Minutes[*]

Senate Committee on Finance and Planning
Tuesday, May 18, 2004
2:30 - 4:15
238A Morrill Hall

Present: Charles Campbell (chair), David Chapman, Daniel Feeney, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Michael Korth, Kathleen O'Brien, Richard Pfutzenreuter, Terry Roe, Charles Speaks, Susan Van Voorhis, Warren Warwick, Susan Carlson Weinberg

Absent: Calvin Alexander, Brittny McCarthy Barnes, Stanley Bonnema, Yi Li, Cleon Melsa, Timothy Nantell, Thomas Stinson, Alfred Sullivan, Kate VandenBosch, Michael Volna

Guests: none

[In these minutes: budget principles]

<u>Budget Principles</u>

Professor Campbell convened the meeting at 2:30 and announced that there would only be one agenda item, the budget principles prepared by the Academic Health Center Finance and Planning Committee (AHCFPC). The AHC committee developed the principles to deal with a changing economic environment. The President has made it clear he wants a new budget model for the University effective July 1, 2005. In order to begin the discussion, he moved that the Committee approve the AHCFPC principles and forward them to the Faculty Consultative Committee at its first meeting in June. Professor Speaks seconded the motion.

The principles forwarded by the AHCFPC were as follows:

Budgetary Principles for a Changing Economic Environment

The Academic Health Center Faculty Finance & Planning Committee (AHC F&P) is encouraged to learn the University administration will revisit the University's existing IMG budget framework for FY06. Renewed attention to University core budget principles is critical during this time of diminishing state resources, which results in creeping privatization of higher education. After some deliberation, our committee offers the following budget principles and proposed actions for consideration.

The University's budget model should …

Principle 1: Be accessible, predictable, and transparent
<u>Proposed Actions</u>
-- use a one-year lag to determine central assessment base
-- keep assessment rates stable

[*] 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.

-- eliminate multiple assessments on the same dollars
-- use reasonable and well-understood measures to assess central costs
-- ensure that data from which these measures are derived are available to units
-- aim for administrative ease at the unit level
-- make academic program subsidies explicit rather than implicit

Principle 2: Ensure the most efficient use of resources (e.g. staff, space, technology, equipment) at all organizational levels and avoid duplication of services
Proposed Actions

-- align assessments with consumption of services (e.g. cost of student services based on number of students utilizing services; cost of HR, payroll, benefits based on number of employees; cost of accounting, budget and finance, SPA based on dollar expenditures; cost of facilities management services based on square footage of occupancy, etc.)
-- provide incentives and demand accountability for centralized services to be cost efficient and cost effective and protect against the inappropriate shift of effort or fees to local units
-- on an annual basis, align and justify increases in central service costs to demand for services provide cost/benefit analyses, at both the central and unit level, of proposed business practices and policies before they are implemented
-- require local units that choose to do business in non-standard ways to pay the full cost of such choices (conversely, provide central financial support for only standard ways of doing business) provide incentives at the local level to support the generation of revenue and coordinate those incentives centrally to avoid duplication costly to the institution

Principle 3: Eliminate financial barriers that inhibit collaboration and interdisciplinary activities between academic units and create financial incentives to foster such activities
Proposed Actions

-- develop alternative funding models for interdisciplinary education
-- develop principled models for sharing ICR resulting from collaborative research across colleges and centers

Principle 4: Continue to allow for reallocation and investment in strategic priorities
Proposed Actions

-- avoid across-the board reductions that erode the overall quality of the institution
-- selectively reallocate funds to and expand investments in programs that are consistent with institutional priorities, even if other programs must be reduced or eliminated in scope
-- resist historical practice of keeping units “whole” in a period of budget transition
-- develop a rationale for use of state appropriation dollars and allocate based on defined institutional priorities

Principle 5: Fully attribute revenues to units generating them and allocate costs to units incurring them
Proposed Actions

-- attribute all forms of revenue to units where generated, including 100% of ICR

-- directly and explicitly recover overhead costs for each of the mission based programs: research, education, and service & outreach
-- assess actual fringe benefit costs to units where they are incurred
-- define space costs equitably, including debt service, and allocate to units occupying

Professor Campbell said that he could mostly support the principles. There places where he would like to see more discussion, especially around Principle 5, which joins the most controversial issues.

Professor Feeney said the one goal of the principles was to get everything on the table. Another goal was not to be parochial. The principles are intended to respond to what has been complained about for a long time, things like the assessments and the fringe benefit pool swings. The underlying assumption is that any assessment should be based on rational metrics--on students, on faculty, on space, whatever makes sense, and not because the measure is convenient. The AHCFPC has nothing against IMG, but the elements of it that have backfired have raised concern: There are no new state funds so the administration has had to impose taxes on revenues. They want to be sure all these issues are addressed. In addition, it is easy for tenured faculty to bring up and discuss the issues because they do not need administrative favors or function in a hierarchical system--they can say what they want to.

Professor Speaks asked what he meant by "attribute" in Principle 5: "recognize as generated" or "captured"? Tuition attribution is not just recognition, he said; the colleges get the money. That is what they meant, Professor Feeney said. And if "unit" means college, that should be clarified.

Where is the IRS addressed, Professor Speaks asked? In Principles 1 and 2, Professor Feeney said. They are not assuming that there will continue to be an IRS. Every budget and tax model has winners and losers, Professor Speaks observed; who do they see as winners and losers under these principles? They tried to stay neutral, Professor Feeney said. He recalled the discussion with former Senior Vice President Infante about "every tub on its own bottom": units would receive funds and do with them as they thought best, with an assessment for central administrative costs. The idea is to develop principles and not fudge them because they adversely affect one group or another. The decision about winners and losers is one step above this Committee, he suggested.

Does Principle 5 exclude sponsored funds, Professor Speaks asked? It does not, Professor Feeney said. If one lives in a dual income household, all the income goes into the common account and one pays expenses out of it.

Professor Roe said he saw Principle 5 as calling for a balance sheet, identifying revenues and costs, and the result could be plus or minus. The concern, as he saw it, is that there be a transparent balance sheet. Professor Feeney agreed. If a decision is made to subsidize something with O&M funds, it should be a conscious decision that all understand and that minimizes speculation.

Professor Konstan said he liked Principles 1-4 but that there was a Principle 0 missing: The institution must articulate a set of values and priorities to set the framework for the budget. He said he did not believe Principle 5 could be implemented. Philosophically, the University wants undergraduates to flow between units without paying differential tuition. IT could perhaps charge 25% more per credit, but foregoes that income because GC and CLA cannot increase tuition that much. The attempt to attribute all funds, through the use of a detail spreadsheet, focuses on the wrong things. Similar externalities occur throughout the University--the ready availability of undergraduate workers may reduce personnel costs of some units; the fact that health benefits across the University include the option of UMP may also be viewed as a cross subsidy. Every unit contributes some--perhaps through its own financial sacrifice--to the welfare of others, and every unit in some ways benefits from the overall excellence and comprehensive coverage of the University. The budget system should focus on values and priorities; IMG was a mistake and "every tub on its own bottom" would be a mistake. This institution has a lot of externalities that one does not want on a spreadsheet. He said he would be more comfortable with the University leadership identifying a set of common values, of common goods, and making hard decisions. That has been the struggle: Without enough funds, the University must decide what to cut. To do spreadsheets that leads to "you owe us, we owe you" creates factionalism.

Professor Konstan then moved to strike Principle 5 from the document.

Vice President Pfutzenreuter said he had no problem with attribution (give the money to the units--colleges--and then tax it back). His problem, he said, is with the second bullet ("directly and explicitly recover overhead costs for each of the mission based programs: research, education, and service & outreach"): He did not know how that could be done. To do as accurately as possible, one would need to keep track of how people spend their time on the three parts of the mission. That is not done well across the University. Overhead charges for the three missions would be different; research is more expensive (largely because of buildings and equipment). He also worried about gaming the system (e.g., putting salaries in lower-overhead categories, or force CLA faculty to keep track of their time). And how much research is teaching, Professor Campbell inquired?

They are concerned about overhead, Professor Feeney responded, not salaries. A unit should pay the space costs if it wants expensive space. They do not want units sitting on space; if they want it, they should pay for it. Mr. Pfutzenreuter said that if ALL the money is given away and there are no funds in central administration for the Regents' office, the libraries, student services, and so on, and assessments are to be mission-based, they must know how much time is spent on each mission in order to know how much to charge for overhead. Professor Roe again said he saw this as a data collection tool (where are the revenues and costs), not a control mechanism. And some costs could be too costly to measure, which is why he asked if the principle is calling for a balance sheet.

Professor Feeney repeated that they are not married to a specific model. The goal is to understand where the costs are, what they are, and how they are paid for. The 0100 (state) funds should go to the central administration; the others (tuition, ICR, clinical revenues, etc.) should go to the units, and that is what Principle 5 is about. The goal is to get a discussion, not create an accounting nightmare where everyone must punch a time clock. The biggest decisions are about space and classrooms. He said has heard the campus does not really have a classroom shortage--except between 9:00 and 2:00. The budget system could include financial incentives to teach at other times. There should be options to allow units to capture efficiencies by, for example, making conscious decisions about space and classrooms.

Attribution of revenues to the units means turning over all the money to them, Mr. Pfutzenreuter said; the administration must then get back what it needs to pay the bills on the basis of overhead costs based on mission-based activity. He repeated that he did not believe this could be done. What if there were another way to do it, Mr. Klein asked? The implication is that someone would be unhappy with the scheme; the University just has to adopt a budget scheme and then live with it. Professor Feeney agreed; the intent is not to be confrontational or dogmatic and they would welcome any better ideas. The goal is simplicity and paying for what you use. Mr. Pfutzenreuter said he agreed on that; mission-based charges are something else.

Under all the scenarios there must be transparency, Mr. Klein said, so that all start with the same information as values are applied. Implied in the cost allocation is a question not on the table about productivity and cost control in different units. This proposal tries to solve that issue with revenue and cost maneuvering that could be more difficult than productivity measures and benchmarks. That could be a better way to get control of costs.

(Principle 5: Fully attribute revenues to units generating them and allocate costs to units incurring them
- -- attribute all forms of revenue to units where generated, including 100% of ICR
- -- directly and explicitly recover overhead costs for each of the mission based programs: research, education, and service & outreach
- -- assess actual fringe benefit costs to units where they are incurred
- -- define space costs equitably, including debt service, and allocate to units occupying)

Professor Speaks addressed the four bullets under Principle 5:

- -- 1 is reasonable and doable and can be retained without Principle 5;
- -- 2 is not doable in any valid way and there could be a lot of gaming;
- -- 3 can of course be done and is not unreasonable (it is OK as long as one wants a parking rate increase, Mr. Pfutzenreuter commented); and
- -- 4 is not doable and will lead to gaming and to the generation of useless information.

As for the principle itself, he said, the IRS tax exists because as the University adopted IMG, it attributed tuition to the colleges and left the administration with an insufficient amount of money. This would call for attributing ALL income, which could create an even bigger problem.

Professor Feeney repeated that they are not trying to sell a particular model. Central administration receives the state funds but needs more to operate the place. The point is to know what the costs are. Professor Speaks responded that one knows that state funds are declining and taxes must go up. He said the document would be stronger without Principle 5.

If all funds go to the units, there will remain the common goods problem that has never been addressed, Mr. Fitzgerald said--the funding of libraries, classrooms, student services, and so on. If the money is allocated out and taxed back, can the administration capture enough to pay for common goods? He noted the money generated from centrally-controlled classrooms and said there would be incentives for departments to use them at other times, and to make departmentally-controlled classrooms more available. No budget model will solve that problem, Mr. Pfutzenreuter commented.

There are elements of this proposal that are not pulled together, Professor Konstan said. The Office of the Registrar is a unit; it could buy classes from the colleges. He said he did not believe that 0100 funds are different from other revenues. If not for the Medical School, Agriculture, Education, and perhaps a few other popular programs, the legislature would not give the University any money. Some programs could be cut by the University and there would be no impact on state funding. Overhead is a dangerous word; in this case, it means "the costs of." There is a difference between a bill for every nickel and dime spent and development of an average rate that units are charged for. Detailed accounting for everything would lead to absurd behavior, but average rate-based charging doesn't give units an incentive to economize.

The University is not a business, Professor Konstan maintained; it is not about money. Money to units should not be based on what they can generate; those are not the University's values. Units should be rewarded for being excellent. He said it is fine if units generate revenues and some of it is taken for the rest of the University. With a spreadsheet system, units would say "you can't take our money away."

Professor Konstan said the University should also not play with numbers inside that it cannot play with outside as well. It should not internally allocate different charges, for example, to classes, if it won't let the colleges also adopt differential tuition rates. Businesses do not run that way; they fund a common core and only bill units when doing so might affect behavior.

Professor Roe said that a balance sheet should document what can be documented and that it is important to know how things change over time. The University's operation should be understood with the best numbers available. If Principle 5 is also an action plan, then he said he did not like it.

Professor Feeney said they did not envision carrying the accounting to the level that Professor Konstan spoke about, but the system needs incentives to allow units to work out of financial trouble. IMG allows a unit to offer an extra section of a class, for example; why not apply that to what units use? Some may only want a classroom with a blackboard, not a high-tech room. Let units make the decisions. That is in Principle 2, Professor Konstan said. Mr. Pfutzenreuter said he agreed with eliminating Principle 5, and that the second bullet could not be done. The others could be moved elsewhere in the document.

Professor Campbell noted that there had been a lot of discussion about bullet 1 of Principle 5 and that there would have to be substantial rewording for it to be clear. Committee members do not agree on what it means. Professor Speaks asked if the Committee could eliminate Principle 5 but retain the bullets. Professor Campbell said that it could. The Committee then voted unanimously to eliminate Principle 5.

Professor Speaks said he was bothered by Principle 3 for two reasons that could be fixed ("Principle 3: Eliminate financial barriers that inhibit collaboration and interdisciplinary activities between academic units and create financial incentives to foster such activities"). One, it is worded negatively while the others are positive. Two, as it stands, some would say that there are no barriers, so it should call for creating more incentives. Professor Feeney concurred with the suggestions.

Professor Roe said that with respect to Principle 1 ("Principle 1: [the budget system should] be accessible, predictable, and transparent"), one component of transparency includes knowing the facts, which are part of Principle 5. Principle 1 should also call for data. Professor Konstan agreed and said there should be development and distribution of a comprehensible annual or biennial University budget showing revenues and expenditures across the institution. Few see such a report and it is usually prepared at such a high level that it does not tell one much. Mr. Pfutzenreuter asked if it should include both direct and indirect costs (direct costs would not include facilities costs, for example). He said they would not drive the revenues/expenditures down to the department level; they only allocate revenues and expenses at the college and campus level. Mr. Klein wondered if the tension in IMG, however, is not between the expectations of chairs and departments about what the deans will do. Professor Campbell said that departments vary so much from college to college that it would be futile to carry the budget system to that level.

Professor Konstan moved that a new first section be incorporated in the document:

[The University's budget should] "be grounded in a set of institutional values and priorities
Proposed actions:

-- Develop, articulate, and promulgate a statement of institutional values and priorities.
-- Evaluate candidate budget models based on the degree to which they support and facilitate these values and priorities"

Professor Roe said that values and priorities are dynamic and change with time. Issues and emphases change. The language could make the document so generic it would have no value. Professor Campbell said he wanted to see the mission included, which should be virtually immutable; priorities, he agreed, could change from year to year. One would hope that values are also fairly stable, Professor Konstan said. Values are something to do with the land-grant mission, Professor Roe said; they must be dynamic and need to be revisited.

Mr. Klein said the University's mission is stated repeatedly; the issue is communication of that mission throughout the organization. One form of the mission statement appears on the façade of Northrop Auditorium and Committee members have referred to that statement several times in deliberations. He said he did not see how Professor Konstan's proposal moved the document forward. Professor Speaks said the mission is well understood; Professor Konstan's language says that any budget document should affirm its relation to the mission and values of the University--as opposed to drawn out of thin air or chaos and not reflecting the mission. He said he believed that a number of decisions made during retrenchment did NOT reflect the University's mission. The mission may be known, Professor Konstan said, but the values are not so clear or are not documented (e.g., about undergraduate education, about interdisciplinary work, about how employees are treated, and so on). Often administrative convenience, expediency, or efficiency is substituted for decisions based on institutional values. Mr. Pfutzenreuter agreed; values are not written down, they are in the culture, he said. Do they ever change, Professor Speaks asked? Priorities clearly do. Professor Roe said the values should come from the President. If one value is to foster interdisciplinary work, Mr. Pfutzenreuter said, then the document should call for a budget model that would not stymie such work. Professor Speaks said he could understand an argument that Professor Konstan's first principle is not necessary but he could not understand an argument that says it is harmful; it only says what most people want--would anyone want the budget system to work in some OTHER way?

With the addition of language grounding the values and priorities in the mission, the Committee voted unanimously to approve Professor Konstan's language, as follows: [The University's budget should] "be grounded in a set of institutional values and priorities in support of the University's mission."

Professor Konstan next moved that bullet 4 from Principle 5 be moved to Principle 2 in the document and that it call for development of an equitable mechanism for defining space costs, including debt service. He said that costs should not be allocated yet; this is a way to move toward efficiency. "Equitable" is a value term, Professor Roe pointed out. Professor Campbell asked to hear from Mr. Pfutzenreuter about space.

The University tried this before, Mr. Pfutzenreuter recalled. Space was included in the original IMG plan. They knew they were giving away revenue (all tuition and one-half the ICR funds) and that central administration would be short of money for common goods, so they proposed to decentralize space at $5 per square foot in order to provide an incentive for units to give up space. The system led to a mountain of data, at a time when a lot of people were moving around because of construction, and at $5 per foot there was not enough incentive for units to relinquish space. A couple of other universities have tried to include space in their IMG-like plans and also gave up. Professor Konstan said he also doubted the system could work, but pointed out that budgets are now sufficiently tight that $5,000 or $10,000 for giving up space might be more appealing. Moreover, the University must still do the space survey for negotiation of the indirect cost rate with the federal government; as long as that must be done, the data exist and could perhaps be used.

Mr. Pfutzenreuter said he was not uncomfortable keeping language about space in the document, but observed that the University has tried this once and it did not work. Vice President O'Brien also agreed the language should be in the document, but there is a challenge in the model: If unit X gives up 5000 feet in one place, and unit Y gives up 10000 feet in another location, how does the University consolidate and use the space? The private sector has a lot more flexibility in this regard. Professor Campbell observed that when a department is in a 1923 building trying to run a high-tech research operation, this incentive does not mean anything. Professor Feeney said the AHCFPC was trying to get at efficient use of space, paying for what is used, not "squatting" on it (thus creating pseudo-shortages); they were not talking about moving a physics lab to the Law School. He urged that the Committee not give up on this subject; space must be occupied and paid for. What is needed is some model that says a unit cannot just have space because it wants it if it has no funds to pay for it; any request for space should be justified in order to receive an institutional subsidy. Professor Speaks argued that the Committee should not go down the path of space rental. In CLA, he said, space is taken from units when it is not being used, or not used well, and give to higher-priority activities--someone is making a decision, so an important good is being allocated by the dean.

Professor Speaks asked how much these principles (not the action items) differ from the recommendations of the Rosenstone Budget Management Task Force of a few years ago. "Not much," Mr. Pfutzenreuter said.

Professor Konstan said that with the changes, it is a much stronger document. It is still a very conservative document, however, with respect to change. One could ask if there is need for a fundamental change in the model so funds are tied to productivity within units. If a department receives a faculty line, it can hire someone, but it does not receive funding for support costs, space, staff, and so on. The new person is just squeezed in. There needs to be a model that allocates support costs to units in order that they can become more efficient. The compact process is supposed to do that, although that goal may not be articulated. This document is more conservative. Mr. Pfutzenreuter said that has to occur in the compact process, not in the budget model, because the level of granularity that would be required cannot be obtained in the institutional budget model. Is it happening in the compact process, Professor Konstan asked? It's spotty, Mr. Pfutzenreuter said. This is a question the Committee will return to, Professor Campbell said.

Professor Roe said that these general principles apply to the central administration, but they could apply equally well to colleges and departments. The Committee agreed unanimously that there should be a statement to that effect at the end of the document.

Vice President O'Brien suggested language for Principle 2 concerning duplication of services. "Duplication of service" has many attributes, Professor Roe said, including space, time, and form, and is not necessarily bad. It is to be avoided when it leads to an increase in costs. One would not want to pull all the duplicating machines out of departments.

Professor Campbell turned to Principle 5, bullet 1 ("attribute all forms of revenue to units where generated, including 100% of ICR"): 100%, he asked? As is done with tuition now, Professor Feeney said. Right now units receive 49.5% and then are taxed on the amount, which makes it tough on research units. If 100% of the revenue for teaching can be attributed to departments, it can be done for research income as well. Professor Konstan said he did not believe that was appropriate. There are differences between tuition and ICR funds, because there are overhead costs with teaching and research. Central ICR funds do not cover research expenses and neither do department ICR funds; the University loses money with every research dollar it receives. It appears the legislature does not want to underwrite the research mission (except with state specials), but it is clear they are underwriting teaching, so central funds are available for that purpose. If the legislature were more pro-research, it would make funds available for research overhead as well. O&M funds subsidize research, Professor Campbell said, if it costs the University money to do research, and that is part of the implicit contract with the federal government. Research underwrites teaching as well, Professor Konstan said, because it hires students who pay the money back through tuition.

Would Principle 5 include purchasing services from Sponsored Projects Administration, Professor Campbell asked? They want to know where the dollars go, Professor Feeney said; if there is a charge, it should be to a metric that people can understand. That is the question that these principles seek to document, Professor Roe observed. Professor Campbell said he knows exactly how much money the Academic Health Center brings in.

Professor Konstan said that Principle 5 says that assessments should be paid on expenditures, not revenues--so units should still fund the 27% central overhead costs for research even if the research grant bring in no or little ICR funds, because the dollars are still needed for libraries, and so on. This, however, affects academic freedom--if one wants to do research that is not funded or is funded without indirect costs, it means faculty could be assessed for the central costs of supporting research.

There are certain expenditures that must be paid, Professor Feeney said, and they want a model that shows how the money is spent, that does not encourage units to hoard space, and so on. They want to understand where money is going and why conscious decisions are made. There could be a metric for common goods--perhaps a faculty-head tax to support the libraries, for example.

Mr. Pfutzenreuter said he favored giving 100% of ICR funds to the units, although in reality the actual division of costs is about 50/50, based on the components of the rate developed for the federal government. The way the money is distributed now is very accurate in terms of costs. He said that he would send the money out to the units and then assess them on the components of the rate. The problem now is that faculty do not see the central costs because the money is taken off the top.

Professor Konstan said he saw things differently. Where grants do not pay salaries, a lot of money spent at the University would be billed to grants but cannot be. He said he believed that 100% of ICR funds should be retained centrally, but there are some non-direct-chargeable marginal expenses for research in units, so some ICR needs to be distributed, and the amount should be enough so there is an incentive for researchers to drive a hard line on getting the full ICR rate.

Professor Roe said that he assumed the document would include patent income because it should meet the same rule of opportunity costs. How much of the patent money is earned because of support from the department, from someone in Patents and Technology Marketing recognizing something that will sell, because there was a good library that had an article that sparked the discovery, etc., Professor Konstan asked? All are part of whey detailed ledgers will not get the University very far; it must be treated as a university and avoid camp squabbling.

The Committee voted unanimously that it would incorporate part of the facilities issue in Principle 2 and not include the bullets from Principle 5 in its version of the document. The Committee then voted unanimously in favor of the statement as modified through discussion at the meeting.

Professor Campbell said he was not sure the Committee had discussed the document enough, although it will be brought to the Faculty Consultative Committee in June [actually, after the meeting, it was put on the May 20 FCC agenda]. A number of the bullets have not been discussed. When it is communicated to the administration, Professor Konstan said, it should be with the message that the Committee wants to be involved when the principles and actions are implemented. Professor Campbell said he will urge the Committee to continue to consider the document; sending it to FCC does not stop the discussion here. The Committee owes a lot of gratitude to the AHCFPC, and they have done something this Committee should have been doing for a long time but got sidetracked. It is good to be put back on the planning level rather than only addressing issues at the operating level.

Mr. Pfutzenreuter said that he may have, by the June 22 meeting, a charge letter to the working group that is to develop a new budget model. That group and this one should be on the same page about what the Committee has approved today.

Professor Campbell thanked everyone for coming and adjourned the meeting at 4:25.

-- Gary Engstrand

University of Minnesota