Minutes*

Senate Committee on Finance and Planning
December 8, 1992

Present: Irwin Rubenstein (chair), Thomas Hoffmann, Julie Idelkope, Fred Morrison, Jeff von Munkwitz-Smith, Richard Pfutzenreuter, Doris Rubenstein, Paul Sackett, Jason Schmidt, Thomas Scott, Mary Sue Simmons, Susie Torgerson

Guests: Professor Thomas Burk (Chair, Committee on Computing and Information Systems), Senior Vice President Robert Erickson

[In these minutes: supercomputing; HECB tuition increase proposal; budget principles; statement to guide the planning process]

1. The Audit of Supercomputing

Professor Rubenstein convened the meeting at 3:15 and welcomed Professor Burk to discuss the audit of supercomputing at the University, a subject that has been dealt with extensively by the Committee on Computing and Information Systems (SCCIS).

Professor Burk began by reviewing SCCIS's treatment of the "vision statement" and how the Senate Consultative Committee had asked that SCCIS be certain that the vision statement clearly incorporate supercomputing; the result was a Senate docket item that did so. Supercomputing, in the view of SCCIS, should not be treated differently from other computing at the University and should be incorporated in the information technology planning process.

In terms of the relationship of the Minnesota Supercomputer Institute (MSI, the academic unit, the purchaser of services) to the Minnesota Supercomputer Center, Inc. (MSCI, the for-profit commercial organization, the provider), SCCIS has developed a set of questions to pose to administrators. SCCIS has met thus far with Vice President and Dean Anne Petersen, who is administratively responsible for MSI, and has a meeting scheduled next week with Senior Vice President Infante. He reviewed the steps that Vice President Petersen has taken (establishing a policy on allocation of supercomputing time for Fellows, initiation of a review of MSI). She was, however, unable to answer SCCIS's questions about MSCI.

SCCIS concerns are, first, that it is "underinformed," as are a lot of others at the University, so they find it difficult to address questions about the current arrangements and whether or not the University is "getting a good deal." A second concern is that MSI is "taking the heat," as an easy target; SCCIS believes that the research being conducted under the auspices of MSI is good for the University; the problem is the relationship between the Institute and the Center, not the Institute.

Asked about the development of the policy on allocation of time to the Fellows, Professor Burk said that he believed Vice President Petersen had established it. It is troublesome, said one Committee member, to learn that administrators are adopting policies like that without consultation with the faculty.

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Questions were then directed at Senior Vice President Erickson about the company (MSCI). Originally there were 100 shares of common stock, he told the Committee, 10 of which are owned by the University and 90 of which are owned by the Foundation. Subsequently, preferred stock was issued and purchased by the University, when funding needs were identified. So, one Committee member summarized, the company is one in which the University has investment in both common and preferred stock (the latter of which it paid a lot of money for), and in which the Foundation holds the remainder as a benefit for the University. The return to the University is in time and services, rather than money.

There were dividends paid the first few years, Mr. Erickson said, but it was decided, due to capitalization needs, to retain the funds for acquisition of the next generation of computing equipment. Since the shares are owned either by the University or the Foundation, ultimately all of the economic benefits accrue to the University.

The real concern, Mr. Erickson was told, is the damage being caused to the University around the state because of the secrecy. Given the relationships and the ownership of MSCI, some Committee members argued, the owners could dictate that the secrecy end.

The issue is complex, Mr. Erickson said, and the administration and MSCI board of directors has been wresting with it for a long time. The majority of the MSCI Board of Directors (5 of 9) is appointed by the Foundation, and a number of the directors have been there a long time. This is not that large a business. The supercomputing market is very competitive. Still, the company has succeeded financially (as demonstrated by the audited financial statements). The point about secrecy has been repeatedly debated: How much can be disclosed without harming the competitive position of the company? There has been a difference of opinion between the majority and minority on the Board of Directors on this point, but there is now agreement that basic financial information for the past five years will be released, including total sales, expenses, net income and loss, assets and liabilities, and equity--this information should be available momentarily.

One sensitive point is that the company has been able to acquire equipment at very advantageous prices because it has been seen as an extension of the research and development effort of the University; disclosure of that information could make it unlikely those prices will be achieved again. There are also confidentiality agreements with major clients; the possibility of disclosure raises the question of whether or not those clients can be retained.

The result has been a delicate balancing act between the public's right to know versus the damage that would be done to the company's competitive position--and the answer has not been an easy one. Mr. Erickson told the Committee he was troubled by the perception that the University controls the company [the Center] and can dictate to it--that is not true, he said, the Foundation is independent, with its own Board of Directors, and nominates an independent majority on the MSCI Board of Directors.

Asked who represents the University in dealings with the Center, Mr. Erickson said he did on basic operational questions (space rental, etc.) and Academic Affairs does so on issues of computing services.

One thing VERY CLEAR to those who sit on the MSCI Board, he added--and something they have repeated often--is that the beneficiary of MSCI is the University. But wearing two hats, it was said, he cannot say that. It is the appearance of conflict of interest that causes the trouble. It is common practice, Mr. Erickson responded, for companies that have an interest in a subsidiary or affiliate to have representation on the board of that subsidiary or affiliate. He does not believe he has been unable to discharge his responsibilities because of the two positions he holds. But with a subsidiary, it was argued, the books can be examined--something that has been resisted in this case, at the request of board members from ANOTHER University subsidiary, the Foundation. But they DO have access to all financial statements of MSCI, Mr. Erickson pointed out.

The crux of the matter, Mr. Erickson agreed, is dealing with public perception. He can say that MSCI is a very useful asset for the University, but the clear perception is that MSCI is a creature of the University and should be controlled by it, and people are frustrated that the University does not do so. It is difficult to know how to deal with something clearly valuable to the University ($30 million in research funds have been identified which the University probably would not have without MSCI; key faculty have been attracted because of it; the importance to the state in remaining in the forefront in the supercomputing industry)--it has been one of the most troubling problems he has confronted since coming the University, Mr. Erickson told the Committee.

He also said he felt strongly, even before the 4-year agreement to purchase services, that there should be regularized agreements about who pays and services to be provided and accountability.

One of the issues, Mr. Erickson then explained in response to a question, has to do with the auditor's statement that they could be trusted to hold confidential information confidential--the company has volunteered to release financial information. Another related but more general issue is the examination of public-private partnerships. The company [Center] has volunteered to release financial information but thought it was inappropriate for the legislative auditor to conduct a PROGRAMMATIC review. The company had no hesitation about providing financial information to the auditor, but he rejected that position because he wanted to do a programmatic review. This would entail assessing the operations of the Center--NOT asking if the University was "getting a good deal." The Center took the position that if it could demonstrate the University is "getting a good deal" (and the auditor had ALL the information necessary to make that determination), that was the extent of its obligation; the auditor was unwilling to accept those parameters. The Center is releasing the information because it believed it critical to let people see--quickly--that the University is indeed "getting a good deal."

One Committee member observed that the Institute has the numbers necessary to reach the conclusion about the "good deal": the time used, the time granted, the expenditures; the calculations can be made. What has NOT been well handled is the public relations. No one at the University has said the secrecy is or is not justified; by virtue of that failure to speak, the implication is that the secrecy is justified. Perhaps that is correct, but recalls the earlier point about rights of the faculty vis-a-vis the administration and, what may be the case here, the development of policy without consultation.

One Committee member pointed out that if the University bought 100 shares of GM, and then bought cars from GM, GM could legitimately say that the University had no right to seek a programmatic audit of GM. That is what the University is saying; the Center is a private-sector operation, no different from the University's owning stock in GM, and that principle should be expressed. The principle is important because of the University's involvement in public/private partnerships--and it also needs to be publicized. If the University is obtaining more computing time and services for the money than it is really paying for, that should also be made clear. As for the problem that the Center has purchased equipment that made some of the Fellows unhappy, that is analogous to the University purchasing cars and complaining about the upholstery. The University should not EXPECT to be able to say much about the upholstery.

The problem with that analogy, Professor Burk responded, is that the Foundation, which has the controlling (and ONLY other) interest in the company we are worried about, is said to exist solely to benefit the University. This would not be the case with other GM stockholders.

Most of that line of argument is acceptable, said another Committee member, up to the point about the stock ownership. If the University owned 10% of GM, and its charitable Foundation owned the other 90%, the position would be very different. We can tell whether we're "getting a good deal" on cars by comparing the bids; here there are no bids. If the Center were owned by 3M, we would understand what it was in the business for (a profit), and the University could judge if it was "getting a good deal" on supercomputing. When owned by the University and its beneficial Foundation, whether or not we are "getting a good deal" is a different question, because we are not only buying time, but we have also invested a great deal of capital in the company.

One of the audit questions was whether or not public money was being used to subsidize the company, one Committee member noted. Mr. Erickson pointed out that if one can decide the University is "getting a good deal" (both as a purchaser of services as well as an investor), then inherently public money is not subsidizing the Center. He averred that subsidization is NOT occurring. The University receives significantly more than 50% of the supercomputing time but contributes significantly LESS than 50% of the Center's revenue base. It is thus clear that the average cost the University is paying is less than the average cost paid by other Center customers. This returns to the balancing act with respect to disclosure; to the extent it will hurt business is a judgment call. If the company is to be put at a competitive disadvantage, the decision must be made with caution.

The faculty concern, Mr. Erickson was told, is "what is necessary to put this issue to rest?" Supercomputing is said to be beneficial to the University; in the broad picture, however, it is NOT beneficial. With the legislative session coming up, the University MUST find a way to put the issue to rest so legislators feel comfortable with how things are working. Mr. Erickson agreed, which is why the financial information will be disclosed and why other recommendations of the auditor are being seriously considered. This issue has taken a disproportionate amount of time of senior officers--when there are a lot of other issues to be dealt with. He has that said since he arrived the University has been in a continual state of crisis, and he expects no easy sailing in the future.

Professor Rubenstein thanked Professor Burk for joining the Committee.

2. Tuition Proposal by the Higher Education Coordinating Board

Professor Rubenstein next turned to the Higher Education Coordinating Board (HECB) proposal to increase tuition in higher education in order to provide additional student aid. One Committee member introduced a resolution opposing the proposal.

The proposal is basically a substantial tuition increase (nominally, about 9 - 10%, apart from inflation, about a 30% increase if one considers the proposal calls for increasing the portion of instructional costs paid by tuition from 33 to 45%) at all public institutions to increase student aid funds under the control of HECB. One part of the proposal transfers funds which would keep University tuition down to scholarships for students who attend private colleges as well as the University, so represents a transfer from the public to the private institutions. A second part is that the HECB aid is only available to undergraduates, but the entire University tuition base is increased (including graduate and professional education) so that there is more money for undergraduate education at all institutions. The University thus gets a "double whammy" from the proposal.

This is a MAJOR public policy change, Mr. Erickson pointed out, about which there has been little discussion and no consultation. He expressed strong feelings that this is a troublesome policy with serious ramifications--and it has not been discussed publicly.

Committee members variously expressed support for the draft resolution; a few amendments were suggested. One individual observed that he supported the resolution but feared that the state was drifting toward an even more dangerous policy, that of high tuition/low aid. Another pointed out that despite the favorable record of the Foundation presented at the last meeting, it would be totally unrealistic to think that growth can be sustained. Moreover, added another Committee member, the policy would render the reciprocity agreements moot, because the tuition rates in Minnesota would be so high, and the policy could easily lead to the point where resident tuition at Minnesota would be equal to or greater than non-resident tuition at comparable institutions.

Further, Mr. Erickson pointed out, the University offers expensive programs that are not available elsewhere. Those programs cannot exist, especially when the University is seeking uniform undergraduate tuition, unless there are "cheaper" programs as well. If, however, the University's tuition for the "cheap" programs is no longer competitive, it will not have sufficient income for either type of program. If program costs were homogeneous, the proposal might work; since they are not, and since the public institutions have the expensive programs while the private colleges have the cheaper ones, and since the private colleges do not have the 12,000 graduate and professional students--who are expensive to educate--this proposal works to the disadvantage of the University.

Student members of the Committee uniformly opposed the HECB proposal. One said the greatest form of student aid the University can offer is to keep tuition low; another said students would like to see tuition returned to the statutory 33% of instructional costs it is supposed to represent (rather than the current 40%). There was also opposition to tuition increases going to benefit private institutions.

Asked about the genesis of the proposal, Mr. Erickson said it came from the Citizens League and has been pushed by the Private College Council. The League believes there should be choice in K-12 education; this proposal extends choice to higher education.

The Committee voted unanimously in favor of the following resolution:

RESOLUTION

> Whereas, the HECB financial aid proposal would represent a significant alteration of public policy which has not received adequate public debate and discussion, and
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> Whereas, the proposed policy fails to take into account the costs of graduate and professional education and many other specialized programs which are available to students only at the University, and
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> Whereas, the proposed policy would seriously disadvantage University of Minnesota students,

Therefore Be it Resolved, the Senate Committee on Finance and Planning urges the University Administration to oppose at this time the proposals before the Higher Education Coordinating Board to impose tuition increases in order to provide added student aid.

3. Budget Principles

Professor Rubenstein next asked Mr. Pfutzenreuter to discuss budget process with the Committee. Mr. Pfutzenreuter distributed a handout breaking the process into five parts and invited the Committee's thoughts on it.

He reviewed for the Committee the five parts of the process. It was suggested that the budget is normally detached from the biennial request; the assumptions of the two are not the same and it would be harmful to use state numbers in October to set the budget for the following year. Mr. Pfutzenreuter agreed that the University must do its own planning deal with its own budget issues, even as it complies with state directives on budget preparation.

Discussion then turned to the extent that planning should drive the budget, at what point do the priorities and objectives of planning enter the process? A financial plan should be the first year of a strategic plan--and should drive resource allocation, Mr. Erickson observed. Mr. Pfutzenreuter added that decisions about budget should arise from earlier decisions in the planning process--preferably before April or May.

In the past, Mr. Erickson said, the University has focussed on the state dollars--tuition, appropriations, ICR funds, and the central reserves. The ALG difficulties highlighted the problem that there are significant enterprises at the University that are not receiving sufficient oversight.

In the current year, it was agreed, several phases of the budget process may have to be compressed; it will be January when the first phase will be discussed with the Committee. In an ideal year, this phase takes place in August and September.

The process outlined today, it was said by one Committee member, fails to take into account three things: the planning process, that the institution is on an academic calendar, and that the state is on a biennial budget. With respect to the latter, the University is on a 'panic' budget every other year, on a relaxed budget the alternate years. Next year's budget will not be known until April, when the legislature acts; the year after, the only question will be tuition (unless there is a rescission). Perhaps it would be useful to disconnect the budgeting for those alternate years and use different schedules. For example, the budget for next year could consist almost completely of formulaic transfers (other decisions are not precluded); the following year, when the University has greater discretion because the pressure of the legislative calendar is absent, virtually all budgetary decisions could be made on the merits rather than by formula.

Mr. Erickson related that one of the things that struck him when he came to the University, in contrast to the private sector, was the small variability in the funds that would be available; the University knows, almost certainly within five percentage points what its aggregate resources will be.

Most changes are at the margin, it is true, but those are important changes. The payroll for the tenured faculty, about $340 million, is a smaller percentage of the budget than most think. It is even more important to have a planning process in higher education, to decide where units will grow or shrink, because of the greater rigidity introduced by tenure.

Another issue in the budget process is Dr. Infante's wish that funds not be allocated to units across the board. It will be important for units to know if that will be the case as well as the parameters within which the decisions will be made. That change, it was suggested, should perhaps be discussed by a joint meeting of this Committee and the Committee on Faculty Affairs.

Mr. Pfutzenreuter said it was his impression that the University's budget is essentially incremental, with small changes up or down from the previous balance--irrespective of whether or not the funds were actually spent. With the introduction of outcome measurements, performance indicators, and workload and efficiency measures (proposed in one of the budget process steps), there is an opportunity to break that pattern. Other possibilities are also present, such as revenue centers, but often include complicated formulae that would require pilot projects.

It was suggested that the budget process Mr. Pfutzenreuter presented should be combined with the capital budget process so that everything could be seen on one calendar. He solicited Committee members for any other suggestions they might have and urged them to contact him.

Professor Rubenstein thanked Mr. Pfutzenreuter for the presentation.

4. Statement to Guide the Planning Process

Professor Rubenstein next distributed a revised statement that Professor Morrison had prepared, in response to suggestions, and said he would like to bring it to a vote. He asked Professor Scott about the reception the earlier statement had received from the President's Cabinet.

Professor Scott told the Committee it had been well received. He said he was glad to see the term land-grant reintroduced in the motion, as that had been a concern at the Cabinet. He also took the statement to the Outreach Council, which saw this as a more general statement than the one it had developed specifically for outreach. There was some concern about the use of the term "research" and a question about whether or not 'knowledge generation' or an equivalent might be better, also raised was whether or not the statement might conflict with the differing missions of the campuses of the University.

The Committee concluded that "research" should be left in and that the language of the motion was sufficiently general to permit different campus missions. Professor Morrison urged that the Committee adopt a statement--this or another--and leave it up to the President to craft it a bit more. The important point is to PUSH the planning process in the direction the Committee wants it to go he would, he said, be happy if the President were to edit the statement for further use.

The statement adopted, which follows, was labelled a proposed perspective/direction for the planning process. One major purpose it would serve, Professor Rubenstein warned, would be as a standard by which the Committee could judge its deliberations on the cross-cutting issues. The "perspective' is as follows:

> For the University to fulfill its mission to provide the highest quality undergraduate, graduate, and professional instruction and outreach, and for it to utilize fully the investment which the people of Minnesota have placed in it as a land grant institution, it must be one of the

principal centers of research in the United States. University planning must be directed toward accomplishing this goal. In doing so, it must reflect the complexity of the modern world, addressing the increasing diversity of our own society and the increasingly international dimensions of the issues which confront us.

The Committee voted unanimously to adopt the statement.

The Committee adjourned at 5:00.

-- Gary Engstrand

University of Minnesota