Minutes[*]

Senate Committee on Finance and Planning
Tuesday, January 19, 1999
3:15 – 5:00
Room 238 Morrill Hall

Present: Stephen Gudeman (chair), Jean Bauer, Charles Campbell, Catherine French, Gerald Klement, Jane Phillips, Terry Roe, Charles Speaks, Susan Carlson Weinberg

Regrets: Cynthia Gillett, Wendell Johnson, Richard Pfutzenreuter

Absent: Eric Kruse, Terrence O'Connor, Peter Robinson, J. Peter Zetterberg

Guests: Georgina Stephens (Treasurer), Sheila Warness (Asset Management); Dean Steve Yussen, College of Education and Human Development

[In these minutes: endowments; discussion with Dean Steve Yussen about compacts and IMG; new telephone system]

1. Endowments

Professor Gudeman convened the meeting at 3:25 and welcomed Mss. Stephens and Warness to discuss the University's endowments.

Ms. Stephens distributed copies of a handout containing descriptions and financial data for the University's various endowment funds, a package of slides that is provided to the Regents on a quarterly basis. She reviewed the contents of the handout with the Committee.

-- The current value of funds on 9/30/98 in the Consolidated Endowment Fund, the Long-Term Reserves, and the Short-Term Reserves (total value of $1.114 billion). Ms. Stephens highlighted the recent performance results of each fund. She also provided information for the funds under the control of the Foundation, RUMINCO, and the faculty retirement plan managers.

-- The University's total outstanding debt is $328.4 million. Some is University bonded debt, some is through state-issued bonds (the University's 1/3 share of facilities construction), and 14% is variable rate. Ms. Stephens noted that the rate on the University's bonded and variable rate debt is 4.56%, while the money borrowed through the State costs 5.52%.

-- Ms. Stephens reviewed the allocation of assets between fixed income, international equity, and domestic equity investments. Ms. Warness reported that the University tries to improve return and reduce risk, or improve return while holding risk steady, and thus seeks asset classes that each offset the downside of the others. She pointed out that there are Regentally-established target ranges and targets

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for the percentage of each asset investment (e.g., domestic equity is to be between 40% and 60% of investments).

Committee members asked about the target range for international equities, which seemed high; investments in many U.S. corporations are in effect international commitments. The range is 20% to 40% with a target of 30%; Ms. Stephens noted that the University's investments are on the low end of the range. Consultants have been saying since the early 1990s that international investments would come back up, but the University has declined to put a great deal of money into them. Where it has put investments in, they have gone into the more developed economies, such as those in Europe, rather than into developing countries. The University is at the higher end of the range in terms of institutional investments in international equities, but the University also does not have money in some alternative assets, such as oil and gas and hedge funds.

-- Changes in asset allocation are made by the Regents, with advice from the Asset Advisory Committee, which has existed for a long time. The structure of the committees advising her office will change, Ms. Stephens reported, so there will be one on assets and one on debt, because those are two very different matters. The investment committee will include a faculty member from the Carlson School, a representative from this Committee, and others from both inside and outside the University with expertise in investments and who have no conflict of interest with the University. One Committee member inquired if there is a way to make use of the expertise in the University for investments (for example, in biotechnology). One time there was a problem with faculty retirement funds, and the Senate Committee on Faculty Affairs intervened, with very positive results. At present there is no mechanism for using internal expertise, Ms. Warness said; the University makes asset allocation decisions, but investment decisions are made by the fund managers.

-- 5.5% of endowment fund income is distributed (based on a three-year moving average), and departments receive the entire 5.5%. The annual return was 13.5%, so 8% was reinvested in the endowments. In the case of the Temporary Investment Pool, however, the University made 5.9% but distributed only 2% to units.

-- The reason it takes a month after a quarter ends to know results is because it takes that long for fund managers and custodians to provide information and for the University to be sure it is correct. Ms. Stephens identified for the Committee those firms that handle the University's investments, and said that her office stays in touch with them about the markets, and passes the information to the President and Board of Regents. In response to a question concerning how fund managers are selected, Ms. Stephens replied that they are obtained through an RFP process, and are chosen with help from the advisory committee. A major issue is the University's tolerance for risk; it will be here a long time and must keep a long-term focus, and managers are selected accordingly.

-- The University is capable of making swift decisions if it needs to, Ms. Warness assured the Committee. It has also demonstrated that it is prepared to move money away from one fund manager to another on the basis of poor performance or personnel changes or because of political issues (e.g., South Africa). There are policies that guide the University's decisions in this respect.

-- There are Regents' policies on the use of alternative investments, and, for example, the Board must be informed before investments in derivatives can be made. Managers are not free to change the University's investments.

Professor Gudeman thanked Ms. Stephens and Ms. Warness for joining the Committee.

2. Discussion with Dean Steve Yussen

Professor Gudeman now welcomed College of Education and Human Development (CEHD) Dean Steve Yussen, to talk about the compact process and about IMG.

Dean Yussen began by noting that he has been at the University since August (1998), and before coming to Minnesota he had been at two other Big Ten institutions, Wisconsin and Iowa. Prior to his arrival, however, he was involved in decision-making, saw last year's compact, and wrote this year's compact, drawing on last year's compact and consultation with colleagues. Iowa, he commented, was more centralized, and used no process such as this.

Dean Yussen said he liked the compacts. This is a very decentralized university, with discussion of central goals but then leaving units to develop their own. There is much less of a heavy central administrative hand than at other schools. His experience with the process has been positive.

CEHD was downsized during the 1990s, Dean Yussen recalled, and one must deal with the question of how well ANY system will be received if the unit is to be smaller at the end of the day. The college had to give up things. In addition, the financial independence and management of the departments has been reduced by creation of a service office in the Dean's Office, which some departments do not feel functions as it should. In addition, the University is trying to do many things (IMG, semesters, the enterprise systems, compacts), and some are reacting to all these changes.

CEHD has about 120 faculty, a budget of $35 million per year, generates a large number of student credit hours, has about $13 million in grants and about $2 million in private funds, and is scattered across 13 buildings on the two Twin Cities campuses. The core disciplines are directed to training leaders, but the college does many other things as well, and the Human Development phrase was added to the name to reflect those other activities.

The impact of IMG has generally been positive; the six departments and three centers in the College think more carefully about their funds. There are many creative ideas emerging, which the College tries to support.

Dean Yussen said he was amazed at the speed with which things happen, because of the compacts and IMG. That speed is not typical at other institutions. There has not been a great deal of contention with other colleges because of IMG, and those that have arisen are being worked out.

What is the role of the central administration? There needs to be a referee, and central administration must play that role if it turns out there are nasty battles on stupid things that are not in the interests of the University or its students. The administration must intervene, in those instances, and must create incentives for cooperation. It has done so.

Dean Yussen said that the compacts bring more coordination with units. In terms of working within the colleges, Minnesota is different. Wisconsin sees itself as the quintessential self-governing institution, but it has no process like this. The compact process tests governance and faculty deliberations because of its speed, and challenges administrators to bring issues to the faculty. In his case, he reviewed the compact with his administrative council and then held public faculty forums and fed the results back into the compact (there were changes made).

The process was fast, and Dean Yussen said he was not entirely comfortable with it. There is a need to have discussions with central administration about funding after the compact is written, and there is a need to spend time talking with the faculty. The pace at the University is so fast that the governance system has a hard time keeping up.

One Committee member inquired if there is not a conflict between the notion of faculty initiative, in which they invest time, and then attempt to match them with institutional goals. Dean Yussen agreed that might be the case, but pointed out that institutional goals are so general that most faculty initiatives can be fitted in them, and that the institutional goals are things the University should be doing anyway--who is going to argue about improving undergraduate education or support for interdisciplinary research? CEHD has considerable interest in international programs, which are not high on the institutional goals, but are subsumed under undergraduate education. Iowa, on the other hand, has international programs very high on its list.

Another element of the consultative process that can be troubling is that faculty and others participate early, but then the college negotiates with the central administration. That process could lead to compromises unacceptable to the units, but there is no chance to respond. Is it possible to get back to the faculty, or does the process move too fast? Dean Yussen said he was not sure yet; he is in the middle of the process. Moreover, the choices that are made mean that other choices cannot be made. Enthusiasm for one means one does not know what else might have been done. There are compromises made, but how much of a problem this is is not clear. If two or three units within a college really felt disenfranchised as a result of the process, then it WOULD be a problem. He noted the consultation that he had engaged in for this year's compact, including a faculty retreat and discussion with the college faculty consultative committee. The process was not perfect nor linear this year, he said, but it will improve.

What things might this Committee do to help the process, asked one Committee member? Buy more time and simplify it, Dean Yussen responded. Making the compact process biennial would be an improvement. There should not be a need for 3-4 versions of a compact before it is agreed upon.

One frustration in the process, observed a Committee member, is that the Provost does not know how much money will be available to fund proposals even while the compact discussions are taking place. Should there be an internal University mechanism to build up reserves, and if so, how? Dean Yussen observed that colleges and departments do not want to see funds held back, but there must be--and there are common goods which should not be subject to IMG (e.g., the libraries, student service operations, and space). Dean Yussen said he did not have strong views on HOW the central funds should be built up.

Dean Yussen agreed that having central administrative interest in certain activities (e.g., freshman seminars) helps in discussion with faculty, and it could be harder to accomplish them without that interest. At the same time, IMG forces some decentralization, he agreed, but that right now the balance seems to be about right.

The Committee discussed with Dean Yussen the extent to which IMG principles are applied inside the College, and the impact that it has on the departments.

Professor Gudeman thanked Dean Yussen for joining the meeting.

3. Telephone System

Professor Campbell reported briefly on his involvement in discussions about a new telephone system. It was last replaced in the 1980s, and the agreement then was that it would be maintained by the vendor through 2003 but not after. Networking and Telecommunications Systems has said the system could be held together a year or two longer, with chewing gum and baling wire, but there must be a decision about what to do. The cost of a new system is estimated to run between $15 and $40 million, consultants have done some work, and Requests for Information will be sent out in February.

This is a very complicated process, Professor Campbell said. For departments, the most important thing is that the price go DOWN. He said he will provide a summary for the Committee and ask for comments.

One Committee member said that the system is apparently not seen as a common good. Another observed that telephone bills are going down; why would they rise at the University? Because of technology and long-distance calls, the entire hardware system will be replaced, with the possibility that wires will be torn out and replaced by fiber optic cables in up to 300 buildings. This may involve a huge cost, with little say or oversight by faculty, it was noted. There was also some discussion concerning the fact that this Committee was notified later and that decisions had already been taken.

It was agreed that this issue would be brought back to the Committee.

Professor Gudeman adjourned the meeting at 5:00.

-- Gary Engstrand

University of Minnesota