Minutes[•]

Senate Committee on Finance and Planning
December 4, 1990

Present: Burton Shapiro (chair), David Berg, David Biesboer, Edward Foster, Lael Gatewood, Virginia Gray, Michael Hoey, Kimberly Kantorowicz, Craig Kissock (via telephone hook-up), Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Nancy Ann Root, Mary Sue Simmons, Charles Speaks, John Sullivan

Guests: Senior Vice President Gordon Donhowe, Geoff Gorvin (Footnote), Warren Ibele, Geoffrey Maruyama, William Messing, Steven Sperber

1. Report of the Chair

Professor Shapiro began the meeting by reporting briefly on the trip of the Senate Consultative Committee to the Morris campus and issues of concern to the Morris faculty.

He next turned to Professor Speaks, who inquired how items reach the agenda of the Committee. His question was prompted first by information about the appointment of a committee to examine separation of the School of Music, and perhaps other arts departments, from the College of Liberal Arts; such a decision would presumably have significant financial implications and thus should perhaps properly be in front of the Committee. The second item prompting the question was the possible rental of space from the FMC corporation; would that not also properly be on the agenda?

Professor Shapiro said that items on the agenda of the Committee come from central administration (if it wants to consult on issues of finance or planning), from members of the Committee, or from the Senate/Faculty Consultative Committees (as well as the Subcommittee on Physical Plant and Space Allocation).

It was agreed that the Committee wished to see any reports having to do with alternative administrative structures in CLA and that similar information should be obtained about the costs of establishment of the separate School of Architecture and Landscape Architecture. Professor Shapiro agreed to seek the information for the Committee. (Both of the proposals, Dr. Foster pointed out, came out of the Advisory Task Force on Planning chaired by Professor Charles Campbell.)

On the issue of rental of space from FMC, Senior Vice President Donhowe commented that the University has for some time been openly talking about buying the building in order to make room for research investigators who cannot obtain space in their own colleges. The only reason rental is being considered is because the University and FMC cannot agree on a purchase price for the building. This plan is an alternative to renting space in a variety of places near the campus.

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2. The Campus Club

The Committee agreed to next take up the question of the Campus Club. Professor Shapiro reported that Professor Ibele had expressed concern about whether or not there is sufficient sensitivity on the part of the administration to the role that the Campus Club plays in University life. In one recent year, for instance, there were about 4,000 academic activities at the Club, including department meetings, governance meetings, oral examinations, and site visits--the University is deficient in places where visitors can be brought. Club membership is also available to other classes of University employees beyond the faculty. Finally, it was pointed out, visitors to the campus congratulate the University on maintaining a place where people can go to have a quick but pleasant and quiet meal and discuss business at the same time. There are problems with the revenue stream of the Club; there is also a question of whether or not the University should contribute any money to the Club. Professor Shapiro introduced the guests and turned to Professor Messing for comments.

Professor Messing said he had, first, a procedural question. Professors Ibele and Morrison, for instance, he said, are past members of the Board of Directors of the Club; he expressed curiosity about how many members of the Committee were members of the Campus Club and said it was relevant in terms of avoiding the perception of conflict of interest.

Professor Shapiro responded to the question. He hoped, he said, that in discussing issues of importance to the University, the affiliational status of Committee members would not enter the conclusions they reached. If something is detrimental to the University, as best they can judge, Committee members can be objective enough to reach that conclusion. The Consultative Committee has had the discussion of representation several times: Do Committee members represent their unit or do they represent the faculty of the University of Minnesota? The vast majority believe they are representatives of the best interests of the University. Another Committee member added that one could also ask how many people in the room are not members of the Campus Club but have benefited from it--who are "free riders" on its services; such people have an interest exceeding that of members who pay the dues. The entire question is irrelevant, she said.

Professor Messing and Committee members continued to disagree on this point about conflict of interest. One Committee member finally said that it was useful to have the viewpoints of all concerned; they should, however, be ruled out of order when guests try to determine how the Committee conducts its business. If these discussions continue, he said he would move to take up the next item of business.

Professor Shapiro then turned to Senior Vice President Donhowe, who observed that the Campus Club lost $140,000 last year. At that rate it will be out of cash by the end of this fiscal year; although the budget is lower than last year, it is unclear how the Club can survive for more than another year. Further, it is not reinvesting at an adequate rate to stay in business; its kitchen is woefully inadequate in the judgment of both the current manager and Environmental Health and Safety. Unless there is a dramatic change in the number of members, and who elect to use the Club, the administration does not believe it is a financially viable entity.

That is a harsh conclusion, Mr. Donhowe observed, but it is factually correct. The question before the Club, he said, is what path it will follow in arriving at some other way of accomplishing its objectives (which, he has been told by many, is to retain a place for faculty to join each other in informal arrangements for eating, to retain a convenient meeting place for a wide variety of meetings, and to provide a venue for other social interaction among faculty members in ways that would not otherwise occur beyond home departments).

It is not clear, he continued, what option the Campus Club would choose. The $75,000 annual contribution from the administration will not solve the problem. The administration clearly has an interest in ensuring the continued availability of meeting facilities; it does not appear that continuation of the support to the Campus Club will be a solution if it is continued at its current rate. The enterprise will not survive, financially, and it may not survive in terms of meeting regulatory requirements (because of the kitchen).

There are ways to meet the objectives of the Club. They can be accomplished by contracting out for certain services or by Support Services providing the services in a non-Club setting (as in other parts of the Union). These are feasible. Negotiation of the renewal of the $75,000 contribution is difficult to discuss when the University does not believe the organization receiving the money will survive for the contract period.

Mr. Donhowe was asked if there had been any consideration of the cost of obtaining substitute facilities. He said that some discussions have taken place; they assume that it would no longer be a private club but rather a dining facility managed by Support Services and linked to the Union management in terms of administration of space. One Committee member inquired about costs and reflected that alternative arrangements will cost the University a great deal more money; for one thing, the dues money will no longer be available. In addition, from the viewpoint of departments and individuals, the Club is desirable because there are not additional fees every time one reserves space and uses it; if operated by others, would fees be charged--thus deterring departments from using the space? Departments do not have funds to budget for the many meetings they schedule in the Club.

Mr. Donhowe said that attention should be given to possible uses of the fifth and sixth floors; the administration has suggested that those two floors might be relinquished by the Club and managed separately. The University would contribute enough to ensure faculty access to the meeting rooms (which is the purpose of the $75,000 annual contribution). It is presumed that there would be expense involved in having an array of meeting rooms in a central facility for faculty; the administration continues to believe that is appropriate and would continue to make arrangements so that they would be available not just as a student facility but for faculty and students at no charge. There would be no fee for using the rooms, he affirmed--it is appropriate that they be managed by the people running the Union but there would have to be central intervention to ensure that they were free. This might require a contribution.

Would this not cost more than $75,000, Mr. Donhowe was asked? He said he did not know. It is clear that if the food service on the fourth floor is to be successful there have to be a lot more people going there to eat--both for meeting faculty objectives as well as meeting cost obligations. Whoever takes it will want to invest in it and the effort will require major renovation if people are to be encouraged to come there. That may include an occasional student who is willing to pay.

Professor Sperber agreed with the objective of having a meeting place for faculty and departments. As it exists now, however, the Campus Club may be an impediment. People have decided--because there is such a small number of members--that it is not the place they want to use. They endure the basement of

Coffman rather than use the Club. He also took issue with the proposition that the faculty are subsidizing the University; the Club is occupying room in a structure that the University owns and which it is providing to the Club rent-free. The Club is renting the space back to the University at the expense of faculty salaries and student research and study environment. A decent dining facility that all can meet in is desirable; it should not be subsidized by the University.

One Committee member, noting that he had been on the Board for three years and President of the Club for a short while, said he had concluded with regret that the Club should be dissolved and that the University should take over the operation. This conclusion is accompanied by the understanding that the numbers do not make sense. If the operations are to be contracted out to another organization, the Club should get out of business and give the space to the University. The next question is then what should the University do. There has been support for the maintenance of meeting rooms; there has not been support for the general collegial nature of the Club--which some want but without dues. Those who pay the dues also want it, but with a dues structure. There appears to be little support for this element of the Club in the administration. This collegial setting, all seem to agree, is a vital element in a university, especially this one, which is extremely fragmented along departmental lines. Retention of this function will become an administrative burden--it may be able to perform it better and with economies of scale, but it will do so without the $100,000+ in dues revenues. Perhaps the administration can assume the operation, and perhaps run it more efficiently, but the University will become even more fragmented without an equivalent to the Club located somewhere on the campus.

Professor Messing said the question was not one of paying dues. It is rather a question of whether the services can be provided at the prevailing rate; it is an empirical matter whether or not they will cost more money. In 1938 the faculty, acting through the private Campus Club, gave $25,000 towards construction of Coffman Union. The legal status of the Club is clear, now: No one believes that the Campus Club property--the 4th, 5th, and 6th floors of the Union--belong to that private organization. Coffman funds came from the Works Project Administration, which funds were required to be used for public use facilities; private clubs were not included or permitted. It is important for members of the University community--faculty, staff, and students--to meet in a setting other than the traditional one of the classroom. The existing Club, however, does not represent a true sampling of the University community nor does it represent a true sampling even of the faculty and staff. People of a certain age and culture are over-represented. A meeting and dining facility is important; the way the Campus Club is now constituted does not work and something has to change.

Professor Shapiro next turned to Professor Ibele for comments. He began by noting that there are thousands of meetings held at the Campus Club for the governance of the University. For as long as the problem has been studied, he pointed out, there has been disagreement about the appropriate rental charge and the value of the space; there ought to be some sure way of ascertaining the value of the space and a reasonable rental charge--the disagreement about the subsidy should be susceptible of resolution.

As important is the contribution of the Club to the University's culture. It takes time to learn that culture and the new senior administrators may not understand it. The Campus Club provides the location for faculty members to enrich their lives by interaction with colleagues from across the institution. The complexity and diversity of the institution becomes more understandable because of the Club. Those who follow us, he said, will not have that opportunity for enrichment unless some equivalent setting is maintained where people can come together as human beings; without it the glue that helps hold the

University together will be lost. While this is an intangible, plans for developing a substitute must take this factor into account; if it is lost the University will indeed become ungovernable.

One Committee member noted that all private clubs are having difficulty; it is no surprise that the Campus Club has problems. The concern right now is on the immediate future; if the $75,000 is not renewed the Club will surely die. There needs to be concrete plans provided on what will replace the Club, and provide the same benefits. One concern is the food; most people eat there to avoid the meals provided by food services. If food service provides the food, people will not go to the place "to get the same junk they can get in the basement" of the West Bank, for instance. Another concern is that if the facilities are managed by the people who run other facilities on the campus, it is doubtful they will take into account all of the intangibles that have been mentioned. Finally, it is inescapable that any different facility will cost more than it currently does; there are things to be fixed up and there will be no dues. It is a waste of time to regret the $75,000 because it will be a great deal more than that under any new arrangement.

Another faculty member agreed about the intangibles and said it was unimaginable that the faculty and staff would not have the facility. It is difficult to come to a conclusion on what ought to be done, however, when the Committee is only dealing with one side of the equation. The Campus Club is projected to die and we need an alternative--but we don't know what the alternative will cost and whether or not it will provide the intangibles. Someone must be charged to find out these things. Allegations about the age and diversity of the membership of the Club, it was also noted, should not go without challenge: Those are questions which can be answered.

Senior Vice President Donhowe told the Committee he has been "reluctant to go barging forward and say `this is what you ought to do with your club.'" It would be bad form, he said; for him to do anything requires an invitation from the Club board to him to outline alternatives. It would be counterproductive for the administration to tell the Club what to do. One Committee member responded by saying that the message would be carried to the Board of Directors of the Club so that a negotiating team could be designated. The proposal, Mr. Donhowe added, should not be solely an administrative proposal; a solution, perhaps an alternative to a private club, should be developed jointly. It was also suggested that any negotiations include representation of those who are not members of the Campus Club.

Professor Shapiro inquired when the deadline date for a decision was; it is approximately the middle of January. He said it would be unfortunate if, one day, there simply appeared a "closed" sign on the Club doors and emphasized that any decision, in the view of those who have considered the matter, should take into account more than simply the dollars involved. After proposals have been developed they should be brought back to the Committee for discussion.

3. The Biennial Request

The Committee next turned its attention to the two resolutions proposed by Professor Morrison at the previous meeting. Before moving to them, however, the Committee inquired of Mr. Donhowe about the financial circumstances of the State.

The fiscal setting, he said, has changed. The budget shortfall, depending on one's point of view, ranges from $1.4 billion (without inflationary run-ups on expenses) to $1.9 or $2 billion (with run-ups).

Although the Governor-elect does not enter office with a great deal of political baggage, he probably has at least a modest commitment to MEA--which will not be satisfied with no modification in the funding for education. If such adjustments are made for education, then "the fat is in the fire" insofar as other inflationary run-ups are concerned.

Each system has been asked to identify 10% of the anticipated "unliquidated" appropriation for the last six months of the current fiscal year which could be rescinded, which amounts to 5% of the annual appropriation, and a plan for how that reduction would be accomplished--and the plan should be provided in the next three days. For the University that would amount to slightly over $23 million (in hard funds).

Mr. Donhowe observed that it would not be feasible to provide an informed plan for cutting $23 million out of the budget on such short notice; it would have to be "slash and burn." That amount is over half of what the University has been talking about reallocating over a five year period and doing in a thoughtful way. A similar amount would also be taken from the budget for each of the two years of the next biennium (5% each year). The total is around $75 million.

What the Governor-elect wants to see, most likely, is options which will permit him to get ahead of the budget problem and to make as big an impact as possible this year so that the base is reduced when the biennial budgets are considered.

There are several overwhelming problems with this approach in higher education, Mr. Donhowe said. The majority of the appropriation comes through the Average Cost Funding matrix; the only way to reduce funding equitably across systems is to reduce the multiplier in the matrix. It would be even more complicated because the University, at present, is not being funded by the Matrix formula. Alternatively, operating expenses for buildings, repairs and replacement funds, and all of the State Specials could be cut. It is questionable whether or not the Finance Department wants to know if the University should close a campus--or has the authority to close a campus or merge departments. The Governor-elect and his staff cannot know how to do these things and it is certain that the legislature does not want to take them on.

How the University will respond is not clear. If equitable sharing of the reduction is the plan, the University will participate. But it will not suggest that anyone else make a decision about whether or not to keep Waseca open or whether or not to continue broadcasting over KUOM. Given the scale of the fiscal problems, however, the task before the University is not spending the new money it was thought might be around; the task is to defend the base and, if there is any new money for inflationary run-ups, that the University receive an equitable share.

Mr. Donhowe agreed that even closing a campus would not produce the $23 million by July 1; the only way that could be accomplished would be to take deep cuts in non-academic areas. He also agreed that the $40 million in the central reserves could be used to "bridge" to longer term solutions--ones which would free up hard dollars in the next two years or so. The reserves would also be used if there is a major rescission during this year--to make a transition so that the University is not forced to do "stupid things or try to do them in too big a hurry." The only way to hold the institution together is to take actions in light of the best long-term planning that can be brought to bear--which will take time.

Mr. Berg pointed out that this request from the Governor-elect is most likely to provide policy options for the transition team; no one can reasonably expect the University to make $23 million in permanent budget cuts this year. He also noted that a Governor cannot "unallot" until the State budget reserve is used up. The reserve is of sufficient size that it is unlikely the Governor will "unallot." The legislature, Mr. Donhowe added, can "unallot," however--and it has done so in the past. And the Governor-elect may have support from the legislature for rescinding funds.

It seems to him, Mr. Donhowe said, that if rescissions are necessary, the way to make them is not across-the-board. Any rescission should trigger important cuts and the reserves should be used as a bridge to make them. Program cuts may have to come from central administration or from the colleges, but it may be necessary to eliminate units and programs rather than bleed everyone. That may also be good politics.

The two premises underlying the comments, one Committee member suggested, is that across-the-board cuts would be inequitable (because of the relative wealth of various units) and that to ignore the existing planning process could do the University more harm than good (the planning process should be affirmed). Further, the administration should be prepared to undertake the same kind of reorganization that will be imposed on the colleges. Mr. Donhowe agreed.

There are two questions at hand, said one Committee member. The first has to do with the current budget, and there is, at this point, no cause for immediate panic; even if cuts have to be made the central reserves will be used to move to sensible reductions. If specific action needs to be taken, presumably the Committee will be asked for its counsel.

The second question is the 1991-93 biennium, which involves an interplay of two factors. The University is now less optimistic about receiving anything other than the "zero plus zero" increases for the two years. There is much in the request, however, that must be accommodated--taxes, pollution control, and so on. What will the University do, vis-a-vis reallocation and the planning process? It has been assumed that any inflationary run-up would be outside the planning process; that assumption may be less viable now. If so, what will be done in the intermediate run? Assume that there will be an inflationary run-up, in the hope that there will be, and continue the process of reallocation? Or assume that there will not be any run-up and that the relative priorities of items (faculty and staff compensation and supplies) may change--in order to not to create new distortions in the name of eliminating old ones. One motion before the Committee calls for a re-evaluation of the reallocation process, if there is no inflationary run-up, to take into account the need for salaries as well as for programmatic change.

Mr. Donhowe said that since resources will be fewer than previously thought, the reallocation process should be accelerated. It may also be necessary to set larger reallocation targets. The end result will be spending less money; whether or not in accord with the planning process remains to be determined. (The Committee and Mr. Donhowe spent some time differentiating between retrenchment and reallocation. It was agreed, and clearly understood, that the what would be sped up would be the acquisition of funds from units rather than their redistribution and that the redistribution would be subject to further consultation.)

The first conclusion to be arrived at, Mr. Donhowe said, is that planning/reallocation process will need to be accelerated and may need to go further in finding resources; it will be necessary to "prune, cut, eliminate, or combine."

The second question is whether to sustain and continue the process of reallocating in accord with Academic Priorities, to enhance programs, or to use the funds to replace inflationary run-ups that may not appear in the appropriation. The second question deserves a great deal of discussion, he said. Mr. Donhowe concurred with a Committee member who reflected that this may mean it will be necessary to achieve the 10% reallocation in less than five years and it may be necessary to obtain more than 10%.

Mr. Donhowe was asked if there had been any discussions about early retirement and continuation of health benefits after retirement--steps which would encourage faculty to retire. He said that an entire range of incentives may be investigated; there may be people other than faculty (i.e., civil service staff) who could make use of alternatives, such as re-tooling for a different career. The University is in the business of education and presumably in the business of helping people re-shape their capabilities so they can remain productive. Appropriate incentives for people to return to school and consider different careers within the institution would be a more healthy signal to give to employees than the message that "we'll pay you to get out of the way." The current Regents Scholarship program does not provide the necessary incentive, it was said; more inventiveness will be necessary. Mr. Donhowe concurred. In the instance of a tenured faculty member for whom there is nothing to do, Mr. Donhowe said, it would arguably be better to provide one or more quarters of leave and encourage them to do something else. The process of reallocating and reshaping the University will freeze if people who do not fit into one specific program are discarded; there will be few ideas proposed if everyone perceives their position or program to be at risk.

Early retirement options also disregard the coming problem of a faculty shortage, it was pointed out.

The first resolution should be considered later, it was agreed. The second motion (disputing the instructions to collegiate units that reallocated funds could not be used for salaries) seems to yet be in order, it was argued. If there is no inflationary run-up, or a small one, there are different implications, but the instructions to the colleges are no longer tenable.

One Committee member spoke against the second resolution. One dean pointed out that in colleges where there are some funds which could be squeezed out (and transferred to other units) there would be raises--and no funds available for transfer. The result is would be to create a perverse set of long-term winners and losers, which goes against the logic of trying to improve quality.

The Committee decided to delay action on the two motions before it until its meeting on December 18--when presumably more information about the fiscal situation may be available.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota