SENATE COMMITTEE OF FINANCE AND PLANNING (SCFP)
December 15, 2015
Minutes of the Meeting

[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.]

[**In these minutes:** Duluth Financial Update; ESUP Implementation Update; Office of Technology Commercialization Overview]

PRESENT: Chair pro tem Fred Morrison, Catherine Fitch, Kara Kersteter, Tracy Peters, Lincoln Kallsen, Jill Merriam, Paul Olin, Richard Pfutzenreuter, Karen Ho, Sandra Potthoff, Sarah Chambers, Karen Seashore, Jennifer Gunn, Erik van Kuijk, Robert Goldstein, Aravind Boddupalli, Emily Meyer

REGRETS: David Fisher, Pamela Wheelock, Michael Korth

ABSENT: Laura Kalambokidis, Michael Volna, Varun Sood

GUESTS: Julie Tonneson, associate vice president, University Budget and Finance; Jay Schrankler, director, Office for Technology Commercialization; Brian Herman, vice president, Research

OTHERS ATTENDING: NONE

Chair Pro Tem Fred Morrison opened the meeting and welcomed members.

1. Duluth Financial Update – Julie Tonneson, associate vice president, University Budget and Finance, provided a spreadsheet to members outlining the FY2015 and FY2016 Duluth campus budget. Tonneson explained the Duluth campus was facing a budget structural imbalance. Tonneson said her office worked with Duluth in FY2014 to determine the total of the structural imbalance. She went on to explain that Duluth's structural imbalance was $9.4 million, which meant that reoccurring resources were $9.4 million less than recurring spending obligations. She said a structural imbalance is not the same as a budget deficit, but with no intervention, Duluth would spend down its budget balances until the budget eventually went negative. Tonneson explained the structural imbalance was spurred by an enrollment decrease. Historically, Duluth's enrollment has been strong, allowing tuition to create a budget surplus. The surplus allowed the campus to cover costs each year with ease, allowing for failure to implement reallocations suggested by University Office of Budget and Finance. As enrollment and student retention decreased, tuition revenue decreased. This allowed the failure to implement suggested reallocations to negatively affect the budget.

She explained Duluth's FY2015 incremental cost increases, which included increases in compensation, tuition decreases, cost pool increases, and other new spending. She explained that planned solutions included spending reallocations, cost pool reduction/savings, debt restructuring such as an extension for internal loan repayment, and an increase in operations and maintenance reallocation. Tonneson explained that the legislature gave the University tuition relief appropriation to offset the loss of revenue experienced when the University did not increase tuition. Duluth received a portion of this appropriation. She drew member's attention to the fact that Duluth started FY2015 with a $9.4 million structural imbalance and ended the fiscal year with a $6 million imbalance due to the implementation of suggested solutions.

Tonneson discussed Duluth's fiscal changes in FY2016. No new tuition decreases were implemented, there was spending related to the Job Family Study, cost pool increases, and upfront costs associated with strategic enrollment planning. At the end of FY2016, the structural imbalance had been lowered to $3.2 million. She said a meeting is set up for January in Duluth to reassess the budget. Tonneson said President Kaler gave FY2018 as the goal for wiping out Duluth's structural imbalance completely.

Morrison asked for clarification on the type of reallocation Duluth was being asked to implement. Tonneson said the goal was to stop certain spending and apply those funds to relieving the structural imbalance. Seashore asked for more information regarding the spending done on the strategic enrollment initiatives. Tonneson explained that Duluth's multiyear plan includes initiatives across campus designed to increase enrollment and improve retention. Facility improvements, such as renovating and expanding classroom space, will provide the capacity needed to meet demand and are nonrecurring costs. She said improvements are being made to marketing plans and student services to assist with improving retention rates. The four-year plan has initial costs and in approximately the second year of the plan, modest tuition revenue increases will ensure there will be more coming into the budget than being spent. When asked if Duluth has implemented a hiring freeze, Tonneson responded that there has not been a hiring freeze, but reductions at the staff level have been made through temporary layoffs and a nonrenewal program.

Non-Resident Tuition Rates - Professor Sandra Potthoff asked for the amount of tuition lost due to lack of student retention versus certain demographics of students choosing to attend school elsewhere or not at all. Mr. Lincoln Kallsen responded that Duluth's annual goal for enrollment is approximately 2,200 new students each year. Recently, Duluth had a spring enrollment of 1,800 students followed the next year by enrollment of only 1,900 students. Kallsen said Duluth is in a very competitive location with a higher cost than its competition. Tonneson said the office is working with Duluth to address its high tuition cost. Historically, Duluth has not placed a lot of resources in recruiting, and the campus has had to learn to create an effective recruiting program very quickly, Tonneson said. She said $1.4 million is budgeted each year to assist system campuses with recruitment and retention. The University Office of Budget and Finance is going to meet with each system campus to discuss individual enrollment plans, she said. Kallsen said the number of high school students graduating each year fluctuates over time and because Duluth is a very regional school, recruitment strategies now need to recruit more broadly. Tonneson said the office is looking for a method to funnel students who apply, but do not attend the Twin Cities campus, to Duluth.

Professor Karen Seashore asked if there are out of state recruiting possibilities to increase enrollment and how the proposed rise in nonresident tuition could impact the University's recruitment. Seashore expressed an interest in exploring how the University's systemic recruiting strategy fits into the budget process. Tonneson said Duluth's proportion of nonresident non-reciprocity tuition has typically been very low. Currently, the University is near the bottom of other Big Ten institutions for the price of nonresident tuition. The proposal to raise the Twin Cities campus nonresident tuition by $3,200 (15%) a year, for the next four years, would raise approximately $7.5 million. Kallsen pointed out that current students would benefit from a plan to protect them by capping tuition increases at 5.5% per year. Morrison asked if there were any economic models created to study the potential impacts of raising nonresident tuition on the University's total revenue. Kallsen responded that approximately 40% of nonresident students stay in Minnesota after they graduate but no formal modeling had been completed.

Professor Paul Olin said that if there was a consensus about the proposed tuition increase, the committee should consider making a formal statement. He said he felt that a rise in tuition was not in the best interest of the University. Morrison agreed and said there is a risk of changing the character of the institution by raising tuition and admitting a different type of student. Morrison said it could be worthwhile for the committee to draft a resolution stating its position. He told members to email him or Chair Feeney with their input. Morrison cited his concerns regarding the lack of adequate economic modeling, the potential impact on the quality of students, the potential impact on diversity within the University, the impact on the University's international commitment, and the fact that there is a high retention of nonresidents in Minnesota after graduation that stands to be potentially negatively impacted. Professor Sandra Potthoff suggested personal stories from nonresident students regarding why they came to the University could be a persuasive defense against the proposed increase.

2. ESUP Implementation Update - Bernard Gulachek, interim vice president, Office of Information Technology, explained that there were unforeseen scheduling difficulties forcing the presentation to be moved to the next meeting. Morrison asked for a brief synopsis of the topic. Gulachek said the ESUP upgrade went live on April 20, 2015 and the team has identified both successes and challenges that are being worked through. He will return with the rest of the team to provide details to members at the February meeting.

3. Office of Technology Commercialization Update - Jay Schrankler, director, Office for Technology Commercialization (OTC), provided copies of his overview of the OTC to members. For the detailed presentation: https://drive.google.com/a/umn.edu/file/d/0B-bKrnrsb3jAV3VLZ0o3UDhrZUpZOTZya05Ldjl1MzVkUm9Z/view?usp=sharing
Schrankler began by explaining that the Bayh-Doyle Act is a federal mandate for universities, non-profits, and corporations to commercialize federally funded technology. He said the mandate applies to any entity receiving federal funding for research. He explained that inventions are patented and the OTC licenses them. The inventions come from all across the University. Of 155 universities surveyed in 2012, the University of Minnesota was in the top ten (6.4%) of institutions surveyed in terms of revenue produced, he said. Schrankler added that because the majority of university level research is very basic and unproven, less than 1% of all licenses generate over $1 million a year. The federal government is increasingly pushing technology to be commercialized to increase jobs and economic opportunities.

Schrankler drew the members' attention to a chart tracking numbers of invention disclosures, new licenses granted, current revenue generating agreements, and the number of new start-ups from 2008 until 2015. He explained that five metrics are assessed by the legislature in order for the University to receive state funding. Disclosures are a required metric and must grow by 3% each year, Schrankler said. There were two start-ups in 2008 and 16 in 2015, a new record for Minnesota. He said the University ratio of new start-ups to federal research dollars received is equivalent to MIT and Stanford University.

Schrankler discussed the faculty experience working with his office. He presented information from FY2008 through FY2015 about faculty opinion of the office in regard to the commercialization process after meeting with OTC staff, during the disclosure and evaluation process, during the patent application process, and during the licensing process. He said that service to faculty is paramount to the OTC and through surveying faculty the office learned communication is imperative to building productive relationships with faculty.

Schrankler explained OTC funding sources, total revenue earned, total expenses, and returns on investments for the office. He presented a graph outlining the growth of start-up companies with their respective sector and location. The aggregate capital raised through FY2015 by start-ups was $205,299,698, Schrankler said. OTC assists faculty with launching start-up companies through a program called Discovery Capital. This program supplies seed funding from licensing proceeds to support the initial stages of start-up companies. He said there have been two investments totaling $410,000 and the most OTC can invest into a start-up company is $350,000. He explained OTC has outside advisory boards that advise on which companies OTC should and should not invest in. Olin asked how Conflict of Interest (COI) affects start-ups. Schrankler discussed OTC's COI Management Plans and said OTC holds seminars and faculty boot camps to help faculty work within COI limits. He added that OTC staff goes into colleges and departments to meet directly with faculty about conducting research within the COI Policy limits. Potthoff asked what happened when a faculty member working on a start-up is recruited to a different institution. Schrankler said the research is the intellectual property of the University, but a free license is granted to the new institution so the faculty member can continue their research. This happens frequently and faculty members who move to new institutions always receive royalties associated with their research, Schrankler said.

Schrankler explained implementation of OTC's new program, Minnesota Innovation Partnership (MN-IP), has helped to increase business and industry sponsored expenditures. MN-IP makes it easier for businesses to partner with the University by improving access to University developed technology while reducing both the risk and cost associated with licensing and sponsoring research. Since its implementation, MN-IP has generated $1,1117,595.

Hearing no further business, the meeting was adjourned.

Avonna Starck
University Senate Office