, so ends up with 400 problems to solve at once, which is a non-starter. He said he would prefer to identify one or two major problems and tackle them, which is what the group of faculty is trying to do, on as much of a full-time basis as is possible. He said he does not now know how to deal with the question of biology; it is an important question, but right now they have blinders on because they are trying to deal with large problems in a methodical way. This may appear somewhat selfish, but it is trying to carve out issues where they can make a difference. A lot of faculty, Dr. Brody observed, may see this as just another faculty committee to be waited out, because nothing will happen. He came here to make significant change, significant change is needed, and it will be accomplished with the faculty driving the process.

One Committee member commended Dr. Brody for having people from the basic sciences on the committee. He noted that they do NOT have people from outside the AHC but hoped that they could think for the whole University.

One Committee member asked Dr. Brody to comment on issues of tenure. In the past, the AHC had asked for a longer tenure period. What does he see as the issues in the AHC? Dr. Brody said he would not talk about tenure per se but about the issues that need to be addressed.

There is a set of issues dealing with faculty productivity and assessment; those exist irrespective of whether there is tenure or some other kind of system. Rewards are also an issue; they have not been sufficiently tied to the goals of the AHC (except in the clinical fields). One issue is to enhance and reward productivity.

A second issue, a critical one, is that the AHC may have very good faculty who are no longer necessary or supportable. There are, for example, about 400 clinicians, about 90% of whom are specialists. The projections are that by the end of the decade there will be 60% too many specialists.

Will the AHC be able to keep all the specialists at the University fully employed? Dr. Brody said he did not know. But if there are 60% too many specialists, it cannot be assumed those at the University will be more protected than others. There may be faculty who are talented but no longer critical to the mission. These are issues that corporate America has faced, and has changed radically the employment contract between the corporation and the employee; it is something the University must examine closely. It may not be able to make the kinds of long-term commitments it has in the past when the pace of change in knowledge and services is so rapid.

That has an impact on the health sciences much more heavily than in other parts of the University, observed one Committee member, because the health sciences are driven by private practice revenues. If there are tenured people appointed to revenue-generating operations, and it is no longer generating revenue, it becomes a burden on the rest of the University. Twenty-five years ago there were only a handful of tenured faculty in the health sciences. Only the department heads and a few others were tenured; everyone else was on annually renewable contracts and had been for over twenty years. The University made a conscious decision, rightly or wrongly, to go to the seven-year rule.

As he considers areas to cut back, Dr. Brody was asked if he had a personal position on Ph.D. programs in clinical departments in the Medical School. He said he is generally not supportive of them. He recognizes, for example, that the Surgery Department has a long-standing Ph.D. program with a significant national reputation, and he does not know the program well enough to make any comment on it. In general, however, he said he believes there should be fewer Ph.D. programs, and he would prefer to see them based in basic science departments. He also said he is not close-minded about the issue.

Professor Morrison thanked Dr. Brody for joining the meeting.

5. Fees

At this point Senior Vice President Infante rejoined the meeting to discuss academic fees.

Dr. Infante said that he had found it disturbing that the stated policy of the Board of Regents about fees was violated in significant ways. Last year, as a result, a new and more realistic fees policy was adopted, in part because of the computer fee at Crookston. Like many schools of dentistry, there has been an instrument fee that is larger than tuition (although the norm for peer institutions). This fee is one he supported, he said, as the alternative to forcing students to buy instruments that they might not need when they go into practice.

In addition, one of the major efforts of the new budget process is to collect and make part of the process the fees.

The University has always had tuition, but books have been separate. Material costs have never been covered; they have been the responsibility of students. On the other hand, there has been a tradition at the University that if it makes sense for a particular type of materials that the students use in the field, then the materials are provided (typically in art courses, for example).

What is driving the question of fees is that there are certain courses in which either instruments or materials are used that are very expensive, or in the area of information technology, the use of

computational equipment that is very large. Committee members are aware of fees that have been imposed by Crookston and Architecture and IT.

Dr. Infante said he has consistently taken the view that the University should minimize the imposition of course fees; there should be a very good reason for assessing them. They should be a means to equalize costs between courses. There is a policy that undergraduate costs should be fairly uniform. At the same time, it is recognized that provision of certain computational equipment is needed not for courses but for areas of a profession; it has to be acknowledged that the instruments are needed and that the cost should be borne by students. This is the general policy being followed.

One Committee member said the issue has come up with the revision of the Regents' policy on tuition and fees, and the statement that certain types of fees would be allowed. There is no mechanism within the University governance structure for review of specific fee proposals as they are made, and the operational policies that are needed to implement the regental policy.

With the possible exception of this Committee, there is no governance body that would deal with these fees--and this group is not structured to deal with them. That is why the proposal was made to establish a subcommittee on tuition and fees that could look at them.

There have been discussions of these issues, Dr. Infante said. He noted that he has appointed a committee to deal with tuition, although not fees as much, and has asked the chancellors to do the same thing. His only concern with involvement of the governance system is that many of the issues are campus-based; the policies followed on the Twin Cities campus would not necessarily be the same ones that should be followed on the other campuses. The governance system cuts across all campuses, although he agreed that the principles should cut across the system.

Professor Morrison noted that this could be an Assembly subcommittee; Professor Gray recalled that the Committee has already voted in principle to favor such a subcommittee.

Dr. Infante spoke about the role of the chancellors and faculty and students on each campus, and cautioned against setting up a structure that was counterproductive. The policies and decisions would not be the same.

One of the problems the Committee had, in thinking about the subcommittee, was whether things would vary greatly under the three different provosts on the Twin Cities campus. The deans must take a great deal of responsibility for discussing these matters with students, Dr. Infante said; one can differentiate between the graduate and undergraduate levels.

One Committee member urged the creation of the subcommittee somewhere in the governance structure to discuss the principles. If one starts with the belief that there should be uniform tuition, and also accept the principle that all instructional costs across colleges are not equal, at the undergraduate level, then somehow that difference must be made up. It is quite appropriate that when the resources that come to the unit offering the instruction do not meet those instructional costs, then the instruction is being given out as a free good or there must be worked out a way to increase that revenue. If uniform tuition is to be retained, then fees are logical. Another item should be considered by the subcommittee in addition to equipment and materials: human power. In a day when the size of the faculty is shrinking, but

instructional needs may not be, there are times when, without RCM, a unit may have to offer instruction with adjunct faculty--and fees associated to help pay for it.

Another Committee member expressed less objection to the policy than the minutiae of it, and cited a number of instances where fees have not changed for decades or where costs have increased but there has been no increase in resources. It would be wonderful not to charge fees at all, but where departments face increased costs for programmatic activities, fees may be necessary. And some of the distinctions are questionable; what is the difference between asking students to buy books for a course and asking them to pay transportation expenses for a field trip? Dr. Infante agreed that these issues need to be considered.

Another problem, it was said, is that there is no place to go to make changes and try to recoup costs. The fees are supposed to go through the budget process and be approved, Dr. Infante said.

This is an issue may be one that should be included in rethinking governance and the levels at which things happen. Elements of this need to be subject to oversight in each provostal area, with proposals initially coming from the colleges. But there is still a role for the Senate structure, covering all the campuses, in order to consider the broad range of activities, to consider whether the diversity is reasonable or if there is a need for more concrete central policy.

Professor Morrison said he would "rule" that this Committee had jurisdiction over all matters that are not clearly within the jurisdiction of another committee; insofar as they are covered by a Duluth committee, this Committee should not be involved. But to the extent there is no consultative process, it is appropriate for this Committee to be involved even though it may be a Twin Cities campus issue or--barring consultative structures at the provostal level--within a provostal area. As a consequence, the issue of fees is within the purview of the Finance and Planning Committee. What is proposed is a subcommittee that will report back to this Committee, minus all the details. A specific proposal will be brought; if there is no objection, he said, he would simply act on the proposal when he receives it.

Professor Morrison thanked Dr. Infante for joining the meeting.

6. The Capital Request

Professor Morrison turned to Mr. Pfutzenreuter and Mr. Berthelson for a presentation on the capital request.

Mr. Berthelson distributed a handout and drew the attention of Committee members to the preliminary request that had been prepared last June. By October the state requires a final presentation, the details of which he then reviewed briefly. The largest difference between the two was that the Architecture Renovation and Addition has been removed from the final request; it has been replaced by a library at Duluth. There will also be a broader review of Morris campus facilities. Specific projects under the health and safety have been identified; the details are available to the Committee if they wish them. He reviewed the criteria that were used for project selection in the health and life safety improvements.

The reason the Architecture project was removed from the request was that it had originally been included with the understanding that there would be significant progress in securing private funding for

the one-third debt requirement imposed by the state. It was the sense that this progress had not been achieved; since the University continues to have debt capacity limitations, it was decided to advance projects that the state has indicated a willingness to exempt from the debt requirement (those that provide statewide and regional service, such as the archives facility).

One Committee member noted that the list of additional critical needs, 1997-2001 (items not in the request) includes a West Bank parking facility. Parking, Mr. Berthelson noted, would be self-funded. Where would this facility be, it was asked, or is this the Carlson School of Management garage? There is no conceptual location for it, the Committee was told; it is simply an indication of need. One possibility to satisfy part of the need could be a garage, but this item does not identify it as such.

One Committee member said he has received a number of comments about parking and parking construction; this needs to be an agenda item very early on in the year. Other Committee members agreed. Professor Gray recalled that after the last presentation on parking, she had written a letter on behalf of the Committee, and had received an answer saying that parking facilities would go on as planned. If that is the case, Professor Morrison observed, then parking needs to be put on the agenda of the University Senate.

To what extent will the list of additional critical needs be modified as the long-range campus plans are developed, asked one Committee member? Mr. Berthelson said the University develops a six-year capital plan and capital budget each year; instructions for 1997 are just going out. This list is what has been identified for the next six years; as the next one is prepared, the campus master plans will guide the request. This list can change, it was pointed out, although the intent is to remain as consistent as possible in dealing with the legislature. But additional critical needs can be identified. It was suggested by one Committee member that the Committee hear from the campus master planning office; Professor Morrison agreed that would be appropriate as the next capital request is considered.

The master plan has only been displayed one day on each campus, noted one Committee member. One can wonder if the parking facilities being talked about for the West Bank and St. Paul are really part of the master plans. It would be helpful to see those plans in more detail. Another Committee member agreed, expressing concern about the possible reconfiguration of the bridge between the East and West Banks of the Minneapolis campus, which apparently may include no protection from the weather for pedestrian traffic. The model was not advertised and many did not see it. While the planners were sympathetic to the West Bank, the outcome of the plans are that people are going to freeze.

When the master planners had a series of meetings, Professor Gray reported, she learned later she was the only faculty member from any campus who was involved; everyone else was an administrator. This was not broad consultation. Professor Morrison told the Committee that he had some opportunity to be involved while Acting Dean of the Law School and related that there had been no opportunity, and now they have to cope with the consequences of what they decided.

Professor Morrison thanked Mr. Berthelson and adjourned the meeting at noon.

-- Gary Engstrand