Minutes*

Senate Committee on Finance and Planning
Tuesday, June 19, 2012
2:30 – 5:00
238A Morrill Hall

Present: Russell Luepker (chair), Martin Caride, Sarah Chambers, Will Durfee, Catherine Fitch, Lincoln Kallsen, Kara Kersteter, Cody Mikl, Gwen Rudney, Terry Roe, Michael Rollefson, Ann Sather, Karen Seashore, Arturo Schultz, S. Charles Schulz, Michael Volna, Aks Zaheer

Absent: Susan Hupp, Fred Morrison, Kathleen O'Brien, Richard Pfutzenreuter, Thomas Stinson

Guests: Professor Dan Feeney (incoming 2012-13 committee member); President Eric Kaler; Julie Tonneson (Office of Budget and Finance)

[In these minutes: (1) changes to Purchasing Goods and Services policy; (2) thanks and completion; (3) discussion with President Kaler; (4) fully allocated cost of mission activities]

1. Changes to Purchasing Goods and Services Policy

Professor Luepker convened the meeting at 2:30 and asked Mr. Volna to review the proposed changes to the policy on Purchasing Goods and Services.

Mr. Volna said the policy came up for review in the normal cycle of reviews and that there were no substantive changes proposed. There has been no change in the thresholds, based on reviews of the thresholds and practices at peer institutions. The equipment capitalization change will come in about a year, from $2500 to $5000, and is part of the negotiations with the federal government on the Facilities and Administration (indirect cost) rate. Minnesota is the only institution, among its peers, that uses $2500; almost all the rest use $5000. There are workload implications to the change: There would be significantly fewer purchases that would need to be capitalized, tagged, and tracked.

Committee members raised questions about a few of the provisions in the policy.

-- What if someone would like to bid out something rather than go through Fairview, which is often not the low-cost provider; can items be bid out? Mr. Volna said he would find out.

-- Why has outsourcing language been removed? That is governed by state law and civil-service and bargaining-unit rules, Mr. Volna said, and has not been changed. It has never had an impact on the University's purchasing practices. The policy language change does not signal the institution's view about outsourcing—that is a larger issue.

* 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.

-- What is the rule about outsourcing? Could a contract to paint this meeting room be outsourced? There are certain categories of services that must go through University organizations, Mr. Volna said, and where hiring an outside vendor is not permitted. But some are permitted. One major criterion is whether there is a license requirement for the work; another is if there is explicit policy on a particular service. If there is no license requirement and no policy provision, units can usually go out into the market. Mr. Kallsen said that Vice President O'Brien would say, were she present, that the University Services has stewardship responsibility for all University facilities and that Facilities Management employees will do the job required in order for the University to be accountable.

-- Why is language being removed about departments with repetitive annual purchases that exceed the bid threshold submitting a requisition to Purchasing for competitive bidding? This probably covers every science department at the University. It is a gray area and depends on the nature of the purchases, Mr. Volna explained. He said he would like to get a little more information, so he will get back to the Committee on this point.

-- As policies come up for review, how does Mr. Volna obtain suggestions for changes? They first identify what they know must change, Mr. Volna said, and then consult with stakeholders to receive additional suggestions. Would he send this policy on purchases to everyone who makes purchases and ask for suggestions? They sometimes go to user groups or managers, Mr. Volna said. After consultation with the policy groups, there is also the 30-day review period when anyone can make suggestions.

The Committee voted unanimously to endorse the proposed changes in the policy, subject to further clarification from Mr. Volna on the questions that had been raised in the discussion.

2 Thanks and Completion

Professor Luepker noted that this would be the last meeting of the Committee when he would preside as chair. He said that he has served on many committees in his life and this one has been the most interesting and challenging. He said he believes the Committee has raised important questions and achieved some change, largely because Committee members come to the meetings and ask good questions. He thanked Committee members for their service and said it has been an extraordinary committee on which to serve—and said it will be lucky to have Professor Durfee as chair next year.

Committee members thanked Professor Luepker and gave him a round of applause.

3. Discussion with President Kaler

Professor Luepker now welcomed the president to the meeting and noted the questions that the Committee had prepared for him in advance of the meeting. President Kaler turned to the questions.

> 1. The University budget model: Our model is based on distribution of all tuition, ICR and other revenues to the generating colleges with cost pools to recover central costs. This means that state appropriations and a few other items provide the primary financial flexibility for central administration. Are you pleased with this budget model or are there aspects that you would consider changing?

President Kaler began by observing that often those with centralized organizations want more decentralization and those with decentralized organizations want more centralization. The University's budget model has much to recommend it, including incentives to entrepreneurialism, but it also contains some perverse incentives, such as inappropriate course offerings in order to attract students and generate tuition revenues. The latter is not sound educational policy and there need to be mechanisms to regulate course offerings. The president said he does not intend to propose broad changes to the budget model but he does want to see structures to control its adverse effects.

In his lunches with faculty members, the president said, he hears that it is difficult to do interdisciplinary work because of the budget model. He tells the deans about the problem and they are puzzled; there is no good way to lubricate interdisciplinary research with the budget model.

There are a couple of mechanisms that the University could think about adopting, the president said. A periodic review of the fraction of tuition revenues the colleges retain is appropriate; the percentages are not set in stone. Professor Seashore asked what other areas the president would tweak. President Kaler said that establishment of the campus curriculum committee for the Twin Cities is important for addressing the "poaching" problems that may exist; he said he has not yet thought of a solution for making interdisciplinary research easier and suggested the deans may be most suited to deal with the problem.

Professor Roe recalled that in the past, the Graduate School had Policy and Review Councils that vetted courses; that process worked quite well. The president agreed but said there were complaints that the process was too slow—but it needn't be. Most everyone with whom he has spoken about the current Graduate School situation is unhappy, so there may be an opportunity to make changes and at least make some people happy. He said he has asked Provost Hanson to examine the issues and told the Committee that it may be that a more centralized model will be proposed.

Professor Seashore said she hopes the curriculum committee acts quickly but that it does not become a bottleneck or a roadblock to creativity in serving students through courses that may look the same but are not. The Graduate School model was slow but it took into account many factors in evaluating courses. She said she was alarmed at the use of the term "poaching" because it implies competition among the colleges. There will be many easy situations for the committee to deal with but there will be more complex ones in interdisciplinary teaching and advanced instruction. President Kaler said he hoped the committee would be sophisticated enough to deal with the situations Professor Seashore described; it is a faculty issue, he pointed out, and the faculty owns the curriculum. Professor Seashore said that there will be continuing financial issues related to the curriculum that will require continued review, and there will be disadvantages to certain units and faculty members.

> 2. Budget decision-making: Whatever budget model is used, how will decisions allocating central resources to priority areas be made? What role, if any, will faculty consultation play in selecting these priorities?

President Kaler said he believes the compact process works well. He stayed out of it this year; the administration created funding for new faculty hires and salary increases, and he thought it best to let the hiring decisions across the disciplines go through the compact process. To the degree that faculty are consulted, it would be with the Faculty Consultative Committee and this Committee, and those discussions will continue. The president said, however, that he hoped faculty members in the departments develop descriptions of the faculty they wish to hire and take those descriptions to chairs and deans, so that there is that kind of direct participation in faculty hiring decisions.

Professor Schulz asked, apropos of the recommendation to hire 100 new faculty members, where they would be hired. That decision will be made through the compact process, the president said. The administration provided $11 million for hiring, which translates to about 100 faculty positions. Are there any leading themes, Professor Luepker inquired? The largest single area will be informatics, President Kaler said, but the positions will be spread across the institution.

Professor Roe said that the Committee has discussed the compact process in the past and observed that there seems to be an emphasis on new initiatives rather than refinancing the core, that it is difficult to take money from one college and give it to another, and that there needs to be an improvement in the metrics used in the process.

President Kaler said he is sensitive to the need to refinance the core, and in his view that is what the 100 new faculty positions will be about. They move money among the colleges all the time, he said, especially if it is necessary to "plug holes" where revenues may not have materialized as expected (e.g., tuition). With respect to metrics, they look at all the budget information that is available, which is voluminous, and can see the trends. The budget information is open and available.

Professor Seashore asked how much farther the administration intends to go in terms of connecting cost per unit with budgets. For example, a college could be low-cost because it uses graduate students to do much of its teaching. The president said the analysis has probably achieved the level of granularity that is needed but that they will begin to track the costs over the years; those data will provide the basis for conversations between the deans and the provost. President Kaler said the numbers that most surprised him were the comparative costs of educating an undergraduate student in CSE, with its engineering programs, and other colleges. The data will inform many discussions, he surmised.

Professor Seashore commended the president for making the data public and allowing for discussions in the colleges. She suggested, however, that the data may lead to some "policy pushback" once they are in the public sphere. President Kaler said the Board of Regents was glad to receive the data, and while legislators may ask interesting questions, there is nothing in the data that is embarrassing. They will serve the University well and help to address issues of the public trust.

Professor Luepker commented about the "Budget Five," the group that makes final budget decisions. Committee members are aware of the membership of the group but they are unclear about how decisions are made. President Kaler said the group "weighs the puts and takes" and makes recommendations to him. He asks questions. It is the process by which the institutional leaders make decisions, which is what they are supposed to do.

3. Differential tuition: We have recently seen the Regents agree to a "fee" for the Carlson School of Management. Should individual colleges set their own undergraduate tuition or use fees to increase support for their programs?

President Kaler said he told the Board of Regents he was not opposed to the fee for the Carlson School because there is a clear market and high demand for its programs—but the bar is high for these kinds of fees and the decision does not open the door for the willy-nilly adoption of such fees. There are many reasons to resist widespread fees, one of which is that many students do not know what they want to do and they should not make the decision on the basis of tuition level. The Carlson School is noticeably different and it also provides aid for needy students. He said he does not want a broader conversation about differential tuition.

5. State funding: Is there a strategy to improve or minimize the steady decline in state funding?

The president moved to question #5. He said he predicated his comments about differential tuition and increased fees like those the Carlson School has adopted on the ability to reverse the decline in state support and the University's ability to receive a reasonable share of state funding. People come to Minnesota not because of the weather but in part because what the University provided the state 30 years ago; it is important the University be able to provide for future generations as well.

President Kaler said he spends a great deal of time worrying about state support. He estimated that he spends about 20% of his time on philanthropy, 30% on government relations, and the remainder on the administration of the University. He cannot ignore the relationship with the state, he said, because it is too important.

Professor Roe asked about student debt load. One sees the level rising, he said, but the Committee does not know how significant it is, and it likely varies by college. He said it would be useful to ask the colleges about likely workforce demands, the jobs available, and placement rates, so that students could make more informed decisions.

President Kaler said that he serves on the Itasca Project, a group of higher education and business leaders in the state. One of its themes is workforce analysis (which is more oriented to MnSCU than the University). The University must tell its story about a liberal education more effectively and emphasize the importance of critical thinking and so on. Liberal-arts graduates can get jobs. But he agreed that information could be aggregated for students. He said that Vice Provost McMaster's office could integrate data on student debt with employment information.

Professor Schulz noted that there will be a group of outside consultants brought in to advise the president about the Academic Health Center. The Medical School has been at the same rank for about a dozen years. A really successful Academic Health Center could be helpful in talking with legislators, he said. The president agreed and said it needs to improve, and that is why changing the nature of the relationship with Fairview is important. The University also has the challenge of another very good medical institution in the state, something most other academic health centers do not face, and that has an impact.

Professor Schultz asked if, given the extreme budget pressure from the state, the University has considered selling bonds in the way that Ohio State is proposing to do with the sale of its parking operations. President Kaler said he repeatedly uses the phrase "highest and best use," the approach he believes the University should use with all of its assets. There have been conversations centrally about the Ohio State proposal (to sell all its parking services for $459 million for 100 years); to get that price, there will have to be substantial parking price increases. In his view, if the University were inclined to go in that direction, it could just raise parking prices and keep the income. He said he did not believe that selling 100-year bonds for $500 million (to be used to modernize the Ohio State academic health center) is the best way to proceed, and said that the mechanism used to finance the University's Biomedical Discovery District was a better model. But "highest and best use" is the model, and it may be that the approach will come into play with respect to some of the University's land in northern Minnesota—which may be on top of significant ore deposits.

4. Overhead costs: What are the outcomes of the Operational Excellence Committee and how will they be implemented?

They meet every week, the president said; it is an ongoing process. They have so far identified 240 things that can be done, and there will be a website with information about operational excellence. He has prepared a charge letter to each vice president indicating the changes that have been identified and a timeline to achieve them. The changes will be public. They will be sensitive to the process requirements if it turns out that reductions in force are to be made. This is intended to be a participatory process, the president said.

Professor Luepker thanked the president for joining the meeting and noted that Professor Durfee will be the chair next year.

4. Fully Allocated Cost of Mission Activities

Professor Luepker now welcomed Ms. Tonneson from the Office of Budget and Finance to begin the discussion of the fully-allocated cost of mission activities. Ms. Tonneson distributed a handout, the one used with the Board of Regents at its June meeting.

Ms. Tonneson began her presentation by noting the purpose of the study (and noted that the data are based on FY10 data, which were the most recent data available when they began the work).

-- Answer long-standing Board of Regents' questions relating to what it costs to teach a student at the University
-- Provide information and analysis to the administration to better understand cost drivers throughout the University
-- Understand more fully the wide variety of revenue sources that support all of our missions [instruction, research, public service]
-- Provide a baseline for future study – most valuable as a self-comparison over time
-- Develop information for management decisions and policy development.

She explained that this is year one of the analysis; the same analyses for FY11 and FY12 will be completed this fall. She said she was not aware that any other university in the country had done this kind of analysis.

Conceptually, the fully-allocated costs of missions includes direct mission costs for instruction, research, and public service plus indirect (support) costs such as student services, academic support, institutional support, and physical plant. In the case of instruction, for example, the direct costs would be faculty compensation, teaching assistants, and so on. In research it would include scientist salaries and sponsored research funding; in public service it would include extension services and clinical trials. Indirect costs would include, again for example, advisers and registrar's offices, dean's offices and libraries, the president's office and the Office of the General Counsel, and utilities and repairs and maintenance. They sought to identify the direct and indirect costs, Ms. Tonneson said, and the work was essentially a function code analysis. Function codes are common across universities; there are nine function codes that encompass every expenditure at a university. She said, in response to a query from Professor Roe, that the indirect costs could be considered as overhead, although the studies distinguish between direct and indirect costs. (The nine function codes are these: Instruction, Research, Public Service, Auxiliaries, Student Aid, Student Services, Academic Support, Institutional Support, and Physical Plant.)

Ms. Tonneson presented the results of the analysis for FY10, and observed that there were many formulae used to calculate the numbers. Where possible they used the budget model data, such as from the cost pools, assigned space on the basis of square footage, assigned a proportionate share of costs, and so on. They tried to be as consistent as possible in applying formulae to identify costs.

Instruction:	
Direct costs	668.1M
Indirect costs	453.5M
Fully allocated costs	1121.6M
Research:	
Direct costs	580.1M
Indirect costs	290.0M
Fully allocated costs	870.8M
Public Service:	
Direct costs	201.0M
Indirect costs	103.6M
Fully allocated costs	304.6M
Auxiliaries:	
Direct costs	215.3M
Indirect costs	36.5M
Fully allocated costs	251.8M
Student Aid:	
Direct costs	299.1M
Indirect costs	-0-
Fully allocated costs	299.1M

The total direct costs, all categories, were $1963.6 million; the total indirect costs were $883.6 million; the total fully-allocated costs were $2847.9 million.

Ms. Tonneson explained that they decided to separate out auxiliaries (parking, housing, bookstores, dining, intercollegiate athletics, etc.) because they did not believe those expenses should count in the costs of instruction, research, and public service. They also allocated some of the indirect costs to auxiliaries, however, because they do have institutional costs. They also separated student financial aid because it does not affect the cost of instruction (although one could make an argument that student aid should be allocated to instruction). Nor does student aid have any indirect costs.

Professor Luepker observed that when they allocate the cost of the president's office, general counsel, etc., that does not break out the costs of administration. Ms. Tonneson agreed and said that they were not trying to define administrative costs—that was not the purpose of the study and one cannot answer the question of the cost of administration with these data.

Ms. Tonneson turned next to allocation of revenues. Revenue sources are tuition, state appropriation, gifts, clinical income, sponsored funding, etc.; they support the direct and indirect costs, are tracked in the financial system, and are allocated to mission activities in the same way costs are allocated. In response to a question from Professor Zaheer, Ms. Tonneson said that philanthropic income is allocated on the basis of how it is used.

They had to make "decision rules" about (among other things) allocating tuition and O&M appropriations, Ms. Tonneson explained, because the budget system does not tell anyone the answer. Revenues are co-mingled as general "O&M" at department level where spending occurs. To report them separately, a decision needed to be made on the split between them wherever "O&M" revenue supports spending. One decision rule they made is that tuition supports instruction & student aid only. Another decision rule they adopted was that for student aid, of the $110 million of O&M funds supporting student aid in FY10, the state appropriation portion will represent the centrally-supported aid programs ($57 million), and the balance will be tuition ($53 million); the remainder of tuition revenue ($665 million) will support instruction. These two decision rules mean that O&M revenue supporting spending in research and public service is therefore the state appropriation (QED, because it is not, by the decision rules, tuition).

Professor Durfee noted that the use of tuition to support financial aid is a contentious issue in some places and is one in which the Board of Regents is interested; did they take that controversy into account? They did, Ms. Tonneson said, and they had to face a number of issues. For example, they could have decided that some tuition revenue supports research, but that did not seem appropriate. They had to make a number of tradeoffs in order to do the analysis. Professor Roe commented that the decision rule they adopted seems the closest to factual that could be obtained.

Ms. Tonneson moved to more detailed explanations of the development of the mission-based revenue and costs for research, public service, auxiliaries, student aid, and instruction.

RESEARCH

Total fully-allocated research spending, as noted previously, was $870.8 million in FY10. Of that, $580.8 million was in direct costs, which means spending that was coded with the Research function code. Examples include the salary and fringe of graduate students and principal investigators working on a grant. $290.0 million in indirect costs were attributed to research, which was spending coded with other function codes that were allocated to research through the methodology they used. Examples include portions of deans' offices, portions of a chancellor's office; the costs of the Office of the Vice President for Research, Sponsored Financial Reporting, lab facility costs, etc. Of the $580.8 million of direct costs,

-- $497.7 million was in Twin Cities Colleges
-- $17.4 million was in the Coordinate Campuses
-- $65.7 million was in Other Units (MN Extension, AES, Institution-Wide Centers etc.).

Ms. Tonneson pointed out that these amounts do not include all sponsored funding, because some grants, for example, are public service.

Professor Zaheer asked about research that is not covered by sponsored funding. Ms. Tonneson said all research is included and that the figures do cover all funding sources (sponsored and nonsponsored) for direct coded research as well as the associated support costs not coded as research.

Professor Luepker noticed that indirect costs were about half of the direct costs, which is very close to the University's negotiated Facilities and Administration (indirect) cost percentage. But the indirect costs are not always charged at the full rate, so the money is coming from somewhere else.

Total (fully-allocated) **sponsored** research spending in FY10 was $531.2 million, Ms. Tonneson reported, which included $353 in direct spending and $178.2 million in indirect spending. The revenues supporting sponsored research spending were:

Sponsored	65% ($346.5 million)
Indirect Cost Recovery	24% ($127.2 million)
O&M Approp	9% ($46 million)

The other categories (Other Restricted State, Auxiliary, Business & Industry, Federal Appropriation, and Clinical Income) contributed about 2% of the total revenues to support research.

Professor Luepker observed that only 24% of the revenues to support sponsored research were indirect-cost recovery funds, even though the University's negotiated rate is 51%. Is that because the University is not collecting all its indirect-cost funding or because the research costs more? Both, Ms. Tonneson responded. The 24% is 24% of all revenues supporting research - not 24% of direct costs, which would be the comparable F&A rate base - but expressed as a percent of direct costs, the ICR would still be less than the negotiated rate because not all research funding carries the full amount of indirect costs. The University's actual indirect costs are 65%, which everyone agrees on, but the negotiated rate is still only 51%, and not all sponsors pay the full 51%.

Total (fully-allocated) **non-sponsored** research spending in FY10 was $339.6 million, of which $225.6 was in direct expenditures and $114 million in indirect costs. This was an eye-opening discovery, Ms. Tonneson commented; they did not expect the number to be this large. The revenues supporting the $339.6 million were from the following sources:

O&M Approp	59% ($199 million)
U of M Foundations	14% ($47.8 million) [this is gift income to the University]

St. Special Approp	10% ($33.2 million)
Clinical Income	4%
Federal Approp	4%
Other Restricted State	4%
Business & Industry	2%
Other	3%

Of the $199 million in O&M appropriation funds from the state, they determined that 29% ($57 million) went to support direct research costs and 71% ($142 million) went in support of indirect research costs. Ms. Tonneson pointed out that much of the activity that takes place as a result of state special appropriations carries no indirect-cost revenues, so those indirect costs are paid for by the O&M appropriation.

PUBLIC SERVICE

Ms. Tonneson reported that total fully-allocated public service spending in FY10 was $304.6 million. Of that, $201.0 million was in direct costs, spending coded with the Public Service function code. Examples include the MN Extension Service, Veterinary Diagnostic Lab, grants with a specific public benefit intent, etc. $103.6 million was indirect costs, spending coded with other function codes but allocated to public service through their methodology; examples include a portion of deans' offices, a portion of the president's office, a portion of the Controller's office, facility costs, etc.

Of the $201.0 Million of Direct Costs:

-- $95.6 million was in Twin Cities Colleges
-- $8.3 million was in the Coordinate Campuses
-- $97.1 million was in Other Units (MN Extension, University Libraries, Institution-Wide Centers etc.)

The revenues supporting the $304.6 million in public service spending came from a variety of sources, Ms. Tonneson noted.

O&M Approp	25% ($75.4 million)
Other/Misc.*	25% ($75.3 million)
Sponsored Funds	20% ($62.2 million)
Clinical Income	11%
St. Special Approp	5%
U of M Foundations	4%
Fed Approp	3%
Other Restricted State	3%
All Other	4% (Other Gov’t, Auxiliaries, Business & Industry)

* Includes revenue from sales, royalties, affiliated hospitals, endowment earnings, etc.

AUXILIARIES

Total fully-allocated auxiliary spending in FY10 was $251.8 million. The revenues to support that spending came 72% from auxiliary sales and 19% from other and miscellaneous sources (includes revenue from sales, royalties, affiliated hospitals, endowment earnings, etc.). 3% came from O&M appropriations, 2% from University foundations, and 4% from all other sources.

STUDENT AID

The $299.1 million in student aid supported several types of aid:

Direct Aid to Students	73% ($218.8 million) (Fellowships, Grants and Scholarships)
Tuition Payment/Waiver	17% ($51.1 million) (Depts. Charged for Tuition)
Stipends	9% ($26.4 million) (to Trainees, Research Assistants, Fellows, etc.)
Other/Misc	1%

Ms. Tonneson agreed that the "tuition payment/waiver" is a choice the University made, but it is an expense.

The revenues used to pay for student aid were these:

Other Restricted State	24% ($69.3 million) (ARRA, State Grant program, work study)
O&M Approp	20% ($56.7 million)
Tuition	19% ($53.2 million)
Federal	18% ($52.5 million) (Pell, SEOG)
U of M Foundations	10%
Sponsored	6% (research assistants)
Other	3% (athletic scholarships, local gov't scholarships)

Mr. Rollefson asked if these included Research Fellows. Ms. Tonneson said there are many codes by which one can appoint students. Some appointments are compensation, so would not appear here, while others are a form of student aid so would appear here.

Professor Schulz asked how the 10% of student aid from the University's foundations compares with peer institutions. Ms. Tonneson said she did not have comparative data. Professor Schulz recalled that the Committee has talked briefly in the past about the use of tuition revenue for student aid and said that O&M funds should be used for growth and that growth in philanthropy will be important.

INSTRUCTION

Ms. Tonneson turned next to instructional spending, which fully-allocated totaled $1121.6 million in FY10. Of that, $668.1 million were direct costs, spending coded with the Instruction function code. Examples include salary and fringe for instructional faculty, supplies and materials, teaching assistants, etc. The other $453.5 million was indirect costs, again, spending coded with other function codes but allocated to Instruction through their methodology; examples include a portion of deans' offices, a portion of the president’s Office; facility costs, etc.

Of the $668.1 million of direct costs:

-- $551.3 million was in Twin Cities Colleges
-- $75.5 million was in the Coordinate Campuses
-- $41.3 million was in Other Units (primarily Institution-Wide Centers)

The revenues supporting the $1.121.6 million in instructional costs were these:

Tuition	55% ($612.0 million)
Other/Misc	21% ($241.3 million)*
O&M Approp	10% ($111.4 million)
St. Special Approp	4%
Clinical Income	4%
Other Restricted State	2%
Foundations	2%
Sponsored	1%
All Other	1%

*sales, royalties, affiliated hospitals, fees, endowment earnings, etc.

Professor Durfee inquired if course fees were a large portion of these revenues. They are not, Ms. Tonneson said; they are less than $10 million, so a very small portion. There is much more revenue from college fees. She also agreed that these data could be used in future years to show what tuition dollars are supporting.

Mr. Kallsen took up the methodology used to distribute fully-allocated instructional costs among student types and provided data on system-wide totals and weighted averages for FY10. Of the $1.121.6 million in instructional costs:

Undergraduate Student Instructional Costs

$560.4 million
divided by
46,490 2009-2010 Undergraduate Student FYE [full-year equivalents]
equals
$12,055 instructional cost per FYE undergraduate student

Graduate Student Instructional Costs

$284.2 million
divided by
12,116 2009-2010 Graduate Student FYE
equals
$23,454 instructional cost per FYE graduate student

Professional Student Instructional Costs

$174.7 million
divided by
4,478 2009-2010 Professional Student FYE 4,478
equals
$39,022 instructional cost per FYE professional student

(Professional students include law, veterinary medicine, medical school, dentistry, and pharmacy).

Before moving to the per-campus and per-college costs, Mr. Kallsen related that they talked with all the deans and chancellors; the following points are the ones they heard most as they considered what might cause instructional costs to vary among colleges and campuses. He emphasized that they do not believe the numbers are good or bad but they do want to learn what drives the numbers for the colleges and campuses.

-- Faculty effort allocation among missions as shown in the ledger
-- Market driven faculty salaries
-- Curricular factors – section size, overall FYE per faculty, availability of TAs/adjuncts, etc.
-- Volume of service teaching
-- Amount spent on student services within colleges/campuses
-- Cost and complexity of unique instructional space and equipment/materials
-- Some programs are highly instructor intensive (e.g., Ph.D. work with faculty advisors, music programs)

On the first bullet, Mr. Kallsen noted that if faculty effort allocation is not budgeted separately, research and public service defaults to instruction—so the analysis may overstate instructional costs by 5-7% and understate research and service costs to the same degree.

Professor Chambers commented that in CLA, many faculty do their research in the summer, time for which they are not paid, so some research is uncompensated and not reflected in the data. Mr. Kallsen agreed but with a reservation: He pointed out that teaching loads at a research university are set with the expectation of research in mind, so it is not completely accurate to say that some faculty do their research in the summer.

Mr. Kallsen presented the fully-allocated FYE [full-year equivalent] costs per college for resident undergraduates, FY10.

By college:

Biological Sciences	$14,294
Continuing Education	$12,259
Education & Hum Dev (CEHD)	$9,625
Food, Agricultural . . . (CFANS)	$13,307
Liberal Arts (CLA)	$11,144
Science & Engineering (CSE)	$10,721
Management (CSOM)	$16,049

Design	$14,696
Nursing	$13,464
Crookston	$11,446
Duluth	$11,046
Morris	$16,273

Tuition by campus for 2009-10 was:

Twin Cities	$10,320
Duluth	$10,030
Morris	$10,030
Crookston	$8,588

Only CEHD appears to have a fully-loaded cost that is lower than the tuition charged, Mr. Kallsen noted, but if one pulls out the many inexpensive physical-education courses, then CEHD costs land between CLA and CSE.

Professor Luepker noted that Morris has the highest cost per FYE undergraduate. Professor Rudney observed that Morris is entirely undergraduate, so all the campus costs go into the FYE undergraduate costs; all classes are taught by faculty member, not graduate students, and all advising is done by the faculty. Mr. Kallsen said one can make the case that Morris is one of the best values in the system: A student pays considerably less than the cost of what he or she is receiving.

Mr. Kallsen turned next to questions of tuition versus instructional costs. He noted that several revenue sources support the cost of instruction beyond tuition, University tuition policy historically has been based on several factors beyond the cost of instruction, and the University has had a single undergraduate tuition rate by campus for many years. So instructional costs do not equal tuition for a number of reasons.

Mr. Kallsen next presented the costs per FYE for graduate and professional education.

Biological Sciences	$37,830
Continuing Education	$23,110
Education & Hum Dev	$16,116
CFANS	$21,747
Liberal Arts	$32,274
Sci. & Engineering	$28,562
CSOM	$16,950
Dentistry	$52,521
Design	$22,881
Public Affairs	$13,902
Law	$36,876
Medical School	$50,038
Nursing	$27,268
Pharmacy	$21,176
Public Health	$21,266

Vet Med	$47,512
Duluth	$22,034

Note: Professional program costs are shown for Dentistry, Pharmacy, Veterinary Medicine, and the Medical School. These colleges also have graduate programs with costs of a similar magnitude. Medical School costs do not include cost of residency.

Mr. Kallsen observed that these costs vary more widely and there are many one-of-a-kind adjustments that need to be made. A number of the programs require careful consideration.

The next steps, Mr. Kallsen said, include:

-- Replicating the study with FY11 and FY12 data to construct trend-lines
-- Working with colleges and campuses on providing appropriate sub-analysis to meet local needs and correct unique methodological issues
-- Working with senior academic leadership to incorporate this information into the compact planning process
-- Moving revenue analysis to the collegiate/campus level, to better anticipate opportunities and threats to different missions as revenue streams vary
-- Use data for unit-level long range financial planning discussions and analysis.

Professor Luepker thanked Ms. Tonneson and Mr. Kallsen for a herculean effort. This work needed to be done, he said, and the Committee appreciates it very much. He said they will look forward to seeing the analysis for FY11 and FY12. He adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota