

Minutes*

Senate Committee on Finance and Planning October 27, 1992

Present: Irwin Rubenstein (chair), David Berg, Karen Geronime, Virginia Gray, Thomas Hoffmann, Julie Idelkope, Craig Kissock, Jeff von Munkwitz-Smith, Roger Paschke, Richard Pfitzenreuter, Doris Rubenstein, Paul Sackett, Jason Schmidt, Thomas Scott

Guests: Associate Dean Mark Brenner, Senior Vice President Robert Erickson, Senior Vice President E. F. Infante, Associate Vice President Anton Potami, Marilyn Surbey (ORTTA)

1. The Planning Process

Professor Rubenstein convened the meeting at 3:15 and welcomed Senior Vice President Infante to discuss the planning process.

Dr. Infante began by noting the letter from Professor Garrard to the President expressing concern about the lack of faculty participation in the central councils dealing with the planning process; he said he would try to respond to those concerns. He reviewed the decisions that were made during the spring and summer, first to re-establish a Planning Council and then, ultimately, to rely on the administrative and governance machinery of the colleges and campuses rather than a council. The reasons for the change were, first, to ensure that planning is integrated with the usual processes of administration rather than to have a separate planning mechanism (that produces a report that can be put on the shelf), and second, to ensure that the committees of the Senate and the administrative officers are ingrained in the process. As a result, responsibility will be centered in the President's Cabinet and the units--which will do the planning.

The concern expressed by Professor Garrard about the membership of the planning group is that it is comprised solely of administrators. It is NOT a planning committee, Dr. Infante emphasized; it is a steering committee, with responsibility for assembling papers and information and for moving the process along. Professor Scott acts as the convenor and brings to or extracts issues and central questions which the members of the group bring from their various areas of responsibility.

Asked how the planning process will make the life of a faculty member any better or different, Dr. Infante said he hoped that in a number of areas the University will operate better. More important--if it is successful--is an attempt to emphasize communication, both to ourselves and to the outside, about the University's goals, intentions, and visions. There has been a lack of clarity about the University's objectives and intentions, he said, since Commitment to Focus has been brought to a close.

The planning process will also be somewhat segmented, he said; the needs of the units vary considerably, and some--such as the Law School, for example--are more self-contained than others. He said he hoped that units could develop an understanding of what other parts of the institution are doing as

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well as an increased self-understanding. This, in turn, should lead to thoughtful debate about the different choices that confront the campuses and colleges. In some cases, he agreed, the colleges will need to work together.

Those involved in planning are now trying to ask what cross-cutting questions are of the greatest importance, and they want to limit them to five or six. Some issues must be addressed, such as computing and distance learning. Each unit must ask questions of itself and develop plans with appropriate parameters--a proposition which presents some difficulties, because the parameters may not be known (such as the financial).

In a recent meeting with the Governor's staff, he and Senior Vice President Erickson learned that the Governor may propose radically different ways to fund higher education. If those changes occur, the University will have to critically examine the way it does business.

In an atmosphere of rapid change, Dr. Infante said, they are attempting to identify the major questions that need to be addressed, such as funding levels and sources--some of which are not under the University's control. One thing that is being done is an analysis of a variety of data bases in order to ask questions about resources. What are the major cost-drivers of the institution? Dr. Infante pointed out that Professor Rubenstein has frequently cited him--Dr. Infante--as saying that the faculty are a fundamental cost parameter, which is true. What they are trying to understand, he said, is where there are under-utilized assets that can be made more productive without damage to their mission. The total financial resources available to the University are uncertain, including not only the state but also the research agencies and the funding for the University Hospital.

One Committee member said the approach being taken to planning represented a shift in the balance toward a centralized model--a contention Dr. Infante disputed--and observed that the Committee's charge includes both finance and PLANNING. It should not be bypassed, it was argued, but should be a participant in the dialogue, such as identifying the major cross-cutting questions that should be addressed. The Committee's involvement is essential if the process is to be seen as legitimate.

Dr. Infante responded that that is why he has asked Professor Scott to serve as his representative to the Committee and that he expects this Committee and the Senate Consultative Committee to be central to the process. One of the reasons for his attendance today, he told the Committee, was to ask if the administration is proposing the right questions, in the right sequence, and at the right level of priority. In two weeks, he said, they will have a set of trial questions to discuss with the Committee. One problem, he added, will be how to keep questions open when the answers must depend on assumptions that are not permanent.

Professor Scott then elaborated for the Committee what he saw as the difference between "strategic" questions, asked by people who "do" planning, and topics or issues of concern. Strategic questions include such matters as who the University serves and who it competes and collaborates with. Distinct from those issues are topics that fall into several areas, questions having to do with: financial stability; teaching and instruction; research and scholarship; outreach; human resources; management and organization; and infrastructure. Most specific issues one might talk about fall into one of those seven categories--which are different from strategic questions.

Asked where the issue of quality enters the consideration, Professor Scott said he believes that is incorporated in the institutional mission or vision or purpose. One Committee member, however, said that the mission or vision is key to the process; it cannot be clear where the planning process is going unless there is clarity about the mission or vision. One can ask fundamental questions, but to what purpose? One needs a vision of what the role of the institution should be in the state, the nation, and the world; only when that is clear can one identify the questions and answers about teaching, research, and so on.

Professor Scott acknowledged that some people approach planning with a need for a clear mission; he, he said, is less concerned about the vision and mission statement. He assumes the University wants to do the best it can and said he was more concerned about how to fit the pieces together. Another Committee member observed that "if you don't know where you're going, any road will get you there." Dr. Infante said he was one of the people who needs a vision statement, and the University's is not sufficiently clear--because the parameters within which it must function are not clear.

One factor the University must consider, said another Committee member, is whether it will be trying to change in the face of self-imposed restraints; at the college level, for example, constitutions may need to be changed. The function of this Committee should also be questioned--can it justify what it does?

Dr. Infante then reported on one possible vision of the Twin Cities campus of the University he had heard discussed, which is to reduce undergraduate enrollment to between 15,000 and 20,000 and to be a research institution. This is an orientation, he observes, that would answer some of the strategic questions about who the University serves and with whom it competes and collaborates. There will likely be proposals to the legislature, along the lines of the "Waldorf" plan (to increase the percentage of instructional costs paid by tuition)--which makes the attainment of that vision of the Twin Cities campus nearly impossible, because a campus needs inexpensive programs in order to support expensive ones. To have inexpensive programs, an institution must have significant undergraduate enrollment.

Discussion turned to the roles of the respective campuses, especially Crookston and the Twin Cities and the future of the University in Rochester. One Committee member said the questions to be asked should be along the lines of "what are the needs of the state?" or "does the state need a higher education institution in Rochester?" Dr. Infante said the administration consistently has been asking those kinds of questions; very recently, for instance, he and his colleagues looked at a variety of factors with respect to the Twin Cities. They are not sufficiently satisfied with their conversations to bring anything to the Committee yet. It is AT THIS POINT the Committee should be involved, Dr. Infante was told--at the point of testing assumptions. He indicated, however, that more homework needed to be done and that he would be uncomfortable laying out alternatives when there is inadequate information available.

The question to start with is whether or not the state needs the University of Minnesota as it is currently structured, said another Committee member. The University is in a position to consider where it fits in, with its land-grant mission and the way it has evolved, and should help to structure the questions asked.

Dr. Infante said he did not disagree and said he and Professor Scott were at the disposal of the Committee for a 2-hour conversation. The role of the University in the state, however, is relatively set, he

said, but needs to be understood. What is NOT set is how the roles will be split among different higher education systems or among Minnesota and neighboring states.

Another Committee member suggested that the Higher Education Coordinating Board should be looking at the questions posed about the needs of the state, not the University. Individual organizations don't decide if the United States needs another widget producer; "I as a widget producer decide to produce them, which is what I know how to do." If the University is doing X, and believes X to be important, then it should persuade the state. The University needs to focus on itself, not the entire environment. M-SPAN, it was noted by another, was intended to consider state needs.

Dr. Infante assured the Committee that he was not going to provide the ANSWERS to the questions; his office would gather the data and do the homework--something a committee cannot do. The Committee can best be of help in developing answers to the strategic questions, he said, such as about the size of the University (e.g., if one were to adopt a vision that called for 15,000 to 20,000 undergraduates, one-third of the faculty might have to be eliminated! If one wants to argue that the University should be a high-quality and exclusive institution, it is MUCH too big.) A variety of trade-offs may have to be considered as the vision is developed, he said; the "planning for planning" period is critical because it is when the University will decide what questions it wants to address and in what fashion.

It was agreed that the draft questions would be brought back to the next meeting. Professor Scott told the Committee he is convinced that this must be a participative and iterative process--from the top, bottom, middle, and everywhere else, and includes serious questions about what faculty and staff do. Where such planning has been done well in units, he commented, it has WORKED well--the faculty participate and rethink how they do business.

It was also agreed that tuition policy would be a major agenda item next week. On this topic, Dr. Infante informed the Committee that he is appointing a student advisory committee on tuition (for the Twin Cities only, advisory to the Provost). Committee members appeared to agree there should be some way to coordinate their discussion of tuition with the student group, although a joint meeting was seen by some as undesirable.

Professor Rubenstein thanked Dr. Infante for joining the meeting.

2. Indirect Cost Recovery Rates

Next Professor Rubenstein welcomed Associate Vice President Tony Potami to the meeting to discuss the setting of ICR rates.

Mr. Potami began by recalling the situation that Stanford had been in with respect to ICR rates and the subsequent Congressional investigations and audits of the rates. The University at the same time was submitting proposals, with ICR rates of 40%, and negotiators were very tough about what could be included.

Over the years, he told the Committee, the University has not been as aggressive as private institutions in negotiating ICR rates. A few months ago a consultant was brought in to identify weaknesses; there were several. First, in how the University classifies space. Second, the equipment

inventory system and employing a depreciation method for amortizing equipment use rather than the standard use allowance. Third, effort reporting (i.e., reporting of faculty and administrative effort relating to research was not completed in a timely way, did not provide for maximum recovery of costs, and the current system is old). Fourth, the inclusion of unallowable costs (which are a problem at all universities). The planned result of the consultant's report is to tighten procedures, improve accountability, and increase the rates.

Nationally, however, there are now plans to put caps on ICR rates at the federal level--and they already exist in some agencies. Mr. Potami said his office will provide a plan to the administration in the next few days on what the University should do with respect to the consultant's report. The possibility of limiting the total rate to 40% or 50% may be resolved soon, he said; with the possible change in administration in Washington, the current administration may want to get changes made at the last minute. The Clinton group sees problems with ICR rates and may call for an overhaul of the system. The University could likely achieve any reasonable rate that the agencies may establish.

There are areas where the University can increase its rates, such as on administrative expenses. It also does a lot of direct charging to grants, which is not a good way to capture the time of secretaries and administrators. There is also a lot of excess cost-sharing, which has the effect of lowering the ICR rate. The University needs to obtain a fair recovery, and it can do so without affecting the chances of the faculty to receive grants; there are other places with higher rates who do just as well.

Mention was made of the movement, in industry, to costing everything and eliminating overhead. Might this also be possible in research grants? This, Mr. Potami pointed out, would include allocating not only salaries and equipment but also such things as apportioning facilities--it would take a staff of accountants to accomplish this, and while it would be more precise, it would also be more expensive. Given current regulations, the University could not use direct costing for grants.

Mr. Erickson pointed out to the Committee that the practical question of the rates is an important one, because they will be negotiated over the next six to nine months. There have been changes in the rules in certification and reporting, and the University has problems--it will need to do a lot to get its house in order so it can negotiate the rates. The problems can be addressed, but doing so will take time and the efforts of a lot of people. He expressed optimism that if the playing field is level, the University can increase its rates by a few points.

The University currently receives about \$40 million per year in ICR funds, from all sources. The State of Minnesota does not pay ICR funds, a practice which is being examined. Industrial grants from smaller organizations typically do not pay ICR rates, but the larger ones do. Of the \$40 million, about 70% comes from federal sources. If the rates are legitimate charges for the government, it was said, then are they not also legitimate charges for others? Mr. Potami agreed that they are. Some agencies put on limits, some foundations will not pay ICR, but the University has always allowed individuals to seek funds from any source, whether or not it paid ICR expenses. One question is whether or not the University has reached the point where it will not take funds from organizations that do not pay ICR rates as well. When the University receives outside funds without ICR included, institutional funds subsidize the activities--the University is paying their share of ICR expenses. Another Committee member suggested that the University keep track of ICR funds so that if the limit is low, and other sources are being used to subsidize activity with no or insufficient ICR funds, that subsidy should be noted.

Asked what the key questions this Committee should consider, Mr. Potami referred to two issues. First, accountability to the government in setting rates and the systems in support of what the University identifies as its costs are in need of attention. Changes could have an impact on departments in the way they budget, charge expenses, and account for space. Second, the University needs to recover more of its costs; it is part of the institution's fiduciary responsibilities to do so; the University need not have the lowest rates in the country. Professor Rubenstein pointed out that detailed consideration of these questions rests most appropriately with the Senate Committee on Research but that involvement in an overview capacity for this Committee would be appropriate.

Asked about including deferred maintenance charges in the ICR rate, Mr. Potami said the University has to calculate ALL the costs it incurs; the more that can be identified as support charges, the higher the overhead. If research spending decreases, the rate decreases; if research decreases but the same costs remain, the rate increases.

What is also needed, observed one member of the Committee, is an educational program: a lot of faculty see ICR funds as a cash cow. They need to understand that there are real expenses associated with research as well as how the numbers are derived. Mr. Erickson pointed out that people must be aware when there are funding decreases from a number of sources (e.g., the state); if the University faces decreasing ICR funds, the dollars will have to be made up from other institutional funds. The funds have not been spent for what they were intended (i.e., they have been spent on direct program costs rather than overhead expenses), and that decision needs to be re-examined. VERY important, for the purposes of the Committee's deliberations, is the question of the University's costs to do things. Those costs are not clearly identified right now, but getting a handle on them becomes more critical as resources become scarce. It will be important to understand costs and the impact on the institution as it agrees to do things. This is related to a number of other not-very-glamorous issues, but if these questions are not resolved, the University cannot do other things as well as it should.

Mr. Potami agreed that educating faculty about the importance of recovering overhead charges is important. If the rate were to be cut from 40 to 35%, for example, the University would have \$5 million less--and an additional \$5 million if the rate were to be increased to 45%. There is, clearly, a considerable amount of money involved that can be used for a variety of purposes related to enhancing research. The problem of increasing faculty understanding, he added, is one shared by all research universities. One possibility would be an article in FOOTNOTE, Professor Rubenstein noted, especially if there is to be a change in the way the University will use ICR funds--even if there is disagreement about how the funds should be used.

Mr. Potami told the Committee he is establishing an ICR review committee, with representation from various administrative offices and academic representatives from the colleges; the point will not be to change the way the funds are collected but rather to improve accountability and enhance the recovery of indirect costs.

Mr. Erickson observed that when he came to the University, people were unwilling to spend money to obtain information. If, however, one can spend \$200,000 to \$300,000 and thereby generate \$2 to \$3 million, the decision is not a hard one to make. It is important that the required information be obtained and that the rates be established with integrity in order to obtain the increased funding. The federal

government is exerting pressure to lower the rates, but the University has been so low that it can increase its rates anyway. The faculty SHOULD be interested in the subject, because any funds not obtained must be cut from other programs or made up with other sources (an unlikely alternative, at this point).

Dean Brenner noted that while this discussion is about rates, the uses of ICR funds should not be ignored. The places where the money is spent are of significance to the faculty, such as the library acquisition budget (half of it), time on supercomputers, animal care costs, chemical waste disposal, and new set-ups. None of the funds go to Facilities Management, but some of them are now being used for debt service; operating costs for new space will be included in the future.

It was agreed that the Committee would return to this subject after the Committee on Research had devoted time to it.

The Committee adjourned at 5:10.

-- Gary Engstrand

University of Minnesota