Minutes[*]

Senate Committee on Finance and Planning
April 24, 1990

Present: Burton Shapiro (chair), David Berg, David Biesboer, Carol Campbell, Arthur Erdman, Tony Faras, Lael Gatewood, Virginia Gray, Nick LaFontaine, Cleon Melsa, Jeff von Munkwitz-Smith, Tim Wolf

Guests: Assistant Vice President Mary Bilek, Associate Dean Mark Brenner, Vice President Richard Heydinger, Warren Ibele, Ken Janzen (Regents' Office), Senior Vice President Leonard Kuhi, Patrick Spellacy (Director of Audits)

1. Report of the Chair

Bylaw change Professor Shapiro began the meeting by distributing a proposed amendment to the by-laws of the Senate which would place the chair of the Subcommittee on Physical Plant and Space Allocation on the Committee on Finance and Planning as an ex-officio, non-voting member. At present Professor Erdman is both a member of this Committee as well as chair of the Subcommittee; when his term ends this year, there is no automatic provision for membership of the Subcommittee chair on the parent committee.

It was moved, seconded, and unanimously voted to approve the proposed amendment and to forward it to the Senate Consultative Committee.

Proposed schedule The Committee, by consent, accepted the proposed schedule of meetings for 1990-91.

1990-91 Budget Professor Shapiro noted that most Committee members should have received the 1990-91 budget documents from Mr. LaFontaine's office. The budget will go to the Board of Regents for information in May and action in June; the Committee decided it wished to review and discuss the budget before it goes to the Board in May so concluded it would hold a special meeting on May 1. [It was subsequently determined that the meeting would be held jointly with the Senate Consultative Committee.]

Congratulations to Carol Campbell Professor Shapiro, on behalf of the Committee, extended congratulations to Carol Campbell on her selection to be Vice President for Finance at Carleton College.

Space Rental Plan Professor Shapiro reported that the Faculty Consultative Committee had discussed the space rental proposal at its last meeting; at that time several individuals had suggested that the faculty develop alternatives to the plan rather than wait until the last minute to react. Inasmuch as there is already a group close to the issues, the Subcommittee on Physical Plant and Space Allocation, it was agreed that the Subcommittee should take on the task.

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[*] 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 represent the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

Professor Shapiro inquired whether or not the space rental plan would be abandoned if the faculty were to devise a method for saving 25 - 30% on energy costs. Associate Vice President Campbell said the Committee needed to hear from Mr. Donhowe but that the philosophy behind the plan is that a free good is an unrationed good; the incentive in the plan is to treat space as a precious good.

Professor Ibele said the question could be framed as one having to do with the resources necessary to accomplish academic goals. If the money could not be obtained by closing the colleges of Dentistry and Veterinary Medicine, and will not come from the legislature, the only other place is from within the operating budget of the University. If not from the academic programs--although some could come from them--then it must be found in the general operating budget. Energy is probably the single largest item in the non-academic budget; Mr. Donhowe's point is that there are substantial savings to be achieved in heating, lighting, and the allocation of space. If the faculty do not like Mr. Donhowe's proposal, he suggested, they should come up with alternatives which 1) acknowledge the problem, and 2) present solutions.

2. Report from Vice President Heydinger on the Capital Appropriation

Professor Shapiro welcomed Vice President Heydinger to the meeting and thanked him for making an impromptu appearance to report to the Committee. The legislative conference committee had finished at about 11:00 the morning of this meeting.

The final capital appropriation for the University was slightly over $71 million. Dr. Heydinger said that in general the University did extraordinarily well. The appropriation appears to represent an understanding of the University's needs; presentation of a pared-down request, a list of actual needs, was successful.

It is important to understand, however, that part of the appropriation is a proviso that the University must pick up 1/3 of the debt service on the bonds. Unlike previous years, the amounts contained on the capital appropriation list are not funding for the buildings; the bill is an authorization to build the buildings for the amounts specified and provisions of 2/3 of the debt service. There was a rider to the bill stipulating that tuition could not be increased during 1990-91 specifically to pay for these buildings--which does not have much of an impact because very little money required to service bond debt would be required during the next year. (The obligation to fund 1.3 of the debt service and the prohibition on tuition increases for construction during 1990-91 applies to all of higher education in the State, not just the University.)

For the first time, however, the University has authorization to build but can decide when, how, and if it will do so. There will need to be a series of decisions, in which the Committee will be involved, about the sequencing of the buildings.

The University will also have $2.2 million rescinded from the 1990-91 operating budget. This is somewhat lower than the 1.5% of the non-academic budget that had been expected; this is about a 1% cut. The number which might appear in the press or elsewhere may be larger than $2.2 million: Some additional money was put in by the legislature for the Rural Physicians program and the University has to put less into the Minnesota State Retirement System than expected because of an actuarial update so that some savings were achieved. The actual net rescission will be $2.2 million.

The University, Dr. Heydinger concluded, did a very good job of presenting the request; it was a team effort with good discipline and the students did a terrific job. There is reason to be glad about the results, although the imposition of part of the debt service on the University tempers the enthusiasm. This precedent is dangerous, he commented, and the practice is probably here to stay. There were a number of reasons, some political and some a legitimate recognition of the needs of higher education, which led the legislature to take the position it did. The practice will also inject discipline into the process for requesting new buildings because the institutions will know they will have to pay 1/3 of the debt service.

The 1/3 requirement, Dr. Heydinger clarified in response to a question, applies to the entire bonding bill rather than to specific projects. If the University has funds to pay a little more in one year, as a project begins, but a little less the next year on another project, the legislature does not care. The money can be raised from anywhere the University wishes; the University must have in hand a guaranteed revenue stream to pay off its part of the debt service--although the full faith and credit of the University is perfectly good as far as the State is concerned.

One Committee member inquired about two items in the request and then commented that the first two items on the list (life and safety) were things the legislature has typically assumed responsibility for in the past, as a given, to support facilities; it seems unreasonable for the University to be asked to pay 1/3 of the debt service on bonds for these projects. Dr. Heydinger agreed; he said the University made precisely the same argument with the legislature and got nowhere. The legislature wanted to make no exceptions.

The reason certain items did not receive approval were largely because of the trade-offs which occurred during the process; Dr. Heydinger pointed out that a University building is always competing with such things as a roadside park in Staples, a sewage treatment facility in Ramsey County, fuel storage tanks for the State National Guard, treatment centers, and so on. The outlook for the items that did not make it is unclear; it appears, now, that there will not be a bonding bill next year, and given the financial picture of the state the legislature is not optimistic about a large bonding bill in the next couple of sessions.

3. Discussion with Senior Vice President Kuhi about Space Rental

Professor Shapiro recalled for Dr. Kuhi that the Committee has had many discussions of space rental and had decided it wished to hear the views of Academic Affairs on the space rental plan. He added that the Committee has been unable to learn what the impact of the plan has been when it has been adopted at other institutions.

Dr. Kuhi began by noting that there is no plan, at the moment; what is on the table is a proposal to look at the possibility. He said he had a list of concerns, from the academic perspective, but observed that everyone had to recognize that space is a valuable commodity. How it is dealt with is of prime importance.

There are a number of key issues, he told the Committee. One simple one is how the funds to pay for space will be generated. Another is what determines the assignment of space in the first place? He commented that he has been struck, since coming to Minnesota, by how much space demands are driven by the entrepreneurial success of individual principal investigators in obtaining research grants; in certain areas there are enormous demands on space. It is not clear, he said, that these demands are driven by an institutional set of priorities; they appear to depend more on the luck of the draw in whether or not individuals obtain major grants.

Another issue is how the University decides whether or not an individual academic unit has the appropriate amount of space. There could be minimal space standards (derived from numbers of faculty, students, classes, and so on) along with some modicum of research space--that should constitute the core for any department. If it wishes to obtain more space, for research or new developments, then there is a question about how that request should be handled; the space rental plan is an intriguing possibility.

Dr. Kuhi acknowledged he did not have general answers to questions about the plan, and he also said he did not know what the impact had been elsewhere; the reports, he commented, are mixed. It is unclear, he said, how to handle the question of whether or not a department has the right amount of space to start with. A number of units around the campus have been generously treated; others have not--so there is a need for a set of standards which treat the issue fairly.

Dr. Kuhi said he concurred with a number of points raised earlier and reflected in the minutes of the Committee, not the least of which is what occurs to a unit after a budget for space has been assigned and it then faces a rescission. These problems have not been resolved; this is only the beginning of a study of the issues. Right now the entire plan is up in the air as far he is concerned, he said.

One Committee member commented that the space rental plan appears to be part of a broader centralization/decentralization question, one having to do with which resources are to be furnished by the University and which by the departments. What, Dr. Kuhi was asked, was his experience with other institutions: Was the University more or less decentralized than others? Many see this space plan as a means to centralize authority, although that may not be the way the administration views it. Part of the problem at this institution is that much must now be purchased that is, elsewhere, provided; space will simply become another item which must be purchased--out of funds which are already insufficient.

These questions are handled other places, Dr. Kuhi observed, "in a very confused manner." At Berkeley, he said, space is centrally controlled; departments are allocated a certain amount of space but as needs change--always in the direction of needing more space--requests come to a central committee which advises the administration on whether or not to provide space or build a building. Charging for services, however, is also rampant at Berkeley--and it drives people crazy. Berkeley was just beginning a major study of their budgeting and allocation system when he left; it might be interesting to learn the results. Minnesota, he commented, is much more decentralized; there is much more control in the colleges and departments in many areas.

One thing Mr. LaFontaine will have to do in his study, Dr. Kuhi said, is look at the possible consequences of the plan--but the study will, in any event, emphasize the attention which must be paid to space. Dr. Foster, he recalled, pointed out that even when a department shrinks there is no return of space to the University and that once space is obtained it remains the property of the department forever; the space rental plan is one way to get away from that situation. Paying dollar for dollar for all the space may not be the right way to go but it should be examined.

The possibility of charging for additional space beyond certain guidelines is another possibility, but then the University must be sure it has the correct guidelines for determining what the correct amount of space is. Those standards are not in place, although the [Minnesota Facilities] model is being re-evaluated.

One Committee member urged that as much effort go into examining alternatives to the space rental plan as go into the plan itself and mentioned that the Physical Plant subcommittee has been asked to think about what the alternatives might be. Dr. Kuhi endorsed that request and agreed that other options should be considered.

Dr. Kuhi was asked how classrooms, study rooms, libraries, and public access areas would be allocated across colleges; he replied that the answer would have to come out of the study. At present there is both centrally-controlled classroom space as well as classroom space under the control of departments; it is "a big morass."

Another big issue that was not resolved at the time he left Berkeley, Dr. Kuhi recalled, was the increasing charges levied by support units, primarily to pay salary increases in those units. The academic departments, on the other hand, received so-called cost-of-living adjustments to their supplies, expense, and equipment (SEE) budgets--and salary increases in the support units far outstripped the increases in those SEE budgets. The departments were seeing dwindling resources as the support units delivered salary increases. One Committee member noted that the same situation prevailed at Minnesota except that there had been no increases in the SEE budgets.

All of these issues, Dr. Kuhi concluded, will have to be addressed before any plan can be put into effect. Professor Shapiro thanked Dr. Kuhi for discussing his views with the Committee and promised that the issue would return.

4. Discussion of the Auditing Functions

Professor Shapiro next welcomed Ken Janzen from the Regents' Office and Pat Spellacy, Director of Audits, to the meeting.

Mr. Janzen began the discussion by informing the Committee that among his responsibilities was serving as staff to the Regents' Audit Committee, which was chartered in 1984. It is a standing committee of the Board, with four regents on it; it meets quarterly. The Audit Committee normally has three activities: Hear reports or comments from the external auditors (which they are using more than they have in the past); hear a report from the Director of Audits at the University (who performs internal audits on all the campuses); and hear a report from the compliance officer, who follows after the auditors to learn which of the recommendations have been implemented, which have not, and if not, why not.

All of the audit functions at the University funnel through the Audit Committee, although both Mr. Spellacy and the compliance officer also report to the office of the Vice President for Finance and Operations. There is, moreover, a difference between internal and external audits of the University: The external auditors provide an opinion about whether or not the financial statements are accurate and suggestions about improvements which might be made; the internal audits look more closely at individual units to determine if their procedures are appropriate.

Mr. Spellacy next distributed a booklet which described the functions of his office and walked the members of the Committee through it. His comments touched on number of staff, organizational structure, history of the office and the Regents' Audit Committee; much of what is in place reflects a national pattern in the organization of the audit function.

Among changes which have occurred is the institution of levels of audit recommendations, which is intended to assist the Board of Regents in avoiding becoming bogged down in routine matters: those which have an institution-wide impact versus those which are routine departmental issues.

The role of the department is to improve internal controls--actions to enhance the likelihood that objectives will be achieved. Of the 100 audits in the past year, 85 have been routine and 15 have included investigations, and the point is to keep things in balance, in equilibrium. The external auditors serve to reassure external audiences of the University--that things are as they should be--while the legislative auditor monitors the expenditure of state funds. The internal auditor looks at departments within the University to ensure compliance and the presence of adequate controls. The compliance officer checks on recommendations made by all three auditors.

In the case where a unit concludes it cannot or should not implement an auditor's recommendation, an explanation of the risks and problems in not following the recommendation is made. Consent to not implement a recommendation rests at various levels, depending on the significance of the change. A process has recently been put in place to make routine the request to be excused from implementing a recommendation. (There have been 15 such requests out of about 500 recommendations from last year.)

The auditors have identified 60 major units (with about 250 to 300 components), broken down into A, B, and C levels. Some part of the units in the A group will be audited every year (such as the Bursar's office, which collects $600,000,000 every year; the hospital is another such unit). At the B level the unit will perhaps be on a two-three year cycle; at the C level it may be five or six years between audits.

Asked if the audits include all of the reserves which a department might have, Mr. Spellacy said they did. The auditors abstract the data from the general ledger system themselves; Mr. Janzen pointed out that some of the recommendations have included bringing those reserves under better institutional control. Concern was expressed about the cumulative size of the departmental reserves which exist around the University; Ms. Campbell explained, in response, that the annual report would, beginning this year, differentiate between dedicated and non-dedicated funds so that misapprehensions about reserves could be reduced.

Mr. Spellacy was asked about the increasing reliance on electronic financial management; he told the Committee that his office has added two people in the area of data processing and is quite specifically getting involved in the establishment of the control system as the new financial management system is put in place.

Professor Shapiro thanked Mr. Janzen and Mr. Spellacy for their presentations to the Committee.

5. Discussion of Proposed Research Support Policy

Professor Shapiro next welcomed Associate Dean Mark Brenner to the meeting to discuss the proposed Research Support Policy (which actually addresses the distribution of Indirect Cost Recovery funds). Dr. Brenner distributed copies of the draft policy to the Committee and walked them through the document.

This policy, he began, has gone through many iterations; the objective is to produce a document which all can support. Once accepted, the policy will require the development of a set of implementation plans which will also require review.

First to be noted, Dr. Brenner pointed out, is the change in terminology; the ICR funds will be characterized as research support funds. They will continue to be called ICR funds as they flow into the University; the legislature has authorized the University to retain most of them in support of research.

The reasons for the new policy are several. Many faculty who have active research programs find that they cannot obtain adequate support for their facilities--maintenance has declined, in part because the State has failed to authorize funding for the maintenance of new space. Some investigators have argued that part of the ICR money should be returned to them so they can deal with such things as emergency repairs; while a logical argument, it would be better to have the funds centrally held and the problems addressed so the investigators never face them at all--and that is what the new policy aspires to accomplish.

Another problem is that the growth in research activity has outpaced the availability of space. This has in part led research needs, rather than teaching needs, to determine the items in the capital request. If research dollars can be devoted to supporting research space perhaps some of the instructional space needs can be given a higher priority.

Increasingly sophisticated equipment is another reason for the new policy, as is the growth in the request for matching funds in grant requests. Yet another is the increase in funding shortfalls which faculty confront, in large part because of the extreme competitiveness in grants; programs which the University does not wish to see fail can be provided "bridge" funding until the next grant might be obtained (which often occurs).

Dean Brenner next turned to the principles for the distribution of funds set out in the policy. They are:

-- Funds generated by each campus would stay on that campus.

-- A number of important activities are currently being funded, and that support will continue, but there are also new initiatives which will receive support, on the margins. The formula funds distributed to the colleges will not be discontinued; as research funds increase, moreover, proportionately more funds would go to the colleges. (The college's allocation would also decrease if research funds were to decline.)

   There are opportunities for an increase in the funds available: negotiation with the State to release the last $6.5 million, overall growth in the research enterprise (there is a change in attitude about research in Washington), and pay-off of existing short-term commitments, which would free up additional funds.

-- Funds would be provided for operation, adequate maintenance, and improvement of research space. Negotiations with the Senior Vice President for Finance would take place in order to obtain adequate support for research space (in order to address the many complaints from investigators about the current lack of support from Physical Plant because of inadequate funding).

-- The need for additional research space, especially in conjunction with the large center grants, will require that some ICR funds be used to construct or rent space; for off-campus rental, projects would be permitted to retain 50% of their ICR funds. Some of the money could also be used to contribute to the University's one-third of the debt service on new construction if the space were devoted to research.

-- Flexible funds would continue to be available for central administration to meet needs such as fund matches, new areas of inquiry, large equipment purchases, etc.

-- Increased funds would be provided to the Graduate School grant in aid program. For the last year or two the program has almost been spending more money than it had because the number of worthy projects and required dollars have outstripped available funds. The track record of the program, in terms of benefits generated from the support of faculty, is clear.

Another comment in the proposed policy is whether or not the block grants to CLA, CBS, and IT ($4,000,000 per year) in support of Academic Priorities should continue to come indefinitely from the Research Support Fund. No one questions the appropriateness of the support for Academic Priorities but the source of the funds is debatable.

Asked about the generation and review of the statement thus far, Dr. Brenner said it had been developed by the staff and by the Research Executive Council and has been presented to all of the deans and the Senate Research Committee; the latter has not yet approved but the most recent draft has been written to meet its concerns. The goal is to have the policy in place this Spring.

It was clarified that "bridge" funding would only be extended to faculty whose projects had been reviewed and approved through internal peer review. Dr. Brenner cautioned that there are many problems associated with the very tight funding from the granting agencies which are unrelated to the merits of particular research projects.

It was suggested that space and maintenance is a campus issue and that the ICR funds should not be taxed to make up for the ills and neglect of the past. It was also urged that the benefits should be spread around as much as possible rather than permitting single projects to consume an inordinate part of the funds. Dr. Brenner concurred that both of these concerns were legitimate. He agreed that maintenance funds should be clearly devoted to research space; he pointed out, too, that some deans strongly oppose moving the faculty off-campus; rental is seen as undesirable.

Committee members discussed the various options which exist for acquisition of space and the need, especially on the part of the deans, to give priority to maintenance of existing space over the construction of new space or use of the funds for other priorities.

It was agreed that Dr. Brenner would bring a redrafted version of the policy to the Senate Research Committee and to the Faculty Consultative Committee in May. This Committee would not again discuss the policy at one of its meetings, assuming that there would be no major changes, but copies would be provided so that individuals could forward comments to Dr. Brenner.

Asked if the principles would be translated into percentages, Dr. Brenner said that would be part of the implementation document rather than of the principles. Work on the implementation, it was said, could begin soon. Professor Shapiro cautioned, however, that speed should not take precedence over the quality of the document.

The Committee adjourned at 5:10.

-- Gary Engstrand

University of Minnesota