Minutes[•]

Senate Committee on Finance and Planning
May 7, 1991

Present: Burton Shapiro (chair), Avner Ben-Ner, David Berg, Bill Chambers, Lael Gatewood, Michael Hoey, Kim Kantorowicz, Craig Kissock, Nick LaFontaine, Fred Morrison, Jeff von Munkwitz-Smith, Mary Sue Simmons, John Sullivan

Guests: Senior Vice President Robert Erickson, Geoff Gorvin (Footnote), Ken Janzen (Regents' Office)

1. Report of the Chair

Professor Shapiro told the Committee that the President's Cabinet agrees with the view expressed in Professor Morrison's letter to him: That no budget principles should be adopted until the outcome of the legislative session is known. The Committee, however, will consider the principles [and did so later in this meeting].

Ms. Simmons expressed puzzlement at an entry in the April 18 FCC minutes: That the Subcommittee on Physical Plant and Space Allocation would again be discussing the question of the steam provider. It was clarified that the Subcommittee will not take up the matter again; the continued discussion will be carried out by the ad hoc Steam Advisory Committee. Ms. Simmons agreed to contact Professor Ibele to confirm what will occur.

2. Update on the Legislative Session

Mr. Berg distributed a memorandum summarizing the positions taken by the House and Senate with respect to appropriations for the University and explained the numbers. [Inasmuch as the legislative situation changes hourly, the details of this discussion will not be reported.] The conference committee is at work on reconciling the positions taken by the two bodies; it appears that the conference committee proceedings will be contentious because of the divergence between the House and Senate positions.

One major difference is the approach to tuition: The House does not explicitly call for tuition increases but expects that the systems will increase it to make up part of the budget cuts; the Senate explicitly calls for significant increases as part of its bill (averaging 12% each year for all students, or 22% for undergraduates in lower division under present University policy). The two bodies also treat financial aid differently.

Asked about the likely outcome, Mr. Berg noted that two strongly-held views may be traded off. One view is that all systems except the University should be merged into a single system. The other view is that the State should not, as a matter of policy, go to a "high tuition, high aid" policy. It is possible that the House will give up the current funding policy in return for the merger bill adopted by the Senate, or

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the Senate will give up the merger bill in return for moving to the policy of "high tuition, high aid."

Mr. Erickson said he was very concerned with the philosophical implications of the Senate position ("high tuition, high aid"). There may be considerable momentum gathering in support of the position, he observed; the target is the elimination of subsidies (to middle and upper class students, which results from charging low tuition even though the families of such students could theoretically afford to pay a larger share of the actual cost of instruction). There are, however, societal issues which need to be discussed. We all know there are personal benefits to education, he observed, but there are also external benefits to society. Historically, because there is this duality of benefits, the policy has been to favor education because of the long-term benefits. That entire policy is now being questioned, which causes him considerable concern. There should be an active public debate on the issue. This is the most significant import of the numbers being deliberated by the legislature (apart from the wrenching impact of a base cut and no funds for salary increases).

It is clear, Mr. Berg agreed, that the legislature is not "picking on the University." "It's a thousand pities that the State hasn't got money, because we are clearly in the best position, relative to the legislature, of all the systems," he added. The University has not been discriminated against, and there are reasons to believe it has been slightly favored--to the small extent that the legislature has any ability to favor anyone.

3. Report on the Research Support Policy

Professor Shapiro reported that a new Research Support Policy had been developed administratively, after consultation with the Senate Research Committee, and that it had been discussed by the Faculty Consultative Committee last week. He asked Professor Sullivan to describe the elements of the policy for the Committee.

Professor Sullivan outlined the history of the discussions of Indirect Cost Recovery funds, now renamed Research Support funds, and itemized the major elements of the policy that had been adopted by the Research Executive Council. The basic principles are these:

-- Each campus will retain the research support funds it generates except for a small amount deducted for central administrative expenses.

-- Current levels of funding for the research infrastructure will remain the same, or be increased if possible; this includes funds for ORTTA, animal research, solid and hazardous waste, and so on.

-- A certain proportion of the funds will go to the deans of the collegiate units that generated the money; that will continue.

The University does not yet receive all of the funds generated by grants because the State continues to offset $6.5 million of ICR funds against the appropriation. The legislature will probably be asked to discontinue that offset in the 1993-95 biennial request. There are, however, additional funds available because of increases in grant funding to the University. Moreover, certain short-term commitments have been made from research support funds which, when met, will free up additional money. According to the policy, these new funds will be used for the following purposes:

-- For Physical Plant operations, for use for research space;

-- For renting off-campus space;

-- For an increase in flexible research funds to be used by central administration; and

-- For an increase in research support funds under the control of the Graduate School for disbursement for faculty research and summer fellowships.

Any comments from Committee members, he concluded, should be directed to Associate Dean Mark Brenner or to the Senate Research Committee next year.

One Committee member noted that there is at present considerable federal interest in institutional use of indirect cost recovery funds. The University receives a substantial amount of these funds and should probably expect an audit within the next year. In addition, principal investigators have very little knowledge or interest in ICR funds, and are therefore poor discussants and advocates of the need for these funds by a research university. When they are part of negotiating groups in Washington, they are often not aware that these costs are negotiated, what goes into the base to figure out the amount of funds that should be provided, or what the funds are used for. It is time to encourage ORTTA or Finance to prepare a statement for distribution to all faculty to inform them about ICR funds--how the base for calculating them is developed and how they are used to enhance the research enterprise. The University is its own worst enemy when it comes to defending how the funds are used.

It was also suggested that if internal auditors have not looked at these expenditures, they should do so, because there will almost certainly be an external audit within the next year or so. The University should do whatever possible to avoid public embarrassment about the uses of these funds; the records should be clear and consistent.

Mr. Erickson agreed with these points and promised to be in touch with Mr. Potami about them. All ICR funds are examined on a regular basis by auditors, both internal and external, but they could be looked at more closely in the near future. There is no question, in an institution as large as this one, that someone someplace has probably mis-classified an item. The question is whether or not there is a pattern of abuse.

Another suggestion made was there be prepared a checklist of items, to be used by investigators, for which they should seek direct support. Attempts are made to keep grant proposals as low as possible in order to keep them competitive, but if there are clear principles on what part of the research infrastructure is being supported, then the investigators must realize that something they need, in addition to the infrastructure, has to be a direct charge against the grant budget. Investigators need to know if there are classes of expenses that would come from grant money--such as for renting off-campus space--because there is often not time to consider such things when the grant budgets are prepared.

Professor Sullivan said that this discussion highlights why some of the principal investigators want some of the ICR funds to be returned to them: The increased pressure to do more with less. They find it harder and harder to do their research with the funds that are provided.

Professor Shapiro noted that the average rate of indirect cost recovery obtained by the University is much lower than the rates at Stanford and Harvard. The University's liability is probably less, as well. Mr. Erickson commented that one issue is the direct versus indirect classification; another is that many of those campuses have more newer buildings and can recover more from them. He said that he had had a discussion with Mr. Potami on the subject; the University needs to be more active because a low ICR rate is not a badge of honor. There is a need to insure that the rate reflects everything that is appropriate. The University is in the process of negotiating a rate applicable for one year; during that time it must examine carefully the rate to be sure that all appropriate charges are included. The University also, on occasion, may accept without negotiation the declared ICR rate of an agency--which could be as low as zero; private institutions are less likely to do so. It also depends on who is administering the funds, Mr. Erickson noted; there may be policy differences among the agencies. These funds, he pointed out, are becoming more and more important to the University, as they grow in concert with increases in research funds; they are significant in supporting the University and the institution must be certain that it is recovering its costs.

4. Discussion of the Budget Principles and More on the Financial Situation

Professor Shapiro noted the letter that Professor Morrison had sent to him about refraining from adopting budget principles until after the legislature acts on the budget. Mr. Erickson recalled again that the Cabinet had concluded that because of the flux at the State discussion of budget principles would be premature. It was agreed that there was no longer any reason for the Committee to pass a resolution on the matter.

One Committee member spoke about things which require consideration by the Committee and the University. (1) Have there been any suggestions on how the University will proceed once the legislature has adjourned on May 20? The numbers just presented to the Committee by Mr. Berg show, for fiscal year 1991-92, a range of -$13 to -$22 million in possible net decreases in State funds and a range of zero to 12% tuition increases.

(2) The procedural question is how the administration will consult on what is to be done, given those possible outcomes, in the approximately 40 days that will remain before the beginning of the 1991-92 fiscal year. Mr. LaFontaine responded that the administration will have developed options that reflect the possible legislative outcomes. The result of the conference committee will be known next week; after that the options will probably be more precise. There will be a brief "window" between the time the legislature adjourns and the materials for the June Regents' meetings must be assembled; in any event the information would go to the Board for information in June and action in July. There will be opportunity to consult before the budget is presented for action in July.

The Committee should be reluctant to wait to consult until information has already been forwarded to the Board, even if only for information. There will be hard choices to make: Some will hit faculty, in terms of salary; some will hit students, in terms of tuition; and some will hit units, in terms of some kind of cuts or hiring freezes or closings. It would be unfortunate if the Committee were only to react to administrative proposals submitted to the Board rather than to be consulted before the proposals are developed and submitted to the Board. Things become cast in stone at the point of presentation to the

Board; the Committee should contribute to the discussions of how the various factors should be weighed against one another.

(3) Since last December, this Committee member argued, the University seems to have operated on the assumption that salary increases could be sacrificed, even though it was the top priority. It is probably true, it was said, that salary increases could be sacrificed for one year; it almost certainly not true for two years. A biennial budget that asks faculty and staff "to eat inflation" for two years in a row will create major problems for the University. The interplay of this issue with tuition and retention will need to be confronted. The discussion should take place before the budget is submitted to the Board of Regents.

(4) Another monkey wrench to be considered revolves around salaries as well. The Governor has indicated that salary budgets will be frozen but that agencies, through negotiations with unions, could deliver increases at the price of lay-offs. The legislature appears to be backing down from a pay freeze for the public schools, so the districts could negotiate higher salaries but have larger class sizes. The State University System and the Community College System faculty both bargain collectively, so there will be negotiations with those groups. Many of the civil service personnel at the University are organized and negotiations will be necessary; it could be that the University would be accused of bargaining in bad faith if it takes the firm position that "zero is zero." The adoption of budget principles, as well as the structure and process of the budget, may lead to a two-year faculty salary freeze--when everyone else, through other mechanisms, is obtaining salary adjustments of some kind. The Committee needs to think seriously about whether a flat policy, as proposed in the budget principles, is wise.

Furthermore, the Committee needs to consider, if there are zero salary increases for 1991-92, whether or not the University should take a position on salaries in the off-year legislative session, even though that would be extra-ordinary. That may turn on what happens to the economy and other factors. But "I look upon two zeros in a row as a major disaster for higher education in the State, and for this University, . . . even if other schools are doing poorly." There must candid and forthright discussion about the alternatives available to the administration.

Mr. Erickson responded that the Committee member had identified the major points with which the administration has been wrestling. The President, he said, has certainly not forgotten about the importance of faculty and staff salaries. It is extremely important that the University remain, for the balance of the 1990s, nationally and locally competitive in faculty salaries; if it is not, it will be unable to attract and retain the best faculty. If the same standard is not used for the local markets, for the staff, the quality of employees may not be what the University needs.

The cost of each 1% annual increase in compensation, he told the Committee, is about $4.7 million. The Committee has seen Mr. Berg's numbers; for each percent increase, the University would need to find another (rounded) $5 million in recurring funds. The administration has spent a lot of time talking about this, and has considered some steps which would help on a transitional basis (which have been discussed with the Committee, such as an "interest holiday" on unit balances). The central reserves can be used, although an argument can be made that the existing reserves are inadequate, especially when one considers the frequency with which the State cuts the budget in the second year of a biennium.

The administration would welcome the support of the Committee, if it concurs, in opting for programmatic cuts rather than across-the-board cuts. All of the views expressed to the administration have been consistently opposed to across-the-board cuts. Does the Committee agree, he asked? The problem with programmatic cuts is that "the damage is in the mentioning": Once a program is mentioned, there are serious morale problems, so the administration is reluctant to do so until the University is ready to take action.

One Committee member expressed strong support for programmatic cuts. Such cuts, however, have their limits; at what level would they be considered? The difficulties of these cuts are becoming apparent with the movement and transfer of people from Waseca. Only a certain amount of those transfers can be digested by the University at any one time.

Programmatic cuts which discontinue a program may save money in the long run, but to the extent they generate revenue the University loses that income. Certain departments are closed down and the people go to other departments; other departments are closed down and the people go outside of the University but the revenue is also lost. To the extent Waseca students transfer to other systems, the University will lose the revenues; if they come to St. Paul, vacant seats will be filled.

One question to be asked, considering the information available: Can programmatic cuts also mean asking units to think more carefully about how broad the scope of their coverage is? There are units at the University--some in underfunded colleges--which have very high faculty concentrations per student number. One might not consider closing the department, but one might well conclude that the level of staffing is inappropriate. The colleges have done this to some extent already, but more may be required--and it will involve "pain and anguish." These would be program cuts but would not be as drastic and visible as the Waseca kind of cut.

Mr. Erickson said the administration is looking very carefully at the Waseca situation. Tenured faculty must be transferred to units which want them. How much of that can the University do, Mr. Erickson was asked, if it had to make up $24 million rather than $6 million? There would be a lot of digesting to do. Mr. Erickson said that one can argue that one-time expenditures to ease the transition, in these situations, would be effective. The administration is considering alternatives (which might include, for instance, buy-outs).

Are across-the-board cuts being considered, Mr. Erickson was asked. He noted that programmatic cuts take time; the administration is trying to identify other sources (such as temporary investment income) which can be used to buy time to do other things. Whatever is done, he said, it is very important that it be done in an "orderly and in the least destructive manner." The more that the scalpel can be used, rather than the axe, the better off the University will be. Any across-the-board cut only tends to further perpetuate whatever resource imbalances already exist. The guiding principle behind Restructuring and Reallocation, difficult though it is, is that the University must adopt priorities and decide what it wants to be. Unfortunately, as the President has said, some units are elated because they are receiving funds and others are destroyed because they are losing funds. That is the consequence of deciding on priorities and the programmatic cuts which must ensue. There is the added difficulty that programmatic cuts in this environment do not create any "winners."

One way to look at saving money for salaries is to consider the $9.4 million (per 1% of increase, over the biennium--$4.7 doubled); another is to recognize that there are salary equity issues (such as the one addressed by the Rajender consent decree). There are other equity issues; it may not be necessary to extract the full $9.4 million but to identify a smaller amount and distribute it in a differential way.

The lower the average increase, another Committee member pointed out, the more difficult it is not to provide across-the-board increases. Another said the University, under conditions of something like a 3% increase, would be better off giving some people 0% and others a much larger increase.

The University must also guard against panic on the short-term basis and must plan for the longer term. The problem, Mr. Erickson said, is that the University does not have sufficient reserves to cover the situation; it would be wonderful if there were $200 million in reserves that could be used to buffer the institution during this time.

Health insurance, Mr. Erickson agreed, is another unknown factor; it is not known what the State will do. It is very probable that there will be increases in costs.

Asked, Mr. Erickson said that it would take about a 7% tuition increase to raise an additional $10 million per year; the rate would actually increase more because of enrollment declines. Considering that many options for 1991-92 may already be foreclosed, a tuition increase for the purpose of salary increases may be necessary the second year of the biennium--to ensure that the budget problems are not loaded "entirely onto the backs of the faculty and staff." That possibility will depend in large part on what happens at the legislature. If the House view prevails--calling for small tuition increases over the biennium--but there is a loss in purchasing power for faculty and staff of 8% over the biennium, that situation would be difficult to justify. If the Senate view prevails--which calls for a 25% tuition increase over the biennium--the students will absorb a larger share of the burden than the faculty and staff. There is no point in discussing the relative weights of these two factors until the legislature has made its decisions. As unpalatable as it is, it may be necessary to conclude that tuition increases are necessary--as will be programmatic cuts--to deal with the salary question. The legislature may force these decisions on the University; the House position <u>invites</u> the University to do so.

It was agreed that the whole budget situation will be taken up on May 21, even though--since it will be the day after the legislature adjourns--the numbers may not be completely known. It was also agreed that additional meetings in June and July will be required.

5. Discussion of the Philosophy of Retention

Professor Shapiro next raised with the Committee an issue which had been discussed by the Faculty Consultative Committee: Faculty retention cases. The President had told FCC that there would probably not be money for salary increases but that there would be funds for promotions and for retention. What, Professor Shapiro inquired, is the philosophical justification for retention? Especially given that some believe it to be "hard ball politics" by some faculty.

Professor Shapiro related two incidents. (1) Two up-and-coming law faculty members, in the 1960s, went to the dean and told him they had offers from other law schools. The dean responded "it's been wonderful having you here; enjoy the next school." (2) Robert Good, a world renowned immunologist, was offered a position at Rockefeller; the University would have done a great deal to retain him. Good said that when someone leaves a place, it is liking taking one's arm out of a bucket of water; as soon as the arm is gone, there is no evidence it was ever there. The University was not destroyed when

Good left, Professor Shapiro observed.

Another story, in the opposite direction, Professor Shapiro related, occurred in one department: Faculty in the department felt it so important that one of their colleagues not leave that they offered to contribute a small portion of their salaries to increase their colleague's salary. That kind of faculty response to an outside offer affirms that the loss of that person would be very serious to the department and legitimizes a retention package.

What, he asked the Committee, is the long-term good for most of the people at the University as opposed to the potential misuse of retention.

One Committee member said he knew of commitments that have been made, in some cases; those commitments will have to be honored in the upcoming budget irrespective of whether or not there are salary increases.

The story about the Law School, it was said, is true, but at a later time it lost six faculty members--out of a total of 20--and the Law School went into a slump that lasted for about a decade. Since then salaries have been used as inducements and rewards for performance, and to some extent the dean has dealt with offers, but faculty members have not been encouraged to get other bids. In the case of one search currently underway, the Committee was told, it appears that some of the candidates are engaged in precisely that activity--Minnesota is bidding up a salary at another law school when the individual has no serious intention of coming here.

The University should not, as a matter of policy, decline to respond to competing offers. A decision was made, about five years ago, that the University would push for excellence, that the PUF funds would be used for endowed chairs, that those endowed chairs would be used for the best people. The University must continue to try to keep those kinds of people. It would be undesirable to have Minnesota become known--as it once was in the Law School--as the institution at which the finest professors once taught. That is not a positive recommendation about current status; it is a recommendation about a status that once was. Bright young faculty, looking at such an institution, say "if I'm still here in three years it's a great pity." They come not to create a relationship with the institution and to try to bring excellence to it; they come to bid themselves up and use the institution as a stepping-stone to somewhere else. An absolute policy in either direction, it was said, would not help the University.

Another Committee member recalled that his department had had considerable experience with retention cases over the past decade. He had come to the conclusion that if an individual receives an offer, because of their scholarship, from a department that is clearly better than Minnesota's, it behooves the University to respond. If, however, an offer is generated from a department that is clearly inferior to Minnesota's, the University should say "if you prefer to be at that university, but making more money, you ought to go." This seems to be the most rational response.

The last suggestion received support from another Committee member; development of a policy along these lines would be desirable, rather than just matching offers from everywhere. The working group on academic salary structures, as part of its charge, is to pay attention to what constitutes the "market" and how the University responds to it--rather than to an artificial signal that elevates an individual's worth to an artificial level--without falling into the pitfall of not responding to <u>any</u> market signals and the resulting deterioration of the quality of the faculty.

Experience suggests, said one Committee member, that it is not the <u>faculty</u> who are concerned with retaining an individual; it is usually between that person and an administrator. There may be a lot of reasons, other than how good the person is, to retain the individual. The University should not be susceptible to that kind of maneuvering.

Individuals who are not serious about leaving, it was agreed, nonetheless generate magnificent offers from inferior departments. It makes the faculty demoralized to see six-figure salaries offered from departments that are not very important in the discipline. It is also hard to believe that the individual would actually go to such places. The practice divides the faculty into two groups: The "hustlers," who make a lot of money, and the people with moral standards who do not.

The University should not respond carte blanche to these offers, said one Committee member, although the subjective evaluation of other departments is not always easy. The first premise is that institutions are built by the people at them; the second is that if someone drops dead, the University of Minnesota will keep running just fine. No individual is all that important; it is the corporate group. The University should be reticent about responding to offers and should not be blackmailed.

Asked how much money is used for retention, Mr. LaFontaine reported that the last time it was a separately-budgeted item it was $500,000; there has been no item for retention for the past two years.

This is an issue that should be discussed openly, Professor Shapiro said; it has been clandestine too long.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota