Minutes[*]

Senate Research Committee
Monday, December 15, 2003
1:15 - 3:00
238A Morrill Hall

Present: Gary Balas (chair), Dianne Bartels, Christopher Cramer, Sharon Danes, Robin Dittman, Kathy Ensrud, Steven Gantt, David Hamilton, Michael Hughey, Paul Johnson, James Luby, James Orf, Mark Paller, Virginia Seybold, Charles Spetland, George Trachte, Barbara VanDrasek, Jean Witson

Absent: Darryn Beckstrom, Victor Bloomfield, Kathleen Conklin, James Cotter, Dan Dahlberg, Katherine Klink, Andrew Koch, Phillip Larsen, Thomas Schumacher, Michael Volna

Guests: Associate Vice President Tony Strauss (Patents and Technology Marketing), Greg Brown (General Counsel's Office); Chris Macosko (Chemical Engineering and Materials Science), Eric Hockert (IPrime)

Other:

[In these minutes: (1) business incubators and technology parks; (2) effects of internal University taxes on research; (3) resolution on the Graduate School]

1. Start-Up Business Incubators and Technology Parks

Professor Balas convened the meeting at 1:20 and turned to Vice President Hamilton to lead a discussion about start-up business incubators and the technology parks being proposed.

Vice President Hamilton began by saying he had apologized to the Senate Committee on Finance and Planning because he only presented information to it the day of the meeting, and he is returning to that committee for additional discussion. He expressed regret that the materials were not distributed in advance to this Committee, one that is very dear to his heart because he has served on it and served as its chair, and said he was not sure how to proceed at this point.[1]

He began by explaining that Dean Robert Elde and a group he worked with established a 501(c)(3) organization, University Enterprise Laboratories (UEL), that is separate from the University, with its own Board of Directors, President, and chief operating officer, and which the University has no role in running. UEL acts as a site where start-up companies derived from University intellectual property have a period to incubate, for perhaps 2 to 5 years, to the point where they are viable and can survive on their own in the market.

[*] 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.

[1] The Committee did not receive the materials because the staff to the committee had them but neglected to send them out. It was not Vice President Hamilton's doing that the Committee members were unable to preview the materials in advance of the meeting.

The University already has eight start-up companies in Biodale, on the St. Paul campus, some based on University intellectual property and some not. Also on the St. Paul campus is Molecular and Cellular Therapeutics, a site where there are other companies "incubating." Having companies on the campus does not mean the University is supporting them, Dr. Hamilton told the Committee; they use the facilities at Biodale on a fee-for-service basis. They have access to about $40 million worth of equipment, most of which is very expensive and which start-up companies could not afford. The equipment was purchased for faculty use (e.g., for funded research), which also carries a fee-for-service charge but at a lower rate than is charged to start-up companies.

The issue is this: Can or should the University be involved in supporting UEL-like entities? Is it to the advantage or disadvantage of the University to do so? There is at present no policy on the matter, but it is the feeling of the University's financial staff that royalty income goes into the University's general funds so it is like O&M funds (tuition, state funds) and cannot be used for supporting entities such as UEL. The University would not, in any event, use tuition for such enterprises.

The other side of the issue is this: In Patents and Technology Marketing (PTM), they propose to set up a new division, the Office of Business Development (OBD), which will partner with the Carlson School (Carlson Ventures Enterprises, part of an MBA program for entrepreneurial people who will become venture capitalists and business people) to work with University start-ups and provide essential materials. They have often found that start-ups move too quickly, before the necessary groundwork is done--without a business plan or a management plan, without an understanding of financing, and without any marketing studies. The Carlson School and others will help write business plans and do market surveys to be sure that a start-up company has a product that is marketable, and help try to increase the chances that the start-up company will succeed. They want companies to be able to survive 5-10 years after they leave the incubator and have a chance to market a good product or to be bought up by a larger company.

The University prospers because the start-ups draw on University intellectual property; the University licenses the property to the company and keeps watch on it to make sure it is successful. Often companies do not generate royalties in the short-term to pay for the licenses so the University may take stock in the company, which gives the University voting rights in the company (whether or not the University can vote as a director is a separate matter, and which in fact it does not do as a matter of current practice).

One proposal is that the University rent space in UEL to house the Office of Business Development. That will put the business function of the University close to the incubating companies. Even if they do not house OBD in UEL, there is a need to rent space for OBD somewhere because there is no space left in Gateway (without paying a premium for it). It would be ideal if the OBD could be close to the start-up companies.

There are a lot of intangible benefits to the University to having UEL and having the University close to it, Dr. Hamilton said. He said he has learned over the years, in recruiting and retaining faculty, especially in the biological sciences, that it is an attraction to have a place close to the University where they can be entrepreneurial and still be faculty members. UEL came about as a retention issue because a faculty member was leaving the University; it took a lot of scrambling to get the space needed for the individual, but it would NOT have been to the benefit of the University if the person had left.

As an outgrowth of the discussions, it became clear that the tangible benefits to the University of a long-term lease in UEL were not sufficient to make a lot of difference, so he is proposing that the University provide funding to UEL for operating costs for a short period (four years). He said he hoped that would send a message that the University believes these kinds of activities are important.

Dr. Hamilton noted information in one of the handouts about what is happening at other public universities. One can see that the University of Minnesota is far behind other institutions, both in the Big Ten and elsewhere. They are trying to collect information about the incubators/start-ups but have thus far not been very successful. The bottom line, however, is that most major research universities have facilities to allow start-ups to incubate for a short period. The funding model varies; in some cases the state provides direct support while at others the funds come from the President's office. What he is proposing is a variant of the model that provides institutional funding.

His proposal is that the Board of Regents grants the University authority to support entities like incubators or other vehicles for technology commercialization. They are not proposing to put money into the start-up companies themselves. The money the University proposes to use to support such entities is not an "investment" in the financial-return sense. Professor Sera said "spend." This is related to the Bayh-Dole Act, Dr. Hamilton said: institutions must use royalty income to stimulate research and education in the institution. For the University to put money in for-profit enterprises would be against the spirit of Bayh-Dole. He drew the attention of Committee members to a handout, the "Guiding Principles for Technology Park Development in Relationship to the University of Minnesota." The University would provide support to an incubator entity, but with five controls in place. This set of principles, Dr. Hamilton said, was developed at the request of the City of Minneapolis.

The last one recognizes that the University is part of a larger community and must act in concert with the community and in response to the needs of the community.

What is the relative scope of the University's potential investment in relationship to the total UEL budget, Dr. Paller asked? If the University is a major investor, that has one set of implications; if it is a minor investor, the investment has a different flavor. Dr. Hamilton said the University was not a major or minor investor; he has proposed an upper limit of $2 million over 10 years, with some of the money upfront. Xcel Energy is in for $2 million, Medtronic is in for $500,000, 3M is in for $1 million. The UEL budget for the first four years will be about $21-22 million, Mr. Brown said; the funding from the University includes a $1 million lease, with the rest paid in installments. So the University is about a 10% stakeholder in UEL for the first four years.

What else could the money for UEL be spent for, Professor Sera asked? Research grants? Scholarships? They are already spending money for both of those, Vice President Hamilton said. He committed $500,000 per year for four years to the libraries from royalty income. There is also money going to the 21st Century Fund for graduate fellowships and to a variety of seed grants awarded on request.

Of the royalty income, what proportion will be directed to UEL, Professor Sera asked? The University received a total of $38.7 million last year, divided 1/3, 1/3, 1/3 between his office, the department, and the inventor, so the central share was about $13 million. There will be more next year; they are projecting about $42 million (which would yield about $14 million for the Office of the Vice

President for Research), and the amount will continue to increase until someone invents a better AIDS drug (which a lot of people are working on).

Professor Johnson raised a series of questions about the use of the money vis-à-vis the University's missions. Is the University putting money in a technology park in order to make a better investment? Probably not, Professor Johnson concluded, since investing the University's resources in order to make money is the job of people in Asset Management, and their criterion is presumably to maximize returns, something that is risky with respect to investment in start-up companies. If it isn't an investment for purposes of returns, then it must be under the heading of either teaching or research or service. Is the University attempting to argue that it improves education in some way (perhaps the education of the students in the fields represented by the faculty who work on these projects)? Or, is it an expenditure under the heading of research, in which case it is being done to provide some better environment in which the work of scientists and their students can be carried out? The final argument, Professor Johnson suggested, would be that the expenditure comes under the heading of the University's service mission. Perhaps this is done to enhance the possibility that the work of a group of faculty would lead to products of value to business and society. Dr. Hamilton explained that he was first identifying the current situation and then proposing that the Regents allow the University to invest money in a different way. He noted that the Bayh-Dole Act allows the University to invest today in UEL, but University interpretations constrain such an investment.

Who paid for the $40 million in equipment in Biodale, Professor Balas asked? Some of it is research-grant funded, Dr. Paller said. Part of the genomics equipment is located there. There has been money from the Academic Health Center for purchasing equipment. It is all University property, he said.

Has the University already invested a lot of money in UEL by investing in this equipment, Professor Balas asked? Dr. Paller said it had not. The equipment is owned by the University and its researchers; excess capacity is used by the Biodale companies and the income is used for maintenance and improvement of the equipment. Mr. Strauss said that the equipment is in Biodale, not where UEL will be, and Biodale is not intended to be an incubator; it provides a service function across the University in terms of access to equipment. It also sells services to start-up companies.

Where will UEL be, Professor Balas asked? In a separate building on the transitway owned by the City of St. Paul, Dr. Hamilton said. It will be renovated to accommodate anchor tenants (larger companies) as well as start-up companies. The equipment in Biodale will stay there.

Professor Balas said the proposed change in policy concerned him. Venture capitalists spend a lot of time deciding what companies to support. In this case, the University will support companies because they are dealing with the University's intellectual property. The University is not supporting the companies, Dr. Hamilton said. Professor Balas maintained that it would be renting space in UEL, which would not be there if the University were not. Dr. Hamilton said that was not accurate; that UEL would exist without the University's participation. Then why does the University have to be involved, Professor Sera asked? It is investing for a future return in commercialization of University intellectual property, Dr. Hamilton said.

The proposal for $2 million for UEL means the money will have to come from somewhere, Professor Balas said. It is $2 million from the patents/royalties stream that has to be made up. Ms. Dittman said the money is not part of the University's general budget. But the Committee was told that royalty income is treated the same as tuition, ICR, and state funds, Professor Balas pointed out. It is considered equivalent in kind, Dr. Hamilton explained, but it is not budgeted or allocated; the money stays in the budget of the Office of the Vice President for Research. It is unrestricted money, Ms. Dittman said, but it is not centrally allocated like tuition and state funds. Is it taken into account when the budget of the Office of the Vice President for Research is set, Professor Balas said. The answer is "no," Dr. Hamilton said. Does the University have access to the money for appropriate uses, Professor Johnson asked? The Board of Regents' delegation of authority gives the authority for its use to the Vice President for Research, Dr. Hamilton said. But it could be used for other purposes, Professor Sera said. He would not use it for other purposes without consultation, Dr. Hamilton responded. So these are discretionary funds, Professor Orf asked? They are, Dr. Hamilton said, but there were commitments made before he became Vice President which he honors, such as the research infrastructure fund (expected to grow to $35 million by FY 2011to fund equipment requests) and the 21st Century Fund.

The facility would go on without University investment, Professor Johnson said; from the Vice President's viewpoint, is this a way to make money, an investment? The return on the investment is an intangible, Dr. Hamilton said. If this is being done because there is a possible return on the investment, Professor Johnson said, one could ask about other possibilities for investment; one could also ask if UEL will not survive without the University's investment, which is a different question. It does need the funding, Dr. Hamilton said. Professor Johnson expressed doubt; he suggested that the companies Dr. Hamilton named earlier as contributors could come up with the funds if needed. He said he was not sure why the University was proposing this support for UEL. Dr. Hamilton expressed frustration that the Committee members had been unable to read the paper on start-ups before the meeting.

Professor Balas said he was concerned about the possible conflict of interest when the University invests in research the faculty are doing. The University should support the faculty, but there are very strict regulations about what faculty can do. He said that spending University money to encourage start-ups could skew the direction of funding for research, and the University might begin to hire faculty only because they can create start-up companies. Is that a good thing, Professor Balas asked? The decision is up to the deans and the faculty in the units, Dr. Hamilton said. But should there not be an institutional decision about the teaching and research mission, Professor Balas asked? He said he was surprised that one faculty member could drive the development of UEL. That is only one example of a faculty member who would have left, Dr. Hamilton explained.

Professor Balas's question about the balance between the research and teaching missions is a significant one, Mr. Strauss agreed, but the University also has a service mission. As part of its land-grant mission it has a responsibility to see that its findings have practical application; he said he believed the University was not fulfilling that part of its mission as well as it could. Professor Balas said he did not see that the mission included an obligation to start-up companies. Start-ups may be the only viable route to get technologies out and used, Mr. Strauss responded, especially break-through technologies. It is very difficult to place such developments with existing companies, especially if it requires a big leap and has a long-term horizon. Existing companies have to worry about the bottom line and the next quarter's report. The business community seems like the right place to make those decisions, Professor Balas maintained; it is hard to believe the University can pick winners and losers.

The Office of Business Development will attempt to help start-ups address the issues better so they are better positioned to survive, Dr. Hamilton said. The University is aiding start-up companies now, it is just not doing a very good job of it. Dr. VanDrasek responded to both Professor Balas's point about an institutional decision about the teaching and research mission and Mr. Strauss's point about the land-grant/service mission. She suggested that the kind of activity Dr. Hamilton was proposing was something decided a few years back, when former President Yudof charged then-Vice President Maziar to pursue commercialization of intellectual property--there already WAS an institutional decision making this a priority. On Mr. Strauss's point, she said that one might look beyond starting up the start-ups to the potential longer-term contributions the companies could make to the state economy.

Professor Seybold referred to the possible conflicts of interest. Part of the return to the University might be voting power on the boards of directors, when it receives equity in a start-up. That authority is exercised by Asset Management, Dr. Hamilton said, not by his office or Mr. Strauss. Is there a precedent for this practice, Professor Seybold asked? It has been happening for a very long time, Dr. Hamilton said. But if the University takes equity in a company, there is a firewall between his office/PTM and the exercise of University voting rights; his office does not control anything in that regard. Control is exercised through Asset Management. Mr. Strauss concurred, saying that exercise of voting rights is handled by Asset Management. If there is an issue that Asset Management believes the University should vote on, the decision is reviewed by the Office of the General Counsel. In the vast majority of the cases, at the stage that start-up companies are in, the equity is non-tradable and typically the University does not vote; it does so perhaps only once or twice a year. At the level of the boards of directors, the University does not sit on the board, although someone from the University may attend as an observer.

Ms. Witson said she was confused about the relationship between the Office of Business Development, UEL, and the technology parks. Is this discussion about a change in policy in order to fund OBD? Dr. Hamilton said it was not; the University (his office) could fund OBD now. The issue is whether they can provide funds to a non-profit organization (such as UEL). The issue of technology parks arose because Minneapolis and St. Paul are proposing development of technology parks in specific areas along the transitway because funds have been set aside by the state for bioscience zones for Rochester, Minneapolis, and St. Paul. He said he wanted to broker how the technology parks will relate to the University to be sure they are organizations that are not incompatible with the University and the community.

Is there is a community benefit, Professor Bartels asked? Is it more likely there will be a new AIDS drug or a new pacemaker that could benefit the community with the University's investment? It is, Dr. Hamilton said. UEL will provide wet lab space, however, so any advances will probably not be in the field of medical devices.

Is the money to be invested in OBD, which will then support UEL, so the support is indirect, Professor Orf asked? Or will the money go straight to UEL? The latter, Dr. Hamilton said. OBD is a new office, so it must hire people and get organized? That is part of the $2 million over ten years, Dr. Hamilton said.

Dr. Hamilton suggested that he return to the Committee at a later date and that he would think about these issues in the meantime and try to clarify them.

Mr. Hughey said his big concern was about the idea of UEL; it sounds pretty standard to provide access to equipment. He said he did not understand OBD. Is the scope of technology parks usually at this level? It varies with the school, Dr. Hamilton said. OBD is a more organized way for the University to deal with start-ups. Start-ups will start no matter what because faculty want to start them, but they may do them in the wrong way--and then they ask why the University did not help them. That is not part of the University's mission, Professor Sera maintained. Dr. Hamilton disagreed. It is part of the service mission, Professor Orf agreed.

Professor Johnson expressed skepticism that UEL needed the University's $2 million or its equipment. His guess, he said, is that it wants access to the faculty. The worry is that working on these start-ups (or the possibility of a start-up) could start driving what some faculty do. As start-ups begin (with University support) they may also begin to influence the research agenda of other faculty. Faculty will still be doing research of course; but the danger is that the emphasis will be on doing research that is marketable. While there should be no objection to working on marketable problems per se, it should not determine what the faculty in general do. The market is notoriously fickle and it is important that a scientific and scholarly agenda ultimately governs what the University is about.

Who is "they," Dr. Hamilton asked? Venture capitalists are supplying the rest of the money; they are very interested in the development of new technologies. Faculty are partnering with them. If they fail, it is at their own risk, and that is fine. Nascent companies in an incubator generally involve faculty who have taken a leave of absence to develop their product, Dr. Hamilton said; the effort could be UEL or some other venture.

Is there a timetable for this issue, Dr. VanDrasek asked? The draft policy is to go to the Regents in early or mid-January, Dr. Hamilton said. Professor Balas said he was concerned that the issue originally went to the Regents in November; the Committee is simply being told about it. That is not what he wanted, Dr. Hamilton assured the Committee. What is driving this, Professor Johnson asked? "I am," Dr. Hamilton said. The issues have been around for a long time, and it was clear to him when he became Interim Vice President that the University was so far behind that if it did not start soon, it would never catch up.

Does he need a vote from the Committee before he takes the issue to the Regents, Professor Sera asked? Dr. Hamilton said he would like a vote. There is no policy yet; he is proposing the DEVELOPMENT of a policy. A vote by the Committee would suggest to the Board that a policy be developed, Professor Orf asked? If the principles governing it are adequate, Dr. Hamilton affirmed.

Mr. Brown said he would not tell the Committee what to do, but the principal question is this: Is it a good idea, and consistent with the mission, for the University to spend money to support VEHICLES for technology commercialization (incubators, technology parks), not companies. If it is a good idea, under what conditions and restrictions? The University proposes to limit the source of support to royalty income and to non-profit organizations, and with an oversight committee. Committee members might have different ideas about the appropriate restrictions. UEL is only illustrative of the concept, he said. The question today is whether ANY money should be spent to do this.

Professor Sera said she was not persuaded by the fact that other universities support these activities; it is driving them in the wrong direction. If the effort makes money for the University, what happens to that money, Professor Cramer asked? Is it constrained by the Bayh-Dole Act? It is not, Dr. Hamilton said; it would stay in the separate entity. The University would only receive money if it had equity in a company, Mr. Strauss pointed out. Or from royalties from the intellectual property, Dr. Hamilton added. In either case, it would be in the usual manner in which the University receives revenues from these sources, Mr. Strauss said. The University wants the companies to succeed, Professor

Orf said, so it can generate royalties, thus helping the University. But the University may pick a losing horse, Professor Balas said; the marketplace will make that decision.

Mr. Strauss said the Committee should not lose sight of the basic policy question in UEL. The threshold question is about funding companies like UEL to spin out technologies and collect royalties, and fulfill the University's mission by getting the benefits of its research into the community--and also encouraging the benefits that companies provide, such as jobs. The University invests money in research all the time; how does this compare with those investments, Professor Seybold asked?

Professor Balas said the Committee would continue the discussion later. He thanked Dr. Hamilton, Mr. Brown, and Mr. Strauss for joining the meeting.

2. Effects of Internal University Taxes

Professor Balas next welcomed Professor Chris Macosko (Chemical Engineering and Materials Science, and faculty director, IPrime) and Eric Hockert (IPrime) to discuss the impact of the Internal Revenue Sharing (IRS) tax on research.

Professor Macosko explained that IPrime is the Industrial Partnership for Research in Interfacial and Materials Engineering. Dr. Hockert (Ph.D. in Chemical Engineering) is Director of Technology Transfer for IPrime; he worked in the private sector for 25 years before being recruited to the University.

Dr. Hockert began by saying he is asked by friends what it is like working for the University. He tells them it is great but that there is a huge difference between the University and industry because they have two different missions. He then used a series of PowerPoint slides to explain IPrime and the reason they asked to appear before the Committee.

IPrime is an entry for industrial connections to University research; about 40 faculty and 80 graduate students in six departments; it has seven research programs. It receives $1.2 million per year in donations (gifts, not sponsored research); 36 companies are members (including 3M, Medtronic, Dow, H. B. Fuller, Xerox, Dupont, and so on). The connections with the companies lead to sponsored projects (e.g., Cargill, Imation, etc.), facilities use by the companies, and hiring of students by the companies. Most of their students go into industry; most of the IPrime students are hired by IPrime companies. IPrime also helps faculty members learn how to work with companies. Professor Seybold asked if the companies pay the full ICR rate; Professor Macosko said they do (on sponsored research, not on the gifts). Dr. Hockert reviewed the changes in the number of member companies and the contributions they have made to IPrime since 1999.

In terms of the gifts to IPrime, the donors do not expect their contributions to pay for general University overhead. The IRS this year, however, was $76,000 on all funds withdrawn from the IPrime accounts at the University Foundation; how large will it grow? The agreements with the donors include a provision that there will be reasonable administrative costs for IPrime.

They are objecting to the IRS tax, Professor Johnson asked? Only on the funds that are brought into CUFS accounts at the University from the Foundation accounts to which donors have contributed. Professor Balas noted that Mr. Fischer, President of the Foundation, recently spoke with the Faculty Consultative Committee and was asked a question about the effect of the IRS on the Foundation. Mr.

Fischer told FCC that it is a problem. Dr. Hockert said he understood that the funds from the Foundation were included in the calculations of what colleges must pay as their IRS obligation, although most of the IRS cost was paid from other (non-Foundation) funds.

Dr. Hockert noted the history of the IRS, which began at 1% in FY1999 and has now reached 6.35% in FY2003. How large will it get, he asked? He also provided a graph of the IRS amounts paid by the Institute of Technology, which have risen from slightly over $2 million in FY1999 to $7 million in FY2003. Of the latter amount, 4.1% of it was based on funds from the Foundation that went into IT accounts (about $290,000). Foundation funds were not used to pay the IRS but the amount paid does have a negative effect on the total amount of funds available.

What is the rationale for the assessment, Professor Bartels asked? Dr. Hockert said he had an opinion but that he was probably not the right person to answer the question. His opinion is that there are central administrative expenses that need to be paid and the dollars have to come from somewhere in the University. The IRS is seen as an equitable way to pay those costs. It is like retrenchment, Professor Macosko said, except that now it is a percentage: 6.35% of the budget is taken back and then redistributed, in part. They are not a part of those discussions, they just have the money withdrawn from the accounts. They cannot tell companies that they need to raise their contributions to make up for the IRS tax.

Is the tax paid on scholarships, Professor Seybold asked? It is not, Ms. Dittman said; the colleges' bill are reduced by the amount they spend on scholarships. (There was some discussion about whether scholarship/fellowship funds are taxed; Professor Macosko said that graduate fellowships are taxed and that they lost one as a result.)

Any method to make up the shortfall will have winners and losers, Dr. Paller said. But with the IRS, the Office of Information Technology will put in as many connections as a unit wants. They could reduce the IRS and let OIT go back to charging for connections. There are trade-offs, he pointed out. The real problem is whether units are getting value for the taxes paid and whether there are ways to reduce it. The University could identify other ways to charge units (e.g., rent for space). Dr. Hockert agreed but said that if a donor makes a gift, the donor expects that the money will be used for what it was donated for. So it would be better to charge for Internet connections, for the libraries, and so on, Dr. Paller asked? Dr. Hamilton said that Dr. Hockert is arguing that the funds from the Foundation, from donors, should not be included in the IRS, just as scholarships are not.

Who made the decision about the IRS, Professor Johnson asked? Former President Yudof, Dr. Hamilton said, and he suggested that the Committee talk to Mr. Pfutzenreuter, the University's Chief Financial Officer, if it had questions about the IRS itself. Professor Balas said that the Committee on Finance and Planning is also interested in this issue about what is taxed. He said he had invited Professor Macosko and Dr. Hockert to provide their perspective about the impact of the IRS on research. In the future the committees will work with the administration to obtain the information they need.

Dr. Hockert said their intent was only to trigger more detailed discussions. The real problem is that the deans are told what they must pay, Professor Macosko said. The IPrime Fellowship funds from the Foundation are decreasing.

Ms. Dittman said the genesis of the IRS was that when the University moved to IMG, all the O&M funds and most of the ICR funds were sent to the colleges. Central administration left itself holding the bag; all the revenue was spoken for but there were still central costs that needed to be paid and ideas in the college compacts that needed to be funded. President Yudof developed the IRS as a way to create a pool of funds to pay central costs and fund initiatives. There are other ways to meet the need for central funds, she said--they could cut all budgets--this is one way.

What funds are taxed, Ms. Witson asked? All funds? Grants? Gifts but not grants, Ms. Dittman said. Are donors told, Ms. Witson asked? Ms. Dittman said she believed they are. But IPrime does not like to talk about the IRS, Dr. Hockert observed. It is a revenue-based tax, Ms. Dittman said, and cuts a broad swath with a few exceptions.

Dr. Hockert noted that the funds used to pay the Institute of Technology IRS bill include O&M funds, ICR funds, miscellaneous funds, and a small amount of gift money. The units most affected by the IRS tax on Foundation funds are (in order) CLA, Carlson, IT, Athletics, HHH Institute, Law, Agriculture, Academic Health Center, Veterinary Medicine. The IRS is used to help central initiatives and some was used to fund the budget shortfall, Professor Macosko said. Ms. Dittman agreed; some of the IRS funds were used to help balance the budget.

From the perspective of IPrime, funds from donors can be designated and donors expect the funds to go to what they have designated; their objection is to taxing the privately-donated funds. Professor Balas said the Committee would return to the issue.

3. Resolution on the Graduate School

Professor Balas turned to Dr. VanDrasek, who had distributed earlier a copy of a resolution concerning the Graduate School.

Dr. VanDrasek told the Committee that the Provost's Budget Advisory Committee established four working groups to look at various areas of the University; one of them is looking at the Graduate School. She said that the Committee in the past has expressed strong support for the Graduate School and insisted that it be connected to the Provost. Perhaps it would weigh in on what the working group is doing by adopting a statement for the working group, not for the FCC or the Senate. The resolution read as follows:

> **Whereas** the central administration of the University of Minnesota has requested an examination of the cost-effectiveness of the Graduate School, and
>
> **Whereas** the Twin Cities Deans Council is examining the processes by which pass-through funds for graduate fellowships and faculty grants-in-aid are awarded across Twin Cities campus units, and
>
> **Whereas** the Graduate School provides essential and cost-effective functions to the University, including:

* Efficiencies of scale: The Graduate School's Office of Admissions, Graduate Student Services and Progress, and Outreach functions are performed with fewer employees than would be required if these functions were devolved to colleges and departments;

* Experience and expertise: The staff of the Graduate School embody a wealth of experience and expertise for addressing the complex, difficult, and diverse challenges of contemporary graduate education; for example, the impact of Homeland Security, problems between individual students and faculty advisors, international transcript evaluation, development of technological solutions such as program data reports and on-line forms, and uniform custodianship and consistent reporting of graduate student data, essential to the University's standing in national rankings.

* Promoting diversity: The Graduate School as a whole and its programs such as the Community of Scholars promote, support, and assure diversity within the graduate student population; facilitate the recruitment, retention, and completion rates of a diverse student body; and work to enhance the graduate experience for students of color, international students, women and other under-represented groups, in ways that the colleges would not have the resources to accomplish.

* Support for Directors of Graduate Studies and departmental offices: The Graduate School provides workshops for Directors of Graduate Studies on issues central to graduate education and research. When difficult issues arise, or when new Web-based processes such as ApplyYourself are instituted, departmental staff persons turn to the Graduate School for help and training. In addition, the Graduate School governance structure requires the designation of a Director of Graduate Study for each program, with direct links to the Graduate School. If these links were to the respective colleges, the DGSs would be subject to the exigencies of college budgets and workloads, and the valuable oversight and advocacy functions of the DGS could easily be superseded by competing demands.

* Assurance of uniform academic standards: Graduate School review of proposals for new programs and courses draws upon faculty expertise and evaluations from a range of academic units, enforcing University-wide consistency and quality with respect to academic expectations and performance, and the quality of graduate education overall. Central review protects against local interests and constraints outweighing broader University standards.

* Advocacy for graduate students: The Graduate School works to enhance the quality of the graduate student experience, through such diverse efforts as negotiating health insurance, encouraging education in professional skills and career preparation, and participating in national efforts to improve graduate education.

* Provides prestigious University-wide competitions: The Graduate School sponsors University-wide competitions for graduate fellowships, dissertation fellowships, faculty McKnight Professorships and Grant-in-Aid research grants which, if won through local-level competitions would not carry nearly the same stature. University-wide competitions direct funds annually to those who win on merit, regardless of their college affiliation.

* Support of interdisciplinary programs: The Graduate School is recognized as the primary supporter of interdisciplinary research and graduate education activities. A large and growing proportion of graduate programs involve more than one department or college; Graduate School support for interdisciplinary research, scholarship, and creative activity nurtures important new areas. Without the broad oversight and coordination of the Graduate School, these activities likely would become much more fragmented and compartmentalized, thus undermining the University's ability to compete for federal research funds and to attract the best students--both of which depend increasingly on interdisciplinary programs; and

* Oversight of graduate faculty status: The Graduate School, through its Policy and Review councils, allows the graduate faculty to set standards and criteria for membership in the graduate faculty of the university, thus assuring its continued quality and competence while maintaining a strong element of local control among clusters of programs.

* Locus of graduate student governance: Graduate education is a collaboration between graduate students, graduate faculty and the Graduate School, which fosters the development of scholars and professionals. One of the keys to a high-quality graduate education is the involvement of graduate students in the provision and monitoring of the graduate student experience. The Graduate School is the *only* means through which graduate students at the university communicate *directly* with Graduate School and central administrators, through the Council of Graduate Students (COGS), and can work on issues such as affordable housing, professional development, academic and research mentoring, graduate assistant employment conditions, and a host of other issues that constitute crucial aspects of the broader scope of graduate education. The graduate student voice and a nuanced and insightful understanding of the graduate experience are essential to creating and maintaining a positive environment for graduate education. Without this specialized governance function, graduate students would be left to advocate for the issues that are particular to graduate education within a disparate array of colleges and departments, which would substantially dilute their collective voice and make them much more likely to seek external representation, or would leave them as only one lone voice among many within GAPSA, to compete with the very different and divergent interests of students within the several professional schools; and

Whereas the quality of research supported by graduate fellowship and faculty grant-in-aid monies is best evaluated by committees of researchers from across the University, and

Whereas the Senate Research Committee finds proposals for cost-savings by devolving the functions of the Graduate School to collegiate units to be false economies, and

Whereas the Senate Research Committee's fundamental charge is to act in support of research at the University of Minnesota,

Therefore, be it resolved that the Senate Research Committee of the University of Minnesota finds the Graduate School to be an essential unit for maintaining quality in the education and training of researchers at the University of Minnesota, and

be it further resolved that the Senate Research Committee strongly supports the continuing existence and functioning of the Graduate School, and opposes any initiatives that would dismantle the Graduate School or devolve its functions to the collegiate level, or shift oversight of graduate education at the university to a provostal office, and

be it further resolved that the Senate Research Committee strongly supports the current practice of allocating pass-through monies for graduate fellowships and faculty grants-in-aid via University-wide committee structures such as the Graduate Research Advisory Committee and Biomedical Research Advisory Committee.

Background*:*

In late October 2003, four ad hoc committees were commissioned by the President and the Provost, to examine targeted areas in which efficiencies might be improved and/or redundancies eliminated. One of the committees' goals is to identify, by January 1, 2004, potential sources of cost savings to help meet the University's $9 million budget shortfall. One of the four committees is reviewing the Graduate School's functions, to determine whether it would be more cost-effective to devolve some of all of its functions to the collegiate level, or to other central offices, or possibly to eliminate some functions.

A separate initiative is under way in the Twin Cities Deans Council, to examine the possibility of moving control of pass-through monies (graduate fellowships and faculty grants-in-aid, currently allocated by the Graduate School) to the colleges, which would then distribute the monies internally.

Both of these initiatives are being undertaken with very short time horizons. Consultative bodies that will meet during this period bear a responsibility to address these processes.

The Senate Research Committee's fundamental charge is to act in support of research at the University of Minnesota. The SRC, and representatives of central administration speaking to the SRC, are on record stating that research and graduate education are inextricably intertwined in a Research I institution such as ours. The SRC is on record in recognizing the important role of the Graduate School, to the extent that the Dean of the Graduate School should have structural ties to central administration and the Executive Committee. Any proposal to restructure the delivery of graduate education within the university, therefore, falls centrally within SRC's charge. We also note the experience of Michigan State University, which dissolved its graduate school years ago only to reconstitute it later at great expense, after realizing the value of its essential functions.

Professor Balas, citing draft Faculty Consultative Committee minutes, noted that the working group has NOT been charged to eliminate the Graduate School but rather to look for improvements. Dr. VanDrasek said that they seem to have gotten past the idea of eliminating it, but they are looking at moving recruiting, admissions, and so on, to departments. Mr. Hughey said he thought departments already did those things; Professor Cramer explained that some do and some rely on the Graduate School. One idea appears to be that the Graduate School would only be a service unit, Dr. VanDrasek said, which would eliminate its role in quality control, advocacy, and other functions identified in the resolution, and it also suggests a continuing decrease in attention to graduate education. The resolution simply asks that the Graduate School not be weakened.

A major reason to support the resolution is because the role the Graduate School plays in standardizing things, Professor Bartels said. There are about 100 centers at the University and no one department controls them. The Graduate School is very helpful for working with centers and in creating mechanisms for a center drawing on several departments.

Departments have autonomy, Dr. VanDrasek said, but they may not go below Graduate School standards. Professor Orf agreed, noting that the Graduate School sets standards which departments may go beyond. It also provides a lot of funding for graduate programs, especially interdisciplinary programs; if that money were spread among the departments, it could difficult to obtain funding for interdisciplinary efforts.

Professor Johnson said he worried if graduate education were to be under the deans. They pay attention to undergraduate enrollment and revenues; graduate education is a lower priority for the deans and it needs advocacy. This could be even more important for smaller departments. The Graduate School suffers under IMG because it has no income of its own. And over 80% of its budget is pass-through money, Dr. VanDrasek pointed out.

Professor Balas said his reservation about supporting the resolution is that he has argued the University has not done enough planning and identifying where it will be in 10 years. He said he is hesitant to favor the resolution when there are different groups looking at where savings could be obtained; he said he would rather wait for the recommendations. The resolution does not take savings off the table, Dr. VanDrasek said; it tries to point out the non-spread-sheet issue. It is imperative that the administration do some planning, Professor Balas replied; the report of these working groups would not be the final word.

Professor Seybold said she thought some of the data the working group would use would include surveys of Directors of Graduate Study about the usefulness of the Graduate School. Her concern is about the process being used. Dr. VanDrasek agreed, which is one of the reasons she drafted the resolution. Professor Sera said the resolution should be supported; the Graduate School is important for graduate education and research; the Graduate School seems to come onto the table every time there is a discussion of cuts, but the deans are never on the table.

Dr. VanDrasek said she understood that it was unusual to introduce a resolution and ask for action on it, but the timeline for the Budget Advisory Committee working groups appears to be short, so the Committee should speak now if it wants to be PROactive rather than REactive later. Ms. Witson agreed that the Committee should make its views known before the recommendations of the working group are developed.

Professor Balas called for a vote. All Committee members voted in favor except him; Professor Balas abstained. It was agreed that Professor Balas would transmit the resolution to Vice Provost Craig Swan.

Professor Balas adjourned the meeting at 3:10.

-- Gary Engstrand

University of Minnesota