

Minutes*

Senate Committee on Finance and Planning April 28, 1992

Present: Burton Shapiro (chair), Avner Ben-Ner, David Berg, Karen Geronime, Virginia Gray, Paul Hess, Michael Hoey, Thomas Hoffmann, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Irwin Rubenstein, Mary Sue Simmons

Guests: Senior Vice President Robert Erickson, Senior Vice President E. F. Infante

1. Report of the Chair

Professor Shapiro convened the meeting at 3:15 and reported on a few items:

- There will be a meeting of the Committee next Tuesday to discuss the budget again; it will be a joint meeting with the Senate Consultative Committee.
- The ad hoc Committee on Athletics, of which he is chair, had a concern about how funds for athletics are handled. The system now in place separates the expenditure budget from revenues (the departments are not permitted to spend money simply because revenue has been generated), and the controls on the budgets are through Finance and Operations. The ad hoc Committee is also concerned about how deficits will be dealt with, and will recommend that the Finance and Planning Committee develop a statement to guide the administration (which can be taken up next year).
- He has sent a letter to Professor Maruyama, chair of the Committee on Committees, reflecting the vote taken at the last meeting to retain the Subcommittee on Physical Plant and Space Allocation, with a new name and charge.

Professor Shapiro agreed with a comment by one Committee member that next year's agenda also include a consideration of the Hospital overruns; he said the Committee should discuss the financial implications of the purchase of clinics as well.

2. Discussion of the Budget

Professor Shapiro then turned to the two Senior Vice Presidents to lead the discussion of the University's budget.

Dr. Infante began by reporting that this meeting begins the consultation process on the budget; it will be brought to the Regents in June for information and in July for action. In addition, the administration will provide a set of budget principles at the May meeting of the Board--along with some data, to illustrate the consequences of adopting the principles. The numbers taken up today, he explained,

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would include only the Operations and Maintenance (O + M) and State Specials budgets.

RESOURCES

The state-appropriated funds for 1990-91 to 1992-93 (that is, not including tuition), are as follows:

1990-91	462,514,600
1991-92	446,760,000
1992-93	435,363,000

The decline is \$27 million. The 1991-92 figure was actually \$8.8 million less than shown, because of the mid-year rescission, but inasmuch as it was covered from the reserves, it did not affect the operating budget.

Tuition income for the same period is as follows:

1990-91	136,834,183
1991-92	151,387,081
1992-93	171,018,530

Or an increase of slightly over \$34 million. The figure for 1992-93 is an estimate, but is based on enrollment data to date; Dr. Infante, noting that the budgets will be very tight, reported with amusement that he continually pushes Mr. Berg to confirm that the \$171 million will be realized. Mr. Berg, with humorous vigor, declined to be pushed into making a prediction with certainty. The increase for 1992-93, Dr. Infante pointed out, is a result of going forward with the policy of a 9% tuition increase across-the-board plus targeted increases in some units. Mr. Erickson also cautioned that some students will see greater or lesser increases; this is a REVENUE forecast. [Mr. Berg reported that a revision of the tuition figures suggests that the amount for 1992-93 will likely be in excess of \$172 million, but that adjustment was not taken into account in these discussions.]

The Indirect Cost Recovery offset has remained the same, at \$6.5 million for all three years.

The University will also receive \$2.2 million under the HealthRight bill; this will be part of the base budget for the next biennium, although the appropriation was in the Omnibus Appropriations Bill rather than the Higher Education Appropriations. The money must be spent exactly for what it was appropriated for, and Dr. Infante commented it is this sort of revenue that concerns him--because it carries no overhead! This kind of money, he noted, takes money. Committee members suggested that whichever units receive the \$2.2 million should also be taxed for the overhead--because the alternative is to tax the rest of the institution for those costs.

After a small additional appropriation for an Extension Service farm mediation program and "other" income (application fees, interest income, etc.) is taken into account, the total resources for the three years are as follows:

1990-91	612,242,874
1991-92	611,126,172

1992-93 622,060,621

Dr. Infante then explained one twist on the budget. The \$622 million for next year includes \$2 million that is at risk. The Higher Education Coordinating Board (HECB) runs a large need-based scholarship program which has changed in the last two years. It was a high legislative priority to make sure that the program was fully funded; HECB said it needed an additional \$5 million. The legislature provided an additional \$4 million--and the original Higher Education Appropriation had each system reduced by a proportionate amount in order to increase the HECB budget by the \$4 million.

Over the last three biennia, HECB has consistently over-estimated its needs for the program and returned significant amounts of money to the State general fund. The higher education community was not convinced that HECB actually needed the additional \$4 million, and if they did get it but didn't need it, the money would be returned to the treasury rather than to higher education.

As a consequence, the higher education systems successfully argued that the \$4 million should be put in THEIR budgets rather than that of HECB; the Commissioner of Finance thus has the authority to un-allot up to \$4 million from the systems IF HECB needs the money for the scholarship program. Mr. Berg said the administration has no idea if the money will be needed, but there is a good chance that the University could actually get additional money. This \$4 million, he also pointed out, is a small portion of the total \$78 million budget for the program, so it is not unlikely the University will be able to retain the money. [And could receive more because, under the terms of the rider, if HECB not only does not spend the \$4 million, but spends even less than projected, the higher education systems will receive the money, not the general fund.]

Mr. Berg also told the Committee that Dr. Infante was being unduly modest about the change; the rider that puts the money in the higher education budgets, rather than in HECB, was written by Dr. Infante.

BUDGETED EXPENDITURES

Dr. Infante next drew the attention of Committee members to the budgets of the same three-year period.

1990-91	612,242,874
1991-92	618,857,921
1992-93	664,166,512

(but see below; this amount turns out to be 622,060,621)

For 1990-91, the budgeted expenditures were \$612 million--which amount then becomes the base for the next year. To that total, for 1991-92, the legislature added \$500,000 in financial aid for students in the health sciences; there were also salary and other increases totalling \$6 million, so the budgeted expenditures increased to nearly \$619 million. (The salary increases were for faculty who were promoted; the other amounts were uncontrollable inflationary increases.)

The current year budget is thus not in balance: resources are \$611 million and expenditures are \$619 million. Dr. Infante recalled that the budget was not balanced when it was originally presented to

the Board of Regents. A planned non-recurring reduction in expenditures of \$7.7 million brought the budget into balance; the spending reductions were to be achieved through increased efficiencies. Of the \$7.7 million target, about half has been achieved, so the current budget remains about \$3.5 million out of balance.

Implementation of the Reallocation plan began during the current year, with reductions of \$5 million in some units and increases of \$4.5 million in others. Dr. Infante reported that he is holding about \$500,000 in his office, primarily for statewide initiatives. Asked why he did not assign the funds, he responded "because I was scared" about the status of the budget.

For 1991-92, the legislature added to the new base (of \$618.8 million) \$3.5 million in funds with restricted use (the \$2.2 million for the HealthRight bill, \$200,000 for the farm mediation service, and \$1.1 million in aid for graduate students and health science students). In addition, the University will have increased expenses of another \$3.5 million in up-front costs associated with the new steam plant contract. The 5% salary increases plus fringe benefit increases adds another \$38.3 million to projected expenses, for a total of \$664+ million.

This amount, Dr. Infante noted, is substantially above the projected \$622 million in resources. Last Fall units were directed to reduce expenditures by \$24.5 million; this Spring they will have to reduce expenditures by another \$17.5 million. The \$24.5 million in unit reductions, Dr. Infante noted, were not actually CUTS to budgets; this was the 3% that all units were directed to set aside for salary increases.

The Reallocation plan will continue to be implemented; another \$5 million in reductions will be made and increases of \$4.4 million are projected.

The net budgeted expenditures, after the reductions are imposed, total \$622 million--in balance with projected resources.

CONCLUSIONS, COMMENTS, QUESTIONS

Dr. Infante concluded: If one considers that budgeted expenditures in 1991-92 were \$618.8 million, and the budgeted expenditures for 1992-93 end up being \$622 million, AND one realizes that there are \$2.4 million in restricted legislative funds (HealthRight and the farm mediation service), the net increase from this year to next will be about a million dollars--or a flat budget. (Assuming that HECB does not require any of the \$2 million which would be the University's share of the amount needed to fund the scholarship program.) The increase amounts to .01%.

This flat budget is accomplished with a substantial decline in state funds and a corresponding substantial increase in tuition.

The budget for 1992-93 reflects principles established by the President:

- The across-the-board tuition increases will remain at 9%--which puts a limit on increasing income.
- Salaries will be increased by 5%--which fixes expenditures.
- Contracts will be honored.

To effect these principles, a \$17.5 million reduction will be required.

The question then becomes how the funds will be allocated. Dr. Infante said that certain principles will be followed:

- The Reallocation plan will be continued.
- Commitments made for targeted tuition and unit increases will be honored.
- Units which receive low per student funding will be examined.

For next year, this will mean:

- Administrative units will be "squeezed."
- Arts, Sciences, and Engineering units will benefit.
- Apart from the \$2.2 million for HealthRight, the health science units will face reductions.
- Finance and Operations will see no change--and will thus absorb the \$3.5 million in increased steam plant expenses.
- Morris will see a significant increase.
- There will be differential cuts in the O+M budgets, and the Undergraduate Initiative will be continued (which entails putting dollars where the students are).

Some of the State Specials will be protected from cuts (the Minnesota Extension Service, components of the Agricultural Experiment Station located in outstate Minnesota, Women's Intercollegiate Athletics, the Hospital, and the Minnesota Supercomputer Center); the rest will see reductions. Dr. Infante said that the cuts in the Specials will be approximately equal to the cuts in the O+M budget.

Dr. Infante was asked how the University is responding to the legislative directive to the higher education systems to protect their "core" programs and to cut the peripheral activities. He said that the University is favoring units which have large numbers of students. Some units will see increases from tuition income; others through the Reallocation plan. He also reported that for the first time the administration is examining where tuition income is being generated--to be sure that the 9% increases are not being taken from the units generating them and put elsewhere.

One Committee member observed that if one accepts the dictum that the number of faculty members dictate most of the budget numbers, a cut in a unit must ultimately mean a cut in faculty; the question is how to accomplish that reduction in faculty. Might not the best way to achieve that objective be through retirements? If so, could not units be given flexibility, within broad parameters, to negotiate whatever packages it could with individual faculty members? Retirements are very personal, it was suggested, and deans know what deals they could cut.

Dr. Infante pointed out that ANY actions taken with respect to retirement cannot be discriminatory on the basis of age. Mr. Erickson reported on his involvement with the Minnesota Extension Service in negotiating retirements. The University does not communicate very well about the benefits available to faculty members; focus must be directed to AFTER-TAX income. Many at the University, due to the performance of the stock market, have large accounts and a great deal of flexibility--and may not KNOW

what their options are. Those choices need to be reviewed on an individual basis, and the process is not an easy one.

Committee members and the two vice presidents were uncertain about who could or must initiate a conversation about retirement--the dean or the faculty member. Dr. Infante pointed out, however, that there is a phased retirement package available which does provide considerable flexibility for units. His sense, in conversation with the deans, is that money is less of an issue for potential retirees than is retention of a relationship with the University: an office, secretarial support, etc. Some agreements have been struck along these lines with faculty members. It is unfortunate, Dr. Infante commented, that the University does not have the enormous surplus of funds, due to over-collected retirement benefits, to use to induce retirements.

One Committee member observed, however, that the incentives for the deans to offer these amenities to retiring faculty do not accord with the budget numbers that have just been presented. The California policy makes sense, it was said, which requires that services be available to retirees. A large number of faculty would very likely retire if they could continue their activities in a decent way. Dr. Infante rejoined by inquiring if the Committee REALLY wanted central administration to adopt such a policy, given the diversity of the collegiate units. He conceded, however, that the University did not see the number of retirements it expected last year, probably for a variety of reasons.

Dr. Infante then made a number of observations about the budget.

- The ICR budget is committed to the last penny; of the \$36 million, there is a projected balance of \$27.00.
- His office has reserves of \$36,000.
- One problem with these very tight budgets is finding money to do inventive things or to serve as transition funds for colleges. In the future, there will no longer be bridge FUNDING; there will be bridge LOANS.

On this last point, Mr. Erickson explained that the administration had promised that the "interest holiday" on unit balances would only be for one year, and that promise will be kept. That "holiday," however, was the source of the phasing funds for units; inasmuch as those funds will not be available, any units unable to make their cuts by July 1 will have to borrow money and repay it.

Dr. Infante was asked if there will be any "targeted" groups which will likely react sharply to the budget. He told the Committee that there are no targeted units; the administration has analyzed the closing of Waseca and the plan to close Occupational Therapy and considered whether or not other such units could be identified. They have concluded, he said, that for any units which might have been considered for elimination, this is the wrong time to take that action--especially in the context of the reorganization of higher education in the State.

The higher education reorganization and the discussions of merger have left the University with three serious problems: the metropolitan area, the area around Crookston, and Rochester, the arrangements for the last of which are not unreasonable but they are certainly strange. The University is pleased with what it did during the last session vis-a-vis merger, but has taken note of the editorial this week in the Minneapolis Star Tribune--which suggested that the University had been too quiet. It may be

time to be less quiet.

No single unit could be identified as a target for elimination, Dr. Infante continued, but certain things MUST occur in the near future.

- The higher education systems must enter into dealings with each other to deal with problems, especially in the metropolitan area. The present situation puts the University under an obligation to provide undergraduate education while, at the same time, preventing it from defining its mission more sharply.
- In the next two or three years, there will need to be active rearrangements inside the University to increase effectiveness and efficiency. There are, for example, some colleges that are too small and some units which are separated but which should not be. There is not a great deal of money to be obtained but these are issues which the University must work on steadily.
- Serious cost containment must be the order of the day. For instance, he recommended, and the President agreed, to as much of an increase for the libraries as the University can afford--but it does not begin to cover inflationary increases in library expenses. Some way to control these expenses has to be found.

Mr. Erickson observed, on the point about administrative reorganization, that they are looking at the decentralization CUFs will permit and, in the College of Education as an experiment, trying to look at quality of service and cost. There must be a strong commitment to looking at how things are being done, he said, in order to reduce costs--while retaining quality. Initial results from the Education experiment are encouraging.

The one additional question which must be addressed, Dr. Infante said, is the future of the Crookston campus. For the last several months it has been the subject of constant study and analysis; there is no doubt that the University is "at the fork in the road" on this matter. There are three options: Close the campus, do nothing, or expand it to a 4-year institution. To do nothing would result in slow strangulation; given University tuition levels vis-a-vis other two-year institutions in the area, student numbers are bound to drop--and the cost per student is already at \$8500.

Dr. Infante said he believes the President will recommend to the Board of Regents, therefore, that the campus be expanded to a four-year program--a decision which could be modified if there are changes in the higher education merger plan. This decision, in fact, could help bring about such changes. The financial numbers involved, he said, are small by comparison; the Crookston budget is \$7.2 million.

One Committee expressed doubt that the numbers would work if a general liberal arts degree program were established. (Mr. Berg had previously provided data which suggested that the changes could be supported by tuition income from the expected enrollment.) The projected number of faculty will not be sufficient, for a CLA-type degree, at the upper division levels; the proposal might work if the CLA degree is prohibited and only specialized degrees are permitted. Otherwise the changes will be a drain on University resources for two decades, it was predicted, to bring the campus up to standards in such areas as the social, biological, and physical sciences. Dr. Infante said he understood the message.

Mr. Berg also agreed; he said he remained confident about the fiscal projections, but it was outside the scope of his portfolio to evaluate whether or not the 15 new faculty would be sufficient to produce a program of acceptable quality. That is a question, he said, that must be examined by educational policy committees.

This is not the end of budget cuts to higher education in Minnesota, one Committee member observed; is there anything in the planning now occurring which will position the University to absorb additional cuts? Dr. Infante said this is a subject about which the administration has been thinking a great deal. A considerable number of other factors also affect future developments: the changed policy in funding new facilities, the repeated failure of the legislature to provide operating funds for new buildings, increased expectations and demands on higher education (such as with the HealthRight bill), the need of the urban area for increased undergraduate education, increased costs with questionable funding, and so on. The University's share of the bonding cost of the new basic medical sciences building will not be permitted to affect tuition, which means that the money will have to come from ICR funds.

It may be, it was said by one Committee member, that the University will simply have to tell the State that it cannot afford to offer services and units which the University is now subsidizing. Units have been constantly forced to slim down; it may be time to tell the State that the University cannot do all these things. Dr. Infante agreed, but noted that the University is both a research institution and a land-grant university.

Two other subjects are being gingerly explored:

- Tuition policy, because the possibility of the State decreasing the percentage of undergraduate instructional costs that it pays is an issue that will return. The University must quickly explore its own policy. In certain areas options may be presented to the Board of Regents (such as, for example, programs being required to carry their own weight, through tuition income, especially when there are counterpart units in the State with tuition much greater than the University's).
- The President has agreed that the University must quickly enter into discussions with nearby research universities (at least Wisconsin and Iowa) about certain specialized programs--and not continue doing everything ourselves. At the post-baccalaureate levels, and in research, agreements might be reached whereby some units at each institution would gradually be eliminated and where research specialties would be divided among the schools.

Mr. Erickson was asked if deferred maintenance, in the new budget, would remain deferred. He pointed out that the State did appropriate \$9.2 million (an increase of \$7.7 million) for fire/life/safety improvements--which are capital items of deferred maintenance. The increased \$3.5 million for the steam plant will also address a large deferred maintenance issue. This is not, he agreed, anywhere near the progress that NEEDS to be made. Dr. Infante said he would like to keep repeating the \$3.5 million increases each year, but with a flat budget that becomes difficult.

Dr. Infante was asked if he expected consultation would occur in the colleges; he affirmed that he

did.

The schedule of consultation, Dr. Infante told the Committee, is that it will receive a great deal of materials in the next few days--the documents that are being presented to the Board of Regents. If the Committee wishes additional detail, it will be provided, as soon as it is available. The vice presidents are only now beginning discussions with the colleges, he added. The Committee will have about a month to formulate its response to the proposed budget.

Mr. Erickson was asked if any action was being considered on the proposal to extend benefits to part-time staff, to encourage people to cut back their appointments; he said he has asked Personnel and Associate Vice President Carrier to examine it. If there are additional costs involved, he noted, it will be difficult to fund the proposal; some offset would have to be found. Dr. Infante commented that he also looked at the proposal; one problem is that the University has fewer dollars but more work to do.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota