

Minutes*

**Senate Committee on Educational Policy
Fall Retreat on IMG
Wednesday, September 17, 1997
8:00 - 3:30
Radisson Metrodome**

- SCEP: Laura Koch (chair), Avram Bar-Cohen, Elayne Donahue, Darwin Hendel, Gordon Hirsch, Thomas Johnson, Robert Leik, Judith Martin, Kathleen Newell, Palmer Rogers, Tina Rovick, William Van Essendelft, Gayle Graham Yates
- FCC: Victor Bloomfield, Kent Bales, Mary Dempsey, David Hamilton, Russell Hobbie, M. Janice Hogan, Laura Koch
- SCFP: Fred Morrison, Catherine French, Cynthia Gillette, JoAnne Jackson, Gerald Klement, Leonard Kuhi, Robert Kvavik, Richard Pfitzenreuter, Charles Speaks, Craig Swan
- IMG: Catherine French, Russell Hobbie, Leonard Kuhi, Patrice Morrow, Richard Skaggs, William Van Essendelft [Oversight subcommittee on Incentives for Managed Growth, jointly appointed by Professors Koch and Morrison, chairs of the Senate Committee on Educational Policy and Senate Committee on Finance and Planning. Most subcommittee members are also listed under the parent committee, if they serve on one.]
- Guests: Executive Vice President and Provost Robert Bruininks; Elizabeth Eull (Office of Budget and Finance); Professor Edwin Fogelman; Associate Dean David Grossman (University College); Associate Provost Robert Holbrook (University of Michigan); Vice Chancellor and Dean Maynard Thompson (Indiana University); President Mark Yudof
- Others: V. J. Agarwal (President's Office); Laurel Carroll (Academic Affairs); Martha Kvanbeck (University Senate)

[In these minutes: Incentives for Managed Growth; the entire retreat is on tape, for anyone who wishes to listen to the proceedings.]

Professor Koch convened the retreat at 8:30, welcomed everyone, and then asked Professor Morrison to begin.

Professor Morrison explained the University's vision of Incentives for Managed Growth (hereinafter IMG) and why it has adopted it. There were problems with the old budgeting system (it did not work); IMG allows colleges and programs to make decisions and removes the uncertainties of central decision-making. All academic units in the University are subsidized; that will continue; IMG requires units to concentrate on those parts of their budgets they can control (tuition and ICR funds).

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

The adoption of IMG means localized decision-making and planning and a reduction in central authority. It will mean allocation of tuition revenues to where teaching occurs and allocation of ICR dollars to the units that generate them. It means allocation of facilities costs on a cheap and rough approximation basis (but will, for example, include space in the cost of a new faculty member).

IMG is not a fully-costed facilities model, nor does it allocate costs down to the last dollar; it is a compromise. The Provost will only allocate the state subsidy, which is the only thing the administration has ever allocated. IMG recognizes reality and abandons myth in budget-making.

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Associate Vice President Kvavik then explained the operation of IMG at the University. Essentially, he told the committees, IMG means that if you (an academic unit) earn a dollar, you get to keep it; if you spend a dollar, you are responsible for the costs. A full case Responsibility Center Management system would allocate, by some algorithm, ALL costs to units (including, for example, the President's Office). At the University, IMG is intended to establish incentives where the units have some control; since they do not have control over the President's Office, they will not be charged for its costs.

No units break even, so the state subsidy is allocated to balance budgets; operating this way makes allocation of those funds more visible, and thus clarifies priorities. The funds are not allocated by formula; the institutional leadership will decide on priorities.

Dr. Kvavik then reviewed the assumptions underlying IMG; Ms. Eull explained in more detail how tuition allocation, ICR allocation, and facilities cost charges were established.

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Dr. Holbrook described the adoption of Michigan's version of IMG [Both Michigan and Indiana have variations of what Minnesota is calling Incentives for Managed Growth; for ease of readability, these minutes will refer to all of them as IMG]; Dr. Holbrook's comments were followed by a panel discussion including Professors Bloomfield, Fogelman, French, Hamilton, and Martin, and Associate Deans Grossman (University College) and Leik (Graduate School). Dr. Grossman outlined some of the major concerns of University College, and concluded that "we are flying in a fog with no instrumentation and with the weather getting worse." Dr. Leik observed that the Graduate School is not mentioned anywhere in the IMG documents, which is a big problem, that tuition attribution is very troubling from the perspective of the Graduate School, and that IMG should mean "I Must Grab" every penny for me.

The five faculty offered various observations.

(1) The University is becoming more like the Mall of America, with small stores paying a management fee. IMG will increase competition, and it is not clear how this will play out. It is not inevitable that IMG will be bad.

(2) A problem with central administration is that it believes all money is green (so that, now, ICR funds can be spent on teaching). There is a need for stronger controls on ICR, or it could disappear.

(3) Most faculty do not know enough about IMG to have an opinion, and will only lift their heads from the sand when dollars start to disappear from their departments. SCEP concerns include curricular piracy, pressures favoring large-enrollment classes (the opposite of emphases on active learning and personal instructor involvement and small classes), interdisciplinary efforts (about which there has always been hesitance).

(4) How will incentives and disincentives be established so the fears and worries expressed do not occur? As examples, there must be incentives for departments to offer small classes, encourage timely graduation, observe curricular appropriateness, and maintain the quality of the student body.

(5) The ill effects of IMG are ALREADY occurring. Departments are devising courses and curricula to generate enrollment, they are trying to determine what they can do to compete with other units (there will be a free-for-all), there are questions of quality (offering higher grades will attract more students to a course, and adjunct faculty cost less than graduate students). There will come into effect a Gresham's law of educational quality, the result of a customer-driven higher education. In the absence of central controls, departments will respond accordingly--and will get very creative.

Dr. Kvavik commented subsequently that SCEP needs to put in place regulations to curtail or prohibit the practices described and decried by the speakers.

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These comments were followed by questions and general discussion. Highlights of the exchanges include the following.

- Units will seek to enroll more students; it is not clear where they will come from, and will likely be a shuffling of students already at the University. Dr. Holbrook said Michigan saw real growth in numbers as well as current students enrolling for more credits. Dr. Kvavik said it was expected students would take more credits.
- Other comments included a suggestion the University respond to educational needs it has not served before (e.g., professional Master's degrees) and that IMG could increase grade inflation, and there will be no incentive to correct the problem. Grading and curriculum are in the hands of the faculty, it was said, and involvement of the administration would be more problematic than IMG itself; faculty control over the curriculum was disputed (an example cited was--at another institution--a semester course in the history of rock and roll--later expanded to a full year course, in order to keep enrollments high).

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President Yudof and Executive Vice President Bruininks joined the retreat. Dr. Holbrook described how state funds are allocated at Michigan, and noted that a much higher percentage of Michigan's general and educational expenses are funded from tuition than is true at Minnesota, so the state subsidy allocation at Minnesota has a greater impact than it does at Michigan.

Dr. Yudof described himself as a skeptic about IMG, and said that without good measures of department capacities, IMG is difficult to implement. He said he could not imagine that a great university would be driven by the incentives of IMG. Inasmuch as the decision to adopt IMG had been made, however, he would not undo it now, and would wait to see the data.

He then told the committees that he has been seeking support for the \$733 million capital request, and apologized for not having consulted more extensively with the faculty. He was, he explained, under the gun to develop a request, and that he is willing to explain it more fully and to rework it as necessary. He also described the supplemental request. Faculty salaries are the number one request; the budget for next year does not have funds set aside for them, so he is asking for additional funding and will also retrench the administration to provide additional dollars; he said he does not like retrenchments. Other funds will be for faculty lines and support associated with the initiatives in the capital request and for classroom renovation. He said he also may seek non-recurring funding for start-up costs.

Dr. Bruininks said he was mildly optimistic about IMG, recognizing that it is not a perfect solution. Questions asked of IMG should also be asked of the pre-IMG budgeting system (such as the difficulties with interdisciplinary research). He said IMG must be evaluated as things go along, and information about it must be shared widely. He also maintained there is need for an oversight mechanism, preferably one that has both faculty and administrators involved.

On the topic of interdisciplinary activities, Dr. Holbrook said that they alternate cross-listed courses and set up sub-accounts for ICR funds in interdisciplinary research. IMG creates incentives for teaching, he said, to create popular courses and have good teachers. Interdisciplinary teaching and research has always been a problem. The financial issues can be resolved; it is the disciplinary issues that are greater, and the problem usually comes with faculty promotions. The incentives created by IMG will work well 80% of the time and poorly 20%; the latter must be offset by the discretion of the provost, whose hands should not be tied by formula that do not work.

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Committee members and guests then exchanged a series of comments and questions.

- The relationship between the dean and department head is not driven solely by numbers; it must be guided by mission, quality, and long-term goals. IMG does not make decisions.
- At Michigan, faculty shared the apprehensions that have been voiced here, and had questions about winners and losers. Adoption of IMG broke sharply the connection between academic and service (administrative) units: unlike before, when all units more or less received the same level of increases, academic units have seen much larger budget increases under IMG.
- As for the impact on tenured faculty (i.e., if there is a decline in revenues in a unit, related to declines in tuition or other income, what happens if the revenues decline to the point where tenured faculty lines cannot be supported?), Michigan has had a concern about temporary faculty for years. In the case of a school that saw a decline, it was given one-year support, but will not be permitted to retain its enlarged budget. The question of the relationship of a market-driven budgeting system

to tenure has not been raised, because the question in the units has been how to become more attractive, how to offer the right programs, to get more students.

- In terms of more details about IMG, Dr. Bruininks said they cannot all be written down in advance and require thinking through. Nor should it be a highly regulated approach. He repeated his view that there is a need for a review/governance mechanism to adjudicate disputes (and not separate faculty and administrative committees), and a need for a process to evaluate how IMG is being implemented. Any system will create problems; the challenge is to address them collegially.
- What about incentives for larger class sizes? There will be pressure in that direction and for more impersonal education, *ceteris paribus*, but all things are NOT equal, Dr. Bruininks commented. The University must meet student and parent expectations and demands for quality; students come primarily from Minnesota, and are used to small classes; if the University tries for cattle car education, they will go elsewhere. The quality of the institution must be driven by core values, not simply the demand side of the economy.
- How will the University adapt to massive shifts in disciplinary knowledge and student interests when faculty are still being granted tenure? Dr. Bruininks said investment in faculty renewal must be a high priority. Sabbaticals and leaves must be at the top of the list.
- Apropos the general questioning and discussion, Dr. Holbrook pointed out that if the new budgeting system did not have a name, there would be no meeting, and that if the old one had had a name, there would be meetings about it. Dr. Bruininks added that the name of the old system was budgeting by stealth; now the numbers are out there so everyone can see them.

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Following lunch, committee members took up discussion and questions with Dr. Holbrook, and were joined by Dean Thompson from Indiana. (Indiana has had its version of IMG in place since 1989).

- In response to a query, Dean Thompson explained that support units had seen significant reallocation under IMG; they were told they could not charge for what they had not charged for in the past, but a limit was soon reached, and a faculty committee recommended that there not be so large a gap between academic and support unit budgets.
- Was the process transparent from a student perspective, and did it affect course access? At Michigan, students wouldn't know the initials and access probably improved; at Indiana improved course access was a major triumph of IMG--a big problem disappeared.
- Although a "good deal" for states, arts and sciences graduate education does not pay for itself and must be subsidized by undergraduate education; how will it fare under IMG? There will be significant national restructuring of graduate education no matter the budgeting system used; there will be DIFFERENT opportunities.
- Has there been a shift from tenured to part-time faculty, to cope with fluctuating enrollments? A committee at Indiana looked at the number of part-time faculty over time; there was no significant

- shift. In a couple of colleges, they did not increase their tenured faculty in face of enrollment surges because they were concerned about what would happen when enrollments declined. There was some reallocation of faculty effort; they did overload teaching to handle the bulge, and were compensated for it
- There were a multiplicity of committees involved in setting up IMG at Indiana; there are three continuing committees: the budget affairs committee, drawn from the faculty generally (which presents thoughtful advice and serves as a sounding board), the deans' advisory committee, and the IMG oversight committee (primarily faculty, a few deans), to provide a campus-wide perspective. All changes proposed to IMG were debated by the three and the University followed its recommendations. At Michigan, there is an IMG oversight committee composed only of faculty and a similar committee to advise the research vice president on research issues. Michigan had had no central curriculum committee and decided not to establish one, but Dr. Holbrook thought such a committee had a logical role to play.
 - Dean Thompson said that it is wise to anticipate curriculum tensions, and to have a mechanism in place before they arise. More important is a need for committees within the colleges to do what had been done at the campus level before (e.g., allocation of faculty lines, decisions IF a faculty member may be hired in some unit).
 - Some colleges may choose to ignore institutional policies (e.g., diversity). The creation of a position is strictly a local decision, but there is central review of candidacies to ensure qualification, Dr. Holbrook said, and there were programs and central funds before IMG and are after its adoption.
 - At the time of the change to IMG, the institutions could not deal with all the historical inequities that existed. At Indiana, without an increase in state funding, they created a chancellor's discretionary fund to deal with inequities; such a fund cannot be formula-driven and should not be used to bail out the inept.
 - Faculty they interviewed voiced strong support for IMG, Dean Thompson said, but he also understands that that view may not be reflective of views in the arts and sciences. Their concerns were a change in student interests from the arts and sciences to the professional schools--which is not an IMG issue, but which has big implications UNDER IMG. The liberal arts college declined by 10%, so saw fewer dollars to support faculty and programs, which led to discontent. The budget still increased, but at a slower rate than the rest of the University.
 - Unfunded mandates, and transfers of effort from central administration to colleges and departments without corresponding funding, are more visible under IMG.
 - Faculty salaries are set by what the unit can afford, although there are minima at Indiana. There is an informal understanding that the average increase in any unit will be no more than twice the average increase in the lowest unit. (They do not have a Medical School.)
 - Michigan and Indiana had for some time (before IMG) put all revenues together and then distributed them to the units, so ICR, fees, tuition, and state funds went into one big pot. It is

possible that ICR funds were used for teaching, because there was a common resource pool.

- The biggest disappointment with IMG at Indiana was that support units did not become more responsive to academic units, and faculty do not more clearly understand how IMG could enhance quality.

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At Professor Koch's invitation, Dean Thompson described the review process used at Indiana. He urged that such a review process be built in. There will be continuous review of IMG, but there will be need for an overview of the whole system to see if it is doing what is expected and its effects on faculty, staff, and students. To the extent one can anticipate questions, it is best to collect the data as one goes along.

The recommendation after the Indiana review was that the positives outweighed the negatives and the system should be continued. There was also a strong recommendation to give the chancellor more flexibility, to focus more on institutional quality in budgeting (rather than seemingly only on quantitative data), and some technical changes. In terms of quality, they identified institutional priorities to increase quality and are making them part of the chancellor's discretionary fund.

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Further questions and discussions followed.

- The legislatures changed their perceptions of the institution with the adoption of IMG. One concern is with reserves; Dr. Holbrook pointed out that to build reserves is an appropriate part of IMG, but those reserves might provoke legislative interest.
- Minnesota has a simpler version of IMG than either Indiana or Michigan, and Michigan's is simpler than Indiana's. The tradeoff is accuracy for simplicity. Some may claim unfairness, Dr. Holbrook said, and Michigan may be forced to adopt the more complicated (but more accurate) Indiana system.
- The most difficult issue to resolve is curriculum. Indiana has a hearing board; almost always, it reaches consensus and the dean resolved the issue. There must be aggrieved units which bring complaints to the board. There have been fears at Minnesota about curricular piracy under IMG, but no one recognizes that it has been occurring for years and there has been no mechanism to deal with it.
- There has not been the negative academic entrepreneurialism that some fear; Dean Thompson said he has been impressed with the results.
- Given pressures to keep enrollments up, there could be grade inflation; Indiana saw no change in the trends in that regard. They also saw no increase in the number of large sections, and class sizes has decreased slightly. There are also guidelines on cutting small classes which most units adhere to; there need to be 5-6 students in a graduate class and about 15 in an undergraduate class.

-- IMG does not make easier dealing with weak departments that cannot obtain the funds they need to improve or that have problems with their faculty.

Dr. Holbrook related that Michigan has adopted a system whereby 100% of tuition goes to the student's college of enrollment (irrespective of the courses in which the student enrolls), while Indiana directs all tuition to the college offering the course. [Minnesota has adopted a system directing 25% of tuition to the college of enrollment and 75% to the instructional unit.] Dr. Holbrook advised the University to do for awhile whatever it chooses to do--not to make changes too quickly--and to not go to extremes (the 75-25 ratio is probably wrong, but is not an extreme).

Dean Thompson said the University must welcome and anticipate change, but should not do it precipitously and should involve all the players in the discussion. It must be explicitly recognized there will be tradeoffs, particularly between accuracy and simplicity. The Indiana system is too complex and will change, he said, but it will give up accuracy to do so. There need to be incentives to stimulate the right reactions, but there must also be a culture that inhibits overreaction. There WILL BE things the University does not anticipate; when Indiana encountered something it had not expected and did not like, it moved quickly to fix it. There must be a continued open dialogue with faculty governance and staff councils, he concluded.

Professor Koch thanked Drs. Holbrook and Thompson for joining the retreat, and adjourned it at 3:30.

-- Gary Engstrand

University of Minnesota