Minutes[*]

Faculty Consultative Committee
September 2, 1991

Present: Thomas Scott (chair), Mario Bognanno, Amos Deinard, Judith Garrard, Paul Holm, Norman Kerr, Stanford Lehmberg, Burton Shapiro, James VanAlstine, Shirley Zimmerman

Guests: President Nils Hasselmo, Senior Vice President E. F. Infante

Professor Scott convened the meeting at 2:00 and turned to the President for comments.

1. Discussion of the Budget

The President began his comments by reporting on the status of the budget planning. $32 million must be cut to meet legislative actions and to set aside funds for salary increases for 1991-92 (in the event such funds are not forthcoming from the 1992 legislature, or in the event such funds are deemed by the University to be insufficient). The budget planning assumes there will be a salary increase.

The President then outlined the ways by which the $32 million in cuts might be achieved; they include changes in "treasury functions" (e.g., interest rates paid on departmental funds), elimination of 0100 subsidies from auxiliary activities, charging for space, charging indirect costs (of perhaps 15%) to programs that use resources--space, heat, electricity, janitorial services--but which do not at present pay these costs, and program cuts. In order to ensure sufficient funds for salary increases, each college and campus may be required to set aside in escrow 3% of its personnel budget; while the 3% requirement would be across-the-board for colleges and campuses, the administration would insist that within units the escrow be made on programmatic bases.

Dr. Infante emphasized again that it would be unacceptable to have salaries frozen for two years in a row. He then turned to a discussion of maintenance of the University's infrastructure (its physical/capital assets). The University, he pointed out, has been spending its capital assets for a long time; the $31 million the University receives in indirect cost recovery funds from research grants has largely been converted to direct expenditures. These expenditures have been on desirable activities, but the result has been to spend down the capital assets because they are not being maintained. As a result the University has a deferred maintenance backlog of $300 million. (He observed that if the University were to eliminate this backlog in 10 years, and commit to not falling behind again, $40 million per year would be needed for the 10 years and $25 million per year thereafter.)

This practice cannot be continued, Dr. Infante told the Committee, or the institution's buildings will be falling down in another 20 years. It will be proposed that over a long period ICR funds be freed for investment in maintenance and construction of new research facilities (in the case of the latter, to

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meet the legislative requirement that the University provide 1/3 of the construction costs of new buildings). The ICR funds being used for direct costs will have to replaced from other sources.

Even the ICR funds will not be sufficient for preservation of the capital assets. There are many categories of funds which come to the University which do not pay indirect costs (such as the State Special appropriations and privately-funded activities). All of the University vice presidents agree that this practice is no longer tenable; there must be space charges, especially for externally-funded research activities. At present, for every external dollar provided to the University, there is an additional 21 cents of expenditure which the University must absorb. There is not, however, agreement on the mechanism for imposing indirect cost charges; such a mechanism will be developed within a year.

The principle of imposing indirect cost charges on external funds will be brought to the Regents in October; the total amount involved is between $11 and $21 million annually. The biggest problem will be the State Specials, although the Foundation staff has also expressed reservations about the possibility of obtaining indirect cost funds from private donors. This problem, Dr. Infante confirmed, is unrelated to the $32 million in budget cuts that the President discussed.

This is a "big problem," Dr. Infante concluded; overall, the University is simply not putting sufficient funds into its infrastructure and must begin to do so. Up to now the University has absorbed these costs on the margin. Looking at the total operating budget (about $1 billion after subtracting the Hospital and capital construction costs), the State provides about $380 million, of which slightly over $80 million is through the State Specials. This means that the "regular" activities total about $300 million. The University has been funding about $150 million of activities "on the margin"--a huge "margin." He pointed, for another example, to the 100 endowed chairs the University has created; of those 100 individuals appointed, 30 have been brought in from the outside--and there has been no provision for funding space, janitors, and utilities for them.

Insofar as charging for space is concerned, he clarified, no measure of quality will be taken into account; the charges will be limited to heating, electricity, and janitorial expenses.

Concern was expressed by one Committee member about the impact this proposal would have on the willingness and ability of faculty members to raise funds from foundations and other private sources which have not heretofore provided indirect costs. Dr. Infante agreed that a potential problem might be created but stressed that the University cannot continue on its present path. He also noted that right now donors get a very good bargain for their investment of a dollar, because the University spends $1.21 in return.

Other general but critical issues, Dr. Infante said, are these:

-- As mentioned, there are insufficient funds to sustain University personnel, so the 3% escrow will be required.

-- There will be cost reductions in several areas.

-- There will be no tuition funds used for salary increases in State Specials, so any increases will have to come from program cuts or increased state funding (that is, 0100 funds will not be used in support of State Specials).

-- Elements of the allied health sciences will be eliminated.

-- The possibility of "revenue enhancement" in certain University units will be considered. There are units where tuition could be increased substantially without likely impact on enrollment because the demand for the programs is high; to a certain extent the "every tub on its own bottom" approach will be established, although cautiously.

-- Significant changes and cuts in Finance and Operations units are being considered which would produce in excess of the 10% promised under the Restructuring and Reallocation plan; details of these plans will need to be discussed with Senior Vice President Erickson.

Dr. Infante told the Committee that none of the budget plans include providing alternative funding for the cuts in the State Specials which will result from the Governor's vetoes; the University will depend on the legislature to "make them whole" again in 1992. If it does not, the programs will be eliminated.

The Committee discussed for a short while with Drs. Hasselmo and Infante the strategy the University should use in approaching the legislature in terms of the impact of the budget cuts, where the "end of the line" might be, and how legislators can be made to understand the wisdom of investments in the University.

It was suggested to Dr. Infante that the outcomes of all these actions need to emphasized and that all these plans are not just the attempts of accountants to shift things around. Dr. Infante agreed and said that the theme of all the actions is to produce a better, more efficient, and more effective university (although not a bigger one). All eyes must be kept on these goals, and the two primary considerations are quality and responsiveness to needs. The danger is that the University will be seen to make cuts and thereby get better; that outcome invites further cuts. He related testimony he provided to the Governor's Blue Ribbon Commission: asked how the University will address its needs and priorities in a steady-state economy, he told the Commission that it will be delighted if its share of state resources can keep up with inflation.

2. Labor Negotiations

The President reported that the University is holding to a proposal for no salary increases the first year of the biennium. The negotiators are far apart. Dr. Infante expressed thanks to Professor Bognanno for his advice on the negotiations.

3. General Discussion

Following the departure of Drs. Hasselmo and Infante, the Committee discussed the need to review grievance procedures and the judicial process. Committee members expressed considerable reluctance about opening a discussion of the tenure code and the process for removing tenured faculty in periods of budget difficulties.

The possibility of post-tenure reviews will be incorporated in the study of salaries currently being conducted.

The Committee also discussed briefly the procedures for administrative searches and staffing for the Senate and its committees.

The Committee adjourned at 4:30.

-- Gary Engstrand

University of Minnesota