Minutes*

Senate Committee on Finance and Planning
Tuesday, January 20, 2004
2:30 - 4:15
238A Morrill Hall

Present: Charles Speaks, (chair pro tem), Brittny McCarthy Barnes, David Chapman, Daniel Feeney, Steve Fitzgerald, Thomas Klein, Joseph Konstan, Michael Korth, Richard Pfutzenreuter, Alfred Sullivan, Kate VandenBosch, Susan Van Voorhis, Warren Warwick, Susan Carlson Weinberg

Absent: Charles Campbell, Calvin Alexander, Stanley Bonnema, Yi Li, Cleon Melsa, Timothy Nantell, Terry Roe, Rose Samuel, Thomas Stinson, Michael Volna

Guests: Executive Vice President and Provost Christine Maziar, Vice President Carol Carrier; Senior Vice President Frank Cerra

[In these minutes: (1) incubators and start-up companies; (2) reorganization of the administration; (3) 2004-05 salary instructions; (4) more on reorganization; (5) partnership with Mayo]

Professor Speaks convened the meeting at 2:30 and explained that he was serving as chair because Professor Campbell had a medical appointment.

1. Incubators and Start-Up Companies

Professor Speaks asked Professor Konstan to summarize the discussion from an informal meeting the previous week of Committee members and representatives from the Senate Research Committee with Vice President Hamilton, Acting Assistant Vice President Tony Strauss, and Greg Brown from the General Counsel's office. Professor Konstan said it had been a very good meeting and the discussion separated the policy issues (should the University put money into incubators) from the details of the University Enterprise Laboratories (UEL). There was discussion of the broader question of how the University supports start-up companies. Before the issue is brought to the Regents there will be a redraft of the policy that will include case studies; the redraft will be brought to this Committee and the Senate Research Committee.

Mr. Pfutzenreuter explained that the policy issue (use of royalty income for commercialization of intellectual property) has also been separated from UEL for the Regents and will be taken up by the Board in upcoming months.

2. Reorganization of the Administration

The Committee next reviewed three organizational charts. Mr. Pfutzenreuter next explained the reorganization of the financial part of the central administration. His title will change to Vice President and Chief Financial Officer (he will remain Treasurer as well, an appointment from the Board of Regents) and his office will have one expanded duty, to provide more forward-looking financial analyses. This

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will be done by a cross-functional team that includes his office and Institutional Research and Reporting. The additional responsibilities will probably include one additional staff member. The reorganization will not change much in the functioning of his office, Mr. Pfutzenreuter said in response to a question.

The Committee discussed the use of titles generally (vice president, senior vice president, associate vice president). There is no perfect model for the use of such titles, Dr. Sullivan explained, and the proposed elimination of the Executive Vice President title reflects an attempt to separate system from Twin Cities campus functions. There will be a Senior Vice President and Provost (Dr. Maziar) and a Senior Vice President for System Administration (Dr. Jones).

Professor Konstan said that the organizational charts do not make it clear through whom the budget discussions flow; that process was clearer with the Executive Vice President position. With three senior vice presidents, three chancellors, and six vice presidents, the process seems less clear; will it lead to a greater burden on the President? Mr. Pfutzenreuter said the practical application of the change will mean that instead of Drs. Maziar and Cerra (with support from a number of others) reviewing financial decisions before sending them to the President, they will now be reviewed by Drs. Maziar, Cerra, and Jones. It is a team process, Dr. Sullivan affirmed, with a lot of consultation before matters go to the President's desk.

Mr. Klein asked if anyone understood which parts of the organization were shifting to a new reporting relationship. No one at the meeting knew exactly what moved where but that information was available.

Professor Speaks inquired if the Committee's opinion on the reorganization has been sought. It has been. Professor Chapman said it is his general belief that if the president is to be held responsible for the organization, he should have the team he wants in an arrangement he wants, and that the Committee should have very strong reasons if it wishes to object to the plan. He said he favored the reorganization.

Will the reorganization change the way the University operates or does the change in the charts align them with the way the University operates, Professor Speaks asked. Both, Mr. Pfutzenreuter said.

The Committee voted 9-1 in favor of endorsing the proposed changes in the administrative structure with respect to the financial side of the house.

3. Salary Instructions

Professor Speaks welcomed next Executive Vice President Maziar and Vice President Carrier to discuss salary instructions to units for 2004-05.

Dr. Maziar said they had been invited to talk with the Committee because there is an interest in how salary/compensation instructions will go out. They are using a 2.5% compensation plan in budget discussions, the same amount used in the labor negotiations.

In contrast to past years, the 2.5% will not come from a new state appropriation or taxed to the administration and then returned to the units. For tuition-generating units, compensation will be funded from anticipated tuition increases (they are modeling 11%, separate from the University Fee); units that do not generate tuition will be asked to provide the compensation increases from their existing budgets. Units will not have the option of saying they cannot provide the increases, Dr. Maziar said in response to a query from Professor Speaks, and the increases may mean there will be staff reductions. With the exception of the bargaining units (discussions are still going on with the civil service staff), it is expected that the compensation will be based on merit and will not be across the board. Dr. Maziar said the 2.5% does not allow a lot of gradation but units will be expected to recognize merit.

The Twin Cities deans are discussing whether to recommend to the administration that they be allowed to fund larger compensation increases, from their own resources, for employees in a nationally-competitive market in order to avoid falling behind in disciplines with particular national pressure. The administration has not received such a recommendation (yet).

Will units be instructed to pay equal or near-equal attention to the last two years of scholarship, Professor Speaks asked, since there was no salary increase in the current year? Units were asked to conduct evaluations last year even though there was no salary money, Dr. Maziar said, for the purpose of documenting meritorious performance so that it can be included in salary increases for next year.

The 2.5% is cash compensation, Professor Feeney asked, that will not be affected if other costs (e.g., health care) increase? They believe they have a good insight on fringe benefit costs, Dr. Maziar said; Mr. Pfutzenreuter said that health care costs are running slightly above projections but that there is a lag in effect. He said he saw nothing that would threaten the 2.5% salary increases.

Within the colleges, can disciplines facing different salary pressures be treated differently, Dr. Carrier inquired? That has always been an option, Dr. Maziar said.

Professor Chapman said that the sooner the instructions are out, the better, especially if the salary increases have to taken from the budget. He said the deans should also be encouraged to get the information out as soon as they can. Dr. Maziar said they are trying to wrap up the issue as quickly as possible and hoped that instructions would be out in March.

Dr. Maziar said she hopes the budget will reflect a set of priorities and choices. There is a strong preference for academic units, especially the ones that deliver a lot of instruction. If students are paying for the bulk of the state cuts, she said, the University must be sure to protect their interests as best it is able.

4. The Reorganization, Continued

Professor Speaks reported that the Committee had endorsed the reorganization of the financial side of the administration and had received for information the other changes that the President has proposed for the administration (which changes are being discussed by the Faculty Consultative Committee). Does she have any comments on the reorganization, Professor Speaks asked Dr. Maziar?

She said she fully supports the President's proposed organization of the administration. The University has one of the flattest organizational structures of any of which she is aware; five or six years ago a flat structure was all the rage but it has now fallen out of favor--because there is only so much email and so many direct reports that any one person can handle. Her only concern is that with any reorganization one loses a little in the paper flow that must be relearned; this plan does not change that much and reflects in large part how the administration has been working.

Will all promotion and tenure decision still go to her office, Professor Speaks asked? They will, Dr. Maziar said, except for those from the Duluth bargaining unit. She said she talks with Dr. Cerra and the chancellors and talks with all deans about problematic cases. She also said she wants to know about all truly outstanding faculty because she keeps a list of them; she is constantly being asked for nominations for awards and having the list helps. The University has not always done the best job of nominating people for appropriate awards and distinctions, although it is getting better.

Mr. Klein asked about the "Targeted Group Business" box on one chart. Dr. Maziar explained that the University has a legal obligation, once it reaches a certain level of funded research support, to direct some of its business to entities owned by women and minorities. The Regents' policy requires the University to be active in trying to promote business with such entities. It is not enough to say that the University wants to send business their way; it sometimes requires some assistance (such as software in able for them to be able to deal with the University).

In response to a question, Dr. Carrier said the difference between a director and an executive director is history; they will take a look at titling as they implement the reorganization.

Professor Speaks thanked Drs. Carrier and Maziar for joining the meeting.

5. The Mayo Partnership

Professor Speaks now welcomed Senior Vice President Cerra to the meeting to provide an update on the partnership with the Mayo Clinic.

Dr. Cerra distributed copies of a newsletter and reported on several new items.

-- The nine research finalists have been named, about half from the University and half from Mayo. They are using an external panel of experts, all from the National Academy of Science, who will finish up their visit with a lunch with the Governor next week. None of them will receive any funding beyond their expenses.

-- They have put together additional funds to support grants that were not funded out of the $3 million available for the partnership in order to keep them going. They are outstanding efforts and will likely lead to NIH funding in the future.

-- The bonding bill contains money for a facility at Mayo (not in the higher education capital budget). They will build three additional floors for research on an existing building, for about $20 million, that will either be owned by the University or by the state and leased to Mayo. The question has been asked whether, given the Governor's treatment of the University's capital request, the University will support the request for the facility in Mayo. He said he did not see why it would not because it does not count against the University and the work in the proposed facility prepares for bigger requests for biotech funding in the next two biennia.

-- They about two-thirds of the way through an inter-institutional agreement with Mayo to do research and to create and commercialize intellectual property. Intellectual property will be governed by the rules of the organization of the principal investigator.

-- There is a citizens' committee concerned with privacy issues that has expressed concern about access to individual health records under any circumstances, including research. The group has filed a Freedom of Information Act request for University and Mayo policies. All the policies are on the University's website and the University will follow the rules for privacy in research. It does so every day.

Professor Feeney asked about the relationship of the University-Mayo partnership with the proposed support for UEL and incubators. Will things go into the proposed incubator from the Mayo partnership or will it have a separate incubator? There is a clear understanding that there will be intellectual property coming from the partnership that will be licensed to existing or start-up companies, Dr. Cerra said. He noted that start-ups have not had a good place to receive support; they need a high level of expertise and the single biggest reason they fail is because they do not have the right managers at the right time. The University needs to provide that support. He said he believed that technology parks are the right place for start-ups, it is appropriate that they are outside the University, and it is appropriate to use royalty money to support them, because part of the University's mission is to create and commercialize intellectual property. An incubator is not part of the University-Mayo partnership; any intellectual property generated through the partnership would have to go to a technology park/incubator. There are three such parks created by the legislature.

One of the goals of the partnership, Dr. Cerra said, is to establish as part of the economy of the state a bioscience sector--and that includes industrial, agricultural, and health applications. If the state is going to do this, it cannot do it halfway; it must make the investment required or it will lose the opportunity.

The partnership will seek $70 million in the next two biennia; how will that be prevented from competing with the University's request, Professor Korth asked? Are there assurances there will be a distinction? From the beginning the University has said funding for the partnership cannot compete with the University's own request, Dr. Cerra said. That is why the partnership funding is in the Department of Employment and Economic Development, not higher education. Assurances have been given that the funds will not compete with the University's request, Dr. Cerra said, and they will watch the process closely to be sure that is true.

Is the partnership a break-even proposition for the University, or will it show a profit or loss, Ms. VanVoorhis asked. It will be neither for the first two years, Dr. Cerra said; the $4 million funding for the first two years will not be break-even. The University will put in additional funds to support other grants and there will be in-kind support. Return on the investment will begin in the third year when NIH grants begin to come in. He said he was hard-pressed to say that will be a return on the investment, however, when the University subsidizes NIH research by about 15-20%. But as the University amasses NIH funds, it will also begin to generate partnership revenue and get closer to break-even. It will be 10-15 years before the economic impact of the partnership is realized, from the commercialization of intellectual property. That is the dilemma of the biotech timeline: there is a 10-15-year payback if one uses a purely financial model. But there are other payoffs, Dr. Cerra said, such as 250 faculty doing exciting research that they could not do without the partnership. The national exposure is already attracting venture capital back into the state.

Dr. Cerra suggested that he return to the Committee again in May with an update.

Professor Speaks thanked Dr. Cerra for joining the meeting and adjourned it at 3:50.

-- Gary Engstrand

University of Minnesota