Minutes*

Senate Committee on Finance and Planning
Tuesday, May 3, 2011
2:00 – 4:00
238A Morrill Hall

Present: Russell Luepker (chair), Jon Binks, Gary Cohen, Devin Driscoll, Steen Erikson, Lincoln Kallsen, Kara Kersteter, Judith Martin, Paul Olin, Michael Rollefson, Karen Seashore, Jeremy Todd, Aks Zaheer

Absent: Will Durfee, Lyndel King, Fred Morrison, Kathleen O'Brien, Shruti Patil, Richard Pfutzenreuter, Terry Roe, Gwen Rudney, S. Charles Schulz, Mandy Stahre, Thomas Stinson, Michael Volna, Lori-Anne Williams

Guests: Julie Tonneson (Office of Budget and Finance); Vice President Tim Mulcahy

[In these minutes: (1) student fees; (2) Facilities and Administrative (F&A) (indirect cost) funds; (3) retreat discussions]

1. Student Fees

Professor Luepker convened the meeting at 2:05 and welcomed Ms. Tonneson to lead a discussion on student fees.

Ms. Tonneson said they have been looking at all types of fees but are not focusing on the fees collected as a result of decisions made through the Student Fees Committee process. There are three other general categories of fees at the University: course fees, administrative/miscellaneous fees, and collegiate/technology fees.

The course fees, which they will look at next year, are fees based on participation in a particular course to recover costs for that course during that term (e.g., transportation, art materials, a pianist, etc.) and are only added to a student's charges if he or she registers for that course. There are probably over 2,000 course fees and they will examine them next year to see if the Regents' policy is still up to date and if the course fees are consistent with the policy.

They will continue to look at administrative/miscellaneous fees, but the main goal for them is to be sure they are consistent across the system (e.g., what it costs to purchase a U card, what a transcript costs, etc.).

They have been focusing on the collegiate/technology fees this year and are taking a proposed policy change to the Board of Regents, Ms. Tonneson reported.

Change the Definition of "Academic Fees" in policy:

TODAY – Academic fees are campus- and college-wide fees that may be assessed to all students enrolled on a campus or in a college for *special equipment, supplies, and services,* provided that each campus uses no more than one campus-wide fee and that each college uses no

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

more than one college-wide fee. The Academic Health Center also may assess special fees for first-professional students.

PROPOSED –

a) Campus/Collegiate fees are campus and college-wide fees that may be assessed to all students enrolled on a campus or in a college for goods and services that directly benefit students but that are not part of actual classroom instruction. Allowable goods and services include advising, career services, computer labs, special equipment, orientation activities and other goods or activities intended to enhance the student experience outside of actual classroom instruction. Each campus shall assess no more than one campus-wide fee and each college shall assess no more than one college-wide fee

b) Durable Goods fees may be assessed by a campus or a college to their enrolled students (or any cohort or subset of their enrolled students) for educational materials and equipment that will be owned by, potentially owned by, or assigned to a specific student for their use during the entire term. Durable goods fees may not be charged for services, or for use of equipment owned and retained by the University, with the exception of computer or other specialized equipment assigned for a full term to a specific student.

This proposal changes the definition and adds a second defined fee to policy for "durable goods" that was not separately identified in policy before, and it eliminates the distinction between a collegiate/ campus fee and a technology fee. They are trying to standardize the structure of fees (e.g., credit thresholds, part-time students, summer versus fall and spring) in order to reduce confusion for students. They are doing a more thorough review of collegiate/campus fees during the budget process by looking at what the money is spent on and who is involved in the fee development and revenue allocation process in the unit. At present a college can spend the fee revenue on almost anything, and a college or campus can have only one fee in this category.

Committee members discussed the definition, how fees are set, and how reducing the complexity of fees would help students better understand them. Ms. Tonneson said that this is not a study to reduce fees, it is intended to reduce complexity and verify that the current policy is up to date. As they review fees each year, the revised wording of the policy will help them understand if a proposed fee is acceptable. Colleges may propose any level of fee, but they need to be able to discuss it during the budget process to understand what the money will be spent on and justify the level.

Professor Luepker commented that some schools may see these fees as an additional pot of money, may try to get what they can, and the fees will never go down. They may originally have been adopted for a computer lab, but that connection is lost. Is this an effort to recover that connection? Fees do not cover all the expenses of the categories for which they are charged, Ms. Tonneson said, and the budget committee makes the final decision on them. Professor Luepker said he would be interested in talking with someone at the decision-making level in the Medical School, for example.

Mr. Driscoll asked about the level of audit of fee revenue and the amount of information available. Ms. Tonneson said they present all of the information to the Board of Regents every year and it is all public. They have talked about audits when they started their study. What level of checking does one want? They track dollars now, and audit what is spent in a cursory fashion. The leadership has decided at this point not to increase resources to conduct extended audits. Mr. Driscoll said that deans can see fee income as flexible revenue, and students are concerned because they are looking at their tuition bills. They would not worry as much about repaying the cost if they knew what the money was being spent on. Ms. Tonneson noted that if one examines student-centered activities in the colleges, in no case does the collegiate/campus fee revenue exceed the related costs.

They are also looking at communications to students and their families, Ms. Tonneson said, so that they can be provided an earlier and faster way to identify what fee revenue supports. They have talked with the colleges about this.

Professor Zaheer suggested that the proposed split in fees (collegiate/campus and durable goods) seems arbitrary, if the goal is to charge differential amounts for use, such as an equipment surcharge. With the durable goods fee, they are trying to define a fee for subsets of enrolled students for the costs of one particular thing, something that is assigned to a single student and not being shared, Ms. Tonneson said.

Professor Seashore said that the only reason to have fees is to create flexibility—otherwise it would be tuition. The fees acknowledge that not every student receives the same thing with every class. She noted examples of the inflexibility of PeopleSoft to categorize people. Fees allow flexibility, without which the system would be wrenched apart, to the extent that fees allow units to do good things for students and they are not charged for things students do not use. The more there is in policy, the less flexibility there is; Ms. Tonneson agreed and said it depends on implementation. This policy addresses differences between schools, not what is done within a school.

Mr. Driscoll said that when one fee is limited to durable goods and not charged to all students, that makes sense. Whenever there are significant differences across colleges in terms of fees, that is a form of differentiated tuition. Professor Seashore said the campus cannot go back to differentiated tuition, which was awful, but there is need for some flexibility. Increased communication would help with a constructive dialogue about fees, Mr. Driscoll said.

Ms. Kersteter asked if students who register across colleges would be assessed more than one fee; they would not, Ms. Tonneson said, not any longer.

Mr. Todd noted that the University has looked to achieve economies of scale in several areas, such as purchasing, travel. Technology could be an expense in that same category; should there be multiple expenses across the University for technology? Is it better to be a student in one college than another when it comes to technology? Ms. Tonneson said the colleges can spend the fee revenue as they wish as long as it is for students. Fee revenues are used for different purposes in different colleges.

Professor Luepker asked if it would be helpful for the Committee to see the fees that are presented to the Board of Regents. Ms. Tonneson said the information is all on the web; the link is www.budget.umn.edu. The budget document can be found under the "Current Documents" heading. The fees are included in attachments 8-10 at the end of the document. Each year they are displayed in the President's Recommended Operating Budget Plan. Professor Luepker said the Committee would like to see the information, and he thanked Ms. Tonneson for joining the meeting.

2. Facilities and Administrative (Indirect) Costs

Professor Luepker welcomed Vice President Mulcahy to the meeting to discuss Facilities and Administration (F&A) costs (also known as indirect costs). He noted that Vice President Mulcahy had made a presentation to the budget committee that provided very clear information. Many faculty members and others at the University may not understand F&A funds and what happens to them. At the University of Texas, PIs earn extra income if they obtain a grant with F&A funds.

Vice President Mulcahy distributed handouts of an F&A Primer he developed to share with the executive team in January, 2010. The fundamentals remain the same so the presentation has not been updated. One of the biggest enigmas in universities is indirect cost funds—where they come from, what they are used for, and why the institution cannot get more of them. He decided a couple of years ago that he needed to bring this issues to the attention of the faculty and the University's leadership because there was the thought, at one point, that the University could augment its revenue streams by increasing its research funding and collecting more F&A (or indirect cost) funds. He was concerned about this notion because the University does not recover all the legitimate costs of research that indirect cost returns are intended to cover. He said he appreciated the opportunity to talk about the issues, and began with an explanation of F&A costs.

-- They are known as F&A (Facility and Administrative) costs, "indirect costs" (IDC) or overhead
-- They are real costs incurred while conducting research related to the administrative management of the research, related to providing the facilities in which the research is performed, and are "costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project."
-- They are costs that some sponsors will reimburse based on a very complicated calculated average rate developed and negotiated in accordance with OMB Circular A-21
-- They are a cost-recovery mechanism, Dr. Mulcahy emphasized, not a "tax" on grants or investigators. Nor are they "free" money.

The key point, Dr. Mulcahy said, is that F&A costs are partial compensation for the real costs of supporting research made by the University; they are a cost-recovery mechanism.

Dr. Mulcahy next explained that research expenditures fall into two categories. (1) Direct costs (such as Departmental Research, Organized Research, Other Sponsored Activities, and Other institutional Activities) and indirect costs which represent "overhead" associated with conducting the research. Direct costs are further modified by exclusions required by OMB Circular A-21, yielding what is referred to as the Modified Total Direct Costs (MTDC; the total direct cost less tuition remission, equipment, subcontracts over $25K, construction, and patient care costs ($296 million). (2) Indirect costs are further divided into General Administration, Departmental Administration, Sponsored Administration (Administrative costs), and Operations & Maintenance, Libraries, Interest, and Depreciation (Facilities costs). Together they make up the Allocated Research F&A Costs.

An institution's calculated F&A rate is calculated by dividing the Allocated Research F&A Costs (#2 above) by the Modified Total Direct Cost (#1 above). For 2006, the last date of negotiations with the federal government, the University's actual F&A rate was calculated to be 62% of the MTDC, a figure the federal government does not quarrel with. So every dollar in University research spending costs the University an additional 62 cents in overhead. F&A recovery is intended to cover these legitimate costs of conducting research at the University.

Where things start to fall apart, Dr. Mulcahy related, is when it comes to the *negotiated* F&A rate. The federal government negotiates a rate it will provide in F&A recovery, rather than rely on the rate as prescribed by OMB Circular A-21. He provided the Committee with the data on the various categories of costs (general and administrative, departmental, depreciation, interest, etc.). The calculated rate for administrative costs (the "A" in F&A) for the University is 32.57%. The federal government, however, limits administrative cost recovery to 26% for all universities as a matter of policy; a practice dating back to 1991 and questionable uses of administrative indirect costs by a small group of institutions. The federal government agrees that the University's administrative indirect costs are 32.57%, but it will still only pay the 26% rate.

As for the "F" side of F&A rates, the University's calculated rate is 30.31%; the federal government has agreed to pay 25%. So the federal agencies agree that the University's F&A costs are about 62% (32.57% plus 30.31%)--but it will only pay 51% to the University of Minnesota. (Rates are negotiated with each university, and Dr. Mulcahy provided a bar graph illustrating the University's actual costs in various categories and the negotiated rate. The federal government pays less than actual costs in every allowable category of expenditure.) Similar differentials between actual and recovered indirect costs are an issue at all research universities. Despite numerous efforts to correct this imbalance, particularly through elimination of the administrative cap imposed in 1991, the federal government has held firm to its position.

Dr. Mulcahy provided data on F&A rates negotiated by some of the University's peer institutions:

U of Washington	56.0%
UC San Diego	54.5%
UC San Francisco	54.0%
UC Los Angeles	54.0%
UC Berkeley	53.5%
U of Illinois	53.0% (UIC at 57%)
U of Michigan	52.0%
U of Minnesota	51.0%
Ohio State	50.0%
Wisconsin	47.0% (FY08 under negotiation)
North Carolina	46.0% (FY08 under negotiation)

One hears that the University does not collect as much money as some of its peers, but in the case of public universities, Minnesota is about in the middle. Some private institutions had higher rates in the past but that is less true now.

Professor Cohen asked if Harvard and Johns Hopkins have higher rates because they have medical research. No, Dr. Mulcahy said, if they have higher rates, it is most likely because they had a higher rate that served as a base when the current practices were introduced. Professor Zaheer commented that the University has similar costs but does not recover them. Dr. Mulcahy said that the University's 62% rate is very comparable to peer institutions. So the University's shortfall in costs is slightly larger than that of other institutions, Professor Zaheer observed.

Mr. Driscoll asked if the University negotiates categories or if the negotiations are more broadly based. They negotiate by category, Dr. Mulcahy said, except that they will not go beyond the 26% cap. They look at square footage, etc., and negotiate all the elements of the rate. The federal government does not care how the institution makes up the shortfall.

Based on the research funding data for 2009, if the University had received the negotiated rate (51%) in full on all applicable research, it would have recovered about $145 million in indirect costs. What it actually received was $104 million, or an effective F&A rate of 37%. There are several reasons why the effective rate is lower than the federally negotiated rate of 51%:

-- The University is authorized to collect 51% from federal research sponsors but average federal F&A rate is only 42.6%--

-- The clinical trials F&A rate is 26% and the off-campus F&A rate is 26.0% (only the administrative portion);
-- Many sponsors limit F&A to less than 51%: some federal agencies, USDA (25%, for which the University does a lot of work), collectives (ECOG, ASOG, organizations that sponsor major clinical trials); State of MN (which often pays close to zero); commodity groups; research foundations (AHA, ACS);
-- Sponsors may cap total costs (direct + indirect) making proposals with lower F&A more competitive (they give a flat amount and let the institution decide on the amount for direct and indirect costs);
-- F&A can only be collected on the first $25,000 of subcontracts;
-- F&A is not charged against equipment; and
-- Voluntary waivers of allowable F&A costs (the University has a history of accepting sponsored research without full F&A funds).

Dr. Mulcahy provided a table showing the University's average effective F&A rates by sponsor, federal and non-federal.

Federal agencies average	42.6%
NIH	45.0%
Dept of Education	37.2%
NSF	43.0%
Dept of Energy	40.1%
Dept of Defense	46.6%
EPA	46.0%
NASA	49.6%
USDA	14.4%
NEA/NEH	0.0%
Non-federal sponsors	
Associations	9.0%
Business & Industry	37.7%
Foundations	14.7%
Private	21.7%
State of Minnesota	9.8%
Voluntary Health Orgs	10.5%
Other	21.1%

"Associations" includes organizations such as the American Cancer Society, American Heart Association, and so on, Dr. Mulcahy explained, and the University is not going to say to faculty that they cannot accept grants from associations because they do not pay the full F&A rate. Many of these sponsors limit allowable indirect costs to maximize the benefit of the funds they distribute, most of which arise from donations etc.

Professor Zaheer commented that PIs make a choice about organizations such as the American Cancer Society; the University should provide an incentive to promote the choices that benefit the University more and then allow the individual to make the choice. Dr. Mulcahy said the University always wants to leave the decision to faculty, who know the best sources of sponsored research in their field. In times of increasing competition for research grants, faculty members rely on non-federal sources—and they can control transactions to keep the costs down.

Dr. Mulcahy also provided data on the effective research F&A rates by college (2009).

College of Biological Sciences	42.6%
Education & Human Development	38.5%
Agriculture & Natural Resource Sciences	17.0%
College of Liberal Arts	41.3%
HHH Institute of Public Affairs	29.3%
Institute of Technology	39.5%
Medical School	37.8%
School of Public Health	36.2%
College of Veterinary Medicine	28.6%
UMD	28.3%

These differences often reflect differences in the allowable F&A rate for their most common sponsors. For example, the lower number for CFANS reflects in large measure the reliance of the college on the USDA, which as noted earlier caps indirect cost recovery.

Since the F&A funds go to the colleges, the colleges must decide how to use the money to provide incentives for faculty if they choose to do so, Dr. Mulcahy said. It is usually used for labs, etc., and he said he did not know if any of them add increments to salaries. His office does not insert itself in the decisions about how to use the indirect money, but he does urge the colleges to collect as much as they can as it reflects reimbursement for true costs already expended. Mr. Rollefson said that when the University first began receiving F&A funds, it was all collected and distributed centrally; now it goes to the colleges, and some of them do give more money to PIs, typically in the form of research support. The practices vary by college.

Dr. Mulcahy noted a graph plotting the number of waiver requests (i.e., requests to accept research funding that carried no F&A costs) from FY98 through FY09. There were very few from FY98 through FY03, and then the number increased dramatically, to nearly 200 in FY07 and FY08. He saw that trend and found it disturbing.

Professor Luepker asked about a private donor who might give him $500,000 for research but with no F&A funds. Dr. Mulcahy said that if it is a gift, with no strings attached and no obligations, the University would not insist that some of the money be identified as F&A funds. In some cases, if funding is provided for research with deliverables expected, the money is given through the Foundation in order to maximize the amount of direct funding. Such funds should not come through the Foundation and they have worked with the Foundation to close that loophole.

There are, however, reasons to approve waivers, Dr. Mulcahy said, and he provided examples.

-- Seed grants which may attract larger awards
-- Hardship for new PI
-- Awards which include equipment or building funds
-- Community relations or library projects
-- Student services projects (or increase funding to pay for students)
-- Capped awards

-- Department committed to undertake the research regardless of external funding (e.g., any dollar gained is better than nothing)
-- Small cost
-- Junior faculty or incoming faculty member
-- Enhance cultural/artistic activities (small projects only)
-- Only available source of funds in an area
-- Strategic partnerships

However, the University of Minnesota has perhaps been more generous with F&A waivers in the past than other top research universities. They all grant waivers, Dr. Mulcahy said, but Minnesota is more liberal with them than some others. Professor Cohen asked if a small grant from a foundation with no F&A costs would be approved as a capped award. It would, Dr. Mulcahy said, just as are grants from the American Cancer Society, etc.

Dr. Mulcahy laid out the implications of not being able to recover the full cost of research, including the impact of the waivers.

Based on 2009 funding levels, the full overhead cost (62% of MTDC) to the U is calculated to be $179M. If the U had recovered the full federally-negotiated rate (51%) on all sponsored research it would receive about $145 million. The difference, $34 million, is probably not recoverable, Dr. Mulcahy said, primarily because of the federal government's policies. The University's primary funding agency is the federal government, and it will not pay the full 62% rate.

The actual recovery that year was $104 million, yielding an effective F&A recovery rate of 37%; a difference of $41 million from the negotiated rate of 51% ($145 million) and a difference of $75 million from the full F&A rate ($179 million).

Dr. Mulcahy suggested that perhaps up to half of the $41 could be recovered; the University could obtain $10-20 million more per year if it were more disciplined with F&A costs. If one thinks about the many discussions this Committee has had about saving $1-2 million here and there, to see an increase of $10-20 million that the University might be able to recover by changing some of its own practices in relation to indirect cost recovery represents an important topic for discussion. The "let's do more research to help out the budget" is a losing game, because the University needs to cover approximately 25 cents of unrecovered F&A funds for every dollar of sponsored research conducted.

The Office of the Vice President for Research has implemented a series of efforts to increase awareness of the role of F&A cost recovery across the campus and to introduce more discipline in considering waivers or discretionary indirect cost reductions. Dr. Mulcahy outlined them.

-- Educate the community about F&A principles and needs
-- Gather data and negotiate to increase our Federal F&A rate
-- Encourage Federal agencies to pay the negotiated rate and not cap competitions (USDA, DOE, NSF, DoEd)
-- Negotiate with state and other local groups to increase F&A
-- Encourage proposals to agencies that pay full F&A
-- Decrease the amounts budgeted to subcontracts
-- Decrease amount of F&A that is waived
    -- Implement policy changes to regulate and monitor F&A rate waivers.

Professor Zaheer asked if there is a way to provide incentives for faculty to encourage proposals to agencies that pay the full F&A rate. One way, as with Texas, would be to share some of the money with the PI, Dr. Mulcahy said. The best way, however, is simply to make people aware of the costs. The University would never say that someone should not apply for an American Cancer Society grant because it does not pay the full federally negotiated F&A rate, but if a faculty member can find another group to fund the research that pays a higher F&A rate, he or she should consider grants from that source.

Dr. Mulcahy reviewed the three policy changes mentioned in the last bullet.

(1) Establish tiered waiver categories and corresponding policy. They recognize that waivers are unavoidable and often an important strategic decision; it is a question of managing them. There are now three waiver categories:

-- Administrative waivers that receive automatic approval from Sponsored Projects Administration: PI Transfers, Non-profits with published policy, Special governmental programs, and projects that move from off-campus to on-campus.

-- Routine waivers that require the approval of a dean: Small Project Waivers (<$50K year) and other reductions above minimums (which are tracked). (Dr. Mulcahy said, for example, that if a grant goes from 51% to 26% because the American Cancer Society has a published 26% F&A rate, that is not a waiver and the University accepts the rate; the "routine" category of waivers only applies to grants with F&A rates that fall below that published sponsored rates already accepted by the University.)

-- Strategic waivers that require the approval of the Vice President for Research: Waivers or reductions to rates below established minimums. These can have a big impact on the University's financial model; if a college waives all F&A funds, it would then come to central administration for more money, and providing it would mean less money for other colleges. Hence some institutional oversight is warranted in these cases.

Professor Luepker said this is an important point to emphasize. Colleges can waive F&A costs, but that does not change the cost-pool charges that must still be paid, which has made deans much more reluctant to sign off on waivers. Dr. Mulcahy said that initially some of the deans said that it is their money and why is the administration telling them what to do, but when the costs are explained as he has, they understand and accept the point.

Dr. Mulcahy said that they have also established F&A rate minimums (for awards of over $50,000 in direct costs per year; TDC = total direct costs):

-- Federal	Federally negotiated rate*
-- Foreign government	Federally negotiated rate*
-- For-profit	34%
-- State of Minnesota	0% (for now)
-- Non-profit/foundations	Lower of 10% TDC or published policy
-- Corporate affiliate programs	10% TDC
-- Industry-funded clinical trials	26% TDC

*or as approved by Sponsored Projects Administration

(2) Part two of the policy changes is to restrict unauthorized waivers, Dr. Mulcahy said. Projects that did not receive institutional endorsement prior to submission to the sponsor or F&A waivers or

reductions of rates negotiated by PIs with sponsors without university approval will not be accepted. If there is reduced F&A income as a result in these instances, the unit must set up a cost-sharing account to pay the difference between the sponsor-approved rate and the federally-negotiated rate or approved minimum for the particular sponsor. In other words, Dr. Mulcahy said, the college must pay—and there have been no such cases since the policy was adopted.

(3) The third policy change is to make improvements to the waiver process.

-- Administrative waivers and waivers for small projects (less than $50K) no longer require use of the formal waiver process.
-- SPA has created a list of agencies with pre-approved rates (based on policy); proof of agency policy is no longer required to accompany PRFs when submitting to these entities.
-- SPA has a new "Foregone F&A calculator" to help Deans and SPA better understand and track foregone amounts.
-- Waiver requests must be submitted in advance (4 business days for regular waivers, 7 business days for strategic waivers).
-- The Council of Research Associate Deans (CRAD) will be updated twice yearly on the amount of F&A waived for regular and strategic waivers. (However, waived amounts will not be tracked for small and administrative waivers)

As part of the annual compact process, Dr. Mulcahy told the Committee, his office provides a running total of the waivers that a college has approved. That has changed things considerably because in the past not all colleges were tracking waivers; they are seeing a significant decrease in the number of waivers approved.

Dr. Mulcahy concluded his comments by "Busting Myths About F&A Cost Recovery":

-- F&A cost recovery from increased research represents a financial strategy to resolve University fiscal challenges.
-- The University recovers the negotiated F&A rate on all direct costs.
-- F&A waivers are approved as exceptional circumstances through a controlled process.
-- Conducting more research doesn't cost more since we already have the resources.
-- There is nothing the University can or need do to recover more of the legitimate costs of conducting research.

All of these statements are false—although the third one is now true as a result of the policy changes, Dr. Mulcahy said.

Mr. Driscoll asked about actions the Office of the Vice President for Research is taking to contain indirect costs. If every research dollar costs the University 62 cents now, presumably that was not so in the past. If the gap grows, and reaches perhaps $1, that could be trouble.

All universities are struggling with cost escalation, Dr. Mulcahy said. The legitimate costs to do research have gone up every year. An overhead of 26% was legitimate in 1991 when the rate was set; now it is 33%. Universities have told the federal government it must allow recovery of costs; it has declined to do so. So universities have turned the argument around: These costs are related to unfunded federal mandates (e.g., training, reporting), and universities are saying to the federal government that if it's not going to provide the money to pay for these mandates, it should stop asking universities to do all these things. That argument is likely to have more traction. President Obama issued an executive order calling for a reduction in bureaucracy, but as Vice President for Research he sees every month more and more regulations. The problem is that Congress issues directives to the agencies, so the work has to be at the Congressional level. There is an effort to galvanize universities across the country, so there is some hope.

Dr. Mulcahy said he wanted to acknowledge one point. Some colleges and departments have not signed off on agreements with sponsors that do not pay an appropriate level of indirect costs. They have concluded that the agreements were at the tipping point: It would cost more to take the grant than it was worth.

Professor Cohen asked Dr. Mulcahy what he thought about the proposal to stop competitive grants and make appropriations directly to research universities. Dr. Mulcahy said he would strongly oppose such a change. He said he believes the meritocratic process in allocating federal grants is what makes the system the best in the world. NSF and other agencies do have "carve outs," with more limited competition, for states that do not have an adequate research base in order that they can grow their research, for example, and he supports those kinds of efforts. But the most important part of the system is the peer-review process and competitive grants.

Vice President Mulcahy and Committee members touched on a few additional points about F&A rates and then Professor Luepker thanked Dr. Mulcahy for his presentation.

3. Retreat Discussions

Professor Luepker reported that Provost Sullivan has indicated he would be glad to return to the Committee to answer any additional questions about the structure and operation of the Provost's office.

The Committee agreed that because some of the units that report to the Provost are as large as some colleges, it would like to hear separately from the Office of Undergraduate Education and the Office of Student Affairs. Professor Luepker said he would invite Vice Provosts McMaster and Rinehart to a future meeting.

There was also discussion about whether the Committee wished to discuss payroll.

Professor Luepker adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota