

Minutes•

**Senate Committee on Finance and Planning
Tuesday, February 16, 1993
4:00 - 5:00
Room 238 Morrill Hall**

Present: Irwin Rubenstein (chair), Carl Adams, Karen Geronime, Virginia Gray, Thomas Hoffman, Karen Karni, Craig Kissock, Fred Morrison, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Mary Sue Simmons, Susie Torgerson

Guests: Acting Assistant Vice President Michael O'Connor, Senior Vice President Robert Erickson, Janet Warnert (Finance and Operations)

[In these minutes: Central Reserves policy; the budget; CUFS steering committee]

1. Changes in Central Reserves Policy

Professor Rubenstein convened the meeting at 4:00 and asked Mr. Pfutzenreuter to explain the changes proposed for policy governing use of Central Reserves funds. "Central Reserves" are defined as "monies that are unrestricted as to purpose or use and that are available for immediate expenditure by the senior management of the University.

There are two changes of substance, Mr. Pfutzenreuter explained to the Committee. First, Central Reserves will be considered to include funds "previously allocated to an academic or administrative unit that are no longer required for purposes consistent with the original allocation." What this means is that if funds come back from a unit, reallocating them will require the approval of the Board of Regents--central administration will not be free to move these funds around from one use to another, after they had initially been allocated. The term "Central Reserves" includes any unrestricted funds available to the central administration, so includes O+M funds, State Specials, ICR funds, and any other reserve balances. This policy change basically provides the Board of Regents "re-appropriation" authority.

Asked who determines whether or not use is not consistent with the original purpose, Mr. Pfutzenreuter said it would be Finance and Operations in consultation with the unit. He cautioned that there is no intent to create an adversarial relationship and that this is in fact present practice. There are funds not being used, and this policy requires that redirection requires Board approval. One example of such funds is ICR funds set aside for real estate rental; costs may be less than projected, so the balance would flow back to Central Reserves. The point, Mr. Pfutzenreuter said, is that the funds in the past might have been put to a different use than originally authorized by the Regents; this change requires Board review and approval.

The second change is establishment of a contingency fund for unplanned or unexpected financial needs; expenditures from this fund will be reported to the Board of Regents, but not approved by them.

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While the Board may be uncertain about the need for this fund, Senior Vice President Erickson believes it necessary.

After brief discussion of Central Reserves balances, the Committee thanked Mr. Pfutzenreuter for information about these changes.

2. Discussion of the Budget

Mr. Pfutzenreuter next distributed a revised estimate of the budget numbers, slight reductions had been made in the items labelled "Other Potential Increases." He also handed out a more detailed listing of the items that make up these potential expenditures, which total almost \$17 million. He also told the Committee of meetings he had had with the Finance Department of the state, which is now waiting for the March revenue forecast. While there is reason for guarded optimism about revenues, one question is how much, of any additional revenues, would go to higher education. He also reported that while the Governor is not committed to the specifics of the financial aid proposal (increasing aid and also increasing tuition to provide it), he is still committed to the principle.

One Committee member inquired if the list of "Other Potential Cost Increases" was a list of things the University needed to pay for, to show the Governor, or if it is a list (of primarily non-academic items) that need to be paid--and funded from academic resources? Are they commitments or are they things the University wants to do?

Mr. Pfutzenreuter said the items fall into two categories. First, such things as new facilities/rent/debt and mandatory/legal obligations, will not go away and must be dealt with. Other items on the list are "softer." The University COULD say "no" to all of them, of course, but not easily.

Committee members inquired about the specifics of a number of items on the list. In response to a question about an increase of over \$750,000 in legal fees and additional staffing for the General Counsel's office, Mr. Erickson explained that none of the funds were related to the ALG controversy. They are for additions to the General Counsel's staff and the internal auditing staff. Mr. Erickson also suggested, in response to a query about funding for Recreational Sports facilities, that he would supply the Committee with per-building operating costs.

The numbers presume revenues of \$538 million, with no inflationary increases, and expenditures of \$540 million; how is it possible to start out the year with a negative number? inquired one Committee member. There is a reduction of \$11 million in state funds, Mr. Erickson pointed out, and the projected tuition increase is a conservative one (3.5%). If one used the Governor's recommendation, there would be additional tuition revenues of about \$14 million (which would come from eliminating the subsidy to the practitioner-oriented Masters programs); there would also be additional expenses of about \$4.1 million for financial aid.

The Governor has NOT provided in his budget for pay raises the first or second year of the biennium, Mr. Pfutzenreuter said in response to a question, but apparently the "moral imperative" of no salary increases is stronger the first year of the biennium than the second.

Asked what role the administration would like the Committee to play in the budget process, Mr. Erickson said it would be most helpful if it focussed on the general issues, such as the extent to which the

"three legs of the stool" over which the University has control (tuition, inflationary increases, and program cuts) should contribute to resolving the anticipated shortfall in the budget.

Mr. Erickson then explained, in response to a query about his efforts to increase efficiency in Finance and Operations, that they consciously relied on a strategy of deep cuts the first time so that they would not have to come back again and again with additional cuts. There may be areas where staff will have to be added, but there are also areas where additional efficiencies are being sought. There is unlikely to be any result from these latter efforts next year, but there should be long-term savings as processes are simplified. There are other initiatives currently underway--such as the pilot study of administrative costs in the College of Education--but these activities will not produce quick results. Mr. Erickson said he wants to build a good house so that the University does not have to go back and redo the effort later. The University has long relied on incremental budgeting, and not considered inputs and outputs; the inputs and outputs must be examined to determine if the University has the right amount of resources for what it is doing.

As the University considers programmatic cuts--one leg of the stool--efficiency improvements should be included; Mr. Erickson agreed. It was noted that universities do not typically press for efficiencies, in terms of changing the way they operate, in academic departments. People rarely think about efficiencies, it was said; they approach the problem as doing less with less rather than doing the same with less. There are ways, however, of accomplishing the same with fewer funds, but this is a concept that has not generally been accepted in academic units in higher education. It is for that reason, Mr. Erickson responded, that the addition of a budget analyst in Mr. Pfitzenreuter's office is being recommended; the individual will try to help units approach budget reductions with a mindset to leverage their resources and to quantify what they are doing in order to better analyze their activities. He agreed with the assertion that this individual must work with the operating units, not just serve as a technician. The person must educate and create an atmosphere so that units will WANT to be more efficient--an effort that will require education and the commitment of middle management.

The University has talked about this for years, observed another Committee member, and has yet to accomplish a great deal. The outside world constantly redesigns what it does, but the academic world seems not to do so. The impact can be seen in the units, where secretarial positions have been eliminated and Regents' Professors do their own typing--which cannot be efficient.

The result of across-the-board cuts, added another Committee member, is a guarantee of mediocrity. Most departments, if required to cut funds, use their open lines--which is somewhat akin to a football team never hiring new players. This approach could even affect tenure decisions--although there is no evidence that it does so--because if a department knows that denial of tenure means the line will revert centrally, it might be more inclined to grant tenure in doubtful cases. It is to be hoped that the planning process can break this cycle.

The Committee then turned to the process that will be used to address the important budget issues; there is nothing here, said one Committee member, to generate a conceptual structure by which to address these larger issues. There are three major issues, Mr. Erickson said: tuition, programs, and inflation; while the University will seek to obtain additional funding, the critical issue for the University community is the trade-off between those three factors. The balance between them, commented another Committee member, may not be the same for the next budget as it would be for

budgets 2 - 4 years out, and it would be useful to deal with both the next and future budgets at the same time.

How should the Committee respond, Professor Rubenstein asked Committee members, given that budget instructions to the colleges must be prepared in order to begin budget hearings at the end of March? It might be that the Committee will wish to develop its own views on the balance that should obtain between the three legs of the stool, to get a sense of where it stands, and then also--EARLY--review the administration's plan. The Committee cannot, and should not, try to engage in detailed budgeting.

After additional discussion of the timing and role of the Committee, it was agreed that next week's meeting would be devoted to identifying what the Committee believes it would be appropriate for the administration to use in terms of tuition increases, recognition of inflation, and program cuts. Whatever consensus--if any--the Committee reaches would then presumably play a part in the development of budget instructions for academic units. The goal will be to develop a Committee view on how the University should deal with the projected \$30 million shortfall.

The Committee took note of the comment that in developing a response to the projected shortfall, the University may be telling the legislature that it can absorb the cut. The "pain" of the cuts must be made equally clear, it was agreed.

3. CUFS Steering Committee

Professor Rubenstein next turned to Mr. O'Connor for a brief explanation of the CUFS steering committee proposal. Mr. O'Connor told the Committee that he had gotten the message, loud and clear, that the steering committee he had proposed did not respond to the clear need for departmental/user participation. He said he agreed without reservation--and has told the Board of Regents--that in finishing the CUFS project, the "customer" needs of departments and colleges had to be attended to.

As a result, he has proposed the appointment of an advisory committee of users to assist the steering committee. One Committee member said that this is a more appropriate use of faculty and staff time; they should not sit on the steering committee, which will need to meet at great length.

Another Committee member said he did not care what the panel or committee looks like; there has been too much attention to process. Whoever is involved must MAKE THE SYSTEM WORK, which means it must produce usable reports. If it does not do that, the system does not work. And the responsibility for doing so, Mr. O'Connor was told, is his. Mr. O'Connor agreed.

The Committee adjourned at 5:15.

-- Gary Engstrand