

Minutes*

Senate Committee on Finance and Planning
Tuesday, September 14, 1993
3:15 - 5:00
Room 626 Campus Club

Present: Irwin Rubenstein (chair), Carl Adams, David Berg, Mark Davison, William Gerberich, Karen Geronime, Michael Hoey, Karen Karni, Craig Kissock, Fred Morrison, Richard Pfutzenreuter, Doris Rubenstein, Thomas Scott, Mary Sue Simmons, Dianne Van Tasell, Albert Yonas

Absent: Mary Askelson, Roger Paschke

Guests: Senior Vice President Robert Erickson

Others: Ken Janzen (Regents' Office)

[In these minutes: faculty salaries; resource allocation reform; the strategic plan]

1. Faculty Salaries

Professor Rubenstein convened the meeting at 3:15 and drew the attention of Committee members to a number of handouts. He noted one page with graphs indicating the relative level of faculty salaries going back to 1967 and pointed out that considering salary levels only since 1980 is somewhat misleading. Looking at the top 30 universities, there was a large relative decrease in faculty salaries during the 1970s from which they have never recovered. Although the same decline occurred elsewhere in the country, other institutions have recovered to a much greater extent than has the University of Minnesota. (Although the top 30 includes private institutions as well as public, Mr. Berg said the graphs would appear the same even if the private institutions were deleted from the data set.)

Professor Rubenstein also announced that because of the amount of business confronting the Committee, it would meet every Tuesday afternoon, at least during Fall Quarter.

2. Resource Allocation Reform

Professor Rubenstein then asked Mr. Pfutzenreuter to explain to the Committee the Resource Allocation Reform Effort being spearheaded by his office. Mr. Pfutzenreuter distributed two handouts of several pages setting out financial background information and depicting the changes being proposed.

The financial background information, in sum, presents the following picture:

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- In terms of all funds income, resources increased steadily from 1945 to 1990; after 1990, there has been a downturn in both the total funds as well the state funds portion of the University's income.
- In terms of funds for education and general expenses (that is, excluding the Hospital), state funds have declined from slightly over 50% (in 1951) to 41.7% in 1991. (State funds make up about 28% of total University revenues but 41.7% of education and general revenues; these figures do not include tuition income.) Tuition as a source of income has remained level, slightly less than 14% of education and general revenues in 1991.
- For the period 1988-92, in constant dollars, state funds and federal funds have declined; private, funds, tuition, and other income have increased slightly.
- Of the \$885 million spent by the 20 colleges and 4 campuses for instruction, research, and public service, 3 units (Medicine, IT, and CLA) account for 53% of the expenditures.
- For the period 1983-94, state funds were more or less on a plateau from 1987-90 and have been declining since. Tuition income has increased slowly each year.
- For the period 1990-94, in constant dollars, state funds have declined by \$58,803,123; tuition income has increased \$7,516,981. The net loss to the University has been slightly over \$51 million.
- Projections by the State Department of Finance suggest that there could be a further decrease in base state funds of up to \$28 million in the next biennium. Moreover, some the 1994-95 funds are at risk (up to a maximum of about \$9 million) if revenue estimates are low and an unallotment is required. Even with the projected cuts, the State may still face a deficit of \$390 million--the issue of the deficit could figure in the 1994 gubernatorial election.

Mr. Erickson noted, apropos the declines in funding, that the University has not been treated any differently than the other systems of higher education. The upshot, Professor Rubenstein observed, is that there are problems "as far as the eye can see."

One Committee member inquired if there would be a problem similar to the one last year whereby fewer students than expected enrolled, and tuition income was several million dollars below what had been expected. Mr. Berg reported that the numbers right now look encouraging; Fall Quarter enrollment statistics will be known about October 20. Summer session enrollment was better than expected. Mr. Erickson also recalled that they had used very conservative numbers in making financial projections in order to avoid another surprise shortfall.

Mr. Pfutzenreuter then turned to the Resource Allocation Reform Effort (hereinafter RARE), which seeks to link strategic planning, resource allocations, and operating decisions. He explained that the process needs to be changed because the University must determine its future and take action to link its resources to that vision, because the current resource allocation process does not work, and because the University must have a clear process in place so it can start to concentrate on "where we are going."

Much of time, Mr. Pfutzenreuter commented, budget processes are expected to solve problems; they CANNOT, however, solve the problem of who is responsible for what--the process must know that if it is to work well.

He then outlined the underlying philosophy of the budget process (channel resources to activities/functions that support strategic goals; make allocations sufficient to support those goals; identify appropriate authority and clear rules, roles, and responsibilities and then "get out of the way"; and establish a defined set of measurements and follow-up evaluation and assessment).

Mr. Pfutzenreuter then identified the essential features of the process.

- It is to fully support strategic/academic planning goals.
- It is to improve participation and access and enhance understanding of the information upon which allocation decisions are made (improvements in this respect were started last year, for which many people expressed appreciation).
- The budget timetable will improve consultation with the Board of Regents and governance committees (the Board told the administration it did not want to be presented in July a completed budget which they had had little opportunity to influence).
- The size of units to which allocations are to be made will be modified (now there are 49 area classes--primarily collegiate and some administrative units; are these the right ones? There may be other units of strategic importance to the University that should receive allocations.)
- The process will increasingly rely on performance measurement to guide resource allocations. (This would include such measures as efficiency, effectiveness, and workload measures--rather than, for example, simply categories of spending.)
- The budget process is to strengthen the University's ability to engage in long-term financial planning. (Now much planning is based on one year.)

This process will require a lot of judgment calls, noted one Committee member; who will make them? That is a question of organizational structure, Mr. Pfutzenreuter said.

One idea that should be put on the table--although not taken up today--is the possibility of establishing a budget committee (which would include faculty and perhaps students) at the central level. Such committees exist at at least three of the four universities studied as peers for the planning process (Michigan, Washington, and Wisconsin). Given the decisions that will need to be made, the University should perhaps consider creating such a committee, after it learns how--and how well--they function at other institutions. This Committee (that is, the Finance and Planning Committee) is a POLICY committee, not a budget-making committee.

Mr. Pfutzenreuter then drew the attention of the Committee to a representation of the RARE. One can envisage three levels at which decisions are made. First, at the Institutional Strategic Planning level

(the President and senior officers); second, at the Resource Responsibility Centers (the new term for colleges/campuses and administrative units); third, Operational Decisions (made by departments).

At the institutional level, decisions would be made for the longer-term, would be institutional in scope, answer such questions as "where are we now?" and "where are we going?" and would define performance.

At the Resource Responsibility Center level, decisions would be made for the 0-24 month term, would be specific to the unit, answer such questions as "how will we get there?" and "how did we do?" and performance would be interpreted.

At the unit level, decisions would be made on the short range (0-12 months), would be specific to the operating unit, answer the question "how are we doing?" and would deliver performance.

Committee members discussed the proposal for some while; a number of points were raised.

- In response to a question, Mr. Pfutzenreuter said that one intention of the conceptualization of the process as he outlined it is to emphasize that short-range decisions at the departmental level are NOT the decisions to be made when resource allocation decisions are made at higher levels.
- Hiring two new faculty members is NOT a short-term decision; where is that decision now made? Unfortunately, Mr. Pfutzenreuter said, in some instances it has been made in the Budget Office--but it should be made in the dean's office. Another Committee member pointed out that one will never be able to avoid the situation of a dean not having enough money to hire someone so seeking funds from a higher level.
- Asked if the University wants to go to program budgeting, Mr. Pfutzenreuter said there are 49 area classes--but at the next level down, there are over 700 areas. It is difficult to deal with 49 units and impossible for a central administration to make decisions about 700 units--it cannot micro-manage. The question is what information should be available/should be looked at when making resource allocation decisions centrally. One goal is to de-emphasize what money is being spent on and to look more at accomplishments and "function" (instruction, research, public service).
- The process is to be commended in identifying locations for decisions. Is it not necessary, however, to at least THINK about resources when strategic decisions are being made? Resources must be considered when one contemplates the question "where are we going?" If the senior officers are thinking about the long term, why not note the financial implications? If the plan implies that the size of some unit will double over several years, and that funding will double over the same period, why not say so? Primarily because things change so fast, Mr. Pfutzenreuter said, that he would like to see two-year projections made successfully before any longer range attempts are made.

Mr. Erickson thought this an important point and agreed that strategic decisions also needed a multi-year funding approach. Given the uncertainty of the environment,

however, there will be variability. He agreed that units need stability.

-- One can be concerned if deans are only expected to make decisions with mid-range impact (0 - 24 months); any dean who only thinks in those terms will be in trouble. Colleges must plan for the longer term, including whether they will grow or shrink. There will certainly be expectations about tuition, institutional costs, and so on if, in the example cited earlier, a college is to double in size. Unless there is planning, there will be students and no faculty or vice-versa--Responsibility Center planning has to be longer than two years. Mr. Pfutzenreuter agreed and noted that the planning process for those units has not been defined.

-- Asked whether the 49 area classes would be increased or decreased, Mr. Pfutzenreuter said he did not know now. At the state, some agencies kept combining to the point where budgets of \$100 million were being considered--and then a great deal of time would be spent, in another instance, on a \$200,000 item. There has to be a balance between the size of the allocation numbers and what is important to the University strategically.

The pertinent question is where management responsibility lies. If units are grouped together that have no common element, a single budgeting unit makes no sense. Organization structure should define the budgetary units. Either a vice president is told what to do with unit X, that he/she is responsible for it, and that he/she has certain funds, or one goes directly to unit X and tells them what to do, they are responsible for it, and what their funds are, thus removing the vice president from the loop.

-- What will the role of the clusters be? [This question was left hanging.]

-- If resource allocation should go with institutional administrative structure, is that objective part of the vision? Mr. Pfutzenreuter, drawing on another schematic, said that unit planning is the next step in institutional strategic planning. After the planning criteria are applied, decision packages will be made. Decision packages at the departmental level feed into the allocation decisions.

Inasmuch as very few decision packages affect only one unit, how will budget hearings deal with them? Mr. Pfutzenreuter said that was not yet clear. It may be necessary, it was said, to structure hearings depending on the packages being considered.

How decision packages fit into institutional planning was the subject of a series of exchanges among Committee members. Both the time period covered by unit plans and the direction (up/down) in which planning would take place were of concern. Units cannot plan only for 12 months, one Committee member said; another said that the institutional plans, presumably, will be more than simply an aggregation of unit plans.

One could speculate, one Committee member observed, that this is related to the clusters. In strategic planning, perhaps unit plans will be incorporated in broader clusters but specific details to be played out will not be in the strategic plan. But the clusters will have the bigger picture and parameters and will have to provide the details. It is clear from the

charts, said another, that unit planning will take place in a context where the "big" decisions have already been made.

One issue at hand was the level of decisions and the specificity of decisions by each level. The "working hypothesis" suggests a decision will be based on the criteria long used (centrality, quality, advantage, etc.). Those come into play in concrete instances, responded one Committee member; the issues of concern to the Committee are more diffuse and concerned with direction.

One Committee member commented, and others concurred, that irrespective of the immediate problems that can be seen in the RARE, Mr. Pfitzenreuter and the administration are to be commended for at last making a serious attempt to link budgeting to strategic planning. The Committee should be very supportive of this effort; the issue now is a matter of fine-tuning. One major issue to be addressed is how the clusters relate to the budgeting/planning process--something the Committee should take up in the very near future.

3. Questions about the Strategic Planning Proposal

Professor Morrison, acting as chair pro tem because Professor Rubenstein had to leave early, drew the attention of the Committee to the sets of questions that had been formulated by a number of Committee members in response to their assignment from the last meeting.

A concern raised by one Committee member was about the substance of the plan and the funding that will be necessary to implement it. Senior Vice President Erickson, noting at the outset that his job was to support the academic side of the house in strategic policy decisions, not make them, commented that the institution must focus itself. In 30 years of involvement with the University, the institution has tried to be all things to all people. That cannot be; the resource constraints will not permit it.

The University must decide, he said, what it **MUST** do as an institution, how to use its unique resources that are not duplicated anywhere else in higher education in Minnesota, and how to discharge its mission. President Hasselmo and Senior Vice President Infante, he said, have in discussions said the University must be sure it is focusing on its core--that it is a research university and a land grant institution. A major question to be asked is whether or not an activity is core to the research/land grant function.

There must then be a greater definition of the University College and research university--that task is a high priority. Two questions have arisen from the presentations made thus far: first, what is University College?, and second, what will be the timing of the deliverables?

A major issue is whence the resources will come for University College. Mr. Erickson said that that will depend in part on the number and mix of students. For the immediate future the numbers will remain as they are now. There will likely be some increase in the number of non-resident/non-reciprocity students. The department planning process, upward to the clusters, must decide which segments will be held steady or have funds taken from them. That process will also identify **NEEDS** (e.g., what will be needed to make the University more user-friendly to students).

Unit/cluster planning will thus identify resource needs. One way to obtain those resources will be through efficiencies--which can be accomplished, Mr. Erickson told the Committee. For example, the recent study in the College of Education has suggested that significant funds can be freed up at the college level. The University must identify how those efficiency gains can be shared or there will be no funds for reallocation--and at the same time, if the administration simply takes all the funds freed up, there will be no incentive to achieve the efficiencies.

The question about funding for University College remains, it was said. Mr. Erickson said that University College funding questions are woven into the entire plan--and are not efficiency questions. It is, in one way, a focusing device for the University: what are the primary things it is to deliver as an institution. University College is NOT seen as a device to achieve efficiency.

One Committee member reported that he had been asked by a number of colleagues about what implications for resources the split on the Twin Cities campus would have. One possible way to think about it might be a two-tiered tuition structure, with University College tuition a per-credit system and the research university a flat tuition. Such an arrangement ought to be able to increase tuition income--as well as increase the graduation rate, because the flat rate would be predicated on 15 credits per quarter and would encourage full-time enrollment. Such a change might also have an effect on parental attitudes about supporting their children. Mr. Erickson responded that the financial implications of the split need to be developed more fully over the next few months; he said that conversations with some units have already begun. For instance, the research university might guarantee graduation in four years (slightly more for curricula such as those in IT that require 200 or more credits) and that courses would be available for students who want to move through in a timely way.

A good portion of University College teaching would be in collaboration with other institutions, noted one Committee member; would faculty from other institutions be paid to teach one course? That is only in preliminary stages of development, Mr. Erickson said. The use of practitioners, it was then said, present the potential for tremendous cost-savings, since they would not be full-time faculty. These issues need to be fleshed out much more, Mr. Erickson said. The University has a wonderful research faculty more developed than anywhere else in the state; to the extent collaboration can be accomplished, it should offer efficiencies to all of higher education in the state.

CEE will be the major building block of University College, Mr. Erickson agreed. University College is an attempt to serve the needs of the University's customers in a more responsive way. Members of this Committee know better than he, Mr. Erickson observed, that students come to the University but apparently no one tells them they should try to obtain their degree in four years--the University has not tried to become more residential before this.

This plan is much more than a bookkeeping change involving CEE, commented one Committee member. It proposes to take the traditional programs in the undergraduate colleges and draw into them primarily students in the upper quartile of their high school class; the remainder could attend University College, but there would not be two English or Management majors. This is a big shift. In addition to CEE, University College would have professionally-oriented degrees that the University does not now offer. Mr. Erickson agreed.

One Committee member expressed doubt, however, that much would be different--the plan takes

the same number of undergraduate and graduate/professional students and splits them differently. Mr. Erickson pointed that what is not known--the wild card--is enrollment. The plan includes reducing the size of CLA and shifting some students to University College. But there could be a significant increase in enrollment in University College as programs meet a demand for what the University has to offer. In some ways this will be an experiment.

A fundamental issue that no one has talked about, contended one Committee member, is the concept that there is a group of people who are not well served by the liberal arts undergraduate degree. This strikes at the heart of the University. We tell a lot of students that the undergraduate liberal arts degree is the right preparation for professional work. This plan seems to be saying that education in the arts and sciences core is perhaps not the best preparation for what people will do with their lives.

Mr. Erickson responded that higher education has seen an enormously increased number of students in recent decades who are all following the traditional path to a degree. That path may be a disservice for some--it may not be their bent to obtain a liberal arts degree. The University certainly wants to continue the liberal arts tradition--and to be among the best at providing it. But there are a lot of students who are not well served by the current offerings of higher education--there are gaps. One can see that programs are needed, some in collaboration with other institutions, to students who want to follow a different path. In some cases, for example, they may start at the State Universities or the technical colleges and then come to the University for their last two years.

That is very likely true, it was said. Nonetheless, it cannot be denied that this plan signals a change in the fundamental philosophy underlying undergraduate education at the University. Mr. Erickson assented, noting again that the University has tried--not very successfully--to be all things to all people. What it wants to do, with this plan, is provide the best liberal arts education possible to those who can benefit from it--and to provide to those who can benefit from it a different kind of education. Mr. Erickson again cautioned with a smile that in these discussions he was "on thin ice--I'm the bean counter."

What about the students who are in the top quartile of their class but nonetheless choose to attend a community college for two years--would they be permitted to transfer into the research university? It appears they would. Would that not represent favoritism to community college students--if students from University College, by and large, would NOT be able to transfer? It has been said, it was noted, that not all credits from University College would be transferable to the research university.

One Committee member then raised a question of process. This plan, if it is to be brought forward, must be more inspiring than it is now. One can talk about fleshing out details, but if a large number of questions remain about how it will work, the plan becomes not credible. If there is a "huge concept out there" but no one knows how it will work, the President will be in a difficult position. Mr. Erickson said that Drs. Hasselmo and Infante fully understand that it will be critical that the plan be developed more fully--and they are working on doing so.

One Committee member offered the observation that University College should be more than a Twin Cities option; the same pressures exist on the other campuses. The University College opportunities need to be broadened to the rest of the state.

Professor Morrison then attempted to sort out some of the questions that had been developed for

the meeting, noting that some fall appropriately within the jurisdiction of the Committee on Educational Policy, some in this Committee, and some cross jurisdictional lines.

Discussion returned again to the funding of University College. One Committee member inquired whether or not it is intended that University College be self-funded from its tuition income. Mr. Pfutzenreuter noted that to the extent it expands because of CEE-related activities, it would be, because CEE is income-based. Mr. Erickson pointed out that the administration has a responsibility to report to the Board of Regents with a financial plan and that he and Mr. Pfutzenreuter have been charged to develop one.

The University is already out selling the idea, said one Committee member, rather than soliciting advice about it. But much could change. Mr. Erickson responded that people wanted a **WORKING HYPOTHESIS**, which is what this is. It needs to be tested, and the administration is very receptive to comments and recommendations. The administration also recognizes the compressed schedule of consideration--which is why all the details are not filled in. These are good questions, he said, to which the Board of Regents will want answers. The Board, however, has insistent on timelines. Moreover, if the objective is to have an impact on the next biennial request, ideas must be firmed up by May or June.

It was agreed, given the pressure of time, that the Committee would meet every week at least through early November. It was also noted that if the Committee is to provide intelligent commentary on the issues, it must have administrative reports and information within the next three weeks or so. Mr. Erickson concurred.

The meeting was adjourned at 5:15.

-- Gary Engstrand

University of Minnesota