Minutes[*]

Faculty Consultative Committee and Guests
Meeting on the Budget
September 19, 1991

Present: Thomas Scott (chair), Avner Ben-Ner, David Berg, David Biesboer, Mario Bognanno, Amos Deinard, Judith Garrard, William Gerberich, Virginia Gray, Norman Kerr, Paul Holm, Craig Kissock, Stanford Lehmberg, Karen Seashore Louis, Fred Morrison, Irwin Rubenstein, Mary Sue Simmons, Charles Speaks, Charlotte Striebel, James VanAlstine

Guests: Senior Vice President Robert Erickson, President Nils Hasselmo, Senior Vice President E. F. Infante, Legislative Liaison Donna Peterson

Professor Scott convened the meeting at 9:00, welcomed the Committee and its guests, and turned to President Hasselmo to begin the discussion. President Hasselmo invited Ms. Peterson to outline the legislative issues confronting the University.

Ms. Peterson began by explaining the perceptions held by legislators about the economy: that it will grow slowly and that there will be few if any new funds for the State to allocate. The legislative priorities will be property tax relief, children's Issues, and health care. Another concern is "tails," those decisions made in one session which require continued (increased) expenditures in future years. The Governor, she explained, would like to see more cuts in the 1992 session so that as the State enters the 1993-95 biennium it will be "even," budgetarily, and able to deal with inflation and salary increases.

The University has regained respect with the State, she told the Committee; its actions on Restructuring and Reallocation and in making changes in Physical Plant have established the view that the University has generally become more accountable. There remain questions about faculty workload, transfers of credits, and graduation and retention rates.

As far as the vetoed $23 million is concerned, Ms. Peterson pointed out that there are only two ways the funds can be restored: through a legislative override of the vetoes or an appropriations bill which provides the funds for 1992-93. The Governor himself does not have the authority to restore the funds. One factor which may affect what occurs is the outcome of the litigation started by the other systems; if the courts void the Governor's vetoes, the case will be made that the University should not be the only system which receives cuts. The University will also argue that it has made and is making the changes, on its own, that the Governor is now asking the other systems and state agencies to make; but as a result, the University is being punished for doing so. The University could have done business as usual, made a substantial request for an increase, taken the cuts that were made--and then blamed the Governor and legislature for the need to close Waseca. The legislators, she said, understand this point. The Governor may not oppose an effort to override the veto, but another view which might be taken is that higher education has to tighten its belt and if the activities supported by the vetoed appropriations are important, the University will find the money for them.

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

On the bonding bill, the Department of Finance has issued instructions which note that the State has used up its bonding capacity and that any appropriations will be for life-safety improvements, legally-required improvements, or for facilities which carry matching funds.

The President told the Committee that there will be three University priorities: One, override the vetoes; two, making the most powerful argument it can for salary increases; and three, the capital request (which is well-honed; the question is how to place it before the legislature with the highest likelihood of success).

Ms. Peterson then briefly reviewed the approaches the University will be taking to present its case to the members of the legislature. Emphasis will be placed on one-on-one meetings with legislators and the message will be that the University is accountable and that what the State gets from its activities is considerable economic development. The hardest group of legislators to deal with are those from the metropolitan area.

The key will be a succinct set of basic messages to be carried to the constituencies, the President said. Those will be: 1) to inform them of the impact of the University, and right now the economic message is the most important one; 2) the University is threatened by large cuts and the ability of the institution to leverage state funds is endangered; and 3) the University is aggressively seeking to make changes in order to become more productive.

It was suggested, apropos the vetoed State Specials, that the University would strengthen its case if it offered to fold into its operating budget the funding for women's athletics. Both the President and Senior Vice President Infante agreed; the latter pointed out, however, that it will be difficult to do so when there has been a cumulative loss of 13% of its funds from fiscal year 1989-90.

One Committee member inquired why the University had not also gone to court over the vetoes; even though the basis of the argument would be different than that made by the other systems, the case could be made. Senior Vice President Erickson explained that litigation had been considered; the case would be less strong than that of the other systems. The University was not precluded from taking that step even now; it was, he said, a balancing act in deciding on how to bring the issue forward (through the courts or back to the legislature).

What about looking to other states, it was suggested, where different relations between the legislatures and the universities are being hammered out; the universities are seeking a more distant relationship and become state-assisted rather than state-sponsored. There are other models being developed, models which are more cost-effective and which provide more stability in funding. The President acknowledged that such a change could be explored, albeit very carefully. The proposal by Senator Waldorf to reduce the amount of state support for instructional costs from 2/3 to 1/3--with the balance being paid by tuition--would certainly represent a giant step in that direction. The questions are both economic and political, he pointed out; the Governor's commission may make inquiries about the cost of doing business with the State. It is expensive, he agreed.

The President next turned to the budget and asserted that whatever the University does must be driven by strategic considerations, so it will continue with the Restructuring and Reallocation plan and continue to examine core functions. All units slated to receive funding increases under the Restructuring and Reallocation plan will receive at least 20% of the increases during 1991-92. For this year, in the end, there will be $32 million in reductions--but they are not cuts. The $32 million will be used to meet the necessary cuts; about one-half of the funds will be escrowed for salaries for 1992-93 (3% of the personnel budget in each vice presidential and campus unit). The University will attempt to obtain additional funds from the legislature or charge them to tuition.

The President also said he agreed with Senior Vice President Infante's insistence that the University take seriously the deferred maintenance problem; some reallocated funds will have to be put into it. At the same time they are trying to create some flexibility in the budget in order to be able to make investments when opportunities arise in educational and research activities.

There are four elements in the budget: 1) continue to look for inefficiencies on both the academic and non-academic sides of the house; 2) make program cuts; 3) increase revenues (through targeted tuition increases); and 4) change certain "treasury functions" (such as charging interest on internal loans). There will be no across-the-board cuts; each vice presidential area, and each campus, will be required to identify the 3% escrow, but within each area/campus the choices are to be made on a programmatic basis.

Senior Vice President Infante told the committee that they have tried to be certain that decisions made are part of a long-term strategic plan and guided by a vision of the University. He said he would be disappointed if the recommendations are seen as attempts to solve one-year problems.

Dr. Infante made three points. (1) If one assumes that inflation from 89-90 to 92-93 is 3.5% annually (which is probably low), and if the Governor's vetoes are overridden or the funds restored, the University will have lost 7.7% during that period. If the funds are not restored, the reduction will be 13% (both in real dollars). No other system suffered losses of that magnitude. (2) Dr. Infante also noted several terms that will be used frequently: The total University expenditure budget consists of 25.3% from State funds, 8.8% tuition, and 66% from all other sources. The State funds constitute the "core funding." The University "leverages" State dollars by a factor of 2.5 or 2.6. For the University to remain "competitive," it must have the core funding or it will be unable to leverage additional funds. (3) In many activities, the University has relied on the State funds for its infrastructure and taken external funds without obtaining infrastructure funds to go with them. Indirect Cost Recovery funds have been converted into direct expenditures. If 66% of the University's expenditures come from non-State funds, the Infrastructure for those expenditures cannot be supported "on the margin."

Dr. Infante said noted several kinds of activities which will take place to manage the budget. First will be "revenue enhancement": certain colleges and campuses will increase their resources through tuition increases. There will be an element of "privatization" in certain post-baccalaureate programs (such as law, public affairs, and management). Further, undergraduate tuition will be uniform but will vary by campus (tuition at Morris will increase--but the additional funds will stay on the Morris campus). If one looks at the total tuition bill, the increases will be about 11%; for Twin Cities undergraduates, the increase will be about 9%. The University will tell the legislature these are the increases needed for necessary salary and compensation increases; the legislature, if it wishes, could "buy down" those rates. The targeted tuition increases will generate about $5 million in additional income.

The University will also initiate a tuition policy which discriminates between degree candidates and those who are not degree candidates. The legislature does not provide an adequate level of support for "casual" students; tuition for non-matriculated students will increase about 25%. (The problem is identifying the non-matriculated student, but the step is important for both financial and academic reasons.)

Another activity will be program reductions, although the University cannot reduce costs on the academic side in the short term; it will take about five years to recover the funds from the Waseca campus. The most visible reductions will come in the Finance and Operations units. The 3% escrow, Dr. Infante emphasized, is not a cut: everything at the University is driven by the faculty: the number of students, the number of staff needed, the amount of space needed. With a 7.7 to 13% loss in funding, there must be shrinkage--and it must accomplished programmatically. There will also be program cuts which are programmatic rather than financial: for instance, General College admits one-third of the freshmen on the Twin Cities campus. Of those, 25% are white students from Wisconsin--ad mission of whom is not in accord with the mission of GC. As a result, GC freshman admissions will be reduced from 1100 to 650 and there will no longer be reciprocity with surrounding states for admission to General College. (This change will NOT affect the general principles of reciprocity.)

In terms of enrollment, Dr. Infante told the committee, the Board of Regents will be asked to look at the strategic direction of the University. It has completed what it proposed to do with enrollment levels; now the task will be to examine enrollment on a program-by-program basis and be certain that funds are being fully used-and reallocate to ensure that they are.

The University must create a "tail," Dr. Infante said, by securing funding for infrastructure costs. A further demand on resources is the State requirement that the institution provide 1/3 of the funds for any capital construction. It may be that the University will provide MORE than 1/3 for research-intensive facilities. Given the State's interest in matching funds, the University needs to free ICR funds for construction and maintenance with all deliberate speed; Dr. Infante said he would like to see at least 1/2 of those funds available within the next 3 - 5 years.

Yet another area of budget activity will be examination of support activities. One is the library: this is a resource, Dr. Infante emphasized, that cannot be lost--if it is, it will never be recovered. It will be the policy that the University cannot yield on it. In computing, he and Senior Vice President Erickson do not believe it is necessary to have "two separate houses." Savings of $2.5 million annually can be achieved by reorganizing computing while continuing to deliver a high level of effective and efficient service (after a brief period of discomfort).

Senior Vice President Erickson next explained to the committee the changes being envisioned in Finance and Operations. On a conceptual level, he said, support services exist to help the academic operation; they must accept the responsibility to be as effective and efficient as they can--and to be credible in the University, they must tighten their own belts before asking others to do so. There must be a standard of productivity which must be met, in 2 - 3 years. For instance, productivity improvements in Physical Plant (now renamed Facilities Management) should lead it to match private sector costs per square foot. If it cannot achieve that level, then one must ask if the University should provide the service internally.

There will be three areas of change, Mr. Erickson said. First, some reduction in services. Second, require some support activities to fund themselves. Third, major reorganizations.

Reduction in services: They have asked if, for example, it is necessary to empty office (not hospital or lab) wastebaskets 5 days per week, given the extent of recycling; doing it 2 -3 times would save $300 - 400,000 per year. At present they respond to any environmental call (temperature is too hot or too cold); within set parameters (e.g., 65 - 78 degrees), they will not respond to every call to adjust the thermostat. Is a three-year cycle of window-washing worth maintaining? Or would it be cheaper just to buy a lot of Windex--because undoubtedly, given a 3-year cycle, many people now wash their own windows anyway. The zone concept being implemented in Facilities Management will also help reduce expenses. At present there has been even maintenance for all buildings across the campus; there are, however, areas of high use and of low use, and those two need different levels of care.

Self-funding of certain services: They will be operated on a full-cost basis. In telecommunications, for instance, $850,000 can be saved without an increase in fees (in part because of tremendous management).

Reorganization: About 250 people will be laid off in different areas of Finance and Operations units. The intention is to provide a high level of service and achieve these reductions. Mr. Erickson also explained a number of changes proposed for computing; there is an opportunity to rationalize the provision of services.

Mr. Erickson concluded by noting that if these cuts are added to the reductions in the Restructuring and Reallocation plan, Finance and Operations will have achieved nearly a 20% reduction in personnel and other funds (certain expenses, such as fuel and utilities, cannot be reduced). He said his office was committed to a continued honing of its activities.

President Hasselmo next spoke briefly about the coordinate campuses. MORRIS is one of the great success stories in Minnesota higher education and it must be sustained and provided the opportunity to continue to develop. Not one cent will be taken from the campus, and Morris will receive $500,000 in reallocated funds. DULUTH has seen dramatic changes in the profile of its students, both in increased retention as well as increased preparation. Its future must rest on quality; any increase in students can be permitted only if quality permits it. CROOKSTON has required the most time in administrative discussions. The University is not prepared to give up the campus; it needs a presence in northwestern Minnesota. The mission of the campus needs to be seriously examined.

Dr. Infante was asked if Morris is being "punished" for success. He said they have given much thought to that question. The cost per student is about 20% higher at Morris than at the Twin Cities. The Regents' policy provides that undergraduate tuition can vary by campus, although it should be uniform on each campus. Morris needs a great deal more money, and increased tuition seems the only available reasonable way to obtain it. Chancellor Johnson has done a cost study which suggests that top students can take advantage of scholarships offered through HECB so that the actual impact of an increase will be less. Morris, moreover, is in a competitive situation with institutions that have tuition rates that are 4 times as high.

One committee member suggested that some of these changes represent tinkering around the edges. There needs to be an indication of when programs will be reduced or eliminated; if not, the University will continue to offer or teach things simply because they were there before. The 3% escrow is not to be across-the-board, but experience has demonstrated that deans do not make programmatic choices. The Committee also needs to hear, It was said, amplification on the justification for changes in the mission of the Crookston campus. Dr. Infante noted that consultation between the colleges and the vice presidents on the 3% has not yet taken place; the clear message will be that the escrow MUST be programmatic. The targets were only set in the last few days, he observed, and the administration also wanted the faculty back on campus for the discussions.

Committee members also discussed briefly the proposed changes in computing; it was vigorously emphasized to Dr. Infante that the end users MUST be consulted on the changes. Dr. Infante acknowledged that no such consultation has yet taken place but said that it will. He said he expected brickbats for the next 9 - 10 months, but in two years the service should be significantly better, more economical, and that there will be opportunities to make money with vendors. The problems the University is confronting are similar to those facing industrial organizations; if the University does it right, it can export its changes.

One committee member noted that for individual faculty the changes being envisions could have a negative impact on morale. Fringe benefits are being slightly reduced, services will be reduced, there will be no salary increases--but faculty responsibilities will not change. President Hasselmo pointed out that half of the budget adjustments being proposed are intended to provide funds for compensation increases; the continuation of the reallocation plan is intended to put funds into the academic core. The whole effort is being driven by a concern that faculty and staff be retained.

One Committee member expressed confusion about the various budgetary figures that have been discussed over the preceding weeks and months; exactly where the University stands is not at all clear. The President and Mr. Berg then reviewed with the committee the various appropriation and base budget amounts; the President explained which sets of numbers make the most sense to him. For 1991-92, the University has lost $16 million from the preceding year. For 1992-93, it will see an increase of about.$4.5 million over 1991-92 if the vetoed funds are restored; if not, there will be an additional decrease. It was suggested that the University should focus on three numbers (1990-91, 1991-92, and 1992-93) and determine whether in fact the University contributed more than its fair share to solution of the State's financial problems. Further, when the numbers are presented to the Board of Regents, the administration must realize it is presenting them to multiple audiences; the story must be told in different ways, including not only the percentage decreases and reduction in jobs but also in the loss of programs.

The President agreed it was necessary to maximize the external impact while minimizing it internally-which presents a dilemma. It is also difficult to identify program cuts before decisions have been made and the individuals involved told; it is the chicken-and-egg problem. One committee member commended the administration for increasing revenue and efficiency rather than use a "slash and burn" approach, but the FACULTY do not need to be protected--they already KNOW what's going to happen. If the painful outcomes are not presented when the numbers are discussed, the University will be unable to recoup the lost dramatic moment.

At this point the guests at the meeting were excused and the Faculty Consultative committee convened to meet with the President.

A short discussion took place about fiscal exigency and the conditions under which tenured faculty could be laid off. The President emphasized, in the strongest possible terms, that contracts would be honored and that TENURED FACULTY WILL NOT BE FIRED. It was agreed that this message needed to be communicated more clearly and broadly; an article in Footnote might be appropriate.

The Committee and the President discussed for some time the searches that will need to be conducted for the General Counsel and the Men's Athletic Director; they also considered the appointment of the Senior Vice President for Academic Affairs and Provost. The President asked committee members for names of individuals who might serve on the search committees for General Counsel and Athletic Director.

The impact of the salaries paid to Dean Kidwell and Vice President Anderson were also discussed. President Hasselmo said he was keenly aware of the dissension the salaries had caused; the only answer, he said, was that the University is competing in the market and has to pay the salaries to obtain the individuals it wants. The President was commended for fully disclosing the total salary package rather than only making known the University salary portion.

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At this point the President departed from the meeting and the Faculty Consultative Committee continued to meet.

The Committee continued its discussion of the appointment of the Senior Vice President for Academic Affairs and Provost; following the discussion, it was agreed that Professor Scott would communicate the views of the Committee to the President.

Professor Scott asked Committee members to provide him with the names of search committee members for General Counsel and Athletic Director no later than Monday.

Professor Scott also described to Committee members the process and conversations that had occurred in connection with the candidates for Vice President for Research and Dean of the Graduate School.

The Committee then turned its attention to the role it was playing in the budgetary plans for the University. There was a sense that it had done more listening than consulting. One committee member pointed out that its role was advisory, that it is not seeking to take over executive authority, but it would be better for the administration if it could act on the basis of views expressed by the Committee rather than simply presenting the plans for information.

The Committee adjourned at 1:30.

-- Gary Engstrand

University of Minnesota