

Minutes*

Faculty Consultative Committee
Thursday, December 4, 2003
1:15 – 3:00
238A Morrill Hall

- Present: Judith Martin (chair), Jean Bauer, Susan Brorson, Charles Campbell, Tom Clayton, Gary Davis, Arthur Erdman, John Fossum, Mary Jo Kane, Fred Morrison, Martin Sampson, Carol Wells
- Absent: Gary Balas, Dan Feeney, Emily Hoover, Marc Jenkins, Marvin Marshak, Jeff Ratliff-Crain
- Guests: Executive Vice President and Provost Christine Maziar; Associate Vice President Gerald Fischer, Assistant Vice President Judy Kirk (University of Minnesota Foundation)
- Other: Kate Stuckert (Office of the Chief of Staff), Sandra Ecklein (Office of the Executive Vice President and Provost); John Ramsay (American Council on Education Fellow)

[In these minutes: (1) reports from committee chairs (including discussion of incubators and start-ups); (2) discussion with Executive Vice President Maziar (Big Ten provosts issues, including tuition, the Budget Advisory Committee and task forces on various subjects, search for the Vice President for Research, Higher Education Act reauthorization and federal events); (3) the capital campaign outcomes; (4) briefly, the stadium feasibility study]

1. Reports from Committee Chairs

Professor Martin convened the meeting at 1:15 and asked for reports from Professors Campbell and Fossum.

Professor Fossum, reporting for the Senate Committee on Faculty Affairs (SCFA), noted several issues that his committee is dealing with:

- Subcommittees on course evaluation and a 3-semester calendar, both joint with the Committee on Educational Policy, are at work.
- They had a presentation on work/life issues that generated a lot of questions about child care, so they appointed an ad hoc subcommittee to address the issues, which is expected to report at the next meeting.
- They heard from Tom Schumacher, Director of Compliance, on issues of privacy and security (and he is probably more interested in security than privacy while the committee is more

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

interested in privacy); the committee is considering whether there should be a separate Senate statement on privacy.

-- They are looking at pay/benefits/staffing issues.

SCFA has not been involved in the survey of faculty over 50, Professor Fossum reported. It was agreed that SCFA should be informed about it and, given that it is a national survey, it should request the data for Minnesota. Professor Erdman said he believed it was a good survey and that SCFA should look at the data to determine what use of it might be made, if any. It was also agreed that Professor Martin would speak with Professor Bland (who was involved in development of the survey) to learn if it would be helpful for her and perhaps Professor Fossum to send a message to faculty encouraging them to complete the survey.

Professor Campbell reported for the Senate Committee on Finance and Planning (SCFP). The committee has been very busy and needs more time in order to do things right, he commented.

-- They reviewed the 2004-05 budget assumptions, which were largely the same as they were in the spring; the University still has a deficit of \$8 million to cover and the committee will revisit that issue.

-- They had a good discussion of the University's financial model and its impact on units; they will continue that discussion.

-- Senior Vice President Cerra unveiled preliminary plans for the University of Minnesota Physicians clinics; this appears to be a major undertaking, including moving the clinics to east of Oak Street and the possibility that Fairview will consolidate its operations in the University Hospital.

-- Vice President Hamilton presented a policy this week to establish incubators for technology transfer and to allow the University to support them with royalty income; this will involve a change in Regents' policy.

Executive Vice President Maziar had joined the meeting at this point and commented on this last issue. This is a bit of a conundrum, she observed; while it is not unusual for universities to use royalty income for outside services in the support of technology commercialization (attorneys, etc.), those services are provided to the university rather than to the companies that have licensed University technology. The University did make an institutional decision that it would be unwise to build an incubator INSIDE the University because it is difficult to keep it separate and avoid conflict of interest problems. Such incubators, however, are vitally important to commercializing technology, and can be seen as similar to purchasing services from a patent attorney. The challenge is to find a strategy that supports the development of a tool (in this case an incubator) that will facilitate technology commercialization without providing University financial support to its licensees. Vice President Hamilton's strategy is a good one, she told the Committee; the source and the amount of institutional funding puts a wall around the incubator support and it will not affect regular University investments. When she was Vice President for Research, she received pressure to spend endowment money on University-related start-up companies, which she thought was inappropriate. It will be wise to have any potential pressure controlled by Regents' policy (i.e., only royalty income may be used and the money

may only be invested in non-profit entities). This approach facilitates a component of the University's mission, helps it address its federal obligations to attempt to commercialize federally funded technologies when appropriate, and could provide financial benefit by making University intellectual property more valuable by creating another effective pathway for its commercialization.

This item is on a fast track for the Board of Regents, Professor Campbell said, so his committee will hear about the policy again on December 16 and offer its advice.

2. Discussion with Executive Vice President and Provost Maziar

Professor Martin then asked Dr. Maziar to comment on whatever issues she had on her mind.

Dr. Maziar said that the University believed the state budget forecast was good news, in that there is no additional deficit of any significance. There is also some indication that the numbers could improve by the time of the February forecast.

She recently attended the meeting of Big Ten provosts, at which the provosts share information candidly. Minnesota won the prize for the biggest cuts in state support, but as she hears about what is happening at the other institutions, she has been glad that the University got one big blow; a number of the other schools are seeing repeated cuts. They also discussed tuition plans, including varying tuition by program and level; she noted that the University moved away from different tuition schedules because they created perverse behaviors by students. The University could discuss moving back to differential tuition rates by college and student level, she said, but it should look at its own past experience in doing so. At one of the Big Ten schools, the Governor guaranteed students reasonable tuition for four years, which means that if state support falls, any tuition increases would have to be loaded on incoming freshmen.

The provosts also discussed the Higher Education Reauthorization Act and the proposal by Representative McKeon to penalize institutions that raise tuition more than twice the rate of inflation. The Senate is considering a counter-proposal that would penalize states that do not support higher education. Dr. Maziar discussed the politics of the situation. It is also expected that there will be increased Congressional and Executive Branch interest in applying pressures on higher education with respect to questions of access and accountability. This series of events has made her even more glad that the Committee joined with her in appointing the task force on academic freedom. She said she hoped that the Committee would continue the partnership and broaden the discussion into the larger community.

Professor Martin asked about the status of the search for the Vice President for Research. Dr. Maziar said the search committee chair has been named (Dr. Mark Paller in the Academic Health Center) and the letters to the remaining members of the Committee would go out this week. She said she expected that the search would be concluded during spring semester.

What is happening with the Provost's Budget Advisory Committee (BAC), Professor Martin asked? Dr. Maziar said that they have recognized that the BAC is not well equipped to develop recommendations but is best suited to receiving and evaluating recommendations and providing advice to the Provost and the President. The BAC has appointed four working groups.

-- One, to look at the organization of the Graduate School to determine if some efficiencies can be exploited with new technologies available and whether there could be cost savings and service improvements by eliminating duplication of effort. The group is not charged to eliminate the Graduate School but to look at improving the organizational structure, efficiencies, and services. This effort does NOT in any way denigrate the efforts the Graduate School staff have provided for many years.

-- A second, to learn whether there can be efficiencies and infrastructure improvements related to small academic units. There is a prevailing perception that there are inefficiencies around small units--infrastructure is reproduced, for example--and that perhaps these units could share infrastructure and still maintain their academic identity. She said the group was explicitly charged to think not only about small units from a central point of view but also about small units that are embedded in larger units (e.g., in large colleges).

-- A third, to look at non-academic support units except Facilities Management (which is already going through huge change).

-- A fourth, to look at centers and museums receiving state support and try to understand if such support is justified and if there are other sources of revenue they might draw on (does it make sense to provide institutional support when more and more of the University's revenue is tuition?).

-- A fifth group will be charged to develop a tuition strategy and models and to look at whether a tiered tuition plan or a guaranteed tuition plan makes sense.

Professor Sampson inquired about support for the Higher Education Reauthorization Act. The problem with the Act is that it lumps all of higher education together, Dr. Maziar said, and creates the perception that all of higher education is undergraduate education. Research universities say they are different, but must make clear that the implications of this are not that different is "better," but that research universities have different responsibilities. Higher education has been indifferent to the sense developing in society about universities, Professor Sampson commented, and universities are vulnerable. That needs to be addressed. It has been conceptually easier for higher education to explain the societal value of the work it does in disciplines that embrace applications, like agriculture, engineering, medicine and the other professional schools, Dr. Maziar said; the higher education community has to work harder to explain the value of non-applied fields such as the basic sciences, arts and humanities. The measures of value may be different for these fields and are likely to be imprecise but one should not confuse difficulty of measurement with lack of importance!

Professor Martin thanked Dr. Maziar for joining the meeting.

3. The Capital Campaign

Professor Martin turned now to Associate Vice President Gerald Fischer and Assistant Vice President Judy Kirk for a report on the recently-concluded capital campaign. She first expressed the thanks of FCC for their declining the substantial amounts of compensation that they were contractually due following the campaign's ending. Mr. Fischer said that the University is in a tough time, with the recent strike and the salary freeze, and they felt it would be inappropriate to accept the compensation.

Mr. Fischer and Ms. Kirk provided an overview of the campaign through a series of slides.

- The campaign goal was \$1.3 billion; they raised \$1.656 billion. This was the second-largest campaign of any public institution, behind only UCLA.
- In terms of priorities, goals were exceeded in all categories. (Goals are the first column, the actual amount raised is the second; amounts are in millions; these amounts are the consolidated numbers for all colleges.)

Faculty	275	350
Students	225	263
Strategic Initiatives	40	50
Research	350	544
Facilities	50	128
Libraries	15	15

The result for the libraries was highlighted, which they see as a launching pad for future efforts. Professor Clayton said the \$15 million for the libraries was appallingly low. The libraries are the foundation on which the University rests. Ms. Kirk said they do not disagree and have assigned a major gift officer to work with the University Librarian. The libraries do not have a well-developed constituency and the Foundation is putting resources into helping to create a major gift program. Does the size of the goal affect how much is given, Professor Campbell asked? The libraries were put on the list of priorities in order to state they are a priority, Mr. Fischer said, and they wanted to set a goal they could achieve. Those were difficult funds to raise, and came from former Governor and former Regent Elmer Andersen. The faculty are the best weapon the University has in fund-raising because they can tell the story; they have gone to the faculty a few times for help and gotten pushed back, Mr. Fischer related, because the faculty do not believe it is their job to raise money. The faculty can, however, help with the stewardship of the funds that are raised. It would also help if the colleges would identify funding for the libraries as a priority, Ms. Kirk said. Many donors see the libraries as infrastructure, something the state should pay for, Mr. Fischer reported. They need to be enlightened about what the state is doing, Professor Clayton commented. Professor Sampson observed that there is a group of libraries in the state at small universities and colleges that pay less because they are affiliated with the University, so there are effects across the state when library funding is inadequate. Mr. Fischer noted that Penn State had a successful campaign for its libraries; the lead gift was given by the football coach, which highlighted the effort.

- The total amount raised over the years of the campaign were as follows (in millions):

1997	170.2
1998	189.2
1999	193.6
2000	289.5
2001	286.2
2002	231.3
2003	295.7

They raised over \$200 million in each of four difficult years, Mr. Fischer said, and they now believe they can raise that much money each year. Before the campaign, they stretched to raise \$100 million per year.

- There were 220,000 donors: 38% were alumni, 52% were other individuals, and 10% were organizations. The University is unique in the amount of support it attracts from individuals who did not attend the University; it leads the Big Ten in institutional donors and non-alumni donors. At the same time, it is near the bottom of the Big Ten in terms of the percentage of graduates who give to the University; they are focusing on trying to get to the Big Ten average in that category.
- There were 85,600 alumni donors, 62% are from Minnesota (compared to 80-90% in the last campaign, so they are more successfully reaching outside the boundaries of the state for support). There were 112,891 first-time donors (who represent future giving potential). There were 11,000 faculty and staff donors, 3,000 retirees and 8,000 of the 17,000 current employees, something the University should take great pride in, Mr. Fischer said; the faculty and staff gave \$67 million. In the last campaign, former Vice President Shepherd said that it was important, if the University is going to ask others to give, that the faculty and staff themselves give in order to set the tone and culture. The faculty and staff have not backed off on the culture established in the earlier campaign. The 48% participation rate is far beyond that at peer institutions. Mr. Fischer said he has told people these contributions are not a measure of compensation, because the University is near the bottom of the top research universities, but a measure of commitment to the mission of the institution.
- The donors included:
 - 338 who gave \$1 million or more
 - 19 who gave \$5 - \$10 million
 - 17 who gave \$10 million or more.
- One of the goals was to increase the endowment. The goal was to increase it by \$540 million; it was increased by \$683 million.
- In terms of the effect of the campaign, more students will be helped. Funds for scholarships have tripled. They raised \$32 million for fellowships, which when matched by the 21st Century Fund, will mean a total of \$64 million. The fellowships are well-distributed across colleges, Ms. Kirk said in response to a query from Professor Martin. They will have used \$32 million of the \$50 million in the 21st Century Fund, Ms. Kirk said, so there are more funds that can be used, but the campaign also started a habit of giving so it should be easier to raise money for fellowships in the future.

The number of scholarships has increased from 90 in 1984 to 1208 in 2003; the number of fellowships has increased from 23 in 1984 to 535 in 2003.
- The money raised for faculty created 110 additional endowed positions, bringing the total to 372 (up from 17 in 1984 and 262 in 1996). The endowment for the positions was less than \$100 million and is now close to \$600 million.

- Investments in research are supporting new media, digital technology, agricultural research, medical research, biotechnology, political science, history, child development, and many others.
- Campaign gifts are also supporting outreach at the Arboretum, the Bell, Weismann, and Tweed museums, a regional fitness center in Morris, and the Design Camp.
- Campaign gifts build or renovated 25 facilities.
- The University has identified nearly 15,000 donor prospects, compared with about 1600 when the campaign began in 1995. The challenge is to grow the major gift function to realize the potential, Mr. Fischer said. In the early days of the campaign, they struggled to be bold enough to set a goal of over \$1 billion and were concerned about the message it would send to the legislature. The Foundation Board said that if they could raise more than \$1.3 billion, they should seek it. In the last three and one-half years of the campaign they raised over \$1 billion, during three bad years in the stock market. Mr. Fischer said he was humbled by the amount of money that was pledged during that period.
- The 2002-03 annual gift activity results were good in a difficult period; they raised \$234 million, compared to \$47 million during the recession of the early 1990s. The amount of deferred gift commitments increased significantly during 2002-03, which was a conscious strategy to have people put the University in their estate plans.

There were 4 gifts over \$5 million, 41 between \$1 and 5 million, and 255 of \$100,000 to \$999,000. These categories represented less than 1% of the gifts but about 80% of the donations. 92% of the gifts were under \$1000, representing 3% of the total. There were 78,731 donors, of whom 51% were alumni, 41% were other individuals, and 8% were corporations, foundations, and other organizations. Faculty and staff were 4,636 of the 78,731 donors, and gave \$9.7 million.

Has voluntary support leveled off at about \$230 million, Professor Morrison asked? That is difficult to predict, Mr. Fischer said. He said he believed the amount would increase.

- In terms of national ranking in gifts and grants from the private sector, the University stood as follows:

Year	Pub & Priv	Public Only
1997	16	6
1998	18	6
1999	18	6
2000	21	9
2001	16	6
2002	14	4

For the last year, of the public institutions, only Wisconsin, UCLA, and Virginia raised more money than the University.

- The combined University endowment (the Foundation, the University Endowment, and the Minnesota Medical Foundation) stood as follows (in billions), with rank noted

Year	Amt	Pub & Priv	Public Only
1998	1.126	24	6
1999	1.335	24	6
2000	1.807	24	6
2001	1.651	25	7
2002	1.500	25	7
2003	1.515	na	na

Mr. Fischer said they were proud of the Foundation performance in tough markets; of the 400 or so college endowments, fewer than 10 had consistently positive performance (which the Foundation part of the total endowment did over the entire period).

- Over the past five and ten years (annualized return), as well as in the past year, the Foundation has exceeded its goal of a return of 6% over inflation. They have always been in the top 25% in this respect, and often in the top 10%, and successful enough that donors have sometimes jokingly asked the Foundation to manage their portfolios.

They are now paying out 5% on the Foundation accounts, Mr. Fischer said in response to a query from Professor Erdman, and are transitioning down to 4.5%, which they believe is a rate that can be sustained for the long term). They make annual adjustments, and will move down to 4.5% over the next three to four years. The Executive Committee of the Foundation can change that if the market changes, Ms. Kirk noted, and they do regularly review the payouts.

The Regents have no say over how much is paid out, since the Foundation is separate from the University, Professor Campbell asked? That is correct, Mr. Fischer said. They consulted with their financial experts and concluded that if they did not reduce the payout from 5.5% to 4.5%, there would need to be increased risk in the investments, which could lead to losses, which would be a disaster.

- The cost to raise each dollar has fluctuated between about 7 and 12 cents. The danger sign is 30 cents, Mr. Fischer said, and higher educational nationally tends to see numbers in the teens. They take great pride in their efficiency, and some ask if they should invest more money to tap into the potential that may be there.
- The combined disbursements to the University from the Foundation and the Minnesota Medical Foundation have risen from \$32 million in 1992 to \$114 million in 2003.
- Mr. Fischer and Ms. Kirk related the story of Nancy and Larry Bentson, who recently donated \$10 million for scholarships.

Three lessons they learned from the campaign were (1) it is important to have a compelling case that are tied to the objectives of the institution and made understandable for potential donors, (2) the value of leadership across the campus is important (the leadership was more constricted during the 1985-88

campaign), and (3) the value of the role of volunteers is important and must be a part of a campaign; in this case, they had over 400.

What fraction of the funds raised are unrestricted, Professor Campbell asked? It used to be less than 1%, Mr. Fischer said, but part of the campaign was to increase the amount of discretionary funding for the president, the deans, and so on, and they increased the amount to 2%. Donors typically want to restrict the use of their funds to a particular department or chair or research program or equipment. How do they decide where the unrestricted funds will be used, Professor Campbell asked? They are guided by the President, Mr. Fischer said. They bring his recommendations to the Foundation Board; the funds tend to be used to support University priorities, especially where the money can be used to leverage other funds, or for worthy projects for which there is no other source of funding, such as the merit scholar program or the Regents' professorship program.

Professor Kane said that the campaign could perhaps not have happened without the leadership of the President and the deans, but it also could not have happened without the two of them and she thanked them for their work.

After a donation is made, does a donor have the power to redirect the use of the money, Professor Fossum asked? If they can do so, it is not a gift, Mr. Fischer said, and accepting it could put the University's tax-exempt status at risk, so they do not. But there are places where they encourage donor involvement through advisory boards, although they make it clear that the University has the final decision. And the University does not accept all gifts, he added; if a gift does not fit the University's mission or includes ongoing liability, it will be rejected. They do due diligence on gifts, and by so doing avoided, for example, being given a toxic waste dump by someone trying to avoid liability.

What happens if the unit to which an individual has donated money for scholarships or a professorship is eliminated, Professor Wells asked? They had to deal with that in the sale of the hospital, Mr. Fischer recalled, which had received many gifts over the decades. They identified their legal responsibilities with each gift and separated the gifts into those intended specifically for the clinics and those intended for research. The clinic gifts went with the hospital; the University retained the gifts for research. Most gift agreements contain language providing that if the gift can no longer be used for the program for which it was intended, the Foundation Trustees can consult with the President and Provost and redirect the money, keeping in mind the donor's intent.

What has been the impact of the University's Institutional Revenue Sharing tax on the Foundation, Professor Campbell asked? It has been significant, although he cannot quantify it, Mr. Fischer said. Anecdotally, they know that as the IRS tax gets higher and the more donors learn about it, the more of a problem it is, because anything that sounds like a tax is anathema to donors. He has argued that gifts should be exempt from the IRS tax and income from them should not be permitted to be used to pay it. Donors are motivated to supplement the core funding of the University and do not believe that overhead is part of their gift. It is a very risky matter for him. They are hearing from donors about how donations can be restructured to avoid the tax, or whether they should put their donations elsewhere. The IRS tax does not help them in trying to obtain donations from major donors.

Professor Martin thanked Mr. Fischer and Ms. Kirk for their report. Mr. Fischer said that Committee members should not hesitate to call if they have questions.

4. Stadium Feasibility Study

Professor Martin quickly noted that the stadium feasibility study will be released next week and sent to the appropriate committees for review. She said that no decisions will be made before the consultation takes place. She then adjourned the meeting at 3:10.

-- Gary Engstrand

University of Minnesota