MINUTES
SENATE FINANCE COMMITTEE
March 6, 1986
3:05 - 5:05
Regents' Room, Morrill Hall

Corrected 4/8/86

Members present: John S. Adams, Gerald Bauer, Charles Campbell, Mary Davy (sub. for Patricia Thomas), Paul Gassman, Linda Hanson, William H. Hanson, Harry Hogenkamp, Wendell Johnson, Sally Jorgensen, Gerald Klement, Kevin Koch, Ronald Kubik, Jack Merwin (Chair), Frank Sorauf, W. Donald Spring.

Guests: Ellen Berscheid (SCC), David Hamilton (SCC), Robert Holt (Graduate School), President Kenneth H. Keller, Harvey Keynes (SCFA), Joseph Latterell (SCC), Geoffrey Maruyama (SCFA), Cleon Melsa (SCC), Paul Murphy (SCC), Tony Potami (ORA & Technology Transfer), Tim Pratt (SCC), Kathleen Price (Academic Affairs), Wanda Reinke (SCC), Irwin Rubenstein (SCC), Roy St. Laurent (SCC), Maureen Smith (University Relations), Deon Stuthman (SCC).

Professor Merwin called the meeting to order at 3:05 p.m. and welcomed President Keller and Dean Holt and the numerous committee guests. The Consultative Committee members had been especially urged to join the meeting for the first agenda item. Professor Merwin noted that some business earlier planned for
1. this date would be postponed so there would be time for President Keller to bring SFC up to date on the legislative unallotment bills and to discuss with SFC again some aspects of the distribution of the resultant retrenchment.

President Keller distributed several documents during the meeting.

Document: "Present Bills," showing the initial cut, the sum to be borrowed, and the debt service charge for each of three pending unallotment plans (House, Senate, U of M). An amendment to remove the base cut from the House bill had passed unanimously, removing the impediment to the U's borrowing. The president said the University was limiting program cuts to about $800,000 per year in order to protect programs as far as possible, as this Committee had previously discussed with him and recommended.

Explanation of the mechanism of the cut to salary increases. President Keller said next year the University would give 0.5% less in salaries than what it would otherwise have given, but in each succeeding year that percentage would not be subtracted again, and the amount would stay in the base. This reduction, along with a tuition surcharge, is being used to protect programs, and the linkage of these two costs is important.

The most severe program cuts will involve only about one-third of one percent, he told the meeting. He said he was amenable to further discussion on the distribution of those cuts.

Documents: (a) "Comparison of National Consumer Price Index and U. of M. Faculty Salaries" and (b) "Inferred Legislative Intent for Academic Salaries and Fringe."

Actual average salary increases in the current biennium: For 1985-86, central administration distributed 5.5% but faculty got increases averaging 7.64% largely because contraction of positions released extra salary monies for distribution. For 1986-87, the president proposes an increase of 5.0%, but even if 4.5% were given instead, salaries in July would have reached 93.83% of the goal, ahead of the scheduled 92%.

Professor Berscheid asked where a 5% increase for 1986-87 would put the University's faculty salaries with respect to the rest of the Big Ten. President Keller predicted it would be about in the middle overall, but it is not yet known what the other institutions will give. Minnesota is relatively lower for full professors and higher for assistant professors, reflecting each unit's reaction to a market issue. Minnesota now ranks third in fringe benefits.

Professor Stuthman asked if new programs afforded the opportunity for further up-front savings, since new costs do not come all at once. President Keller said that little is brand new; some equipment money has gone into the handful of new programs. Other flexible budget parts are the Indirect Cost Recovery Fund (ICRF) and the rank funding adjustment, some of which has gone out to several units. Two million dollars has been allocated for undergraduate computing. The University worked hard at the legislature to make the case for these funds, and to use them other than as intended (such as to reduce the borrowing) would be a serious mistake.

President Keller identified some other problems in next year's budget: (1) Average Cost Funding will reduce the University base by about $3 million; (2) the fuel deficit will be $6 million (a consequence of the decision -- very responsible at the time it was made -- to convert to coal); and (3) cost of operation of new space (legislature did not fund this and there is now further new space to open).

President Keller asked the group if they were having second thoughts about taking some faculty salary cuts to protect programs. Professor Merwin did not think the Finance Committee had changed its position, but said some concerned faculty question whether even a low reduction can be consistent with salaries being the University's highest priority. President Keller simply said one does not strive for 100% of the highest priority to the detriment of all other priorities. He invited the group to comment on whether the proposed trade-offs are appropriate.

Given Commitment to Focus, new since the Senate and Regents passed the salary improvement plan, Professor Berscheid asked the president whether he was satisfied with having the University of Minnesota in the middle of the Big Ten. President Keller replied that he was not, and said we do not have to stick with that formula. He added that the University's flexibility in the past two years to give merit increases has helped us competitively.

There is no Regents' policy on merit vs. across-the-board increases, he said; the Board looks at the question each year with a particular interest in whether any protected classes have been disadvantaged by the increase distribution.

Professor Merwin, noting that the Finance Committee is not an elected faculty representative body, asked whether any Consultative Committee member wanted to propose a change. No one did so.

Professor Berscheid asked whether there was a list of all academic units which are sequestered from the upcoming cuts. The president noted that the Finance Committee had seen a list and that he intended to discuss publicly with Finance which units would and which would not be affected.

Professor Berscheid reported that faculty members ask what protection of particular units says about University priorities and efforts to improve quality. The president said no unit would have to bear large cuts.

Document: "Direct Instructional (Collegiate) Expenditures.

This table gives budgetary data for all collegiate units for each of the last 15 years in actual and constant dollars, including the changes in expenditures per student. The table can serve as a basis for a discussion on where to take the programmatic cuts. (Note: the recent years' figures for IAFHE are not correct.)

2. Seeking complete funding for graduate assistants' and fellows' tuition scholarships.

Document: "A proposal to include tuition as a fringe benefit to University of Minnesota employees."

President Keller explained that the proposal documented in the hand-out follows the decision to grant tuition fellowships to graduate assistants. The 1985 legislature appropriated $2.5 million for graduate tuition fellowships, but that was not enough to cover all the graduate assistants. This proposal would complete the coverage. Covering them on grants and contracts makes sense, said President Keller, since these students are assisting in research. One way of spreading the cost is to modify the fringe benefit rate to give any employee the opportunity to take a course without paying tuition.

Dean Holt remarked that staff eligible for this privilege include faculty, P/A, and civil service staff, but not undergraduate employees. The fringe benefit increase would be 1.7%.

President Keller said he wanted the Finance Committee's position before taking the proposal to the Regents.

Dean Holt explained that the $2.5 million appropriated by the legislature will cover tuition for those TA's and RA's paid on state funds. The balance will cover it for those paid from grants and contracts. The administration anticipates only a small added cost from the added beneficiaries since civil service employees are already eligible for tuition waivers through Regents' scholarships and faculty are not expected to be heavy users.

In the next legislative session the University will try to get the additional $1 million to support all fellowships.

Professor Campbell said it concerned him that the improvement comes at the cost of charges to contracts and grants. Central administration would be bringing in dollars which were formerly a paper transaction, and those dollars would come out of grants. He suggested the rates could be reduced by not transferring dollars for the civil service people who take courses on Regents' scholarships. The president indicated there would be no change in transfer of funds as far as Regents' scholarships are concerned. He added that the plan reduces by 20% the net cost of the graduate student's going to school.

Dean Holt said the change will shift the University from a position in the lower third of the competition towards the upper third. He said the departments monitoring the effect of the fellowships (available next fall for the first time) see an impact in terms of high quality applications. President Keller expressed the hope that the Research Committee would hold off on its resolution (to try to persuade the legislature to provide 100% funding for graduate fellowships) until the University is developing the Biennial Request.

3. Indirect Cost Recovery distribution policy: motion from Senate Committee on Research.

Professor Gassman called attention to the fact that the motion passed this year is quite different from that passed by SCR last year. Last year's motion (for 50% to be retained centrally and the other 50% to be divided in thirds among colleges, departments, and principal investigators in proportion to the ICR's they had generated) was not reported out from the Educational Policy Committee in time to go to the Senate last spring. This year Professor Hamilton moved that SCR recall last year's motion. SCR discussed the question at length before voting on the new motion.

President Keller asked how the 50% maximum for retention centrally had been arrived at. He asked if there had been any consideration of the basis on which the University had persuaded the legislature to keep more of the ICRF. The University told the legislature that the reason it came every year with a request for funding for special research equipment was because the legislature had not allowed the University to keep enough of the overhead monies to purchase that equipment, and that the University would not continue to make those equipment requests if it could keep more of the ICR.

He ventured the guess that an arbitrary 50% limit on central retention could work _if_ colleges would agree to use their share of the ICR's for the major equipment needs when they arose. But he cautioned that in some years the money in the colleges would not be enough--a unit would not have as much as it needed.

Professor Gassman said it should not be the case that all research support has to come from grants and contracts. If the state wants a research university, he said, it has to help support that research. Professor Adams distinguished between ICR and its use on the one hand, and keeping the Commitment to Focus by beefing up the University. Since the research aspect is part of a state university the legislature should contribute to that just as it does to the instructional costs, he said.

President Keller said that given the Average Cost Funding formula, getting use of the ICR's is the only way the University can make the research support argument to the legislature. Also, departmental instructional budgets do underwrite the research of faculty, especially in CLA.

Indirect cost does not "belong" to the faculty members, he went on, because it includes such items as depreciation on the buildings, and library acquisitions. The administration of course wants to get the funding to the faculty: the question remains, How? Where should be money for research support be banked? How much does the faculty want to have available centrally to pay for variable needs? President Keller said he would not quarrel with a principle requiring central administration to justify keeping over 50% in any given year.

Professor Gassman said the departments of chemistry generate large grants for universities and that in universities where the departments keep large parts of their ICR's they are able to do much more with it.

Professor Rubenstein called attention to another need on the horizon--the sizable upfront expenses to create or modify laboratories for faculty attracted to the endowed chairs. He asked what would be the source of those set-ups. President Keller said for appointments in the sciences the ICRF would be the source. He said it is possible as a general principle to leave set-up obligations to the units and return a larger portion of the money to them.

President Keller added that he dislikes a rigid formulaic approach because it removes flexibility and discretion to determine distribution on the basis of a year's particular needs.

Professor Adams asked whether anything supports the research effort besides the ICR's which come from faculty's entrepreneurial efforts. President Keller said there is a variety of other support including, most recently, the rank funding adjustment. From $2 million to $4 million per year is available centrally for such purposes. Professor Adams commented that the total of the sums available is not a lot to do all we want done.

Mr. Potami pointed out that the Gramm-Rudman bill is going to cause automatic cuts and that other federal action may also cut the University's ICR.

The president and the SFC chair agreed that the Committee's response on the two issues -- the funding scheme for tuition fellowships, and the distribution policy for ICR's -- could wait until the April 3 meeting.

4. <u>Research grant overhead structure and recent increases in the charges</u>.

Anton Potami had joined the meeting to talk with SFC about the general principles in structuring the overhead charges and about federal policies and new legislative proposals that could affect grant overhead.

Mr. Potami said Congress was proposing to cap the administrative component of the overhead rate. If the cap is set at 26% it will not affect the University. Congress, he said, is trying to stop the rise in departmental administrative rates that vary enormously among institutions. The University of Minnesota's rates have been conservative and its increases have been documented.

Among the many variables are departmental administration and space. At Minnesota costs of the departmental administration of research are based on a survey. Where space is shared with research, a portion of its cost should be assigned to research.

Document: "Indirect Cost Rates of Thirty High-Volume Research Universities."

Mr. Potami said the U of M's rates have basically been raised by space studies and studies of administrative costs and how Physical Plant budgets its space allocation.

Professor Campbell inquired why it is that overhead changes are always upward. Mr. Potami knew of nowhere where they have declined and said it is rare to find the rate even holding stable. He reported that the University is presently getting an analysis by Peat Marwich & Mitchell which especially addresses space use.

He said none of the costs the University recovers are covered by sponsored programs.

The meeting adjourned at 5:05 p.m.

Meredith Poppele,
Recorder

CORRECTED PORTION OF SENATE FINANCE COMMITTEE MINUTES FROM March 6, 1986 MEETING: Page 3, item 2 .

2. Seeking complete funding for graduate assistants' and fellows' tuition scholarships.

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SENATE FINANCE COMMITTEE MEETING

Thursday, March 6, 1986
3:00 - 5:00
238 Morrill Hall

AGENDA:

1. Discussion with President Keller of current legislative activity regarding unallotment, and projected effects on University budgets including faculty salaries.

   (Note: The Senate Consultative Committee has been specifically invited to join us for this item.)

3 ~~2~~. Research grant overhead structure and recent increases in overhead charges. Guest: Anton Potami, Assistant Vice President for Research and Technology Transfer.

2 ~~3~~. Senate Research Committee actions forwarded for our attention:

   A. Seeking complete funding for graduate assistants' and fellows' tuition scholarships.

   B. Distribution of Indirect Cost Recovery Funds.

   Attached: (1) Motions approved by Research Committee;
   (2) Correspondence dated February 10 from President Keller to Professor Gassman.