

Minutes\*

**Senate Committee on Finance and Planning**  
**Tuesday, June 28, 1994**  
**3:15 - 5:00**  
**Room 238 Morrill Hall**

Present: Irwin Rubenstein (chair), Mark Davison, Virginia Gray, Michael Hoey, Karen Karni, Craig Kissock, Richard Pfutzenreuter, Thomas Scott, Dianne Van Tasell

Regrets: David Dahlgren, William Gerberich, Doris Rubenstein,

Guests: Senior Vice President Robert Erickson

Others: Peter Fergusson (visiting faculty member from Australia); a Channel 4 reporter

[In these minutes: The 1995-97 biennial request]

Professor Rubenstein convened the meeting at 3:15 and asked Mr. Pfutzenreuter to review with the Committee the documents he distributed.

Mr. Pfutzenreuter explained that the administration will present to the Board of Regents in July a conceptual framework for the 1995-97 biennial request. He reviewed the summary of the economic outlook being used by the State of Minnesota, which includes projections of economic growth, inflation, and personal income through 1996. The projections, by comparison with other predictors, tend to be conservative. These data are as of May, 1994; the next projections will be available in November, after the elections.

He then reviewed the general fund forecast (Finance Department Planning Estimates) for the state for 1996-97; it is on the basis of these projections that the Governor vetoed a number of spending bills passed by the legislature earlier this year. He was concerned with the projected reduction in the state's reserves, and the implications for the next biennium, and it is likely that any additional revenues will go into the reserve rather than for additional spending.

The Department of Finance has issued budget instructions; Mr. Pfutzenreuter reviewed some of the highlights from those instructions. The University's general fund budget target is \$908 million (set in the 1993 session). The targets for agencies are either in law or represent the 1995 spending levels; in the case of the University, the target is actually less than 1995 spending. The Governor plans to reallocate resources to fund his priorities and intends to provide needed state services without raising taxes. There is an opportunity to request new initiatives. The instructions generally are middle of the road for an election year.

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The next schematic identified the elements of the framework for the biennial request. An important feature will be the critical measures and benchmarks, likely to be called for by another document from the Finance Department, a performance report. This report will be given to the legislature this fall, before the budget recommendations in January. One important item will be the consequences of the budget target of \$908 million. Will the University respond, indicating what will happen if it has to accommodate that target? The Governor has said that the University will have to operate within the \$908 million. That amount would have to accommodate additional initiatives, inflation, and so on. The \$908 will actually require reductions, Mr. Pfutzenreuter explained, because the 1994-95 appropriation, carried forward without change through the next biennium, would mean \$923 in resources--so the \$908 is a reduction of \$15 million, or a 1.6% reduction in current levels of expenditure. (There were a variety of calculations made by the Finance Department to reach \$908, including manipulation of some tuition rates; Mr. Pfutzenreuter explained the details to the Committee.)

Asked if he had looked at the other higher education systems, Mr. Pfutzenreuter said they had all been treated the same but he did not know if their budget targets were better or worse than the University's vis-a-vis its current budget.

Mr. Erickson then commented that one needed to understand the planning estimates of the Finance Department; he directed the Committee's attention to the earlier slide. The estimates project a 4.4% increase in total expenditures (above the amount for 1995 doubled). The University's \$908 million is included in those numbers. The targets imply a reduction in the state's reserve (\$500 million to \$242 million). Even granting that the numbers are conservative, there would still have to be a substantial increment in revenues for the reserves to increase, and thus permit the state to operate without borrowing money (which, because of cash flow patterns, it would need to do if the reserve is not high at the beginning of the fiscal year).

Even though the University's budget target represents a reduction, there are other parts of the state budget that WILL grow, which is why the overall state budget will increase 4.4%. Among those budgets that are growing are K-12 education, the crime budget, health, some state agencies, and property tax relief.

Mr. Pfutzenreuter then turned to some of the University's budget numbers. One part of the draft budget request will describe what will done with the \$908 million; another part will be to seek increases. Targets above \$908 million might, for example, include growth due to 3.5% inflation or a 5.5% increase in the University's budget on both state funds and tuition and fees. He reviewed the numbers associated with each target. In both instances, Mr. Pfutzenreuter affirmed, the \$15 million gap between current spending and the budget target would have to be subtracted, so even the numbers for 3.5 and 5.5% increases would actually be less. The U2000 financial document, he recalled, called for increases of 5.5% (which would total about \$103 million for the 1995-97 biennium, O&M and State Specials total).

The uses to which the increased revenues could be put were next considered, four categories: a repeat of the request for the items in the 1994 supplemental request vetoed by the Governor (\$18 million, mostly non-recurring); O&M core funding (\$78.5 million, inflation on salaries, fringes, other expenses); U2000 strategic initiatives (\$32 million); and the facilities infrastructure (\$27 million, some of which are probably "must do's" rather than optional items). These four categories total \$157 million. This is substantially more than would be available with either the 3.5 or 5.5% increase. The core funding request

includes salary and fringe increases of 3.5%. The numbers associated with the U2000 initiatives are estimates, some firmer than others, and include such items as interdisciplinary cooperation, instructional innovation, strengthening key disciplines, student services, recruiting, libraries, educational equipment, and so on.

Not included in these numbers are those associated with internal reallocation within and between units to fund some of the U2000 initiatives, about \$10 million per year.

Faculty salaries above inflation would probably be handled through the U2000 items "recruitment and retention" and perhaps "strengthening key disciplines." Recalling that the University ranked at the bottom of research university faculty salaries, it was pointed out that there will be no catch-up, in terms of the University's ability to compete in the market for assistant and associate professors, if there are only inflationary increases.

While it is perhaps risky to publicize numbers such as these, Mr. Pfutzenreuter agreed, the reality of what things cost must be understood so that the themes don't get too far out in front of reality.

Asked if an argument for inflationary increases would not sell, Mr. Pfutzenreuter paused. Mr. Erickson pointed out that the University is seeing a declining resource base, as a percent of total state funds. The only conclusion he can draw, he said, is that somehow the University has not been able to sell the idea that it and higher education are more important than other state priorities. If the argument has not been made effectively, it is difficult to get to the second premise, which is that the people in higher education should be paid more. The challenge is to get the message across, and that involves how the request will be framed--which in turn will be related to "outputs" arising from U2000. The legislature must be persuaded that these are outcomes it wishes to buy for the state. At the same time, the University must be realistic about funding for higher education in Minnesota--it has been decreasing, not increasing. Other parts of the budget are getting more, e.g., prisons. One argument that might be made is that investing in higher education may reduce the payments that will have to be made down the road for incarceration. (That may be argued for K-12 more than higher education, it was suggested.)

The numbers presented contain several assumptions, said one Committee member. One is that the University will continue to do everything it has done in the past and does not cease doing things it does now. Can that be used as an argument with the state--can the University not say it needs to fund its activities so they can be done well, and if they cannot be funded in order to do them well, the University should do fewer things? And the state should realize what the University will not do. These should not be threats, they should be statements of fact; if the University is to be a quality institution, and since funds are insufficient to do everything well, perhaps it should not do everything.

That must be described when the University outlines the impact of the \$908 million budget cap, Mr. Pfutzenreuter suggested. It would probably be foolish to ask for \$90 or \$150 million more than the \$908 million without showing some evidence of a willingness to reallocate internally to meet some of the needs.

One way to look at this is that the Governor is acting rationally in an environment where the needs of the state are shifting and in trying to accommodate those needs within a balanced budget--"he's robbing Peter to pay Paul." Funds are being shifted from higher education to other areas, such as health care. One

then inquires if the other higher education systems were treated the same as the University. This triggers the (somewhat exaggerated) observation that the K-12 systems and the health care industry are each working together to obtain resources; is higher education working together similarly? Is the total system working with the legislature?

Mr. Erickson said the discussions with the other higher education systems are preliminary. In his view, the University needs to try to do two things. First, it must argue for the importance of higher education in total--everyone must make the case for making the pie bigger in terms of trade-offs. It is important that this be done consistently. Second, the argument must be made that the mission of the University needs to be understood better, as does the fact that the University has most of the higher-cost programs. The University also needs to make the case for its unique resources, such as the Twin Cities campus libraries, which are really state-wide resources. How these two cases are made is what the wrestling over the presentation of the biennial request is about. The University needs to do both. Moreover, there is a shorter-term and a longer-term message. There has been erosion that needs to be reversed; is it realistic to have that turned around in one legislative session, he inquired?

There was a recent meeting of some of the political types among the faculty, it was also reported; they were told that there will be a coalition this year among the higher education systems and a greater emphasis on seeking to increase its share of the budget. This is good news, responded another Committee member, because if that broad conceptual approach is not taken, higher education will not do better at the legislature.

Mr. Pfutzenreuter recalled from his days at the legislature that he was always surprised that higher education as a whole "never had its act together." Everyone argued for themselves; the systems were not friendly once they were in the same room.

He then reviewed the contents of the 1994 supplemental request; one question is how that request is packaged for the biennial request. Following that he reminded the Committee of the strategic directions of U2000. The University spent the last session pointing out what U2000 consists of; those directions must be kept in mind as the biennial request is prepared. The University must be consistent on this; it argued that the supplemental request was a downpayment on U2000 and now it must deliver the rest--or the legislature may view it as simply a lost "Commitment to Focus."

The next steps include the Finance Department instructions specifically for higher education, the University must decide what its investment priorities will be, responsibility for preparing parts of the request must be assigned, the critical measures and benchmarks must be put in final form, and responsibility for the U2000 marketing plan must be assigned.

There are two components missing, said one Committee member: increased efficiency and increased revenue (e.g., increase tuition, increase the number of students, whatever else one can think of). Presumably some of the money, the University's contribution to the effort, will come from reallocation; presumably part will be from these other revenues. Tuition is accounted for, Mr. Pfutzenreuter pointed out; the funds available include tuition, although the numbers are silent on rate or enrollment, but do call for increasing the revenues by either 3.5 or 5.5%.

Is there any way to estimate efficiency? The original U2000 financial strategy contained the

assumption that in restructuring, efficiencies in academic and administrative programs would be identified--about \$10 million per year.

The critical measures and benchmarks have been mentioned several times; they are somewhat scary when combined with words like "efficiency." The payback from higher education is not today or tomorrow, it is down the line. Is emphasis on efficiency merely playing to the concerns of politicians? Mr. Pfutzenreuter observed that the critical measures and benchmarks are one way to communicate where the University is headed with U2000--as opposed to simply asking for X amount of money, with a lot of words. The measures will help articulate where the University is going. One of the challenges will be to develop a funding request that shows the University will be able to deliver. Nor are all the improvements funding-related, pointed out one Committee member.

This Committee never went over the critical measures and action plan document that went to the Regents, it was pointed out, so most Committee members are not familiar with it. It reviewed the measures but not the plan given to the Board. The action plan, it was said, is more directed to developing detail on the strategic directions. Yet, it was rejoined, the people who are actually going to "do the actions" are faculty and staff; since they had nothing to do with preparing that action plan, it may sit on some shelf. Unless it is bought into by faculty and staff, it won't go anywhere, and the Committee never had the chance to review it.

Is there any sense of what the political environment will be, with the upcoming elections? One thing to keep in mind, it was said, is that these are the budget instructions of this governor; one can think that a different occupant of the office would view them differently. The other Republican candidate, for example, might call for even deeper cuts. The Democratic candidate's priorities do not seem to include higher education. The basic scenario may not change. There may be more change in the legislature, but the University's problems have not been with the legislature. The faculty at the recent meeting emphasized that there is much attention given to lobbying the legislature and not nearly as much given to lobbying the Governor; that balance needs to be redressed.

In addition, Mr. Pfutzenreuter observed, if there is a new governor, the transition period is very short; the budgeting process keeps moving along and cannot wait. He may have a few extra weeks, but the budget largely locked in.

Discussion then turned to tax issues in the state and their affect on the state budget. If there is an increase in taxes, it was said, it is unlikely the University would see much of the money.

After the conceptual framework is taken to the Board, the details will have to be worked out. The requirements will be better known after the Finance Department instructions are issued. Responsibility for assembling the information needed for the request will be assigned; some of it will go to the planning group, some to the Budget Office. The document needs to be prepared by the August Regents' retreat; the budget will be presented to the Board for information in September and approval in October.

Asked if the Biennial Request Advisory Committee (which includes faculty and staff and students) was serving a useful function, Mr. Pfutzenreuter said he thought it was. The discussions have been useful, he said. What is important, Mr. Erickson added, is that basic issues are being raised much earlier than they were the last time he was involved in the biennial request. The University has a major

communication issue with the state in terms of the many things it does that are not well understood; there is also a major issue with respect to extolling the benefits of higher education in general, as said earlier, compared to other programs. The University and higher education have to accept the fact, given the numbers, that it has not effectively made the case. There is work to do, he concluded, but getting the issues on the table so they can be addressed at an earlier point is essential.

The money spent at the University is allocated among units in a certain way, reflected one Committee member. The question is, is the way it is currently allocated the optimum way? The allocations are largely historic; is there a mechanism by which to judge the current allocation of funding for different units? Mr. Erickson said it is important to develop four-five-six--some number of--baseline measures that could form the foundation for evaluating basic expenditure budgets. What exists is largely historically driven, he agreed, and until the University gets to the point of identifying some number of principal determinants of budgets, the tensions between units and areas will continue to exist--because one cannot answer questions about equity. This will be one of the most important thing the University can do over the next couple years, and it will be a massive project. What is permitting the University to address these issues with more confidence is that there is a data base being built up so that the total resources of units can be compared. It will be difficult, but it will be important for the University to do.

One Committee member returned to the issue of cooperation among higher education system. The institutions have worked hard on mission differentiation over the years, it was said. Is that in part what leads them NOT to work together very well? Unlike the K-12 system, where the mission is differentiated mostly geographically, whereas higher education does it by type of service. In part, just because the University is the "prestigious" institution, there is almost a natural resentment or antagonism toward it. But even if the institutions were all doing the same thing, there would still be antagonism because of the scarcity of resources.

Another factor is representation; the other institutions tend to have one representative for their area while the University has had trouble developing a sense of representation in its legislators.

The role the University plays adds value to other institutions, for example, with the cooperative degree arrangements. Metro State, for example, will be looking to the University for cooperation in carrying out its program. Those kinds of bridges, if the University plays its cards right, can be helpful. It needs to be careful, and it is proper to say that the University is not BETTER than the other units; they each have different roles to play. Each ought to fulfill its roles as well as they can. On the other hand, a functioning, high-quality university is ESSENTIAL to the future welfare of this state. One can not say that about the other institutions of higher education, public or private. They may be essential to the region they exist in, but if one is talking of the future economic welfare of the state, this is THE ESSENTIAL institution. Somehow that essential nature of the University has not been communicated--it is just another unit of higher education.

One Committee member recalled that virtually all political campaigns have become very sophisticated in terms of voter identification and questionnaires and keeping in touch with constituents; the outstate districts do so much of that now that they have actually become more parochial about their districts and less concerned about the state and nation as a whole. With that occurring, a place like the University suffers, because politics has become SO local that to argue with a legislator that the University is important to the state--when all the fund-raising and support may come from a local institution--is not

going to be successful. Another noted that when candidates campaigning come to his door, and he inquires of their view on higher education, they rarely have a position.

There is an element of being taking for granted, Mr. Erickson observed. Few legislators realize the University's faculty and staff bring \$250 million per year into the state that would not otherwise be here. The University has a job to do in getting this information on the table.

Professor Rubenstein noted that Professor Gray would call any meetings that would be required during the summer and that the outgoing members would be available for such meetings. He expressed thanks to the members of the Committee for participating in the discussions. Committee members in turn expressed appreciation to Professor Rubenstein for his service as chair.

The meeting was adjourned at 5:00.

-- Gary Engstrand

University of Minnesota