

Minutes\*

**Senate Committee on Finance and Planning**  
**Tuesday, April 12, 1994**  
**3:15 - 5:00**  
**Room 238 Morrill Hall**

- Present: Irwin Rubenstein (chair), Mark Davison, Michael Hoey, Karen Karni, Gerald Klement, Fred Morrison, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Mary Sue Simmons, Dianne Van Tasell, Albert Yonas
- Regrets: Craig Kissock, Thomas Scott
- Absent: Mary Askelson, David Berg, David Dahlgren, William Gerberich, Karen Geronime, William Rudelius, Susan Torgerson
- Guests: Senior Vice President Robert Erickson
- Others: Ken Janzen (Regents' Office), Elizabeth Eull, Rob Super (Budget and Finance)

[In these minutes: The 1994-95 budget recommendations to the Regents]

Professor Rubenstein convened the meeting promptly at 3:15 and made two announcements. First, next year's chair of the Committee will be Professor Virginia Gray of Political Science (former Committee member and former faculty legislative liaison). Second, on the advice of staff, it appears that weekly meetings of the Committee may be necessary most of next year, subject to the review of the incoming chair. In addition, the timing of the preparation of the biennial request suggests that at least a couple of summer meetings of the Committee will be necessary.

Professor Rubenstein then turned to Associate Vice President Pfutzenreuter for a review of the budget recommendations made to the Board of Regents. Mr. Pfutzenreuter distributed several handouts, including copies of a set of overheads used to present the budget to the Regents to which he drew the attention of Committee members. Mr. Pfutzenreuter explained the slides to Committee members, who in turn raised questions as he went along.

- The University's Financial Fund Structure consists of two parts, (1) Current Funds and (2) Non-Current Funds (plant, endowment, and loan funds). The Current Funds (the operating budget) is 90% of the money and consists of (a) Sponsored Funds (e.g., research grants) and (b) Non-Sponsored Funds (O+M, Specials, ICR, Central Reserves, auxiliary income, sales, Hospital, and so on). There are now CUFS reports on each of these funds at the college and institutional levels.
- The Resource Allocation Guidelines adopted by the Regents in January called for: 6% salary and

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3% non-salary inflationary increases, an \$8.5 million Strategic Investment Pool (SIP), tuition increases averaging 3%, budget reductions of \$10.27 million, continuing with the 1991 Restructuring and Reallocation Plan, supporting U2000, and identification of investment priorities.

- The President's recommended Current, Non-Sponsored Funds budget totals \$1.6 billion, a 4% increase. (The Sponsored Funds--the research grants, etc.--total about \$250 million, by comparison, but the amount tends to be more volatile than the other parts of the budget.)
- The impact of the \$10.27 million in budget "adjustments" and \$3.2 million in reductions related to Restructuring and Reallocation have been in such categories as elimination of positions, cutting teaching assistants, reducing class offerings, cutting services, reducing supplies, and using "prior year carryforwards to bridge reductions." No major department or program was eliminated. O+M budget increases totalled \$25.9 million, of which \$20.3 million was in salary increases.

The Board of Regents has asked for a "body count" on the number of positions eliminated or not filled; the units are being asked to provide the information. It was suggested that it would be useful and helpful to identify the total number of people who have been cut from the budget in the last five years so that the total impact can be seen--and so it can be understood that these latest cuts come ON TOP OF five years of cuts.

There ensued a discussion of the process of the recent budget hearings with the units. Apropos the "budget challenges" issued to units, asked one Committee member, were there any changes as a result of the budget hearings? Were units able to persuade the administration that reductions should be cut, or did the administration conclude that some reductions should be increased? What was the purpose of the exercise?

In general, Mr. Pfitzenreuter reported, reductions were not reduced except where units could add to their enrollment and retain 70% of the increased tuition revenue.

What then was the purpose, it was asked again? From the point of view of the unit representatives? Who came with a sense that if they made a good case, changes would be made.

Mr. Erickson said the administration looked carefully at the impacts the units described, and there were changes in response to the issues raised. Many of the presentations, however, called for reducing "carryforwards," which makes it difficult to evaluate the impact of a reduction. In the future, as the process continues, the presentations should be more program-specific. The administration specifically asked for programmatic impact rather than cuts here and there. There is now much better information available than has been true in the past, which will permit the administration to tease out and ask better questions. The point is just being reached where improvement in the quality of information will permit the quality of the process to be improved.

No one objects to the administration learning a great deal, but the cost of the effort to the units is enormous. The time could have been spent on planning, for example.

People had a steep learning curve, even about their own units, as a result of the hearings, Mr. Erickson rejoined. People are starting to think conceptually and programmatically, rather than by object

codes, and the data bases are just becoming available to permit it. It will be important that the budget analysts work with the financial officers of each college to frame the questions. Fund accounting can obscure rather than elucidate, and information can be so fragmented that those closest to it can easily lose sight of the big picture. It is his hope that the process will lead to better information and better--and programmatic--questions.

\$10.27 million is a big number, but without meaning to sound cold or insensitive, Mr. Pfitzenreuter said, one can note that it is less than 2% of the budget and many of the cuts were on the margin. On the other hand, when 88 - 90% of some budgets are in salaries and fringe benefits, it is clear that PEOPLE will be affected. Some cuts were opportunistic, however--because a vacancy occurred, for example. Next time there needs to be more of a focus on programs. Even though the cuts were targeted this year, it is still difficult to quantify the programmatic impact.

Discussion turned for a short while to ICR funds and the health sciences; Mr. Super reported that some units receive proportionately more ICR funds than they generate. The senior officers have said that should be corrected, so \$500,000 in block grants have been returned to the Medical School and to Public Health for costs associated with generating grants. The problem has been recognized and the administration is committed to "restoring equilibrium in ICR allocations." The issues have been discussed with the Senate Research Committee, Mr. Erickson added; the point is that ICR funds have not been used for the purpose for which they are intended. O&M funds have been taken from Facilities Management and substituted with ICR funds for the support of research facilities.

This raises the question of the rationale for basic O&M allocations. ICR fund allocations can be a little clearer, and those funds can be used to cover costs that the institution has previously chosen not to recognize. It is critical, in this public environment of the University, that people feel there is equity--they may DISAGREE about decisions, but they should understand the process and rationale for decisions. If they do, they can be more supportive of the goals. It is this notion that is part of developing a better data base--so all can look at it.

Then the issue of the impact of increased enrollment was raised. Units are permitted to retain 70% of tuition revenues from enrollment increases, but those enrollment increases have effects beyond the one college. In one case, for instance, another college saw enrollment increase from about 300 to about 400 in some courses--the increase was totally unexpected and had both human and material costs. Do those units that absorb part of the load receive increased funding as well? At present, Mr. Pfitzenreuter answered, the unit that engendered the increased enrollment receives the funds, even though other units may also teach those students. This does need to be examined, he agreed, and could be a hurdle to Responsibility Centered Management.

As for the more general question about the future of the policy of permitting units to retain 70% of the income generated, that is likely to be expanded in the future, Mr. Erickson said in response to a question. The 30% retained by the administration is in recognition that there are central costs, but there are problems--such as the one identified--that must be addressed. The hearings also improved substantially central administrative understanding of enrollment issues, Mr. Pfitzenreuter added, something about which it did not have the best knowledge. That, in turn, will permit it to make better revenue forecasts.

- The SIP was set at \$8.5 million; there were over \$70 million in requests. The vast majority were superb; it was a shame that more of them could not be funded. Most of the requests involved either student services or educational infrastructure items. The proposed allocation of SIP funds to the five U2000 goals were reviewed, as were the specific items that were funded.

The SIP proposals funded under the user-friendliness goal, commented one Committee member, raise the question of who the users are. There are a number of items, such as tape drive replacements, positions in payroll, and financial policy development, that are in service of administrative functions in Morrill Hall. There are few items that will have an effect on faculty and students, it was said.

Messrs. Erickson and Pfitzenreuter demurred. The tape drive replacement, for example, is essential to the support of student systems and to keeping the place working. User-friendliness was defined very broadly. In terms of funds for facilities, Mr. Erickson said, it is to be hoped that everyone will see the positive benefits of a cleaner and safer environment.

That is the administration's view, it was rejoined, a position that faculty can take exception to. If one were to ask undergraduate students, or those who must teach in Folwell Hall, what difference these make, the answer would be different. There is no argument about facilities, it was said; that is preaching to the choir. But there is an implicit order of priorities about user-friendliness reflected in these allocations, and the funding of those projects given priority will not be apparent to faculty and students. Were faculty and students making the choice, the money would be used for improvement of classrooms and automation of registration.

Another Committee member concurred, saying that these expenditures did not accord with expectations about what constitutes user-friendliness. Replacing tape drives does not enhance the University and should not be funded from the SIP--that should be in the O&M budget as normal business--and should not be an item against which programs should have to compete or retrench. This is not what people were dreaming of for user-friendliness or the SIP.

The funds to do these projects must come from somewhere, pointed out another Committee member, which is why retrenchment is needed. It is nonetheless hard to conceive of these as appropriate for the SIP and user-friendliness, it was answered--they are essential, but not for user-friendliness. Every person at this University should be the subject of user-friendliness, it was rejoined--students, faculty, staff, and even administrators! This University is not user-friendly to administrators in many ways, and some of these projects address that situation.

Another question, it was said, was whether to take the funds off the top, in order to pay for them, or to let them compete with programs; the administration opted for the latter. Some of the projects that do not appear to be "user-friendly" as Committee members might define that concept, Mr. Pfitzenreuter reported, were also not funded at the full amount requested.

- As the SIP continues over the next several years, units will ask where they stand in terms of what was funded. The ideas for the SIP should come from the faculty and departments through the colleges; it will be helpful to be able to identify the source of the ideas that are funded, to note the trail, for morale purposes. If people can see that planning is preceding budgeting, and that their

ideas were funded by the SIP, that will be a means to tap and reward faculty and staff ingenuity.

- Mr. Pfutzenreuter reviewed the status of the Restructuring and Reallocation plan and the tuition rate increases by collegiate unit. The projected overall tuition revenue increase is 4.2%, or \$8.7 million. Of that, \$2.4 million would come from enrollment increases and \$6.3 million from rate increases. The 4.2% increase is the President's recommendation to the Board of Regents; they will act on it at their May meeting. All of the rate increases reflect discussions with the units; some of the requested increases were higher than what was approved.
- Inasmuch as the agreement with the legislature is that any tuition increase above 3% will be used for quality improvements, a list of initiatives has been prepared; it constituted one of the overheads Mr. Pfutzenreuter presented. The proposals total nearly \$2.4 million; the additional 1.2% in tuition (4.2% minus 3%) would generate \$1.6 million, so the total cost of the projects that have been identified for this category already exceeds the available revenue, although it is the intent that they all be funded if the 4.2% increase is approved.

One Committee member expressed reservations about a couple of the quality initiatives, inquiring how they are related to the student experience. There was discussion of the items.

- Alternative (but revenue neutral) tuition options were also outlined, such as imposing a registration fee or changing the free credit band. Regent Keffeler has suggested those proposals be heard at a later time.
- Mr. Pfutzenreuter then presented a summary table of revenues and expenditures. He noted that the balance carried forward will be about \$2.9 million, significantly more than originally predicted, largely because tuition revenue forecasts this year were very conservative. There is a contingency fund of \$7.8 million (usually about \$4 million); the increased amount is to for the adjustments required because of the A21 changes (ICR regulations) and unexpectedly high legal costs.

Asked why the Department of Surgery did not pay the ALG legal expenses, Mr. Erickson explained that Surgery has no funds left. He explained that many changes had occurred very quickly, including a drop in practice plan income, the loss of ALG income, and the depletion of balances in order to continue to support activities that had previously been funded from the ALG income. The Medical School received \$80 million over 20 years from ALG, but now the rest of the University must pick up the costs, asked one Committee member? Would other units be treated the same if they told the administration they were broke? The University has spent several million on legal fees, Mr. Erickson said, and the only other source of funds is the Central Reserves, which are perilously low.

- Mr. Pfutzenreuter then touched briefly on other elements of the budget recommendations, including the student fees, an increase in the Crookston Technology fee from \$235 to \$250 per quarter, the new IT \$50-per-quarter computing fee, and the guaranteed tuition plan.
- The problem of a "structural budget imbalance" was then explained to the Committee. This is a problem the visibility of which the administration wishes to increase. Such an imbalance occurs when a unit's ongoing expenditures outstrip its ongoing revenues and the unit relies on balances

carried forward to cover the "imbalance" between revenues and expenditures. In the budget hearings, it became apparent that a number of units were using cash balances to offset the revenue reductions; this is an alarming trend, Mr. Pfitzenreuter observed, and the balances are being rapidly depleted. It was emphasized, in the hearings, that balances should be used for one-time expenditures. Asked how often audits occur, Mr. Pfitzenreuter explained that CUFS reports can now identify the problems quickly; part of the problem has been that one could not keep track of these deficits without a very good shadow system. In the Medical School, expenditures have exceeded revenues by \$15 million and balances are way down. There isn't a deficit yet, but the gap between expenditures and revenues has increased. The Medical School is addressing the situation.

One Committee member expressed irritation at the situation in the Medical School. The source of continuing scandals, it was pointed, the result has been that it has its own independent Board of Governors, a separate provost for academic programs. When it has legal problems, the rest of the University pays. There is now a \$15 million structural problem the University must fix; there are also SIP funds proposed for the provost's staff. This is not comprehensible; "no bad deed goes unrewarded."

Mr. Erickson pointed out that the Hospital has been VERY responsible in dealing with financial difficulties, and has cut \$40 million from its budget; it has stabilized its share of the market. He again pointed out that the University needs to consider how it makes allocations. The University has a lot of expensive programs and it must go to the legislature to ask what is wanted of the University--how many doctors/dentists/lawyers does the state want? There needs to be discussion about the baseline allocations and the percent of a unit's budget that is supported institutionally, the percent that will come from tuition, and so on. This is a charged environment, Mr. Erickson conceded, and there has not been enough discussion of why things are as they are, and the result has been some animosity. The frustration is understandable, he concluded, and the administration is gathering information and wants discussion and debate.

Many at the University have benefited from the Medical School, observed another Committee member. A more subtle point is that the Medical School has few graduate students, yet for all the years that faculty fringe benefits were higher because of graduate student coverage, the Medical School was putting a lot of money into graduate education because the rates were high but their graduate student population was low. The University benefited from that, and the long-term health of the Medical School is important to the University and the state.

In addition, added another Committee member, many at the Medical School who are not involved in the scandals are just as disgusted as the rest of the University. They have been hurt, the private practice plans have been hurt, and their ability to work with private industry has been hurt. The scrutiny should be of those involved in the scandals. That may be true, it was pointed out in response, but a number of people had the opportunity to act but did not do so.

The point that must be reached, said another Committee member, is one where a problem in ANY unit will not be paid for by the rest of the University. How, as a management matter, one gets to that point is not clear. That is one reason why one ought to know the basis for the allocations, Mr. Erickson repeated. There may have been logic to the allocations in the distant past (a proposition several Committee members expressed amused doubt), but there appears not to be any now.

They have been incremental for a long time and need to be examined. There is also the communication issue with the state, Mr. Erickson averred. The University lets itself be defined by averages, and it loses big when it is compared with the State University System and the Community Colleges. This is a matter that goes beyond the Medical School--the libraries, for example are a major service for the state. It is estimated that 1/3 of the library usage is non-University, at a cost of about \$12 million; in return, the University receives \$2 million for Minitex, which means the University is providing a \$10 million service to the state. In research, the University must communicate the fact that it is bringing in a lot of revenues that the state would not have without the University. When one also considers spin-off ventures from University research, there is overall a cogent story to be told. The University "gets killed on averages."

- Mr. Pfitzenreuter then outlined the next steps in the budget process. If the legislature appropriates any of the supplemental funds the University has requested, some of the numbers may need to be re-opened.
- The Committee discussed the development of a "deficiency process" to deal with the problems created by the A21 changes. This involves not only identifying ways to assist units affected by the changes but also the possibility of increasing the University's ICR rate.
- Asked what the priorities for spending the \$16.5 million supplemental request would, were the funds appropriated, Mr. Erickson pointed out that the priorities are contained in the request itself. A brief report on the status of the request was also made.

One Committee member inquired if endowment funds show up in the budgets or if there are funds available to departments that are not shown in the data. Foundation endowment funds are not included; the income from those funds only appear when they are transferred to the unit. The goal is to incorporate those funds in the budget so that all the resources available to a unit are known when decisions are made. The status of including endowment and other fund income in the budgets was discussed.

A request was made for data, by unit, about (1) the savings that accrued to colleges because of a decline in the fringe benefit rate, and (2) the increases in those rates that will follow from the proposed salary increases in 1994-95. The savings and increased costs across the University may balance, but one can doubt that they balanced in each unit.

Professor Rubenstein adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota