Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 10, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Irwin Rubenstein (chair), David Berg, David Dahlgren, Mark Davison, William Gerberich, Karen Karni, Craig Kissock, Gerald Klement, Richard Pfutzenreuter, Doris Rubenstein, Mary Sue Simmons, Dianne Van Tasell

Regrets: Michael Hoey, Fred Morrison, Thomas Scott, Albert Yonas

Absent: Mary Askelson, Roger Paschke, William Rudelius, Susan Torgerson

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

Others: none

[In these minutes: The 1994-95 budget and related issues]

1. The 1994-95 Budget

Professor Rubenstein convened the meeting at 3:15 and welcomed Senior Vice Presidents Erickson and Infante to discuss the status of the 1994-95 budget and the possible impact of the Governor's veto of the $9.1 million appropriation. He distributed a one-page excerpt from the materials sent to the Board of Regents, which outlined cuts that would be made were tuition increases to be held to 3% rather than the average of 4.2% recommended by the administration.

Dr. Infante began by noting that the budget contains $7 million identified for contingencies. Normally that figure is about $4 million, but $2 million was added for increased A21 costs (changes in the ICR regulations) and $1 million was added for legal fees associated with ALG. There WILL be unexpected demands, he noted, and some are already known: indigent care costs (for Dental School patients), the Cancer Center, and the Cancer Detection Center. In each instance, there are compelling reasons why the University should bear the costs that will not be funded as a result of the Governor's veto. Committee members discussed these items with Dr. Infante for some while; when he was asked how the University backs into commitments without funds, both he and Senior Vice President Erickson explained the circumstances that surrounded each of the three items.

The question, then, is how to cover these expenses; will part of the $4 million for contingencies be used to obtain a year's grace period? If the University chooses to cover them, Dr. Infante said; the case of indigent care costs in the Dental School need to be considered very carefully. There is also the question

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of University responsibility for those patients, added another Committee member.

Asked if there were other parts of the vetoed $9.1 million that might require support, Dr. Infante said there were. Those possibilities include the costs of establishing the direct-lending program at UMD (which would be one-time costs of $150,000, and the entire amount may not be needed all at once), funds for planning the replacement of the student computing system by 1996 (the existing system will not work after the year 2000 because it works on a two-digit code for years and won't work with 00), and distance education (which for many colleges is such a high priority that they will try to find money anywhere they can to fund it). On the last point, the University is in desperate need of classrooms that can be used for distance education; right now there are none available on the St. Paul campus and only a handful on the Minneapolis campus.

Dr. Infante next discussed the Strategic Investment Pool proposals. If there is a reduction in tuition, then he believes there should also be a reduction in SIP funds. It is his sense, he said, that members of the Board of Regents are more concerned about increases in undergraduate tuition than in graduate and professional education. The administration, however, has prepared a list--distributed to the Committee at the beginning of the meeting--that outlined the cuts that would be made were the tuition increased reduced to 3%. These are not "Washington Monument" reductions, he told the Committee, and developing the list was a painful exercise. The reductions are not solely in areas where undergraduate tuition income would have been directed, but they do not include reductions in professional school programs (the tuition for which would be raised to fund the programs; it did not seem appropriate to cut their program proposals but not cut their tuition as well).

Committee members discussed at length with Dr. Infante several of the items proposed for reduction. At Duluth and Morris, the reductions would be less than the actual loss of income, to cushion the impact. The two research activities (Bio Technology Institute and Center for Industrial Math) would lose all proposed funding, but Dr. Infante said he believed--hoped--these would in effect only be delays for one year rather than a permanent reduction in funding. Both now or in the future would bring substantial federal funds (although these funds would not be multiplied by external resources as much as would the funds for the Cancer Center). The $40,000 reduction in advising funds for CLA, he said in response to a question, was the last piece he took; it and the St. Paul campus student service relocation funds--both of which would have a profound impact on students. Dr. Infante also identified a number of projects funded by the SIP that, left to his own devices, he would have cut considerably; legal requirements or other compelling institutional needs, however, prevent such cuts.

The four things that bother him most about these possible reductions, Dr. Infante said, are the CLA cut for advisors--especially when the SIP amount approved for CLA was only 1/3 of their original request--the St. Paul relocation funds for student services, and the two research centers.

He also told the Committee that he was upset with the Governor's veto. One Committee member, however, expressed appreciation for the organization of the budgets this year and the apparent support in the legislature for the University's proposal. The University is not necessarily derailed from its plans, as it has been in previous years. Dr. Infante concurred, recalling that he had expected a less positive reaction from the legislature, but it accepted as reasonable the case the University made and tried to help. If nothing else, the ground has been prepared for the 1995-97 biennial request. A major problem that remains is for the University to distinguish itself from the other institutions in the state; it is, as Mr.

Erickson points out, "always killed by averages." It costs a lot to educate pharmacists and dentists and the University will NOT be average. While it appeared that legislators liked specific items in the request that they could understand, the University must also guard the central academic values and programs of the institution. But, he cautioned, there will not be much additional funding in the future.

One other issue to be raised, the two Senior Vice Presidents explained, is the possible establishment of a biennial request advisory committee, with representatives from the governance system, especially since the schedule now requires that the request be presented to the Board of Regents for information in September and for action in October. This is the idea of the Joint Big Decision Committee, Professor Rubenstein noted; he expressed the hope that the administration would have a more specific proposal ready for the next meeting, because this Committee as well as FCC should look at it.

The Committee then discussed the implications of a reduction in funding for Computing and Information Systems (fewer staff members to assist with computing problems) and the technical issues surrounding the possible reduction in the tuition increase. It was noted that the additional income from the difference between a 3% increase and an average 4.2% increase ($1.6 million) would be targeted to quality improvements for students; even if the reduction were to be adopted by the Board of Regents, the cuts that were proposed are NOT all in quality improvements, so students would not directly bear the brunt of the cuts.

Professor Rubenstein thanked Dr. Infante for joining the meeting. Dr. Infante expressed hope that none of these cuts would be necessary.

A question was also raised about funding for the office of the Provost for the Health Sciences (which would be reduced if the cuts are made). Mr. Erickson pointed out that the majority of the SIP funds are recurring. The difficulty the administration faced with a number of the SIP recommendations is that there was no other source of funds to deal with basic problems; as a result, some of the SIP funds have been recommended for items that cannot be directly related to a particular strategic goal. The administration tried to keep these kinds of items to a minimum, and there are a few about which reasonable people could disagree. He would argue that some of them are critically important for the University.

The Committee then voted unanimously to support the administration's recommendation for an average 4.2% tuition increase, recognizing that revenues from any increase in excess of 3% must be directed to quality improvements.

There then followed brief discussion of a concern of several Committee members about the high percentage of SIP recommendations that are personnel or payroll issues rather than directly for other kinds of improvements "in the trenches." Some pointed out that a number of the personnel items will be for activities which directly affect students in a very positive way. One Committee member expressed regret that so many of the SIP funds were being directed to "finger in the dike" kinds of emergency expenditures the University needs in order to keep back the flood, thus making it seem that improvements are not occurring. The Committee deliberated whether or not to make a statement on the issue and finally concluded it would not. One Committee member urged that the long-term perspective be retained; the administration has said the SIP will recur and it will be necessary to watch over the next several years to see if it leads to the kinds of improvements that are expected.

Associate Vice President Pfutzenreuter then reviewed with the Committee the docket materials that have been sent to the Regents concerning the budget. One item that will be of considerable concern, he reported, is the "structural imbalances" in the budgets of a number of units, especially the Medical School and Facilities Management. He promised to provide to the Committee the information on unit balances.

Now that information about "carryforwards" is part of the budget information provided by each unit, and the extent to which balances are used for operating expenses is known, is it possible that units will react differently to maintaining them? Before, when balances were not included in the budget information, a unit could quietly build them up (for entirely legitimate purposes); now, will units perceive that large balances will be seen by the administration as a reason to cut them, so they will spend the balances down? Mr. Pfutzenreuter pointed out that the administration has made it clear it has no intention of "sweeping up" balances or insisting that they be reduced. Could they be a factor in allocations? Yes, but only to the extent that units will be expected to plan wisely in the management of those resources.

Units would be helped, it was said, if the administration were to provide guidelines on what constitutes prudent balances; otherwise they will believe that if they have large balances, they will be a target for reductions. Mr. Pfutzenreuter said some thought had been given to guidelines, but the problem is that there would have to be different ones for O&M funds, for auxiliary enterprises, for private practice plans, and that it was simply not practical to write them. It has become clear that a number of balances are for equipment depreciation; those balances should probably be in plant funds rather than department budgets, which would make their purpose more clearly understood and protect the units from having them taken into account in the annual budgeting cycle. His office, he reported, is planning to work with units to get these balances appropriately identified and located.

Following a short off-the-record crystal-ball-gazing discussion about future University funding, one Committee member commented that a more pessimistic view of future state support gets to the question about the University getting smaller, increasing other revenues, or increasing efficiencies. Planning, it was said, should be based on the University obtaining its own resources--something that was suggested as long ago as the Campbell Committee report. But it seems that the University continues to plan as if next year will be better (which it never is).

The Committee then took up the question of fringe benefit costs by unit; Mr. Pfutzenreuter promised to provide the data on the funds available by collegiate unit, but pointed out it could only be prepared after the books are closed for the fiscal year.

Professor Rubenstein then adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota