Minutes*

Faculty Consultative Committee
Thursday, October 28, 2010
12:15 – 4:00
238A Morrill Hall

Present: Kate VandenBosch (chair), Peter Bitterman, Thomas Brothen, Colin Campbell, Nancy Carpenter, Carol Chomsky, Chris Cramer, Shawn Curley, Nancy Ehlke, Marti Hope Gonzales, Michael Hancher, Caroline Hayes, Jeff Kahn, Russell Luepker, Jan McCulloch, Michael Oakes, George Sheets

Absent: Melissa Anderson, Elizabeth Boyle, Barbara Elliott

Guests: Senior Vice President Frank Cerra; Board of Regents Chair Clyde Allen and Vice Chair Linda Cohen; Provost E. Thomas Sullivan

Other: Ann Cieslak (Executive Director, Board of Regents); Jill Christenson, Kathryn Stuckert (Office of the President); Assistant Vice President Sharon Reich Paulsen (Office of the Provost)

[In these minutes: (1) senate subcommittee structure; (2) discussion with Senior Vice President Cerra; (3) discussion with Board of Regents Chair Allen and Vice Chair Cohen; (4) discussion with Provost Sullivan ("Compacts 101"); (5) continued discussion, compact process; (6) tenure code proposals]

1. Senate Subcommittee Structure

Professor VandenBosch convened the meeting at 12:15 and began with a discussion about the proposal to merge two subcommittees and create a standing Senate committee; the recommendation came from the ad hoc committee on the Senate committee structure that met last summer. Following discussion, Professor VandenBosch said she would write to the committee chairs and subcommittee chairs about possible ways to proceed.

2. Discussion with Senior Vice President Cerra

Professor VandenBosch now welcomed Senior Vice President Cerra to the meeting, his last visit with the Committee barring a major problem. She noted that Dr. Cerra had been offered an approach he might take in his comments: "Things Done, Things Yet to Be Done, and Reflections on the Future of the Academic Health Sciences."

Dr. Cerra began by commenting that he is not someone who dwells on the past but who looks to the future. But much has happened in the last 15 years, including the sale of the hospital to Fairview, the problems with the anti-rejection serum Minnesota Anti-Lymphocyte Globulin (ALG), and the tenure war and the disarray over the attempt at re-engineering in the Academic Health Center. He had to spend a lot of time repositioning and assuring the professional identities of the AHC schools, working out the

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relationship with Fairview, and re-establishing effective communication before they could move ahead and repair the relationships with the faculty of the schools. The need to deal with the single practice plan, the relationship with Fairview, interdisciplinary research, making the AHC part of the University, and the health needs of the state lasted through about 1999. After that they did strategic planning from the bottom up, which led to a plan in 2000, which is updated every two years and has guided decisions ever since.

They now have good leadership teams in the AHC FCC, are re-establishing trust, have a new research model, have created new centers, recognize excellence, are making investments, and are hiring faculty. They lost only 77 faculty members through the turmoil of the tenure war, a number that is a testament to the loyalty of the AHC faculty. There has been growth in the research portfolio and in the clinical enterprise; those plus the Biomedical Discovery District and the quality of the deans puts the AHC in a good position to move forward.

In terms of the combined position of Vice President and Dean of the Medical School, Dr. Cerra said, he believes it will allow progress with Fairview and alignment of the practice plan with the Medical School, and brings service lines in Dentistry, Pharmacy, and Nursing into University of Minnesota Physicians (UMP). Challenges remain with health-care reform. But the Vice President/Dean position allows a more effective decision-making process. They have maintained a balance between the other colleges and the Medical School and the other deans have come to recognize that the new structure also recognizes their needs. The growth in the amount of interdisciplinary research reflects that coming together. Dr. Cerra spoke about progress in interdisciplinary education as well and what is needed to plan the generation workforce. It should be noted that while the academic reporting relationships for the non-medical school deans have changed to the provost, the responsibility for interdisciplinary education, research and clinical care, the health workforce, and clinical matters will continue to reside with the VP/Dean.

Dr. Cerra discussed workforce needs and how the University has responded, particularly in nursing and allied health programs. The workforce challenges are just beginning, he said; there is a shortage of primary-care physicians as well as some specialties, and they will not be able to meet the demand even with new roles that different people are assuming in the delivery of health care. The challenge of positioning the AHC in the marketplace is just beginning. They are also working out a new relationship with Fairview on the use of the University's name, the flow of funds, and the care of patients, that allows the University to balance its relationship with Fairview and with other health-care systems in the state. Those negotiations continue.

Dr. Cerra also highlighted interdisciplinary research and noted that the investment of about $7 million in new R01 grants produces an ROI of 300% in three years. There is a new private biosciences park proposed near the new biomedical buildings, they will break ground on the new cancer-cardio building this spring, they will renovate or decommission existing space and work with the College of Science and Engineering on renovating labs so that they do not end up with a two-tier system (BMDD versus older facilities). He does not otherwise foresee any major building projects in the AHC for some time, although they will need to refurbish or renovate some buildings.

In terms of arrangements going forward, the Vice President and Dean position will continue. The AHC infrastructure in information technology, human resources, and communications will remain, but with more integration with central services (most savings have already been pulled out of the units but the coordination can improve). Dr. Friedman, the interim Vice President and Dean, will be a member of the

"budget five" [see the discussion with Provost Sullivan, infra] and the executive team and will continue to perform the functions he has. The AHC deans will continue to work with the new Vice President and Dean on interdisciplinary work and on the clinical enterprise.

Professor Luepker asked Dr. Cerra to think about the future of university/academic health centers in light of health-care reform. It is a great big challenge, Dr. Cerra responded. Health-care reform is already underway in Minnesota; he talked about its effects on the AHC and how it is responding and what will be coming. He said the cost reductions are not evident or imminent but the incentives are aligned to achieve them; the UPlan will pay for outcomes and will provide higher reimbursement if clinics are more successful; Minnesota could save $700 million to $1 billion in diabetes alone if outcomes were improved. In this connection, Dr. Cerra mentioned the savings from outcomes improvement that will be needed if the AHC and Medical School are to survive, given the likelihood that state funding will decline. (The University has already lost about $250 million in state funds, something that has challenged everyone). They have to deal with this by maximizing revenues and changing productivity—and faculty governance committees will play a major role in working through the problems to get to the solutions that are needed.

Dr. Cerra said he is optimistic. The health-sciences faculty are better than any he has ever seen, productivity is up, and there are good leadership teams.

Professor Luepker inquired whether it was possible to maintain 15 centers in the AHC in a time of fiscal stringency. That is a question of what is functional and what support systems are needed, Dr. Cerra said. There are not a lot of state funds going to the centers that could go elsewhere; some centers receive some funding, some receive none. Moreover, the biggest percent cuts in the AHC came out of the centers. Most are self-supporting. They invested in the genomics center and would not be where they are today if they had not made it. Dr. Cerra again made the point that investing in the grants that support centers produces a return of about 300-400% over three years—and those funds are easily tracked if one looks at where the money came from, went to, and who benefitted. All of the big grants they have received have been the result of those investments and involve faculty across the AHC and the College of Science and Engineering. If the AHC schools become isolated again, both the AHC and the University will suffer.

Professor VandenBosch asked about the new structure: Dr Cerra made no mention of bringing the other non-AHC deans into communication with the AHC, something that was talked about earlier. Has that happened? Dr. Cerra said it has not, yet. The AHC Deans Council will continue to meet, under the leadership of the Vice President and Dean; the President intends to add the deans of Science and Engineering, Biological Sciences, and CFANS to the group. They will deal with policy, workforce, and interdisciplinary research issues. The Vice President and Dean will report to the President; the other deans will report to the Provost, so he and Provost Sullivan are working on coordination and Dr. Friedman is involved in the discussions.

Professor Oakes thanked Dr. Cerra for his many years of service. He then asked Dr. Cerra what needs to be cut. What is on the way out—and not people or schools, but what will fade away? Dr. Cerra said it was a good question to which he was not sure he had a good answer. Nor was he sure it is an answer an administrator should give, he said. What about nationally, Professor Oakes asked? From the 30,000-foot level? Dr. Cerra said he doubted there would be a day when there would not be a need for a medical school, although there may be spirited dialogs about whether they are too insular and not integrated enough into community care or patient care.

UMP has moved into the low-cost, average-care category and it will be a preferred provider; there will be competition (based on outcomes and patient satisfaction) and it will be a question of efficiency of delivery and value added, elements that are in the law now. Dr. Cerra discussed the changes and incentives in the law and the increased emphasis on cost reductions—which in health care means keeping the rate of inflation down, and hopefully going negative in the long run. The cost savings in the federal law are at the back end and more of the costs are at the front end, but the bill will only cause about a 1% increase in premiums, not the 20% that has been reported in some news media. There will be a 20% increase because of the increased costs of health care. UMP, Dr. Cerra noted, provides about 45% of the budget of the Medical School. If something in health care is non-productive or inefficient, it won't last, although it may take several years for the change to be seen.

Dr. Cerra said that the program of traditional methods of teaching and curriculum development will not survive, so there will be a need for hybrid methods. Dr. Cerra and Committee members discussed the use of technology in instruction and how medical students are trained. If the AHC is not in step with training in the information age, it will get behind.

Professor Chomsky said that from outside the AHC, it appears that there have been issues about consultation (e.g., with the new conflict-of-interest policy). With all the changes in medical and other health-sciences education, the degree to which faculty are engaged in decision-making is important. She asked Dr. Cerra to comment on the process and what might happen going forward. Dr. Cerra noted briefly the history of the evolution of the conflict-of-interest policy, a document that began in the Medical School. The "Appendix A" that is being circulated for consultation is very similar to the first document that came out of the Medical School in the first place. He also pointed out that conflict of interest is a moving target, and what the public wants of their physicians is very different from what they want from the lawyers and teachers—they want to know if the physician has a relationship with a company. "Appendix" is not a helpful descriptor, Dr. Cerra said, but the document has identified things that need to be fixed. They are having face-to-face discussions with faculty across the AHC and they opened a 30-day comment period that ended October 29 (during which they received some feedback). They have also met with a number of departments. There were some misperceptions about the vetting that took place; Dr. Cerra said the policy had more eyeball-to-eyeball time than any policy he knew about in 30 years, and there is no problem around the big issues; the questions are about how adjunct faculty work and misunderstandings about seminars and pizza lunches. There is no disagreement about the importance of the policy, Professor Chomsky said but there have been questions about process and the timing of vetting. People are involved if they want to be, Dr. Cerra commented, and administrators should not take all the hits—people must engage in the process.

Professor VandenBosch inquired about Dr. Cerra's plans after he leaves office; he chatted with the Committee about them. He concluded by saying he is a strong proponent of interactive governance and believes it essential to moving the University forward. Professor VandenBosch thanked Dr. Cerra for his many visits to the Committee over the years; Committee members wished Dr. Cerra well.

3. Discussion with Regents Allen and Cohen

Professor VandenBosch welcomed Board of Regents Chair Allen and Vice Chair Cohen to the meeting and began by asking what things are on their minds.

Regent Allen began with the presidential search, which he said is busy and going well. They will have a strong pool and are doing background research and expect to have a number of candidates forwarded to the Board by the search-advisory committee. They are on schedule. Regent Cohen commented that they are receiving reports that the search-advisory committee is functioning well and said she was glad that six of the twelve members of the committee are faculty members.

Regent Allen observed that the Board is putting a lot of trust in the search-advisory committee because they will be providing the Board the individuals from whom the next president will be chosen. The Board has placed a lot of trust in Regent Simmons [who chairs the search-advisory committee] and in them [Regents Allen and Cohen]. He said he did not know how else they could proceed, given that they need to promise anonymity AND have public finalists. The Board will face a difficult decision at the end of the process, when candidates will have to decide whether to remain in the pool and have their names made public, and in terms of the selection, the Board won't know if it made the right decision until years later. The search is being done right, Regent Allen said, and there will be public meetings on campus with the finalists; he said it would be helpful to see how the candidates respond to questions that the faculty pose.

Professor VandenBosch asked what priorities the Board has in terms of the qualifications of the candidates. It is difficult to balance all of the attributes that will be sought. Regent Allen said that for him, there are two equally important characteristics. One, the person must be an academic who has administrative ability. As a research institution, the University needs someone with a proven track record as an academic. Two, the person must be someone who can take a huge collection of talent and meld them into priorities and make change happen. He recalled telling the Chamber of Commerce that everyone talks about change, but the University has been successful in many areas—and those things should not change. It may be that some mechanisms will need to change and that a new president will be able to meld the parts of the institution into a plan. A major skill of the new president must include the ability to surround himself or herself with good deputies and to work with the people in the trenches. The president cannot stay behind a desk but must take the temperatures of people across the institution.

Regent Cohen agreed that those were the top two characteristics the Board is seeking. She added that another important characteristic is leadership style; they are seeking a collaborative leader, someone who consults a great deal, and who can then be a crisp decision-maker—and, she observed, those two characteristics do not always go together. The other attribute they are looking for is someone who is good with people and who can represent the University well, because it has so many different constituents.

Professor Sheets inquired if the finalists would be interviewed individually by each Board member or will the Board listen as a group? There will be a public interview by the Board, Regent Allen responded. He will also ask Board members to go to public meetings where the candidates will be interviewed, which will be another way for Board members to gain insights about the candidates.

Professor Chomsky said that the attributes Regents Allen and Cohen had listed ranked very high with the faculty as well. She observed that there is the assumption, in their comments, that there will be multiple candidates. She noted that FCC members believe, and have repeatedly heard from others, that people at the University will be happier with the selection process if there is more than one candidate, rather than being informed "here is your new president," although the Committee understands the problems with public identification of candidates in some cases.

Regent Allen said the Board has always expected that the search-advisory committee would provide several candidates to the Board and he hopes that there will be multiple finalists for the Board to consider. He said in an interview with MPR that there could be one to three candidates; he included the possibility that there might be only one because if one person stood head and shoulders above all the others, it would not be right to invite the others in for show. He added that he does not know of any such candidate at this point. They do not expect to have only one candidate, but the possibility is there; it would not be the most desirable, however, for the reasons that Professor Chomsky noted.

Regent Cohen said she, Regent Allen, and probably the majority of the Board feel it is very important to have more than one finalist if at all possible. It would be beneficial to the University to have more than one choice—and it would be better for the president to be seen has having been selected from among more than one candidate.

Regent Allen said the Board has to strike a compromise. It will not have the best pool of candidates unless it promises anonymity. He said he could understand the insistence on anonymity by candidates who are sitting presidents but was less understanding of why a provost or other senior administrator would insist on it—it should be a feather in their cap that they are being considered for the presidency. Unfortunately, that is not the way the world works. But this is a public institution and the public can know who the finalists are.

Professor Sheets asked if the Board has received any political pressure about the selection. Both Regents Allen and Cohen said they had received no political pressure whatever.

Professor Oakes asked Regents Allen and Cohen to comment on the search for the football coach. How does the Board think about the balance between the desire of the Director of Athletics to have a high-profile coach and the budget cuts the University is facing?

Regent Allen began by saying that a strong athletic program, defined by the public primarily as football and men's basketball and hockey, is, right or wrong, a window to the institution; if the program is strong, it can help the academic enterprise, but it is not as important as the academic enterprise. Second, he said, it is an administrative matter to make the selection. The President is a strong supporter of sports and Regent Allen is a strong supporter of Athletic Director Joel Maturi. While some Board members may be very or too interested in the decision, he and Regent Cohen are not spending time on it. One advantage of the Big Ten is that while it is an athletic conference, it also has a strong research bent; it is unique in athletic conferences in that both athletics and research are valued.

Professor Cramer noted that one of the Board's priorities is identification of a set of critical indicators of University performance. There have been attempts to justify public funding of the University because of its economic impact and quantifiable return on investment. For 200 years, however, universities have been seen as a public good simply in terms of providing a broad education to all enrolled students; such a contribution is not readily quantified in terms of dollars-in/dollars-out. Put more bluntly, the humanities do not fit well in the corporate model but that in no way diminishes their historical and ongoing contribution to the public weal. To what extent is the Board sensitive to the competing visions of the University and how does it deal with them when constructing metrics for assessing progress and excellence?

Regent Allen said the Board is very sensitive to the competing visions. A number of years ago someone brought up the idea of measuring all that the University does. His response, Regent Allen related, was that there needs to be a lot of measuring, so one can see where money can be saved and where choices have to be made, but the primary reason for doing so is to be sure that the institution is spending money on the things that it believes important. At the least, one can measure where things will not hurt programs. He recalled that he was the financial officer in a small college and that the faculty sometimes accused him of being a tightwad. He told them that he pinched pennies so that when they had a good idea, there would be money to spend on it.

Professor Hayes said she had mixed feelings about measurements, because it is human nature that people tend not to value things that are unknown quantities; unknowns drop out of the picture. There are things that are known, Regent Allen responded, such as the number of citations that can be measured, but they do not know the cost of each one. Also for example, a survey of alumni can reveal the extent to which they are involved in non-profit organizations. Nonetheless, Professor Hayes commented, by setting up measurements of some things, that decreases the emphasis on things that cannot be measured or are not measured. And there are a number of important things that cannot be measured.

Regent Allen agreed. He paraphrased the comment about the atomic bomb ("let not the genius of our invention be the means of our destruction"): Let not measurement be the means of our misdirection. Not everything can be done by numbers; he said he likes numbers but said years ago, when he was a city council member in Bloomington, that he wanted to be the most rational, analytical person he could be—but that he also wanted to reserve the right to follow his heart. Sometimes the heart answers questions that the mind has not yet raised.

Regent Cohen said it would be an interesting discussion for the Board to think about what can be measured and what cannot be.

Regent Allen reported that the Board has had an inquiry from the Association of Governing Boards about what the University is doing in terms of metrics. It could be that part of the answer is what Professor Hayes said: not everything can be measured.

Professor Chomsky alluded to Regent Allen's speech to the Chamber of Commerce, which he mentioned in his remarks. Faculty members do not spend as much time outside the University and Board members often represent the public face of the University (as do the senior administrators). She asked what the public perceptions of the University are.

Regent Allen said they are pretty good, but not as good as what the University is worthy of. The University is well accepted as a place of learning, an engine of the economy, and a place where people are working on solutions to medical problems. The questions revolve around whether it is necessary to spend so much money to do those things. There are also questions about why there are so many higher-education institutions in the state (the University and MnSCU together), especially when there are so many granting Masters degrees—there are 80 or 90 granting Masters degrees. Regent Allen said he would not be surprised if, in the next two or three years, there is a commission to look into the question of the number of institutions in the state. He has spoken with his counterpart at MnSCU and the two systems need to talk about how they can work together. But he noted that if, for example, there is a full class in X at a MnSCU school and a full class in the same field at the University, there is little money to be saved by combining them.

Professor Bitterman said that years ago, universities were seen as gateways to opportunity; now one does not hear that as much. Is that the way the public views the University, or is the view more utilitarian? People in his area see the University as a great gateway to a successful life, Regent Allen said. He told the Chamber of Commerce that the University has hundreds of thousands of alumni in the state, and one can talk about the economic contributions those people have made to the state as well as the good lives they have made for themselves. He said he believes the University still plays the role of gateway.

People also appreciate the significant research that is done at the University, Regent Cohen said. They seem to understand that the University is the premier institution in the state for outstanding research and teaching. The outreach part of the mission may be understood a little less well in the Twin Cities. She said she believes there has been an increase in the admiration and respect for and prestige of the University, and many understand that it is an economic driver for the state.

If the University is improving its reputation and quality while the state is reducing funding, and the problem is increased by the loss of federal stimulus funds, what happens in the long term, Professor Hancher asked—when the University is getting better but the state can't afford it? That situation will not change, Regent Allen said; the increase in the number of elderly keeps pressure on the state budget, which means that the University must rely more and more on its own ingenuity in funding itself. There have been some successes: The University has had 6 and 7% increases in the sticker price but also started to raise money for financial aid and has raised $300 million. Pell-grant students pay no tuition and there is a sliding scale of financial aid for students with greater family incomes. So the University, while it raised tuition, also raised gifts to cover some of the increase. That is only a start, and the University does not have an endowment comparable to Harvard or Yale, and it will need to build its endowment and its annual gifts.

What about next year, Professor Hancher asked? The University can solve the problem, although it will be painful, just like the last several years, Regent Allen said. But he did not believe it would be worse than the previous years.

As faculty look at the short-term situation, Professor Curley said, they believe one way to deal with the decline in state funding is for the University not to do everything it has been doing. One sees that happening at a number of universities. Is the Board confident that the University is on a path to make those decisions? They are more difficult than just making across-the-board cuts. And making the decisions in a timely fashion, Professor Gonzales added.

Regent Allen said he is confident the decisions will be made; the University has the tools in place but may not be using them in the best way possible. He has looked at the compact documents; he said he trusts the process is a good one but he would like insight into how one decides about an un-costed idea. How are such ideas folded into the compacts between the Provost and departments, or between the Senior Vice President and the coordinate campuses? How do they do cost estimating? The compact process can be a receptacle for ideas. The Board has asked for computerized financial modeling for ten years out, although the information for ten years is not reliable.

Professor VandenBosch said this seems like adapting strategic planning to the "new normal," which has been identified by the Board as another of its priorities for this year. She recalled attending one

Board meeting that included a presentation on the history of strategic planning; what are they thinking about in terms of adapting that process to the new fiscal climate?

In his view, Regent Allen said, the University needs to get the compact process and long-range planning working in tandem. One must start with the finances, the key items that drive the University expenses (that is, salaries and benefits, the number of students, building operations, and so on). The Board has scheduled hearings to learn about these cost-drivers. The two processes seem not to function together, Regent Allen observed. The University has done acceptably without the two functioning together, but the new normal will be here for a long time and it will be necessary to be more systematic in the future.

Professor VandenBosch said she was pleased to hear these comments because she believes it must be the way the University makes strategic investments. Regent Allen said the administration will continue to pinch pennies so that the University has money to invest.

Professor Luepker [who had to step out for awhile to attend a meeting of the Budget Model Advisory Group] noted that the pot of dollars in the state for higher education is fixed and is split between the two public systems. Some say the state has more higher education than it can afford. What is the Board thinking about the University's relationship with MnSCU and the increasing overlap between the two systems? MnSCU now has Ph.D. degrees; the University has many professional programs.

Regent Allen said the University and MnSCU need to talk together more, and he talks with the chair of the board of the MnSCU system. The two systems will need to do more or a statewide commission will do it for them. There is cooperation, although not at the strategic or mission level. There are so many institutions of higher education because of a public-policy decision years ago that no one should live more than 50 miles from a campus. That was a day when roads were worse and there was no Internet. It may be time to re-examine the number of institutions in the state.

Professor Curley asked if they would comment on the reorganization of the Academic Health Center and the directions it is going.

Regent Allen said that Dr. Cerra's successor was well-chosen and they have high regard for him. The University has a balancing act: It is the public research university in the state and must cooperate with the health-care systems, but it also cooperates extensively with one of those systems, Fairview, to run a hospital, and Fairview wants to be known as the health-care system with the high standards of an academic health-care system. There is also work to do on how the dollars flow—at a time when medical budgets are under pressure. He said he believed the University would come out fine but that there could be some tough sledding to get there.

Regent Cohen said she believed the Medical School can be even better than it is and that she hoped the restructuring would help it do so. There is wonderful research going on in the Medical School but its stature is not what it once was. Regent Allen agreed that the Medical School ranking has dropped over the years and needs to improve.

Regent Allen said he very much appreciated the time the Committee took to meet with them. He came from a small institution where it was not as hard to make shared governance work; at the University

people must work hard to make it work. Regent Cohen also thanked the Committee for the time and energy its members put into the University—and into their disciplines.

Professor VandenBosch thanked Regents Allen and Cohen for joining the Committee.

4. Discussion with Provost Sullivan

Professor VandenBosch now welcomed Provost Sullivan to the meeting. She noted that she and Professor Cramer (and other Committee members) have been talking with the Provost since last summer about the desire of faculty members to know more about how financial decisions are made at the University, through the compacts and subsequent budget decisions. She asked the Provost to give a "Compacts 101" course, on how the process goes and how it translates into decisions.

Provost Sullivan said he would share both details as well as talk about the architecture of the process. He provided Committee members with several handouts.

To frame the discussion, Provost Sullivan started by reaffirming that the ultimate budget decisions affecting units, whether investments or cuts, are differential. For example, for FY10 (last year), collegiate budget cuts ranged from 8% to 0.40%. The average cut to academic units in FY10 was 4%; the average cut to support units that same year was 5.7%. For FY11, the largest cut to an academic unit was 10.7% while the smallest cut was 0.08%. Several colleges actually saw a net increase in FY11.

With that background in mind, the Provost said he would like to address several issues and questions that have been raised. The first deals with the timing of budget decision. Why are support unit budgets considered in the fall and academic units in the spring? Put another way, why does the University appear to look at the cost side of the equation before it considers the revenue side? Shouldn't revenues drive costs? There are a couple answers to this, the Provost said. First, without the cost basis provided by the support units – the cost pool information – it is not possible to project a budget for the colleges. Hence the sequence: determine the cost pool charge projections first, so the colleges can see what their costs will be as they proceed to frame their own budgets. Second, the University cannot realistically start each year on the revenue side because two major revenue sources, the legislative appropriation (19% of the University's revenue) and tuition (22% of the University's revenue) are not known until at least the end of May.

Second, the differential nature of the investments and cuts leads to the question: how are these differential decisions made? The provost referenced several documents he distributed: the Criteria for Decision Making; the Budget Principles; compact instructions; and the annual review questions given to deans. The Provost said that the Criteria for Decision Making are applied to the information gathered through the compacts and the deans' annual reviews. The final budget decisions are data driven and strategic, and that is why they are differential.

Third, and understandably, the Provost said that he hears questions about the cost pools and why they appear to continue to increase. The Provost explained that the following, which he noted all support the core mission of the University, are the biggest cost drivers: (1) human resource costs (salaries and benefits); (2) financial aid; (3) facilities, including debt and start-up costs for new buildings; (4) information technology; and (5) regulatory costs, including health and safety, items over which the University often has little discretion. He also noted that there are several support unit budgets that fall

into the "administrative support" cost pools but that really are directly related to the core mission: the budgets for the library, the Office of the Vice President for Research, graduate education, and undergraduate education, including the office of the registrar.

Fourth, the Provost said he hears concerns about whether central recognizes that there are costs imposed on the colleges and over which the colleges have no or little control. Central is well aware of and sensitive to these costs, which also include compensation issues and cost pool charges. Central discusses the resources to pay for these costs through O&M and special allocations, and allocates to the colleges tuition revenue and ICR, for example. But the bottom line, the Provost explained, is that each cost and each collegiate budget is addressed individually and differentially. Many practical issues also come into play, he explained, including deficits and market swings, particularly for colleges that rely on clinics. Revenue generated by the college is considered in how colleges pay their costs. In short, there is an individualized, holistic review of each college's issues related to the ultimate budget through the ongoing compact discussions with the deans.

The Provost also said he gets asked whether quality plays any role in budget decisions. It does, he said. There is no objective algorithm that can be applied, but quality measures are considered and taken into account, as set forth in the Criteria for Decision Making, the compact instructions, and the questions posed in each annual dean review.

Provost Sullivan reviewed briefly the questions that academic and support units are asked to answer as part of their preparation for the compact discussions. The goal is to have compact discussions that include rich data so that they can talk about priorities and how well the unit is doing. He noted that none of the members of the Committee have been involved in a compact discussion, and he invited the chair and vice chair to shadow him at a compact meeting.

Provost Sullivan turned to the budget model. He recalled the report of the external consultants (from Michigan, Indiana, and Ohio State); he asked the consultants to look at how the budget model works on the ground, to provide critiques, and to share best practices. The peer reviewers reported there is nothing wrong with the budget model but there is a need to keep working on communication. He specifically asked the consultants to look at the underlying principles, asked if the model has the right incentives, and asked if units can plan and predict. The consultants suggested the principles needed review, which is what the Budget Model Advisory Committee is doing.

Provost Sullivan handed out a summary of the activities of the Budget Model Advisory Committee, including decisions made and topics to be taken up: budget principles have been updated and modified; student headcount for College in the Schools has been eliminated; headcount weight for part time students has been reduced 50%; financial aid costs have been separated out from the undergraduate education cost pool for purpose of transparency; the three-year rolling average was reviewed; subaward expenditure weight was reduced 50%; scholarship match programs were reviewed and discontinuation was recommended to the President; removal of nonpaid employees from employee headcounts will be considered; modification of the 75/25% tuition split will be reviewed; definitional changes and calculation changes for the graduate school cost pool will be considered; and budget process time lines will be reviewed.

Provost Sullivan also provided a list of the Criteria for Decision Making, criteria that have been in place for a number of years, and that were endorsed by the Board of Regents in 2005 at the beginning

of the strategic positioning process: centrality to mission; quality, productivity, and impact; uniqueness and comparative advantage; enhancement of academic synergies; demand and resources; efficiency and effectiveness; development and leveraging of resources. The Provost also reviewed the compact instructions for support service units as well as the 25 questions posed to academic units for their compact discussions. Finally, he provided to Committee members a table of data that indicated, for FY11, the allocation of state appropriations/O&M funds by collegiate unit/support unit, the revenue from tuition and the University Fee for those units that receive them, and the combined total of the two sources. In all three cases, the units were rank-ordered by amount of money received and the top ten identified by percent of total. For example:

O&M funds, state specials, and total (in millions of dollars), and % of the University's total O&M and state special funds allocated by the University to that unit (there are rounding errors):

	O&M	StSp	Total	% of Total
Medical School	70.4	18.3	88.6	13.8%
Science & Engineering	63.2	1.2	64.5	10.0
CFANS	34.4	23.4	57.8	9.0
AHC shared	48.8	6.0	54.8	8.5
CLA	52.3	-0-	52.3	8.1
Duluth	37.0	2.6	39.5	6.1
Biol Sciences	22.4	0.4	22.7	3.5
Educ & Human Devel	20.7	0.9	21.6	3.4
Vet Med	17.3	3.4	20.6	3.2

Tuition revenue, University Fee income, and total (in millions of dollars), and % of the University's total tuition and UFee income (there are rounding errors) that were attributed to that unit:

	Tuit	UFee	Total	% of Total
CLA	150.4	19.0	169.4	22.6%
Duluth	92.2	12.7	104.9	14.0
Science & Engineering	88.0	10.0	98.1	13.1
Carlson School Mgmt	61.8	4.8	66.6	8.9
Educ & Human Devel	53.8	6.1	59.8	8.0
Medical School	37.0	2.8	39.9	5.3
Law School	24.3	1.1	25.4	3.4
CFANS	19.2	2.3	21.5	2.9
Biol Sciences	16.8	2.1	18.9	2.5
Pharmacy	17.2	1.2	18.3	2.4

State appropriation and tuition revenues combined, top ten (in millions of dollars) and % of total:

CLA	221.7	15.9%
Science & Engineering	162.6	11.7
Duluth	144.5	10.4
Medical School	128.5	9.2

Educ & Human Devel	81.4	5.8
CFANS	79.3	5.7
Carlson School Mgmt	73.5	5.3
AHC shared	59.0	4.2
Biol Sciences	41.6	3.0
Vet Med	35.1	2.5

Were the cut percentages you cited based on all state funds, Professor Luepker asked? The cut percentage is based off of O&M (tuition and state funds), the Provost responded.

Professor Oakes asked if there was any correlation between cuts made in FY10 and FY11. Was a unit cut deeply in FY10 also cut in FY11? While a comparison was reviewed, each year was determined separately as market and other factors may have been present one year but not the other. So there was not necessarily direct one-for-one correlation, Provost Sullivan said. The discussions and decisions are individualized to the unit.

Professor Oakes returned to the timing issue: The cost pools compacts take place in the fall, academic units in the spring, the cost pool numbers are not final until June when the state appropriation is finalized and the Board of Regents approves the University's budget, but the deans have tentative numbers. That is correct, Provost Sullivan said: The deans have tentative placeholders.

Professor VandenBosch asked about the compact discussions. Compacts are three-hour conversations, the Provost related, and include about two hours on qualitative information, priorities, and the college's strategic planning. Then they discuss budget issues and implications, and investments and costs. They conclude with a discussion of the strategic capital campaigns; every college has developed a capital campaign and they work with the deans on them. When the recession began, the decision was made to decentralize the capital campaign, so each college now has a strategic campaign plan.

Who is in the room for the compact discussions? The dean plus whomever he or she wishes to bring (typically the assistant and associate deans, the chief financial officer, and the development officer). Provost Sullivan said that he brings Vice Provosts Carney, McMaster, and Schroeder, and, as he noted, Vice President Mulcahy is also present—so undergraduate, graduate, faculty, and research are all discussed. There is also usually a representative from Equity and Diversity.

Professor Carpenter asked how the system works for the coordinate campuses. Senior Vice President Jones takes the lead on those compact discussions and holds them with the chancellors, Provost Sullivan said.

Who is on the "budget five" and how does that process work? The budget five has included the three senior vice presidents, Vice President Pfutzenreuter, and Ms. Tonneson from Budget and Finance—although it has been expanded to include Vice President Mulcahy and Vice President-designate Aaron Friedman from the Academic Health Center. The budget five group meets extensively to review carefully and thoroughly the information each of the units have gathered, including the deans' written reports on priorities for investments and how they align with strategic positioning and what the measures of success will be. They also ask each of the units to model budget cuts ("what ifs"), a topic that also receives a lot of time at compact discussions. They go line by line over the deans' requests and over support unit requests. The process is fluid as they learn through the year about state funding and tuition revenues—

because of the vagaries of the system, they simply cannot know the major revenue sources early, but once they do, they set finally the budgets in May or June.

Professor Chomsky commented that this sounds like a complicated process with a lot of communication and, up to a point, transparent procedures. Nonetheless, Committee members keep hearing, primarily from chairs and heads, that the compact process is broken. There are two possibilities: the attitude simply reflects "I don't like the bottom line" or, while the deans have a lot of conversations with central administration about the budget decision, the processes differ inside the colleges and in some, the chairs do not know what happened, so the process appears to them to be a black box. She wondered about communication at the end of the budget-five process—how is information conveyed and how much information is conveyed. Many chairs were surprised to learn, in conversations with the Committee, that there had been differential cuts.

Provost Sullivan commented that he has been in administration a number of years, and every year the question arises at this Committee about information filtering down. He said it is a puzzle to him. He noted that he also meets independently with department chairs, and he has told the deans that he hears that what is shared after the compact discussions is not filtering down to departments. With 16 colleges, it is difficult to monitor all of the communications that are taking place. Everyone has a lot of work to do on communication, he concluded.

Communication had been getting better in the last year, the Provost suggested, because the three senior vice presidents called every dean and chancellor personally to review the five or six biggest elements of the budget decisions; these calls were made before the formal, lengthy documents come from Vice President Pfutzenreuter's office with the details. They wanted to be sure every dean understood the decisions and the net positions (including investment and reallocation) as soon as the decisions were made.

Professor Hancher said that it sounds like timing is a structural problem, economic problems aside: The budget five are denied key information until late in the process. How do they do the work? Presumably they gather information, put in the data, and then feed in the real numbers when they become known; is there fine-tuning if the revenues are not what was wanted? Does this calendar continue to be useful under increasing economic crises? Is there a way to balance the time and money so they do not have this artificial time pressure? Given the political organizations the University must work with, it is not a calendar it can control, the Provost responded. He said he believed there is more frustration in the system when it is under financial stress; he heard less when the University had money to invest. The process must put stress on his office, Professor Hancher commented. It does, Provost Sullivan said; they spend hundreds of hours on the budgets—and they "use pencils with erasers" because of the fluid nature of the process until revenues are known late in the academic year. Much is strategic but much is also individualized, and market conditions change for colleges. He noted examples in Dentistry and Veterinary Medicine where there were enormous swings in clinical income that the colleges could not control; those factors have to be taken into account and the University needs to provide them special help when there are large swings from year to year. They do not want colleges heading into deficits so they try to help them avoid it.

Professor VandenBosch said that the process as Provost Sullivan described it is clear. What is still NOT clear is what role the seven criteria play in deciding about making cuts and increases. When the deans receive their call with the final budget information, do the senior vice presidents relate the numbers

to the criteria or to the overall performance of the units? Do units get more if they perform well or have a strong comparative advantage?

Provost Sullivan said that the discussion starts with the criteria. If a dean were to ask for $1 million for something, they would look at the seven criteria to evaluate the request. But when they communicate the final increase or reduction in a college budget, the Provost said, they probably do not cite the specific criteria on which the decision turned.

Are there strings attached, Professor Cramer asked? If a dean makes two proposals and the budget five provides money for one but not the other, is there a way to ensure the dean spends the money on the proposal for which it was provided? It is a matter of good faith, Provost Sullivan said, although in later compact discussion they do follow up; they will ask how well the college did on the investment, so there is accountability. Importantly, when deans submit multiple investment requests, they are asked to rank them in order of priority. There also is a line in the compact instructions asking that the dean inform them about the consultation that took place regarding the college's compact submission, Provost Sullivan noted.

Professor VandenBosch thanked the Provost for his report.

5. Continued Discussion, Compact Process

Professor Luepker said he had three comments about the compact process. One, the Provost discussed the timing of the compact meetings, with support services coming first so deans know how much they will need to pay, and one can understand the tyranny of the calendar, but the timing still needs to be reconsidered. Why can it not be done the other way around? Have the college discussions and then tell the support services how much money they will have. Two, there are factors that cause wide swings in revenues or costs; the way those swings are dealt with is to take revenue to fill the hole; the University needs more dollars to even out those swings—and it needs to save money in good years in order to be able to do so. Is it possible to have a process of multiyear averaging for better predictability? Three, the discussion seems to be about how to spend the money; when do they do the opposite, and talk about revenue drivers?

Professor Cramer noted that the Provost did mention that there are conversations with the deans about their capital campaigns, so there is attention to revenue. Professor Luepker said that capital-campaign income is sporadic; cannot a dean say that the college expects X students, who will generate Y tuition dollars, and Z amount of grants? He said he recognizes that the state funds are in the hands of the legislature and administration, but it would be interesting to talk about revenue drivers.

Professor McCulloch asked about the impact of the college blue-ribbon committees. A dean may decide to cut three programs, start a new one, and retain three others. How much is within the dean's discretion and how much is decided by the budget five? People have invested a lot of time in the blue-ribbon committees.

Professor Curley said he never heard an answer to Professor Hancher's question about what happens when the revenues are finally known, a few weeks before the start of the fiscal year. And is this a sustainable calendar model? Professor Hancher added. He said he did not know how the Provost's office handled the situation.

Professor Curley also commented that the deans are asked where they would invest money. That is not the environment the University is in; it would be different to ask where cuts would be made. Professor Sheets said it was his impression that the Committee at its fall retreat had been surprised to learn from the Provost that there had been differential cuts rather than similar percentages across the board. He wondered whether the college deans are informed of the range of allocations, including a summary of the reasons that led to the decisions in each case. That there are differential cuts indicates strategic planning is going on. In the interest of transparency and communication, the different cuts and the reasons for them should be communicated more generally, so that people can see that the University is dealing with the cuts strategically.

6. Tenure Code Proposals

Professor Chomsky reported on a review of the tenure code that she and Regents Professor Tom Clayton have conducted. The Committee decided it wanted necessary changes to be addressed in procedures documents or perhaps Interpretations of the code rather than through any changes to the code itself.

Professor VandenBosch adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota