Minutes[*]

Faculty Consultative Committee
Thursday, December 7, 2007
2:00 – 3:30
220 Skok Hall

Present: Gary Balas (chair), Nancy Carpenter, Carol Chomsky, Shawn Curley, Dan Dahlberg, Emily Hoover, Jeff Kahn, Mary Jo Kane, Judith Martin, Nelson Rhodus, Geoffrey Sirc, Becky Yust

Absent: William Durfee, Barbara Elliott, Marti Hope Gonzales, Carolyn Hayes, Lois Heller, Martin Sampson, Jennifer Windsor

Guests: President Robert Bruininks, Senior Vice President Robert Jones, Provost E. Thomas Sullivan

Other: Kathryn Stuckert, Patricia Franklin (Office of the Chief of Staff)

[In these minutes: long-term financial opportunities]

<u>The Intellectual Future of the University: Long-Term Financial Opportunities</u>

Professor Balas convened the meeting at 2:10 and welcomed the President, Senior Vice President Jones, and Provost Sullivan to discuss some of the long-term financial opportunities.

1. Strong and consistent state support to retain the University's quality and provide the investment needed to advance the University's strength and comparative advantage in advancing Minnesota's economic competitiveness and quality of life. This assumes that the University will vigorously reduce and contain costs, continue to aggressively revise priorities and continue an entrepreneurial culture to grow non-state resources through grants and contracts, private support and transfer of technology.

2. Retain a stable tuition level as a proportion of the University's core budget to help support the educational and core costs of the University. The University of Minnesota has acted with vision, purpose and creativity in addressing the rising costs of education for our students. Two years ago we began the Founders Free Tuition Program, providing free tuition for low-income students and emphasizing access and affordability as primary concerns of the University. In October, our Promise for Tomorrow private scholarship drive reached its initial three-year goal of $150 million in endowed scholarship and fellowship funds. The University must continue to make private fundraising and the reallocation of resources to support the educational expenses of students from families with modest incomes a long-term strategy. Combined with the other budget strategies, this gives the University a reasonable chance of maintaining a high level of access and affordability for students to our educational programs.

3. Strengthen the level of sponsored funding to support the University's distinctive culture of discovery, innovation and application to improve our society.

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

4. Private Support must continue to grow as a part of the University's budget to support quality and excellence at the University. A long-term assumption is that private support will need to grow from approximately 10% to approximately 15% of the University's overall budget in the next 5 to 10 years. Moreover, a greater proportion of private support must be more flexible or more fungible (e.g., funded in support of all-University scholarship and fellowship strategies, all-campus and all-college academic priorities [e.g., professorships and chairs] that can be shifted in accordance to important trends in academic fields, etc.).

5. Leverage and grow the value of existing assets, including the University's intellectual capital, to address rising costs and strengthen our quality, productivity and investments. NOTE: This is a broadly based strategy. One priority of this strategy is to develop new, entrepreneurial lines of work by expanding partnerships with the private and non-profit sector - lines of work that grow resources through expanding national and global partnerships with private and non-profit organizations, expansion of proposals to philanthropic foundations, and the leveraging of real estate assets to produce a far greater rate of return for the University's core academic enterprises (e.g., the leveraging of assets in UMore Park and other lands, better use of facilities and locations of the University of Minnesota to address other needs in non-peak time periods, etc.). A second priority is to continue expanding the leveraging of the University's intellectual capital through more productive mining of ideas and transfer of technology (the University now ranks 6th nationally in royalties from its discoveries and inventions) and the development of new lines of activity to increase revenue in a broad number of areas. A third possible priority is to expand our market share of services, including lifelong learning for part-time students, expanding and improving the return on sales and services (e.g., environmental testing methodologies, clinical trial programs in animal and human health, plant disease protection and production, etc.), and better marketing of University venues open to the public (athletic events, museums, exhibitions, etc.).

6. Disciplined cost reduction and service improvement strategies to reduce expenditures, (e.g., capital, utilities, purchasing, business process costs, etc.), restrain price increases (e.g., health and related benefits, technology, library and information services, etc.), and increase productivity. NOTE: We need a disciplined strategy that can be used to motivate continuous reform and productivity in the use of resources. It must be driven by reliable data from self-assessments and external reviews and good stories of continuous, disciplined improvement in quality, service and productivity.

7. Reallocate University resources according to strategic positioning priorities, including metrics, with movement of resources from lower level priorities to higher priority investments (e.g., 1%+ per year), to increase fiscal discipline in the use of existing resources, the largest source of renewal and investment. It is also essential to assure public confidence in the University's stewardship of existing resources. I am assuming that colleges and campuses will reallocate more, for example, in replacing 5-10% of the U's workforce each year.

Decision-making criteria should include:

a. Centrality to mission
b. Quality, productivity and impact
c. Uniqueness and comparative advantage
d. Enhancement of academic synergies
e. Demand and resources

f. Efficiency and effectiveness
g. Development and leveraging of resources

The President explained he developed these principles in response to a request from the Board of Regents in the context of their stewardship of the University and how to think about the long-term financing of the University. In the last few years the Board has seen interesting financial times, including a $185-million cut in state funding and tuition increases significantly higher than inflation. State support is down to about 25% of the University's total budget (some tied up in state special appropriations), in part because the University has been entrepreneurial in other areas, but there has been a 25-30% decrease in real dollars in state support during the past 25 years. So the question is where the University thinks it needs to go. The principles were developed in response to a situation where the University does not control all the levers. (The University's budget sources are about 25% state funds, about 20% from tuition, about 22% sponsored funding (and growing), and about 10-11% from private funds (up from about 5% a decade or more ago).)

The President emphasized that these are significant opportunities to support the financial future of the University. A few highlights of his comments follow.

-- With respect to #5, leveraging the University's assets should be predicted to provide an additional $50 to 100 million per year for the operating budget (primarily capital, student support, and research support) in the foreseeable future, to support essential costs and investments outside of normal state and tuition support. Development of such income is a very long-term project.

-- With respect to #6, over the long term it should be possible to save 10% of operating costs, and provide perhaps $200 million over a reasonable period of time to support academic priorities.

-- Principles 5, 6, and 7 are the difficult ones. Some programs will be the target of increased investments, some will be stable, and some will see reduced investment.

-- With respect to #4, the President believes that private giving must be increased to 15-16% of the University's annual operating budget. This source of support is increasing at substantial rates, but must be increased in the near future.

-- With respect to #s 3 and 4, the University is low among its peer in public-private research grants. It needs a principled approach to increasing the amount in a way that protects academic freedom. It is not clear why Minnesota (given where it is located) is at the bottom of the Big Ten.

-- The University should model projections of income from various sources for the next 5-10 years to be able to consider the alternatives that exist to grow revenues and support academic priorities.

-- When 70% of the U.S. population says that college tuition is a problem, it is a problem. Tuition will remain problematic and does not have the elasticity that it did in the past.

-- With respect to #3, the University needs to identify what it will take to be more competitive and it must be ready to act quickly, particularly in competing for larger grants and increased funding for interdisciplinary work.

Professor Martin recalled that the Finance and Planning Committee had two long discussions of the principles, from which a couple of major points can be made. One, one value of the new budget model is more transparency; now that it is more transparent, people are not happy with it. The issue that continues to come up is that people in charge of managing money do not feel they can control costs because they have no voice in those costs. While tuition and indirect cost funds are flowing to the colleges, some face a structural deficit and there is unease about how things are going. The new budget model allows the University to track costs but not what it values. A plea from the discussion is that the value of things that are not so readily measured not be lost. The President agreed.

Professor Balas asked why the University does not depreciate assets and put funds away as buildings get older. It should, the President said, but the University tends to operate biennium to biennium and, moreover, the cost of depreciation would need to be added to charges assessed to the colleges and units. The repair and replacement budget has not increased since 1991, and that lack cannot be made up all at once, but the University must start putting funds aside to cover these costs.

Professor Kane commented on the relationship between #s 3 and 4. People put in a huge effort to write research grants but the "hit rate" is decreasing noticeably as there are more applications but stable or declining funds available. Faculty are trained to obtain sponsored support but not obtain private funding. The ratio of effort to outcome is not in balance in sponsored funding but faculty don't know how to identify a donor. Why not seek funds to endow a lab and support graduate students? The President said that private support is increasing and private-sector leaders admire the University's aspirations, but the University must continue to seek sponsored funding as well. It must be smarter about seeking it and providing support systems so faculty and staff can identify promising opportunities and reduce time on the process.

Professor Kahn said the University must be careful about sponsored funding: it is one thing to provide incentives and quite another to REQUIRE that that it be obtained. To require it changes people's behavior. Once they have hit the ceiling on the funds they can obtain, they should not be pushed to do more because that can lead in directions the University does not want to go. For example, in his unit, they receive about 25% of their funds from sponsored research; to raise that amount would mean cutting back on other activities that the University expects and values (courses, lectures, etc.). The University is close to that line at 22% of its funding. The President said he believed the number could go to 25-26%, but agreed that there are dilemmas that must be respected and managed. Professor Kahn also observed that extra-mural funds ebb and flow and are hard to predict; indirect-cost funds can provide a cushion, but not if the colleges and University use them. Overhead funds should be for overhead plus a little investment, the president said.

-- Private support has led to an increase in endowed professorships from 17 in 1985 to 404 in 2007, which has allowed the University to attract and retain hundreds of people over the years. Without those chairs, the University would not be in the game.

Professor Dahlberg said it is his impression that all public universities have been hit by a decline in state support. He said he was curious to know how the University would overcome that trend; he assumed the best the University could do would be to slow it down. If state support continues to fall, then the University will need to look at how private schools operate—and they are significantly smaller and do not do all the things the University does. He also said that he used to consult with 3M, and while both it and the University watch the bottom line, 3M does so by making people as productive as possible while the University spends as little money as possible. He is being asked to do more and more that is unrelated to his discipline. The University needs to invest more money in support for faculty.

Professor Curley concurred. It is the sense of his colleagues that they must spend a lot of time on central tasks. If faculty must do fund-raising, that pulls them from their core responsibilities. At the same time as demands on faculty increase, they see the administration getting bigger—which should mean fewer demands on faculty. Some of the increased demands are real and are regulatory, the President said, and some is perception. When the University's state funding was reduced by $185 million, a number of central units were cut very deeply, and in some areas there has been a need to rebuild a little. The President said he did not believe the faculty should be out fund-raising but should be willing to help in their areas of work, and he agreed the University must provide greater support to faculty in seeking outside support. But it also needs ideas from them in order to get grants from places such as foundations.

Professor Yust commented that on cost-reductions and improvements, it is difficult to gain efficiencies in cross-department work because units operate in different ways and implement rules differently, and those different practices are frustrating for faculty and staff. The President agreed that some difficulties are self-inflicted and others need greater attention.

Professor Yust also reported that she had heard from the spouse of a state legislator, when complimented on how supportive of the University the legislator had been, that that support had not translated into campaign support. The University cannot support campaigns but the faculty can; the faculty are asked to contact their legislators on behalf of the University but are not asked to write checks to legislators who are supportive. They need to, Professor Balas commented.

Professor Hoover said she liked the seven principles but was nervous about #7 because of the question of metrics. The problem some faculty have with this is that an unknown set of metrics is being used to judge their departments (how will subsections a-g be measured?). The metrics must be more transparent so that if faculty want to improve their department, they know what they must do. The President agreed; great institutions measure what they value. He agreed that the metrics need additional work. The University must move the student numbers (retention, graduation, student learning, student satisfaction)—they will be bright consumers and it is only ethical to get them out, because it is not appropriate to allow them to stay an extra year and accumulate an additional $20,000 in expenses or debt. But there does need to be consensus on indicators for strategic positioning to be sure the University is moving in the right direction. Professor Hoover pointed out that with respect to student measures, there are certain things that can be done centrally but that ultimately students receive degrees in departments. They have pressed Vice Provost Swan for graduation numbers by department and to ask what departments are doing to improve graduation rates. Central administration should not control departments but there must be departments that are doing a good job in diversity and graduation, for example, and a set of best practices could be developed. No one disagrees about increasing graduation rates but departments do not always know what they should do. The President thought that was a very good point, and said that increasing graduation rates has to be accomplished within the University's values—it could be done through increasing selectivity, but that is not the best alternative for Minnesota.

Professor Kane commented that in her experience, chairs do not typically focus on increasing graduation rates—indirect cost funds, sponsored research, student-credit hours, but not graduation rate. It might help if chairs were rewarded for increasing graduation rates. And informed about how to help make it happen, Professor Hoover added. The President related that he recently commented to a group of deans that only 20% of the increase in graduation rates has come because of increased selectivity; the rest has come because of internal institutional changes. The quickest way to increase the graduation rate would be to eliminate the senior project, Professor Martin said, but that would not be a good decision educationally. The President agreed, and observed that senior-project seminars decrease the time to degree.

Professor Balas asked what the University would need in additional funding next year to fully implement the strategic- positioning goals and how the budget will be grown to achieve those goals. Can they be achieved with the current budget? Does the University need $200 million more? That question needs to be discussed in a public forum. The President said the ideas about the principles need to be put into models and then time needs to be spent identifying how to get there. If one takes the centrally-distributed dollars at the University, about $2+ billion, if they are increased by 5% per year (to cover inflation plus additional investments), the University will need about $100 million per year in incremental (new) funds. The University spends about $80 million per year on new costs and investments; that amount needs to be increased. Professor Balas suggested that a 5% increase would not get the University where it needs to go but would only be treading water. The President thought it would, for example, be enough, especially if combined with an additional 2% from savings on internal operating costs. The University has driven down energy costs in the last year by $4.5 million (equivalent to a 1% tuition increase for every student).

Professor Balas thanked the President and his colleagues and adjourned the meeting at 3:35.

-- Gary Engstrand

University of Minnesota