Minutes*

Senate Research Committee
Monday, October 15, 2001
1:15 - 3:00
238A Morrill Hall

Present: Scott McConnell (chair), Gary Balas, Victor Bloomfield, James Cotter, Kris Davidson, Robin Dittman, Leonard Kuhi, Phillip Larsen, Stephanie Root, Sarah Shoemaker

Absent: Melissa Anderson, Esam El-Fakahany, Susan Miller, Sharon Neet, Diane Nguyen, Mark Paller

Guests: Associate Vice President Ed Wink, Steve Bradley (Sponsored Projects Administration), WinAnn Schumi (Oversight Analysis and Reporting); Associate Vice President Richard Pfutzenreuter

Other: none

[In these minutes: (1) committee membership; (2) working group on faculty development, civic engagement; (3) research infrastructure (indirect cost rates and funds); (4) civic engagement]

Professor McConnell convened the meeting at 1:20 and welcomed the new student members, Mss. Root and Shoemaker.

1. Committee Membership

Professor McConnell drew the attention of Committee members to the revised proposal to expand the membership in order to obtain better representation from the many areas of the University that conduct research.

The Committee voted unanimously in favor of the motion. Dr. Hamilton suggested that Professor McConnell bring it to the Faculty Consultative Committee for information before putting it on the Senate docket. Professor McConnell said he would do so.

2. Issues Before the Committee

-- Faculty Development Working Group: Professor McConnell recalled that the Committee had discussed various agenda items for the year at its last meeting; it can set a lot of its own agenda but some items come its way. One of the latter is the Faculty Development Working Group.

Dr. Hamilton reported that the Working Group was set up last year by Vice Provost Robert Jones and Professor Richard Goldstein, chair of the Committee on Faculty Affairs, to look at what makes

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departments great (in terms of research productivity) and the factors that go into making them great. The members of the Working Group interviewed people and are bringing the results together.

There is considerable controversy about the committee, the way it has done things, and the questions it has asked, Dr. Hamilton commented. The Research Associate Deans Council does not accept the protocol used by the Working Group to obtain information.

Why did the Working Group interview people who left the University, Professor Balas asked? The theory is that the University can learn why people left, Dr. Hamilton said. He said he is not sure that is true; what is learned may be what people want you to hear and what won't hurt them for saying it.

Dr. Hamilton said he was not sure what would come out of the report.

Because of the focus on research productivity, Professor McConnell said, the report will come to this Committee. The approach the Committee might take is "what should be expected from the report of the Working Group?"

-- Task Force on Civic Engagement: The Faculty Consultative Committee has requested that the report of the Task Force be brought to the Senate Research Committee. Professors Fogelman and Boyte should perhaps be invited to speak to the Committee, and in particular about public scholarship.

3. Research Infrastructure

The biggest issue before the Committee right now, Professor McConnell said, is the status of the research infrastructure and the mechanisms, formal and informal, by which the University provides support for research. One place to start the Committee's inquiries appeared to be with Facilities and Administrative costs, otherwise known as indirect costs, because it provides a lot of money; it seemed reasonable to ask if this income is providing money for research. In order to further the discussion, Professor McConnell said, he asked Messrs. Wink and Bradley to explain how the indirect cost rate is set and what indirect costs are. He turned to Mr. Wink to lead the discussion.

Mr. Wink distributed copies of slides and also projected the slides on a screen.

Facilities and Administrative (F&A) costs consist of "institutional-wide and/or department overhead expenses which cannot be specifically identified to a project/activity (instruction, research, or public service). Costs that sponsors will reimburse based on a calculated average rate developed and negotiated in accordance with OMB circular A21." A21 is one of a number of circulars that establishes a set of cost principles concerning compensation, equipment, and indirect costs.

Some of the components of the F&A rate are various costs that fall into two categories, facilities and administrative.

1. Administrative components include (a) general administrative costs (e.g., central administrative offices such payroll, accounting, purchasing), (b) department administration (academic departments and colleges), (c) sponsored administration (e.g., Sponsored Projects Administration, Sponsored Financial Reporting, Office of the Vice President for Research, Internal Review Board, etc.).

2. Facilities components include (a) operation and maintenance (e.g., repair & maintenance, utilities, grounds, police), (b) building and equipment depreciation (based on standardized asset classifications and lives, 800 buildings), (c) interest costs on building and equipment (third party interest costs, state and University debt), and (d) libraries (i.e., central/campus and college libraries).

One of the questions Professor McConnell asked was whether there is anything NOT included in the University's indirect cost rate but could be? The answer, Mr. Wink said, is that everything that can be included is. One area to improve is better space correlation study data, which maps activities (accounts) to space included in facilities costs; improvement in these data will substantiate facilities costs. They do, at present, map spaces by projects in 69 departments covering about 1.7 million square feet.

Professor Balas asked where the costs that are not charged as direct costs are picked up; in department administration, Mr. Bradley said.

Mr. Wink then described the F&A costs at the University. There are $225 million in allowable facilities-related indirect costs. Of that, $55 million are associated with research, $96 million with instruction, $2 million with public service and outreach, and $72 million with "other institutional activities." Similarly, of the $216 million in allowable administrative indirect costs, $37 million are associated with research, $91 million with instruction, $11 million with public service and outreach, and $77 million with "other institutional activities."

The total indirect costs related to research are $92 million (55 plus 37); at the same time, the University spends $190 million on "Modified Total Direct Costs." So it costs the University $92 million in indirect costs to conduct $190 million in research. It costs the University $187 million in indirect costs to deliver $360 million in Modified Total Direct Costs of instruction, and so on. These are costs, the University can demonstrate, not what it collects, Mr. Wink pointed out. The "Other Institutional Activities" is a catch-all category for non-sponsored activities for which the University does not develop a sponsored rate.

Where are the libraries, Dr. Bloomfield asked? There are in facilities and spread across research, instruction, and public service; the majority of the library F&A costs are attributed to instruction. That seems inappropriate, Professor Balas said, because the costs of journals are necessary for cutting-edge research. Mr. Wink explained that the University was undermined in the rate negotiations by the fact that there is significant public use of the libraries. This is not a science, he said; the University does the best it can with the data available. In the case of the libraries, both students and faculty count as users for the purposes of calculating the F&A rate--and the student numbers overwhelm the faculty numbers, so much of the F&A costs of the libraries are attributed to students (instruction). Dr. Bloomfield said it must be understood that allocation of some F&A costs to the libraries does not mean that money will flow in that amount to the libraries. Professor Balas urged that the University identify as many costs as possible in order to achieve the highest F&A rate that it can.

The calculation of the University's overall F&A research rate is derived from the $92 million in allowable F&A costs divided by the $190 million in Modified Total Direct Costs: 48.5%. This rate is negotiated with the federal Department of Health and Human Services (HHS); the auditors, when negotiating with the University, examine both the numerator and the denominator of the fraction. The original University position was that there were more than $92 million in allowable indirect costs and the rate should be about 53.25%; HHS added costs to the denominator to reduce the rate.

How is the rate settled, Professor Balas asked? Mr. Wink said there is a lot of back and forth; the University sent a proposal in April, along with large binders of information to back it up. Then the University and HHS negotiate. Professor McConnell noted that a single agency negotiates a rate (either Health and Human Services or the Office of Naval Research), which rate is then used for all other federal agencies.

Committee members had a discussion of cost sharing, which increases the size of the denominator. The denominator or research base is comprised of expenditures that are paid by sponsors but also those costs related to research and funded by the University of Minnesota from non-sponsored accounts. The University's indirect cost proposal submitted to HHS included $14 million of such costs or cost sharing. The HHS auditors, during the negotiations, add more cost sharing to the research base (the denominator). Some of this added cost sharing was for such costs as graduate students that are paid for by non-sponsored funds but working in on sponsored research. The auditors do this through interviews with the faculty and staff in a few laboratories. The result was that the increase in the research base drove the indirect cost rate down.

The research F&A rate 1995-1999 was 47%; for 2000 it was 48%, and for 2001-2003 it is 48.5%. The F&A recoveries were as follows:

1997	54 million
1998	56
1999	57
2000	64
2001	72

Of that money, under Incentives for Managed Growth, 51% is returned to the colleges and 49% is used to fund central activities. The 51% is calculated by dividing the (department administration plus equipment depreciation)/(full F&A rate).

Are there obligations on the use of indirect cost funds? Yes, new buildings, major improvements, or equipment expenditures must equal or exceed the amount of recovered building and equipment depreciation. Expenditures in 1998 exceeded the recovery by 1.3 times. There are no restraints on how the colleges use the funds.

It used to be that private institutions had much higher rates than public institutions, Professor Kuhi said; is that still true? What justifies the difference and why cannot the University obtain the same rate? The primary reason, Mr. Bradley explained, is because public institutions receive public funding for buildings and equipment and so on, so cannot charge that portion of their costs to the F&A rate. The private institutions, in contrast, pay everything from their own funds, so have a higher cost to charge against the F&A rate. It is also true, Mr. Wink commented, that schools that negotiate with the Office of Naval Research typically receive a higher F&A rate.

Professor McConnell noted that the University had $92 million in allowable F&A costs in 1998 but only received $56 million; could it have received $92 million? The EFFECTIVE recovery rate, Mr. Wink agreed, is less than 50% when actual University costs and recoveries are calculated. The actual recovery is closer to 25% when one combines all of the under-supported research funding the University

receives, Dr. Bloomfield added. The numbers given in the tables show the documented F&A costs, which lead to the 48.5% (research) rate. What was not shown was how much the University actually collected from sponsors for research, which was about half that amount, or 25%. The difference is mainly in low or zero indirect cost payments from many private companies, state agencies, Minnesota foundations, USDA, and federal education/training grants.

Professor McConnell now turned to Mr. Pfutzenreuter for an explanation of how the funds are allocated. Mr. Pfutzenreuter distributed three pages of handouts and drew the attention of Committee members to one of them, a table identifying for the past three years the amount of F&A (ICR) funds the University has received, by college, and the amounts distributed to the colleges and to the central administration. In 2000-01, for example, the University received $71.5 million, of which $37.3 was allocated to the colleges and $34.2 to central administration. What happens to the money allocated to the colleges is up to them, Mr. Pfutzenreuter told the Committee. What central administration does with the money he explained with another table. For 2000-01, the funds were distributed as follows:

Facilities Management	18.1 million	53.0%
VP for Research	4.8	14.2
Sponsored Financial Reptg	1.0	3.1
Libraries	1.5	4.3
Debt	3.6	10.6
Rental Budget	.24	0.7
Other	4.8	14.1

("Other" consists of non-recurring allocations and carry-forward balances.)

The administration tries to allocate its portion of the indirect cost funds consistent with the University's actual costs. They track the components of the rate and allocate as closely as they can; the cost structure and definitions, however, do not correspond exactly with the organizational structure of the University, so the correspondence is not perfect.

When the 49% is allocated, the administration relies on the estimates from the colleges at the outset of the fiscal year. Those estimates determine the number. The colleges have been fairly conservative in their estimates, Mr. Pfutzenreuter commented, and the administration ends up with a carry-forward balance that is used for other research purposes.

Dr. Bloomfield pointed out that the amount identified as allocated to the Vice President for Research includes sponsored projects and matching funds but does not scale with the indirect cost revenues that have been received. The revenues have gone up but the amount available for matching funds has declined. With the exception of additional resources devoted to the establishment and maintenance of the Electronic Grants Management System (EGMS) and to some IRB compliance functions, the budget allocated to the Vice President for Research has remained essentially constant. Some of the funds in this constant part of the budget that were previously used for matching purposes have been moved to support essential sponsored project administration functions.

The amount allocated for debt payment has gone up the last three years; Mr. Pfutzenreuter affirmed that the increase was for new buildings.

Mr. Pfutzenreuter added that the carry-forward balances have been used to balance the University's budget in order to avoid cutting the O&M budgets, thereby helping the entire University; the funds are not used solely for research costs.

Does the money allocated to Sponsored Financial Reporting pay for its operations, Professor Balas asked? Mr. Wink said it does, pretty much. Is there not a way to make that a direct cost, Professor Balas inquired? It does not seem appropriate as an indirect cost to spend government dollars to account for government dollars. Mr. Wink expressed doubt a change would happen.

Professor McConnell said that Mr. Pfutzenreuter's point about how the University allocates the funds raises the question of whether there needs to be a relationship between the bases of the rate and how the money is spent. There does not, Mr. Pfutzenreuter said. The deans are free to use the college money as they wish, Professor Balas said. It is a general pool of funds, Mr. Pfutzenreuter said; the University must only bear in mind the rule about spending sufficient amounts on facilities and equipment.

What guidelines does the administration put on the colleges' use of their 51% of the money, Dr. Hamilton asked? None, Mr. Pfutzenreuter said. It hurts the research enterprise if the deans do not spend the money to support research, Dr. Hamilton commented. Some colleges deliver part of their funds to departments, which in turn may give funds to the Principal Investigators to pay for copying.

Dr. Larsen pointed out that the use of indirect costs funds is related to Incentives for Managed Growth: the indirect cost funds are used to pay faculty salaries, rather than O&M funds. Dr. Hamilton agreed, noting that some units are heavily leveraged on grant funding.

The internal allocation rate will change, Mr. Pfutzenreuter noted; in the future, 49.5% will go to the colleges and 50.5% to central administration.

It was agreed that the Committee would ask Mr. Pfutzenreuter's office to provide data on how the colleges spend the indirect cost money. Professor McConnell said that it would also ask for help from a few of the deans in understanding how the funds are used. Professor Balas said that the money will likely be used in very different ways across colleges; would the Committee tell a dean not to do it the way the college has been doing it for 20 years? The Committee should not tell anyone what to do, Dr. Hamilton suggested; then why ask, Professor Balas inquired?

First, Professor McConnell said, there is a sense that the faculty do not know; this is a way to find out how the money is used and the good that comes from it. Second, there are questions that need to be asked about supporting the research infrastructure; units could be leveraged so highly that they must spend the indirect cost funds on salaries. He said he EXPECTS there to be different answers across colleges, but the Committee should learn what those answers are. Dr. Larsen agreed, saying there is much faculty misunderstanding about how IMG works and about the relationship between tuition, indirect costs, and so on; it is important people understand these concepts.

There are three areas the Committee can learn more about, Professor McConnell said:

-- How the colleges spend indirect cost funds
-- What opportunities are being missed/may be missed (including with the central funds)

-- The University's capacity to support cost centers (internal service organizations) that cannot be funded out of grants but which Principal Investigators can turn to for research support.

Professor McConnell thanked Messrs. Bradley, Pfutzenreuter, and Wink for their presentations.

4. Civic Engagement

Professor McConnell returned to the topic of civic engagement, noting that he had been asked by the Faculty Consultative Committee what this Committee will do. He told them he needed to talk to the Committee. The report from the Task Force on Civic Engagement calls for public scholarship. The Committee could invite Professors Fogelman and Boyte to give a presentation, including discussion of, for example, (1) whether public scholarship equals research and (2) how the University will know how much public scholarship there should be.

Dr. Bloomfield noted that he had chaired the section of the task force that dealt with public scholarship so he could also contribute to the discussion. The subject is worth discussing, he said; public scholarship is an important part of civic engagement and a very large amount of what the faculty do is public scholarship. It is not, however, well-represented inside the University or to the public. There is also a tension about how broad it should be and how much of the University's mission it should be.

It was agreed that this topic would be fitted into a future agenda.

Professor McConnell adjourned the meeting at 2:50.

-- Gary Engstrand

University of Minnesota