Minutes*

Senate Committee on Finance and Planning
Tuesday, November 30, 1993
3:15 - 5:00
Room 238 Morrill Hall

Present: Irwin Rubenstein (chair), David Berg, David Dahlgren, Mark Davison, Michael Hoey, Karen Karni, Craig Kissock, Gerald Klement, Fred Morrison, Roger Paschke, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott, Mary Sue Simmons, Susan Torgerson, Dianne Van Tasell, Albert Yonas

Regrets: Mary Askelson, William Gerberich

Absent: Karen Geronime

Guests: Senior Vice President Robert Erickson

Others: Ken Janzen (Regents' Office)

[In these minutes: Budget principles and data; strategic planning documents]

1. Update on the Budget and Budget Principles

Professor Rubenstein convened the meeting at 3:15 and noted that Mr. Pfutzenreuter would report again on the status of the budget and the development of the budget principles--a "work in progress" report. One Committee member observed that one of the budget principles, presumably, will be that the University receives half of the projected State revenue surplus. After the chuckles subsided, Professor Rubenstein commended Mr. Pfutzenreuter for providing information and involving the Committee in these early stages of budget development.

Mr. Pfutzenreuter distributed revised estimates of resources and expenditures for the current year and of possible tuition and salary increase amounts; he also handed out a draft set of Resource Allocation Guidelines (budget principles) that the Regents would receive for information in December and act on in January. He reviewed again the numbers with the Committee. With the predicted State surplus, he said, the University is not anticipating any cuts in the proposed appropriation. The projected unobligated balance on June 30, 1994, is expected to be $7.3 million.

He then presented the revised numbers for tuition and salary increases, as follows:

3% Tuition Rate Increase	5.1 million
5% Tuition Rate Increase	8.5 million

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4% Salary Funded Costs	13.3 million
6% Salary Funded Costs	21.6 million
Strategic Investment Pool	(no amount identified)

The salary amounts do not include fringe benefits. When the fringe benefit rate dropped, the savings were left in the colleges with the instruction to save the money to use as the rates increase in the future. Meantime, pointed out one Committee member, fringe benefit rates for graduate students went up a great deal. The college balances, however, are unrelated to this latter change.

There has been no final decision on the salary increase. Agreements have been reached with AFSCME and the Teamsters; there are other union contracts to be negotiated as well as decisions about P&A, civil service, and academic employees. There is also a question of timing, Mr. Erickson commented. Mr. Pfutzenreuter explained that if there were to be a 6% increase, for example, should all 6% be delivered on July 1, or should 4% be awarded July 1 and an additional 2% on January 1, 1995? The latter is less expensive (it saves $3 million) and it also affects how fast units would have to retrench if the salary increase funds were not fully funded centrally. One needs to look carefully at the funds likely to be available (i.e., $7.3 + 5.1 or $7.3 + 8.5 million) and the demands to be made on them (e.g., salaries), Mr. Pfutzenreuter cautioned.

Mr. Erickson was asked about the timing of the decision making. The process is moving along, he said, and it is assumed that the Board of Regents will want recommendations on tuition and compensation increases at their January meeting. The administration is trying to develop those recommendations.

There should be consultation with this Committee on the numbers before they go the Regents for final action, it was said. It will be important to have an early decision; the current language of the draft budget principles calls for the maximum salary increases possible and minimal tuition increases, a juxtaposition that leads nowhere. The delay cannot be too long; in January units will receive budget targets and must begin planning for 1994-95. They must have salary information, especially if part of any increases will be unfunded, for the planning to be meaningful.

Another general problem about the timing of salary increases, it was said, is that non-AFSCME civil service staff and AFSCME members are mixed together in units that make little organizational sense. It would be a mistake to provide progression or step increases to AFSCME members and not to the non-AFSCME civil service staff. The distinction between the groups is not understood; to withhold increases for one group but not the other when the two groups are very similar would be seen as irrational and would lead to problems. This is ONLY a problem with respect to the civil service staff, but it is something the administration should think about.

Also a timing issue is the faculty reaction. If the University delivers 4% on July 1 and 2% on January 1, it should not be advertised as a 6% increase. Faculty members will understand they are getting 5%--that 2% for half a year is 1%. Delivering the increase in two parts may make sense--it will build the base--but it will not make friends. The faculty are intelligent enough to realize that it will be using "smoke and mirrors" to say that 4 + 2 is a 6% raise. The administration, if chooses to split the increase during the year, must be candid about why it is doing so and should not say it is providing 6%. The alternative to splitting the raise into two parts, one Committee member observed, is program cuts, which will not make the administration any friends, either. Mr. Erickson said the options are only now being considered and this discussion is important. The caution, it was said, is that a lot of faculty are skeptical about the candor of central administration so it would be unwise to claim a 6% raise is being delivered if the final decision is to split the increase into two parts.

Another issue to be considered, it was said, is that if raises are delivered in two parts, would one part be automatic? Or would the units be required to go through two rounds of "painful evaluation"?

One Committee member then noted a discrepancy between the strategic planning documents (which speak only of the need to increase faculty salaries) and the budget documents presented today (which speak to the more general question of salary increases for all University employees). There needs to be an integration of the two, it was said.

Asked about the projections for tuition income for the current year, Mr. Pfutzenreuter said he was "cautiously optimistic" that they will be correct. But, he reminded the Committee, the administration was "cautiously optimistic" last year at this time, too--and there turned out to be a several-million-dollar shortfall. While that is not likely to recur, one will be able to be more definite after the Winter Quarter figures are known.

The language of one paragraph of the draft document for the Board of Regents, said one Committee member, implies that salary increase funds will be awarded across the board--that there will be no differentiation among units. Mr. Erickson pointed out that some union negotiations are now occurring, although the process is moving along as expected. There are questions remaining and the administration will gather the best information it can over the next few months. While the state's financial situation has improved recently, the March revenue forecast may not be quite as rosy. The general dimensions of the financial picture are, however, becoming known.

One difficulty, Mr. Erickson told the Committee, is identifying the amounts that should be allocated for strategic planning initiatives and to U2000 for major issues (e.g., user-friendliness and information technology). An effort is being made to quantify the needs in these areas. The clear intent of the Board of Regents, however, is that the adoption of the Resource Allocation Guidelines be a meaningful guide to budgeting.

Will there be a correlation between the raises awarded to union employees and to the faculty? Mr. Erickson explained that this has been an unusual year, with a salary freeze called for by the state but then recognition that step increases would still be awarded to union employees. The intent of the Board of Regents is that in the future the University will set its own salary policy, even though this year the state pattern was followed.

Asked if there are any identified ranges for the Strategic Investment Pool, Mr. Pfutzenreuter drew the attention of Committee members to a list of the kinds of things that could be funded. They all fall under one or more of the five strategic directions in U2000, noted one Committee member. Few of the examples, said another, represent funds to academic departments; much of the money would go to support units.

As for an amount for 1994-95, Mr. Pfutzenreuter said it has to be put in the context of the strategic planning financial document. When provided estimates of resources, the Board of Regents also asked for expenditure data; they are included in the information handed out today. But the figures for 1994-95 and for later years will need to mesh; how much money from a Strategic Investment Pool that should go to any one item in any one year is an open question. That question may begin to be addressed by the Board of Regents in January.

The numbers presented, said one Committee member, suggest there will be roughly $16 - 20 million in additional funds--from state appropriations, tuition increases, and assuming that some additional income might be found somewhere. That money must fund three things: salary increases, strategic planning, and restoration of the central reserves. The projected salary increase costs range from $13 to 20 million. Where will money for the other needs come from? That will depend in part on how much "the rest" has to be. But these are NOT optimistic numbers, it was concluded. Mr. Erickson responded that they are a lot better than they would have been with a 1% rescission; Mr. Pfutzenreuter said he was just glad the $7.3 million was a positive number rather than a deficit.

Nevertheless, it was said, that balance of $7.3 million plus revenue from a 5% tuition increase only funds about a 4% salary increase--leaving no money for strategic planning or the central reserves. That assumes, Mr. Erickson pointed out, that salary increases are fully funded. If not, it was said, then there will be an implicit retrenchment--and units will need to know that.

Professor Rubenstein said it was his sense, given that there had been no contrary comment, that the Committee supported the concept of the Strategic Investment Pool. One Committee member said it was similar to the Committee's view of U2000: as a concept? Yes. Would the Committee support an X% operating unit budget reduction to fund it? The answer might then be different. That is the point at which consultation with this Committee would be required.

Asked when a decision about the Strategic Investment Pool will be made, Mr. Pfutzenreuter said it would have to be by the middle of January, when the numbers are to be delivered to the units and decision-making begins. This Committee, Professor Rubenstein, is scheduled to meet three times before that time so it should have ample opportunity to consult on the decisions.

Another Committee member again inquired if faculty salary increases would parallel those awarded to the unions. There is a slight advantage to a split increase because the second builds on a slightly larger base. Professor Rubenstein pointed out that traditionally the discussion of the precise salary increases is a matter that the Committee on Faculty Affairs deals with, not this Committee. It was also noted that a task force on compensation is being established, with Professor Bognanno as chair, but it is likely that will be a policy group that will issue its report later in the year rather than one directed to making specific recommendations for salary increases in 1994-95. Compensation is an important topic, Mr. Erickson said, because it is his sense that the University has not paid a lot of attention to why things are they way they are.

One Committee member, contemplating the draft statement on resource allocation for the Regents, suggested that the FIRST item listed should be maximization of salaries (it was second in the draft), the second item should be minimization of tuition increases (it was fourth in the draft), and the others appropriately re-ordered, in order to more appropriately express institutional priorities. That view appeared to have the support of the Committee.

Asked if the student members of the Committee supported this re-ordering, a question was asked about the meaning of the order. Would tuition be held down ONLY if that could be accomplished after salary increases were awarded? The proposed re-ordering is only intended to provide a flavor of the intent; nothing would be cast in stone. Even though one can say that all of the items in the list are of equal importance, people will naturally attribute more importance to the first and second item.

One Committee member again asked whether certain language in the draft ("The salary and benefit principle will apply to all programs and activities of the University regardless of fund source") means that the percentage increase in salary will be the same for all classes of employees. Mr. Erickson said it did not; the language means that salary increases will be awarded in accord with the increase guidelines irrespective of the source of the salary funds. One can take from the discussion a sense that academic salary increases will be driven by the increases negotiated with the unions--and a sense that the academic increases will certainly be no LOWER than the union settlements. What is the probability, it was asked, that if funds were available, academic salary increases would be GREATER than the union increases?

Mr. Erickson noted again that this biennium has been unusual because the University followed state policy of granting no increases. It is critically important, though, that the University look at the competitive markets for everyone. This is a very diverse institution, he observed, and the data reveal that some areas compare well with their market while others do not. Decisions have been made to correct those discrepancies; for example, two years ago Morris faculty were awarded a larger salary increase because they were too low in comparison with peers. Granting salary increases across the board will cause distortions--at the high end of the scale, it is attractive; at the low end, it could worsen the competitive position of a unit.

So, it was said, one can conclude that the salary increases negotiated will NOT constrain the amounts for other employees. Mr. Erickson responded that there are more constraints on salary policy than he thinks are wise. His personal feeling, he said, is that one must look at market conditions for various groups of employees.

One Committee member said he had been involved in these discussions for about eight biennia--and every finance vice president has described each biennium as "unusual." They are all idiosyncratic. One can agree that market comparisons should be considered. If so, however, the proposed language ("the salary and benefit principle will apply to all programs and activities of the University regardless of fund source") may not make sense. If the market dictates different salary levels for those on O+M funds and those on other funds, should not those differences also be driven by the market?

This language has been used in these resolutions for a decade or more, cautioned one Committee member. It was originally included because of a concern on the part of the auditors that units with substantial federal funding would follow different salary policies than those funded by O+M resources. It's actually a matter of LAW, however, that they cannot follow different policy.

One Committee member cautioned that relying on market pressures could run contrary to the philosophy of rewarding units for achieving efficiencies or increasing quality. If English, for example, makes substantial gains, it should be rewarded--but if the market for English faculty is soft, and market principles are used, there would be no reward.

Mr. Erickson replied that no single measure should be used. Historically, however, the University has not looked at the market; he believes it should play a somewhat larger role. The whole issue of compensation needs discussion, he repeated, so that some understandings can be reached. This University will always be decentralized, he argued, and could not function unless it is (with the exception of the need for oversight). But decentralized operation requires that there be common understandings, of which compensation is an important piece.

In addition, it was said, if the system is to reward units that are already lean and mean and of high quality, they should be rewarded per se. Why would they need to re-apply for support if they have already done what is right over the past several years? Units should not have to APPLY; the funds should be PROVIDED to those that are good. Mr. Erickson responded that to the extent goals are accomplished, that should be a factor in the resource allocation process. "Good" units applying for funds, maintained another Committee member, will probably have a leg up in applying for funds anyway, just as an individual of high reputation will have an advantage in applying for grant funds.

It was then suggested that the diagram Mr. Pfutzenreuter had prepared describing the budget process should be clarified so that units understand they will be applying for Strategic Investment Pool funds and that their applications must show the link between their plans and the University's goals. These would be the "flexible" funds available for improvements. Clarifying the nature of the process would make it clear to units where they obtain money for planning initiatives and how they enter the planning process. Presumably those funds will be there every year, it was said, rather than available episodically, so the University would gradually be turned toward implementation of the five strategic directions.

Mr. Pfutzenreuter was asked by one Committee member to provide information on how the money allocated for system-wide initiatives, under the 1991 Restructuring and Reallocation plan, were spent. Was it on the initiatives that were outlined? What happened? That information might provide a clue about what might become of any Strategic Investment Pool expenditures. Mr. Pfutzenreuter agreed to provide the information to the Committee.

2. Planning Documents

Professor Rubenstein then drew the attention of Committee members to the final revisions of the planning documents.

One Committee member began by commenting on the earlier observation about the discrepancy between the planning documents and the draft language for the Regents on resource allocation. The planning documents should be University-centered, not faculty-centered, because students and staff are as much a part of the University as the faculty. It is to hoped the planning process reflects that fact.

A question was raised about the language dealing with applied and practitioner-oriented post-baccalaureate degrees. What about those who want an M.A. in English? These documents do not recognize that there is a demand for post-baccalaureate liberal arts degrees. The issue has not been widely discussed, said one Committee member, and it was pointed out that the documents are not supposed to solve all the University's problems for the next decade. Rather, they set certain strategic directions. In terms of graduate and professional education, one area that has raised a lot of questions is in the applied/practitioner-oriented degrees. It was agreed that these questions do need to be put on the agenda at some point.

Another member of the Committee reported that a colleague had described the practitioner-oriented undergraduate degrees being offered jointly with the community colleges represents another manifestation of the "legendary University lack of focus" and going off in new directions. How does one reply to that charge? Is that saying, it was then asked, that it is inappropriate for the University to offer these degrees?

There may be some truth to the allegation, responded one Committee member--but it will untrue if, in turn, the University DOES get rid of other things. It must add things and get rid of things. And it cannot be frozen in doing things the way it always has--this is a cooperative model involving selective use of funds with other institutions to fulfill public needs that it makes sense for the University to help with.

Another Committee member related having heard the same charges and that rather than differentiating the University, it makes it indistinguishable from the community colleges--and that the ultimate result could be to make the University the nation's largest community college. He doesn't AGREE with that view, but it does appear that the University is adding to the range of things it does without abbreviating any other ranges of activity.

This is not an altogether easy subject to deal with, observed one member of the Committee. If one considers demand and the availability of resources at the University for programs, then the question is whether the state should build the capacity elsewhere or make the best use of University resources. Is collaboration a more efficient way to deal with demand? The University cannot be insulated from the educational marketplace, especially in the Twin Cities, given the scarcity of resources for higher education. If there is a demand that the University can help meet in collaboration with the community colleges, and doing so is an effective use of the University's resources, then it avoids duplication of effort elsewhere in the system.

But at the same time it is proposed to expand Metropolitan State University, it was exclaimed. Their interest, responded one Committee member, is in more traditional liberal arts education--or so they have said. Those are the programs the University already offers, it was pointed out. So the state will build another baccalaureate degree-granting institution to do what the University already does--in order to avoid building a facility to do what the University does NOT now do! In the case of the traditional liberal arts, it was then said, the University could also decide to expand its funding for those programs.

This discussion, said one Committee member, begins to explain how the University got to where it is. If there are resources out there, the University goes after them--it has been driven by the market. It has not been the case that the University has its money and decides on its priorities for spending it. This has meant the core has degenerated. "Focussing" does not necessarily mean the University will not do anything new, it was pointed out by another Committee member.

If the University is going to chase money, why not do it for the core rather than see another institution built to duplicate the core? The possible attitudes of the legislature may be one factor, said a Committee member. If so, it was rejoined, it puts the state in the position of building another very expensive system.

This is a research university, reminded one Committee member, and the costs and programs of the two institutions [the University-Twin Cities and Metropolitan State] would be very different. Much of what has been wrong with the University is that it has tried to fill both roles. And if the University had not tried to do so for the last 40 years, added another, one can speculate that Metropolitan State would have been built up much earlier. The University, however, chose to absorb all those undergraduates.

"Choosing" is rarely the right term, observed another Committee member. It has "chosen" not to offer associate degrees; it might choose not to be the only provider of liberal arts degrees in the Twin Cities, at least at the upper division level--and that's not a choice that every institution might make. It might be more fiscally advantageous to recruit students who are not fully qualified to attend the University--on the basis of the philosophy that funds follow students. The University managed to get away from that philosophy under Commitment to Focus; it's hard to know if that philosophy will again begin to guide funding. Allowing Metropolitan State to absorb a lot of undergraduates could in the long run mean the University will lose money--although the University will continue to argue that what it offers is very different.

In terms of the quality of the student body, it was observed, the University will be selective in the admission of freshmen and perhaps sophomores--but to reach the targeted undergraduate enrollment figures, it will have to admit transfer students who did NOT come from the top 25% of the high school class. As a result, upper division students will not be as talented. Transfer students at present move through faster, observed one Committee member. Another pointed out that they also typically do better, although that does not respond to the doubts.

And does having students here only their last two years create any loyalty to the institution? it was asked. Several other Committee members chimed in to say that it does.

There are two aspects lacking in the documents that have been provided to the Committee, observed one individual. In addition, there remains much concern about the clusters and about University College, but the Committee has tried to help clarify those issues. The two things that are lacking are (1) a mechanism or strategy for the involvement of faculty, staff, and students in the process has not been laid out. That will be vital; unless the energy and enthusiasm of those people are elicited, nothing will happen. The second lack is inclusion of faculty, staff, and students in the evaluation process. When plans are submitted for funding from the Strategic Investment Pool, who will decide which ones are best? There should be a budget committee--not this one--the membership of which is broader than the top administration that can advise the President on which plans represent the best application of funds to achieve the strategic directions.

In terms of the first, inquired one Committee member, what should be said to generate that enthusiasm and participation? What directions need to be given to colleges and clusters? One way, it was said, would be to have a deans retreat with a person who knows the next steps and how to involve groups of people in putting together action plans. Deans could be trained on how to do this. If something like this were to be done, it should be done soon. Some kind of uniform plans need to be elicited, although the procedures used to do so need not be uniform.

If the faculty "own" the institution, observed another, the process need not be structured through the deans. What is needed is a culture that says faculty and staff and students will be rewarded and ownership encouraged. If given the opportunity to "own" the process and outcomes, they will respond.

Professor Rubenstein adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota