Minutes[*]

Senate Research Committee
Monday, October 31, 2005
1:15 - 3:00
238A Morrill Hall

Present: Steven Ruggles (chair), Mark Ascerno, Dianne Bartels, Kathy Bowlin, Arlene Carney, Christopher Cramer, Sharon Danes, Penny Edgell, Steven Gantt, Jacob Granholm, James Luby, Timothy Mulcahy, Mark Paller, Brian Reilly, Thomas Schumacher, Maria Sera, Virginia Seybold, Charles Spetland, Barbara VanDrasek, Michael Volna, Jean Witson

Absent: Richard Bianco, James Cotter, Dan Dahlberg, Robin Dittman, Genevieve Escure, Paul Johnson, George Trachte

Guests: Senior Vice President Frank Cerra, Ed Wink (Sponsored Projects Administration)

Other: Melinda Sewell (Office of the Vice President for Research)

[In these minutes: (1) new budget model; (2) sharing indirect cost recovery funds among colleges]

1. New Budget Model

Professor Ruggles convened the meeting at 1:15 and welcomed Senior Vice President Cerra to lead a discussion of the new budget model. Dr. Cerra distributed a handout and briefed the Committee on the new model.

Dr. Cerra noted that in the previous model, all state funds, indirect cost recovery funds, and tuition went to the central administration, which in turn doled out money to the colleges and support units. In the current model, state funds go to the administration, ICR funds are split roughly 50/50 between the administration and academic units, and tuition revenue goes to the colleges. After adoption of the current model, the University added the Internal Revenue Sharing (IRS) assessment to fund institutional common goods and academic priorities (the IRS currently yields about $100 million). It also added the University Fee to fund central services and other investments (such as compacts); for the current year, the Fee produces about $52 million.

The institutional budget model is a group of "attribution rules for revenues and expenditures," Dr. Cerra said, "that assist in achieving (but don't determine) the strategic goals and objectives" and do not change policies and priorities. The budget model is a tool so that units know what comes in and what goes out. The University's strategic goals surround and direct the development of policies, priorities, and procedures. The budget model is intended to allow the University to align its strategic goals with policies and procedures; Dr. Cerra emphasized that the budget model does not determine priorities or goals.

Dr. Cerra outlined the eleven working principles of the budget model committee. Two were of particular importance, he said: transparence and simplicity. The principles were developed based on

[*] These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

conversations with a lot of people who registered their complaints, likes, and dislikes about the current system. Simplicity and transparency were particularly important because people should know where revenues come from and what they are being spent on. Dr. Cerra also noted the principle that the budget model should "place the management of financial risk at the level of the institution that can best control the contributing factors and act to address them."

The new model, entitled "earned income and full cost," provides that units receive the dollars they earn and pay for what they use. State funds will go to the President (except where state special appropriations by law must go to stipulated units), tuition will continue to go to colleges (and will continue to be split 75/25 for students taking courses outside their college of enrollment), the University Fee and ICR funds will go to academic units, and all other revenues earned by units will stay with the units (as at present). The state appropriation will go to the President. Money will be taken "off the top" of the state appropriation for academic compact investments. Central services will be funded on the basis of rates that are being developed in line with bases of attribution recommended by the budget model committee.

There are nine attributed costs (utilities, custodial/operations, debts and leases, libraries, research, information technology, student services, central administrative units, and general purpose classrooms). The bases for attribution of costs range from actual consumption/costs (utilities, debt and leases) to assignable square feet (custodial), to weighted faculty and student numbers (libraries) to headcount (information technology) to credit hours (classrooms) to total expenditures (central administrative units). The three cost-allocation measures are consumption, cost-driver based (using a proxy rather than measurement of actual use), and common-good based allocation based on a variable accepted as reasonable (e.g., for central offices). They drew a distinction between public goods (there are none in the system, so there are no funds off the top for one) and common goods (costs for which are assessed to the units).

Dr. Cerra said there are several points that should be understood about the new model (much of the following language is a direct quote from the handout).

1. The model is a set of stable revenue and cost attribution rules that do not determine strategic goals.
2. A sound process for budget approval and rate development is key for units whose costs are assessed to academic units.
3. The process is dependent on strong leadership to approve "cost pool budgets" (units whose costs are charged to academic units) and to make strategic allocations of state funds—leadership must do its job of making allocations in line with priorities, saying "no" when necessary, and putting incentives in place.
4. The model will be implemented at the college/RRC level, not at departments. The University is not ready to deal with this model below the level of the deans; it is not clear that the information needed can be obtained. It will be up to the colleges to decide if they want to implement the model at the department level.
5. Good performance measures and good data are essential for analysis.
6. Existing consultative groups will be essential to promote transparency and understanding of decisions (e.g., this Committee).
7. The process will evolve over time. Year one will largely be a conversion to the basic structure and there will be refinements in the future. The plan is to be implemented July 1, 2006, and will be

revenue-neutral for units in the first year. After that, the units will determine what they buy, and do not buy, within certain limits.

Dr. Cerra reviewed the methods by which various costs will be assessed to academic units (Facilities Management, information technology, administrative service units such audits, Board of Regents, Budget and Finance, Human Resources, Senior Vice President for Academic Affairs and Provost, etc., principal and interest on debt, and so on). Research expenditures, $14 million, will cover the Office of the Vice President for Research, Sponsored Projects Administration, Patents and Technology Marketing, Sponsored Financial Reporting, and the Academic Health Center Office of Research). In essence, the people who use these services will pay for them; the rate (which will be the same for all academic units) will be calculated as a percentage of sponsored research expenditures using a three-year rolling average (to minimize the impact of annual fluctuations).

Vice President Mulcahy reported that his office looked at a number of ways to assess research administration costs. The bottom line is that sponsored research expenditures is the most convenient and most consistent way to assess the costs. Professor Ruggles said that there could be large differences among units (e.g., IT has no human subjects and no animal research). Dr. Mulcahy said those are actually very small differences in the total costs. Dr. Paller said that clinical grants, which tend to be larger, will thus pay more. Units may be losing a little in one place and gaining in another and it seems that things will come out about even. Dr. Cerra said that users pay, and while there may be very minor cross-subsidies, they went round on this quite a bit and finally concluded that the sponsored research expenditures is the best measure.

Professor Ruggles said that the $14 million seemed low for an institution that has $561 million in sponsored research expenditures. This is really a very small percentage of expenditures. That says how economically the University performs the research administration function, Dr. Mulcahy responded; it has very low overhead.

Dr. Cerra turned next to the libraries, the assessment for which is to be based on a weighted headcount (Lower division student = 2, UD student = 3, professional and graduate students = 4, faculty = 4). These weights were developed 30 years ago and are still used as part of the instructional cost studies; the budget model committee thought they were a good place to start. The libraries assessment will be based on a unit's proportional share of total headcount, based on the weightings.

Mr. Spetland reported that the libraries are not completely comfortable with this methodology because the entire information technology world did not exist 30 years ago and because they must now do their budgets in advance of academic units—the libraries are now considered a service unit. Dr. Cerra said the University will track these assessments as the budget model is implemented. Professor Ruggles said that the University can track hot air, electricity, and so on, but then uses this rather vague formula for the libraries. One might measure the cost of brain research journals compared to journals in the social sciences; library expenses are not the same across fields. Dr. Cerra said that is difficult to know given the "electronification" of the libraries. He said that all service units must do their budgets before the colleges and campuses so that they (colleges and campuses) can know the costs they will be assessed. Professor Ruggles pointed out that the majority of the student headcount is in CLA but the majority of library expenses is not CLA. That is why the headcount is weighted, both Drs. Cerra and Paller responded; 6,000 professional students equals 12,000 lower division undergraduate students. Dr. Cerra agreed that

they will have to check the validity of the weighting as they go along. Professor Ruggles remained unpersuaded and said the formula seems implausible.

The first year will be revenue-neutral, Dr. Paller observed; after that, there will be pressure to right-size budgets so units can cut costs. How can CLA affect the libraries, he asked Dr. Cerra. What is needed is a process that is not yet in place, Dr. Cerra said. The rate-setting must be transparent. This is a starting point for a formula and the transition provides a year to develop a second-year formula. That will be needed when direct use cannot be measured.

Professor Edgell asked when they would expect to have a second-year formula and how long it would last. One wants the formula(e) adjusted so it is accurate, but the goal is also to achieve stability so units can predict their costs. How long will it take to get a second-generation formula and how stable will it be? There is no question about the stability of the formula (e.g., headcount for the libraries), Dr. Cerra said; the question is the weighting. One assumes the weighting may continue to be adjusted, including perhaps on a year-by-year basis.

Does everyone agree that headcount is the best way to assess library costs, Professor Ruggles asked. To start with, Dr. Cerra said, and there would have to be a good reason to change. Did they do an analysis of different library costs across disciplines, Professor Ruggles inquired. It did not make much difference in the assessments, Dr. Cerra said. Professor Ruggles said he found that hard to believe. The biggest element of the denominator is the number of users. Dr. Cerra said one can carve out the cost of journals but the resulting complexity would make the assessment difficult to understand There was an argument the libraries should be a public good but the budget model committee did not accept it and concluded that library costs depend on the number of users. Professor Ruggles said he believed that is demonstrably not true. Dr. Cerra said the budget committee did not agree with him.

Dr. VanDrasek asked about assessing outsider users of the library. Dr. Cerra said that was so small a percentage of library use that it was not worth the complexity of developing a charge.

In response to a question from Professor Seybold, Messrs. Volna and Wink explained that the new budget model would have no impact on the University's ICR rates and arrangements with federal agencies.

In the discussion about the assessment of the cost of general purpose classrooms (assessments to academic units will be based on their proportionate share of student credit hours), Professor Edgell asked if this included thesis credits. Dr. Cerra said it does: if the student gets a credit, it's in the count. Again, he emphasized that they opted for simplicity and transparency. Carving out special cases will cost more to administer. Professor Edgell said it should not be difficult for the Registrar to differentiate between registrations that use classrooms and those that do not. But one exception leads to another, Dr. Cerra said. This is not an exception, Professor Edgell insisted; the data are already available. Dr. Cerra pointed out that there are 65,000 students in the denominator; it would require a large number to have an effect and to make it worth the programming time to change the software. The capacity is there, he agreed, but said it would not make sense to put in this exception. He said that the Graduate School agrees with this view. Professor Ruggles wondered if the thousands of students taking thesis credits would not, in fact, be a large number that would affect the outcome. Dr. VanDrasek noted that the Graduate School can accept this because it is not paying for the classrooms. Dr. Cerra conceded at the end that the formula may not be completely right.

Dr. Cerra then reviewed the approach to academic investment pools (for compacts and within the President's and vice-presidential offices). They will be taken off the top of the state funds but will be removed from the budgets of central units before those unit cost assessments are developed. The decision will be made about the size of the compact pool and the pools within the central offices.

In terms of the state subsidy, the budget model committee did not feel it had the authority to tell the President how to spend the money. What it did was develop a set of general principles. The President will make decisions about its distribution annually. It will be used to implement University priorities with the leadership to be held accountable for addressing priorities through the budget. Allocations will be made in support of unit-level performance agreements based on programmatic outcomes and financial management. The budget process, information, and formatting will be consistent across units to support decision-making. Total annual allocations of state funds cannot exceed the available amount. Allocation decisions cannot force a unit into a deficit for the year—but it "can force discussions about alternative levers in revenues and cost allocation strategies."

Professor Ruggles asked for Committee discussion of the implications of the budget model for incentives for doing different kinds of research and for collaborative research. In the past, revenues from "rich" areas that generated a lot of ICR funds were used to support fields that were not so rich (not so able to generate ICR funds). Now there are a lot of incentives for colleges not to use revenues in this way. At the same time, the strategic positioning goals say the University should invest in new and collaborative research in order to become one of the top three public universities. The budget model, however, will provide an incentive to invest in fields that generate a lot of ICR funds. There is no incentive to invest in the classics, for example.

Those things are true today, Dr. Cerra said. The appearance is that programs were funded by ICR revenues, but ICR funds actually covers expenses that the University has already incurred. In addition, the process is dependent on strong leadership. That must be part of the discussion between the vice president and the dean about what is going on in the college. The Medical School cannot drop the family practice program because it does not generate enough ICR funds; the academic mission of the University must be protected. There could be abuses, he agreed, but the relationship between the faculty governance system and the administration provides checks and balances—they would hear about abuses. And one must look at the strategic directions of the University: Is it likely that some things will not be funded? Yes, Dr. Cerra said, although he could not say what those things might be; the University community will have to make those decisions.

How is the commercialization of intellectual property covered in the new budget model, Professor Luby asked? Dr. Mulcahy said the budget model only covers the cost of what his office pays for, such as Patents and Technology Marketing. It does not cover revenues from licenses and so on.

Dr. Cerra added that there are no Internal Service Organizations in the cost structure and certain auxiliaries are also not included, because they set their own rates, with administrative approval, and recover their costs.

Professor Gantt asked if what might be considered "research infrastructure" is covered by the budget model. The services for research and grants management are, Dr. Mulcahy said, but other items such as equipment, buildings, etc., are not. What is here is what is in the Office of the Vice President for

Research budget (plus Sponsored Financial Reporting in the Comptroller's Office), Dr. Cerra said. This is an important question, but other portions of the research infrastructure are funded in other ways.

Are there any mechanisms built in to control the costs of service units, Professor Ascerno asked? They must go through a yearly review, Dr. Cerra said, although the process has not yet been set. The process must be transparent and the units must be accountable. They will talk with the President about beginning to develop the process. He repeated that the budget model is built on transparency; if it is not clear how rates are set, and that they are valid, the model will not get anywhere.

Professor Ascerno maintained that one University goal is to encourage interdisciplinary teaching, it would be better to direct tuition to the designator rather than the college. Now it requires a subset of agreements to transfer tuition for interdisciplinary teaching. Dr. Cerra said he made that same argument and the issue is one that needs watching.

What will be the biggest impact of the new budget model in one or two years, Professor Sera asked? The first year will be a "wow" year, as units look at the numbers, Dr. Cerra said. "I had no idea we spent this much on that item." One oddity he has noted, he said, is that when the air-conditioning is set for 68 degrees, for example, some people in the building have space heaters. This may not be a wise expenditure of funds. The major questions will be about transparency and rate setting and the accountability of the rate-setting process.

Professor Ruggles thanked Dr. Cerra for joining the Committee and observed that it may need to return to this subject in the future.

2. Sharing Indirect Cost Recovery Among Collaborating Collegiate Units

Professor Ruggles turned next to Mr. Wink to explain the proposed procedure for sharing indirect cost recovery funds between collaborating units.

Mr. Wink explained that historically ICR revenue goes to colleges based on how accounts are set up in the college. This procedure encourages use of the accounting system to engage in revenue-sharing. They have talked about this for two or three years and tried to identify appropriate thresholds (because they do not want every project identified as interdisciplinary to have separate accounts). As a result, the criteria for sharing revenue are three: the procedure only applies to new and renewed grants, not existing arrangements; the overall project budget must be $100,000 or greater in total annual cost; and the minimum ICR for each college must be $1000. He said he believed that 50-60 projects would qualify for the procedure.

Professor Ruggles said this appears to formalize what is already going on. One innovation seems to be that even if two areas are involved, one person can be responsible for the grant. Most look to the PI as responsible for the science and the finances, Mr. Wink said. It is double work to split the budget when the only desire is to split the ICR funds. It is a hassle to aggregate a cross-unit project for ICR purposes when each department has its own way of managing grants. This should make it more convenient. It is optional, but many have told Sponsored Projects Administration that it would help make accounting and budgeting be less burdensome.

This goes hand in hand with the new budget model, Professor Seybold said; now one donates research space. But who is watching out to see that one's college is receiving the revenues to pay the bills?

The key is how to decide how to split the ICR funds, Professor Ruggles said. Getting two deans in a room to agree to split the ICR is the challenge; once the agreement has been reached, the administration is easy. Mr. Wink explained that the ICR will go where the costs are incurred, not where the people came from.

Dr. Paller noted that in the case of an interdisciplinary center, the ICR funds are not split up. The funds go to the center because there has already been a global agreement about operation of the center.

It has always been possible to do side deals, Professor Ruggles said. The barrier was not the procedure; the barrier is that every dean has a veto over participation and can refuse to allow it unless his or her college gets one-half the ICR funds—even if that college is doing very little in the project. Dr. Mulcahy agreed that is a problem but said it is different from the one this procedure is trying to address. He suggested that Professor Ruggles or the Committee make recommendations to the task force on collaborative research. The system, however, used to bar accepting small amounts of ICR funds; this procedure should relieve that problem.

Dr. Paller asked if the $1000 floor applied to within-college grants; Professor Ascerno asked if Mr. Wink's office would be willing to work at the unit level within colleges. Mr. Wink said to Professor Ascerno that it does not say so explicitly in the policy but he would be willing to try. (He also confirmed that if three or more colleges are participating in a project, the ICR for EACH must be over $1000.)

Professor Ruggles asked why this had to be so complicated. Why is it not possible to direct a percentage of the ICR funds to each college but have only one budget for a project? The current financial system does not allow that, Mr. Wink said, but the new one will.

Professor Ruggles inquired about one provision in the procedure that indicates the PI will retain discretion to redistribute funds among sub-projects. He said that is true as long as the dean and department head sign off, but otherwise the PI has no discretion. Mr. Wink said under this procedure, the PI can redistribute budget allotments to sub-projects for programmatic reasons, which may alter the deans' earlier agreement as future expenses are incurred. Ordinarily, PIs will not direct the redistribution of expenses. Vice President Mulcahy said that in his experience, direct costs were at the discretion of the PI and there was no need to ask the dean. If two deans and department heads agree that everything is acceptable, then the PI could change amounts, Professor Ruggles asked. It happens all the time, Professor Seybold responded. PIs need to be able to move money around, Mr. Wink said, if costs are not as projected—but if the PI on a sub-project is a spendthrift, that PI's department has to absorb the additional costs. Perhaps this is different where there is a lab, Professor Ruggles speculated, where people from all over are being used in a common space.

If there is an error in the logic of the procedure, Dr. Mulcahy said, it is that it assumes people will be reasonable and interested in the academic objectives of a project. The new budget model could lead to more heated discussions, but the procedure assumes people recognize the benefit of working together on a proposal, something the system has thus far prevented. He said he agreed with Professor Ruggles that it would be easiest simply to split up the ICR funds. Professor Ruggles said he was not arguing that deans

and department heads are irresponsible, and said they should try to maximize the revenue for their college and department, but the system makes it difficult to do interdisciplinary research. That is why this procedure has a two-year history, Dr. Mulcahy observed. It treats everyone as adults. Professor Ruggles, however, has identified questions that need to be addressed, but this revision will benefit the 50-60 projects to which Mr. Wink alluded.

There should be a box one can check that indicates ICR will be shared, Professor Ascerno said. There will be in the future, Mr. Wink said. At present SPA just needs to know that there is a plan and agreement to share ICR revenues. The procedure is not in place now but will be implemented about December 1.

Professor Ruggles introduced the two new student members of the Committee, Jacob Granholm and Brian Reilly, and adjourned the meeting at 3:00.

-- Gary Engstrand

University of Minnesota