Minutes[*]

Senate Committee on Finance and Planning
Tuesday, December 6, 1994
3:15 - 5:00
Room 238 Morrill Hall

Present: Virginia Gray (chair), David Berg, Mark Davison, Thomas Hoffmann, Karen Karni, Gerald Klement, Roger Martin, Richard Pfutzenreuter, Doris Rubenstein, Anne Sales, Thomas Scott, Craig Swan

Regrets: Patrice Morrow

Absent: Mary Askelson, Carl Erickson, Ryan Fuller, William Gerberich, Allen Goldman, Roger Paschke

Guests: Senior Vice President Robert Erickson, Senior Vice President E. F. Infante, Associate Vice President Peter Zetterberg

[In these minutes: Fifth year of R&R; summary of the five years of R&R; graduate student tuition waivers and remissions]

1. Discussion with Senior Vice President Infante

Professor Gray convened the meeting at 3:20 and welcomed Senior Vice President Infante to shed light on what had happened with respect to the fifth year of Restructuring and Reallocation.

Dr. Infante explained that while next year would be the fifth year of the Restructuring and Reallocation (R&R) plan, it would also be the first year of the partnership proposal to the state, which calls for a $14.1 million retrenchment. It would be impossible to stick to reallocation if there is also $14 million in retrenchment, and the question was how to deal with the two.

The original R&R plan did not take into account several investments the University needed to make, such as in facilities, the environment, the infrastructure. The question was whether to separate those needs from R&R. The analysis that led to the biennial request took into account the emphases in R&R, and the request includes R&R.

Dr. Infante emphasized that long-term investments that are not part of R&R are required for the future of the University. The $9.1 million approved by the legislature but vetoed by the Governor were not part of R&R.

Dr. Infante also said he had learned a lesson as part of R&R: it is important to make long range

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qualitative plans, but it is counterproductive to make long-term budgeting. R&R assumed that the legislature would continue the University's budget, with inflationary adjustments--but in fact the University LOST 12 - 14%. The qualitative plans can remain in place, but the statements about dollars led people to believe they would have the money and could spend it. Unrealistic expectations were created.

Failing to have long-range budget plans makes it hard for colleges and departments to plan, it was said. It is hard for the University to plan, Dr. Infante rejoined, and noted that there are no assurances about the institution's budget.

The issue, said one Committee member, is that when U2000 was rolled out, it was said that R&R would remain in place. Then when the proposed cancellation occurred, it appeared that there had been a major shift in policy without discussion.

Dr. Infante agreed that there had been miscommunication. He noted that during the five years of R&R, the plan was that support for some units would be increased and would be decreased for others. There were shifts in funding among the units, but with the overall decrease in University funding, EVERYONE declined. And in that period, needs arose that were not considered in R&R. It is possible to do the R&R, then do the reallocation under U2000--and then to do another reallocation because there is not enough money. R&R never contemplated the situation the University found itself in because of state budget cuts, which is that in order to have a better supported faculty, it must have a smaller faculty.

It is understandable that new needs arose; what is not clear is that there was broad discussion of the decision to cancel the fifth year of R&R. Mr. Pfutzenreuter should not be in a difficult position on this matter, and it raises questions about the role of Academic Affairs and the new provosts.

Dr. Infante said he thought the Committee had discussed the biennial request and the areas where investments and reallocations would be made, although not down to the level of the colleges. With the individual budgets, he said, he took into account R&R. What was communicated, he was told, was that agreements had been unilaterally terminated. That affects planning. But none of the deans received the money they expected under R&R, Dr. Infante pointed out, and that argument takes the logic too far. There has always been some uncertainty about the University's budget, it was said, and how it will be treated by the state; the decision about cancellation of the fifth year of R&R only added to that uncertainty.

The point was that there was no discussion of the process, and to have a sudden decision made was unsettling and undermines the process. It also creates uncertainty about U2000; will it also be abandoned? The fifth year of R&R was going in the right direction, Dr. Infante said, with some elements missing.

There appeared to be agreement that it would have been better to have made the changes in clear steps, first the R&R and then decisions made based on U2000. Dr. Infante assured the Committee that neither would be across-the-board.

Dr. Infante said he intended to hold onto the ideas of U2000; it goes significantly beyond R&R. The R&R plans were based on increasing the size of the faculty; he keeps hearing, he said, that the faculty do not have the support they need to do their jobs well.

He also told the Committee that the institution as a whole has not asked itself what the money provided to the colleges would be used for, in some cases. He said he wished that the money used by some colleges had been used differently than it had been.

Dr. Infante promised the Committee that in the future he would think harder about how decisions would be perceived. Professor Gray thanked him for joining the meeting.

2. Summary of Restructuring and Reallocation

Professor Gray turned next to Associate Vice President Pfutzenreuter, who distributed a table showing the funds reallocated (actual and proposed) for the five years of the Restructuring and Reallocation plan. He observed that the table had been created from a lot of notes, but most of the numbers have been verified. The figures for year five, he commented, are what will be implemented and what will appear in the December 20 budget instructions to units. All have been adjustments to base budgets, as will year five.

It appears that the plan is "pretty much on target," observed one Committee member. Another suggested that a lesson of this may be to do the table in advance so that it can be monitored.

Mr. Pfutzenreuter also reported briefly on "good news," the press release from the state about the budget forecast. The Committee discussed with him the meaning of the supposed $190 million surplus. The projected expenditures on which the surplus is based assume the caps that have been set; it is likely the Governor and legislature will change the law, permitting spending in excess of those caps.

Asked what the "good news" is, Mr. Pfutzenreuter said the good news is that the news isn't negative. So it's "thanks for stopping hitting my thumb with a hammer," replied one Committee member. And, Mr. Pfutzenreuter agreed, that the projections include inflationary increases for higher education.

Professor Gray thanked Mr. Pfutzenreuter for the "good news."

3. Graduate Student Fringe Benefits

Professor Gray welcomed Associate Vice President Zetterberg to the meeting to discuss a draft report on graduate and professional student tuition waivers and tuition remission benefits. Dr. Zetterberg reported that he is chairing a committee looking at these benefits, first, because they are of great concern to the University community.

The draft report, to be widely circulated, is primarily HIS report at this point; there is not consensus on the committee, and he himself is not certain what the recommendations should be. They wanted to provide information on a direct charge system and get comments on how it would affect departments. There is no deadline for reporting, so there is ample time to think about the issues; he said he is particularly interested in the views of THIS Committee.

However the expense of these benefits are recovered, there will still be an expense, because these are very expensive benefits--between $500 and $20,000 per student. One question the committee confronted early on was whether or not the University could operate without providing these benefits; the answer was "no." All of the University's peer institutions offer this benefit, in some fashion. MPIS examined a variety of factors affecting graduate students and compared the University with peers. If health insurance is included in the calculations, the University is slightly more generous than peer institutions; if not, the University is below peers. The University would NOT be able to compete for the students it wants if the tuition benefits were not offered.

On a one-page handout, Dr. Zetterberg outlined the questions the committee was dealing with. The questions are:

1. Do the nonresident tuition waiver and resident tuition employee benefit programs meet their objectives and are the costs of the programs justified and acceptable?

2. Do the tuition benefits for graduate and professional students, as currently structured, support academic progress and achievement?

3. How should the University recover the cost of tuition benefits for graduate and professional students?

4. Should changes be made in the structure of tuition for graduate and professional students?

The second question has been the most controversial, he reported. He has proposed, at least for the sake of debate, that no graduate/professional student appointment could be greater than 50%, that there should perhaps be a registration requirement (e.g., six credits per quarter until the preliminary oral is passed, and three credits per quarter thereafter), and that the tuition remission benefit be limited to 15 quarters. That has been the focus of the conversations; the committee proposed to extend the eligibility for 18 quarters.

It is important, Mr. Zetterberg commented, to focus not so much on cost and recovery of the cost as on the interests of the students. He said he does not know the answers; the University community must consider them.

The third question asks how the costs will be recovered. The waiver of non-resident tuition costs about $8 million; the remission of resident tuition costs about $15 million. The nonresident tuition waiver is funded by tuition income from all students (that is, overall tuition levels could be lower if this benefit were not offered). The committee sees no alternative to this method of recovery and recommends that it be continued.

The remission of resident tuition is recovered from graduate student employees through fringe benefits. The way the University recovers the cost of the benefit now is that the student's employer (typically either a department or grant recipient) pays the salary plus money to cover the fringe benefits, including tuition remission.

Dr. Zetterberg then noted that there are four different options for responding to the third question facing the committee; each has advantages and disadvantages. The old system--now disallowed by federal regulation--was clever in that it buried the cost by spreading it over all academic employees, collected as part of their fringe benefits. That minimized the cost to employers and maximized the return from non-state sources. Even investigators with staffs, but no students, paid 4% of their fringe benefits to cover the remission of resident tuition. A lot of grants and units all over the University were subsidizing the benefit, and a lot of money came from non-state sources, about $3 million of which was lost when the change was made to the current system.

Those funds have never been replaced since the old system was abandoned; the problem falls especially on the employers of students with high salaries who took minimal credits, which is typically departments that use research assistants. Employers with students who take large credit loads or who are in high tuition programs are being subsidized by other employers.

One Committee member observed that this is not necessarily bad; it encourages people to take more credits. That is why the University adopted it, Dr. Zetterberg rejoined. There is no incentive to minimize credit loads in the current system, because the cost to the employer is the same.

One alternative to the current system that could be considered would be to pay higher salaries to graduate/professional student appointees, and cut the fringe benefit rate by 28%. The salary increases (to pay for the elimination of the tuition benefit) could balance with some students, but it would not do so for all (e.g., Medical School students paying tuition and working as an RA would face much steeper tuition increases than could be recovered by a salary increase). There are also tax problems for the students under this option, so the committee concluded it would not pursue it. Some institutions do use it, Dr. Zetterberg commented.

Another option, which is the DRAFT recommendation of the committee, is to reduce the fringe benefit rate (taking out tuition remission) and directly charging the employer for the cost of tuition. If a student is taking three credits, the employer would be billed for them; if taking credits within the band, the employer would be billed for the band tuition rate. Advantages of this option are that it would eliminate subsidies from one group to another, and the cost is assessed where it is incurred.

The disadvantages are that the University would recover even less from non-state sources, because in many cases grants would be charged less. Another is that costs could go way up in some programs, depending on their students--those with students taking a high number of credits and on low salaries would pay more than they do under the current plan. The overall costs to the University would not change; those who pay would.

Thought must also be given to the administrative burden, Dr. Zetterberg commented. It is common, now, for each student employee to have three or more PAF forms each year, because of changes in appointment status each quarter. Right now the documents include both salary and tuition remission; if there were direct charges, a separate piece of paper would be needed each time for the tuition charges to the employer. He said he did not know if this would be an overwhelming burden but it does need consideration.

Finally, as for the fourth question to the committee (should changes be made in tuition for graduate/professional students), if six credits were the minimum for pre-prelim students, the band should be lowered to six credits. Employers would then pay either for three credits (for post-prelim students) or they would pay the band rate.

There are two practical difficulties with the proposal to levy direct charges, observed one Committee member. First, for the purposes of a grant application, one does not know which students will be hired or how many credits they will take. Second, faculty and student interests are opposed: faculty want more work from students, while students want to take courses and get done. So the direct charge system builds in a perverse incentive--one wants to hire the cheapest students, that is, those who take the fewest credits. That could be dealt with by mandating a registration requirement, Dr. Zetterberg said: a student must register for X number of credits, and the number would be three or in the band rate.

Direct charges are peculiar, observed another Committee member, in that it recovers less and is more expensive when providing support to first year students. Employers would always prefer to hire advanced cheaper students, compared to first-year students with high loads.

Most institutions probably use direct charges, Dr. Zetterberg said. He described the practices he knew of at two other Big Ten institutions.

The first two questions raise troubling issues, said one Committee member. The objectives of the program are not clear. The goal of promoting academic progress makes sense, but it does not pay attention to the labor supply issue. Graduate student employees do a lot for the University, and the tension arises on the employment issue. What is the answer to the second question?

One obvious objective of the program is to permit the University to attract high quality graduate and professional students, who are an important part of the institution's workforce. He said he would not say what is best, but he can raise the question; the answer is not entirely up to the student. His own view, he said, is that the University errs in treating graduate students too much as employees and too little as students. There are of course individual variations, but one should not make policy on them; the University can say, in general, how it wants students treated. One is not going to say that high quality students should be recruited to a Ph.D. program and told to take three credits the first quarter. One will, pointed out a member of the Committee, if one wants high quality employees--but that is a jaded view.

The best students will be the best employees, Dr. Zetterberg remarked. Departments think about students as employees as well as individuals in classes; the question is one of balance.

He has been told, he said, that a policy for the entire Twin Cities campus should not be written; he told the Committee that he disagrees with that view

It is the second question (do the programs support academic progress) that has generated the most commentary, even though cost recovery was the issue that drove creation of the committee.

Asked what the private institutions are doing, Dr. Zetterberg said that some, such as MIT, are lobbying to retain the old system. Given their tuition levels, any of the other options are extremely troublesome.

When the program was established, observed one Committee member, the intent was to obtain high quality students and get federal help in funding. The objective could have been accomplished by raising salaries. This is a problem with fringe benefit programs in general: they misallocate funds and they hide costs. Why not just pay the graduate assistants? That would not work in high tuition programs, Dr. Zetterberg pointed out, although allowances could perhaps be made. It would be difficult, for example, to hire Medical Students under this system, because they would be so expensive. Economically disadvantaged students worry especially about this; they question if they could resist using the increased salaries for expenses other than tuition (although tuition could be deducted from the paycheck). Then it is like a direct charge system, and one can question if the University could do what would be needed in salaries to retain the same benefits--and there is also the tax problem for the students, who would have to pay taxes on the entire salary, even though a significant portion would go to pay tuition.

There are large salary discrepancies across colleges and departments, noted one Committee member, so equity is also an issue. It seems unlikely that salaries would rise fast enough to cover tuition increases.

How would funds be allocated to departments to cover the costs, asked one Committee member? It is possible they would not be, Dr. Zetterberg said. There is a group of employers who would be DISADVANTAGED with the change; without any change, it would be a different group. But if the problem is not recognized as a high priority, support for TAs will be effectively decreased. Given that the University has lost about $3 million from non-state sources for graduate student support, it is likely that the level of support will be lower. It is support for RAs that is most eroded, at present; the direct charging system, however, will affect TAs more.

One Committee member expressed support for the time limits; the tuition remission/waiver should not be unlimited.

Has any simulation been done of tuition banding to see what happens to students who are not supported, asked one Committee member? It has not, Mr. Zetterberg said; some modeling of the options would need to be done to confirm that the direct charging proposal would be revenue neutral.

It is possible that changes in tuition will change incentives, and that must be accounted for, it was said. This is only a minor change in the tuition band, Dr. Zetterberg noted. It may be that it will NOT turn out to be minor, it was then said, and could affect a lot of people. If only the tuition band is changed, Dr. Zetterberg said, the amounts different are on the order of magnitude of $10 per credit. The bigger change is the requirement for three or six credits, and the information available on that will be examined carefully.

Some departments, it was noted, have a lot of part-time graduate students paying their own way, who may take only take one or two 3-credit courses per quarter; setting the band at six credits rather than seven will significantly increase their costs.

The University has taken a lot of flak about the time it takes undergraduates to obtain their degree. The same issue arises here; rather than have credits per quarter, the question is how soon the student will be done. The limitation on the number of quarters the benefit can be received is more important. It will be important to look at completion rates in different programs, it was said. Dr. Zetterberg said he realized that.

Another tuition question is what students who are past their prelim should be charged for the time they spend on their dissertation. They work with faculty members, use the libraries and lab space, and so on. At present the 36 dissertation credits are the price of a dissertation. One Committee member suggested retaining both the proposed quarter limits as well as the credits per quarter. Limiting appointments to 50% will be a major issue with CEE, Dr. Zetterberg noted.

Dr. Zetterberg affirmed that the proposed limits would apply only during the nine-month academic year; in the summer, graduate students would be permitted 100% time appointments and would not be required to register for any credits.

He concluded by saying he would welcome comments from the Committee.

Professor Gray thanked Dr. Zetterberg for his report.

Before adjourning the meeting, Professor Gray told Committee members that if they had any comments on the strategic planning report to the legislature that had been distributed, they should direct their comments to Professor Scott. She then adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota