Minutes[•]

Senate Committee on Finance and Planning
Tuesday, November 6, 1990

Present: Burton Shapiro (chair), David Berg, Ed Foster, Virginia Gray, Michael Hoey, Kimberly Kantorowicz, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Roger Paschke, Nancy Ann Root, Ford Runge, Mary Sue Simmons, Charles Speaks, John Sullivan

Guests: Frank DiGangi (Campus Club Board), Senior Vice President Gordon Donhowe, Ken Janzen (Regents' Office), Senior Vice President Leonard Kuhi, Lee Stauffer (Campus Club Board)

1. Report of the Chair

Professor Shapiro opened the meeting with a report on several items.

-- A recent article in the Chronicle described a package of early retirement incentives to cut operating costs at the University of California. Should SCFP discuss this issue?

Dr. Kuhi explained that California is able to adopt such a program because its retirement system is over-funded; as a result the retirement age was lowered to 50 or one can stay on longer and retire at 100% of salary. California has a defined benefit system and they basically added credit to an individual's service; such a plan would not work at Minnesota because we have a defined contribution plan.

The Committee could, however, look at the issue, especially in light of the removal of mandatory retirement and the concomitant question, for many faculty, of continuation of health care benefits. Whether or not Mr. Donhowe's task force on health care will take up this latter issue should be investigated.

One Committee member observed that the defined contribution system is an invitation for people to stay on forever; the defined benefit system invites people to opt out early. Is the University well-served by staying on the defined contribution system? The system works to the benefit of individuals but perhaps not to that of the institution; consideration should be given to returning to the defined benefit system.

-- He has received information about the operating costs and returns on Foundation and Permanent University Fund; it will be sent out to Committee members.

-- He and Professor Ibele met with people in the Graduate School about the new requirement that students must register for credits in order to defer payments on loans and to receive

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financial aid. The issue is very complicated; it appears there is an inconsistency between the findings by the outside auditors and the University's conclusions drawn therefrom. According to Dean Holt, the decision was made either by Financial Aid or the Department of Audits; the students have been referred to Vice President Hughes. The Graduate School independently wanted more accountability from graduate students on their degree progress; it happened that the ruling as a result of the audits came at the same time.

Associate Vice President Foster volunteered to work with Professor Shapiro to see if the question could be resolved. The results will be reported to the Committee.

-- The discussion of the contract with the Campus Club will be postponed until a future meeting.

2. The Relationship of Collegiate Reallocation to Academic Priorities

Professor Shapiro turned next to Senior Vice President Kuhi to discuss reallocation; Dr. Kuhi distributed materials to the Committee members.

One question raised by the Committee was the effect of reallocation on departments and colleges and how they handled it; Academic Affairs has not conducted any exhaustive study on the subject. Generally the units didn't handle it well in the sense that the 2% reallocation was often accomplished simply by cutting back on spending wherever possible without reducing programs--not filling vacant positions, reducing the number of TAs, cutting support services. This meant that faculty had less support to do their jobs and students in many cases were provided fewer services. This outcome is certainly not what the administration had hoped would happen; units were expected to take a hard look at their programs rather than cut across the board. The message was perhaps not clearly enough conveyed.

A memo from the President, Mr. Donhowe, and Dr. Kuhi has gone out with instructions on what the units are to do next; the plans still call for 2% per year or 10% over the next five years as the target for reallocation. The memo stresses the need for re-examination of unit programs; Academic Priorities remains the guide for planning--although this may be an opportunity to look more closely at what is in Academic Priorities.

Units are being asked to look at the next five years; this is an opportunity to improve the University and redirect resources to achieve institutional goals. Those goals include (first) maintaining the strength of the faculty, maintaining the physical plant, quality of instruction and student support, provision of better access to the University, continued growth of research, and increased technology transfer and outreach.

In some areas Academic Priorities did not go far enough; the degree of under-funding for CLA was grossly underestimated, for example. There are, thus, key areas into which reallocated funds must go.

Credit must also be given to units for internal reallocations which move toward the accomplishment of University goals. The deans are being encouraged to produce plans, all of which will be reviewed centrally. Certain units will receive additional support; others will lose funding.

Dr. Kuhi said he hoped that the external financial constraints would be lessened, although it is unlikely that the State's financial situation would improve (irrespective of the outcome of the elections).

Although reallocation will be a difficult exercise, this is an opportunity to strengthen the University and should be looked at in a positive light. The flat 2%-per-year approach has been abandoned, however; it did not accomplish what was intended. That 80% of the reallocated funds were returned to the units last year for salary increases meant that few funds were available for programmatic change (about $2 million). There will be no reallocation for salary increases next year nor will there be any across the board reallocations for that purpose. Some reallocation for salaries will be provided, however, for a few units which are significantly below their peers. A strong argument will continue to be made for inflationary increases and the 2% increase discussed in the biennial request.

Dr. Kuhi next turned to the handout, which provided background information on the budget. There are $525.5 million in current recurring funds for programs. For 1990-91, $15.3 million was available for reallocation (it is from this amount that only $2 million remained after salary increases were funded) and $510.2 million recurred in existing programs. There were, in addition, new and non-recurring funds of $50.4 million, for a total 1990-91 budget of $575.9 million.

The $575.9 million is divided in the following way: $510.2 in recurring programs, 27.9 million for formula increases in salaries and supplies, and 37.8 in the Strategic Funds Pool (of which $13.9 million is recurring and 23.9 million is non-recurring).

The $13.9 million in recurring funds in the Strategic Funds Pool will be used for instructional improvements, ICR, equity and comparable worth, program reallocation, and general reallocation.

Dr. Kuhi then reviewed the progress that has been made on Academic Priorities over the past three years. Of the target of $35 million in reallocated recurring funds, $18.5 million has been reallocated thus far. That $18.5 million has been supplemented by an additional $21 million in soft funds. About $1.5 million of the $4 million to be obtained from the units has been reallocated thus far; these are difficult resources to obtain. The University has been more successful in acquiring funds from the 2% reallocation and new funds from the legislature (which together total about $17 million of the $18.5 million in reallocated funds). Thus, in terms of hard funds, the University is about half way to the Academic Priorities goal of $35 million in reallocation.

It can also be said, Dr. Kuhi repeated, that some needs were underestimated; there have also been changes in plans in other areas. Both of these circumstances are reflected in the funding allocations.

Dr. Kuhi was asked how, in light of the experience last year, it is to be expected that colleges will more carefully focus their reallocations and pay more attention to the goals of Academic Priorities. Will they be asked for plans which must be approved? Dr. Kuhi said they will be; a five-year plan is being requested so that doing whatever is most convenient is not an option. The long-term strategy for meeting a 10% target should be very different from meeting a one-time 2% reduction. Mr. Donhowe also pointed out that the college plans need not project an annual 2% reallocation. The deans do have the option, Dr. Kuhi said in response to a question, of taking the entire 10% in one year; whatever plans are devised will be reviewed.

Once plans are approved, Dr. Kuhi was asked, is there any capability for following up? The mechanism for doing so is primarily the budget, although budgets are not typically structured in a way which would identify whether or not the plans are being implemented.

It is commendable that these plans are being laid early, and for a longer period. The plans could include both internal and external funds, although the choice will ultimately be made by Academic Affairs. The biennial request, Dr. Foster pointed out, makes a commitment not only to internal reallocation but internal reallocation to specific goals identified in the request. If that commitment is to be met, the internal college reallocations must be consonant with the goals identified in the request as the University's top priorities (the six goals identified in the language of the request, although in more detail). It will not simply be a matter of "coming up with a good story to tell and persuading the Vice President that that is a good way to spend money." The University must be able to tell the legislature it has redirected the funds in the way it said it would. (For example, while maintaining faculty salary is the top priority, the University has said it will not use internally reallocated funds to do so--so a college plan which calls for reallocating funds to faculty salaries would not meet the goals.)

The University has indicated that it will not reallocate funds for salaries (except in the few extreme cases), either internally within units or externally among units. The Governor, however, has directed institutions to request no increase in funding. What inference, it was asked, is to be drawn from those two positions? Mr. Donhowe noted that a 4.5% salary increase would require $81 million (for the biennium); does anyone believe, he inquired, there is any possibility of reallocating $81 million in two years? He answered his own question: "I don't think there's a prayer of doing that. I don't think there's a prayer of doing half that." Dr. Kuhi commented that it has been extraordinarily difficult to obtain $4 million dollars; most of the money has come from other reallocations (such as Physical Plant) and from additional funds. Only draconian measures would raise $81 million for a 4.5% run-up on salaries.

Another Committee member observed that some see it as likely that there will be no salary increases for anyone in the State. If that happens, it was asked, would there still be no reallocation to salaries? Or has no decision been made? Mr. Donhowe responded that the University has concluded that if it cannot obtain from the legislature a reasonable run-up on salaries it will not feasible to ease the pain by internal reallocation--and that "I don't think we should kid each other that it is feasible." Doing so would do grave damage to the University. Dr. Foster added that it could be accomplished by not hiring anyone; faculty turn-over is roughly 4-5% per year.

The Committee, however, should debate that question, Mr. Donhowe said--and it would be better to do so beforehand rather than wait until it happens so the administration has a general idea of what will need to be done. The administration, he said, is open to advice on the matter; they need to hear if the Committee believes there should be reallocation to salaries if there is no appropriation.

One Committee member urged that such a reallocation should be adopted; people will not stay at the University if they receive no increase. The last several years have been psychologically tough at Minnesota, and while perhaps Illinois and Wisconsin have weathered low or no increases, Minnesota will not. The increase may not have to be 4% but it cannot be zero.

That will mean, Mr. Donhowe observed, that positions will have to be cut--and not all of them can be cut from the non-academic units. It is not a solution to simply not hire, he said; that alternative will not provide enough funds.

Why could there not be a reduction in reallocation to achieve Academic Priorities, some compromise, it was asked. Dr. Kuhi pointed out that a 2% increase in faculty salaries alone--setting aside other staff and the supply budgets--is $18 million (and civil service staff would have to receive an equivalent raise). There is, however, only $10 million identified for 1991-92 for reallocation to academic goals. To reallocate for a 1% salary increase would completely eliminate progress toward the goals. Would, Dr. Kuhi asked, giving a 1-2% salary increase change opinions?

It must not be zero, several Committee members responded. There must be at least a symbolic increase. It might not have to be 4%.

There are then two questions, Mr. Donhowe said, upon which the advice of the Committee is needed: Should there be a hiring freeze and is the faculty prepared to "take time out" on reallocating funds to improve quality? There would be no incremental investments in the libraries, in the Undergraduate Initiative, or in all the other areas identified as needing funds. Is this the trade-off that should be made?

Would it be possible to make the improvements a little more slowly, Mr. Donhowe was asked, rather than see the situation as an all-or-nothing proposition? He expressed the opinion that the University would almost certainly have to take all of the funds to provide even a symbolic increase if there is no run-up in the appropriation. Assuming there is $10 million for reallocation, that is only slightly over a 1% increase in faculty salaries.

Without postponing the increased investment in various areas of the University, one Committee member argued, the institution will be in much worse overall shape. There will be more places which will, in the future, require drastic investments. To meet the goals set out in Academic Priorities will result in the creation of other areas far worse off than those currently identified as needing funds. In addition, there are several scenarios one can imagine; a zero appropriation is one but a 2% appropriation is another: What does the University do with an appropriation which is way below the inflation rate? Does it continue to address the goals of Academic Priorities or does it add to the funds in order to simply keep things going? Another possibility would be to permit colleges to decide to reallocate funds to salaries in order to maintain quality, despite the biennial request language.

Another Committee member also argued in favor of the "pause" in implementing academic plans. It is not clear, it was said, that program goals and faculty salaries can be traded off as substitutes; they are complementary. A zero or token increase in salaries will lead to losses, especially in the high quality units, and threaten the overall objectives which lie behind the goals. Another reason is that the fiscal environment is sufficiently unsettled, both at the local and national level, that the 4 or 4.5% inflation assumptions are very optimistic; in all likelihood the rate will be worse, perhaps much worse. In those circumstances, one can argue for a break in implementing academic goals.

Are there any good data on how many people leave the University each year? Dr. Foster said it is about 70, by resignation. The total is about 150, which includes retirements. He had the impression, one Committee member said, that good people in good departments are leaving in higher numbers and that this trend would be exacerbated if there were no salary increases. Dr. Kuhi, however, expressed doubt that "spreading $20 million over the faculty would retain anyone." The question is not just retaining faculty, another Committee member contended; it is also related to the attitude of the faculty who remain and how they feel about the University.

Are central administrative units examining their activities and also making plans for a 10% reallocation, it was asked? Dr. Kuhi said they are.

Mr. Donhowe was reminded that he had earlier told the Committee that it was unlikely that the legislature would not appropriate money for salaries. If they do provide nothing for salaries, it was said, the legislature will create the situation, not the University. One reaction is to try to make sure that they don't do so, although the economic situation may lead to it in any event. Another reaction is that if a zero increase does come to pass, the question is whose ox is gored and what the University wants when the process is finished. There have been places where the tenured faculty continued to receive salary increases but the institutions were gutted in the process; it is not likely the faculty here want to see that happen. There is also value in turnover; because people leave does not mean the school is bad. The question is whether or not the University is losing the people it wishes to retain. The solution to all of this is more complex than simple trade-offs; it may be that different initiatives will be appropriate to the different collegiate units--within the framework of the goals.

The letter from the President and the two senior vice presidents announces that the plans, once developed, will be presented to this Committee and the Consultative Committee. At that time, it was said, the University may have a better sense of what the legislature will do. The discussion today might be a way to prepare for the various ways in which the plans can be considered. Dr. Kuhi concurred.

There will be concern on the part of the students, it was pointed out, that the rhetoric about improvement of undergraduate education be backed up. Dr. Kuhi agreed and speculated that $18 million put into undergraduate education would have a substantially greater effect than putting it into a 1% salary increase.

Ultimately, Professor Shapiro said, the Committee should probably make some statement on these issues. Dr. Kuhi said the administration would appreciate hearing the views of the Committee after it has had more time to discuss the matters; the initial plans, he added, are due on December 15.

Another Committee member agreed that it may be optimistic to think that the legislature will do the right thing but that the University's position need not be written in stone pending legislative action. If, however, there were a zero and zero increase (in salaries and supplies, 1991-92 and 1992-93), it would then be time to declare the process of academic improvements at an end and to start dealing with hiring freezes and redistribution of funds. Advice from the Committee before December 15 may not be appropriate; it might be appropriate to wait until the end of the session. Mr. Donhowe cautioned, however, that the legislature must understand that salary improvements must come from it--that the University cannot reallocate the needed funds from internal sources; it must also be told, another Committee member added, that the goals of the request will not be met if there is no salary appropriation.

Professor Shapiro promised that the Committee would return to the subject.

3. Report of the University

Professor Shapiro next asked Mr. Paschke to report on the Permanent University Fund (PUF). Mr. Paschke distributed materials on the PUF funds and explained their history. Beginning in 1985 the income from the fund has been devoted (along with matching gift funds) to the establishment of endowed chairs throughout the University; a schedule of the funding of and appointment to the chairs was reviewed.

The current market value of the fund is estimated to be $102 million; of that, $77.9 has been committed to chairs and another 20.9 is authorized. That leaves available only $3.2 million; the administration believes that $3.2 million should not allocated because PUF is invested in the stock and bond markets and a sudden decline in the market would wipe out that remainder. (The market value has, in fact, declined by approximately $1 million since June.)

Unique about the chairs is that the gift portion is invested by the Foundation or the Medical Foundation; the PUF portion is invested by the University. The dollars must be assembled from the two sources to fund the chairs. The return on the two portions have been very similar over the past five years; the policies on investments and the spending rates are identical for the two. The PUF funds are invested through money managers across the country; the University selects the managers and then evaluates their performance.

Mr. Paschke confirmed, in response to a question, that once the gift funds are committed, if the market goes down the funds for the chair may be $245,000 plus $245,000 rather than 250 plus 250; the margin is for the open authorizations rather than for the chairs which already have the gift funds. The funded chairs are exposed to market risk.

Information about which chairs have been filled by outsiders and which by insiders has been provided to the Consultative Committee; Professor Shapiro said that information would be distributed to the Committee.

Mr. Paschke was asked if there are any costs to the University for administration of the funds or if it is truly funded from the income. The chairs, he said, are permitted to spend 5.5% annually of the average market value of the endowment; as the value changes over time--presumably grows--there is 5.5% of a larger base. In most cases that is not sufficient to support all the activities associated with a chair; there are often additional funds required for set-ups and labs and so on. The chairs, however, can only provide the 5.5%.

One Committee member reported that in his college the gift fund goal has not been fully met; the funds are used for an endowed center. Is there anything which requires that the funds be used for a chair, thus using the majority of the money for a salary, as opposed to using them for enhancing and supplementing the activities of a unit? Dr. Foster said that there is flexibility in the use of funds; rather than committing the $12,500 to a salary, for instance, if the staff is not to be expanded the funds can be used for other expenses. Whether the PUF money is put into a salary, and 0100 funds freed for other uses, or the PUF funds dedicated to those other purposes, is not material. Staff size need not be expanded to use the PUF funds.

Professor Shapiro thanked Mr. Paschke for his presentation.

The Committee adjourned at 4:45.

-- Gary Engstrand

University of Minnesota