Minutes*

Faculty Consultative Committee
Thursday, November 3, 2005
1:15 – 3:00
238A Morrill Hall

Present: Jean Bauer (chair), Gary Balas, Nancy Carpenter, Barbara Elliott, Dan Feeney, Megan Gunnar, Mary Jo Kane, Morris Kleiner, Kathleen Krichbaum, Scott Lanyon, Judith Martin, Richard McCormick, Terry Roe, Martin Sampson, John Sullivan, Jennifer Windsor

Absent: Marvin Marshak, Fred Morrison, Steven Ruggles

Guests: Senior Vice President Frank Cerra

Other: Kathryn Stuckert (Office of the Chief of Staff)

[In these minutes: (1) vice presidential search; (2) the new budget model; (3) academic freedom; (4) searches; (5) other business]

1. Vice Presidential Search

Professor Bauer convened the meeting at 1:15 and began by noting the times that have been made available for Committee members to meet with the candidates for the position of Vice President for Access, Equity, and Multicultural Affairs. Committee members indicated which times they could attend the interviews.

2. The New Budget Model

Professor Bauer now welcomed Senior Vice President Cerra to lead a discussion of the new budget model. [Note: the elements of this presentation are the same as the ones reported in the minutes of the Senate Research Committee on 10/31/05; what will be reported here are the discussion points that differed from the discussion at the Senate Research Committee. The pertinent part of the minutes of that meeting are appended.]

-- Dr. Cerra told the Committee that in addition to being driven by the principles of transparency and simplicity, the budget model committee was also guided by the need for predictability. One common complaint about the current budget system is that unit budgets are unpredictable from year to year.

-- Professor Roe commented, apropos the model placing "the management of financial risk at the level of the institution that can best control the contributing factors and act to address them," that there must also be transparency at that same level. Dr. Cerra concurred.

* 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.

-- Professor Balas said that principle #4, the model should provide incentives where appropriate to enhance revenues, seems not to fit in the budget model. The budget model is a tool, not something that should provide incentives. Dr. Cerra said he agreed in principle but the budget model does not exist in isolation; it is in a context of policies and processes that are driven by the University's strategic goals. He added that the principles of transparency and simplicity drove many compromises; the more one drills down to get more specific information, the less transparent the system is and the more costly it is.

-- On the question of risk, Professor Roe observed that departments are prone to allocate money to tenured and tenure-track faculty positions, not graduate students, because money committed to tenure lines can't be taken away. Is this consideration part of the model? It is, Dr. Cerra said. They looked at several models and decided on the earned income/full cost model. If a unit earns revenue, it keeps it and then pays for what it uses.

-- Professor Sampson made an inquiry about principle #1, (the model should encourage behaviors that support the University's mission and goal to be one of the top three public research universities in the world and the actions and strategies necessary to achieve that goal. Specific attention should be given to supporting efforts at crossing disciplinary and collegiate boundaries in working toward that goal): Suppose there is a top department in the world at the University that do not attract significant research funding and that does not attract large numbers of undergraduate students. Is that department dead under this budget model? It would not be, Dr. Cerra said.

-- Why is 100% of tuition attributed to the colleges? For simplicity, Dr. Cerra said. Once one says that the model will only partially attribute revenue or expense, the costs of the system increase and it loses transparency.

-- Can a unit go off-campus to find cheaper classrooms?

-- What happens with faculty who are housed in one college and teach in another, Professor Lanyon asked? The new financial system and the budget model will be able to solve the problems, Dr. Cerra said, but they cannot do so yet. This is a big issue, because a lot of faculty do work they do not get paid for and the inhibitions stifle strategic positioning efforts.

-- Professor Kleiner asked if a unit could set a policy requiring faculty to earn, for example, 50% of their salary from research grants. That is a core issue, Dr. Cerra said. At present compensation is set by University rules. The Medical School and Vet School have an XYZ system (X is guaranteed by tenure, Y is special merit, and while the pay is at risk, it can be recurring), and Z is clinical income. If a salary is 80/20 X versus Y and Z, theoretically 20% of the salary is at risk. There are a lot of questions about this system that require discussion. But they are not related to the budget model. Is this system working, Professor Martin asked? It is working very well, Dr. Cerra said. It works where there is outside revenue to be had, Professor Martin pointed out; Dr. Cerra agreed.

-- Professor Sampson returned to principle #1 and asked if the budget model sees excellence as largely market driven (enrollments and research funds) or as a public good? Dr. Cerra said the answer is in the mission and strategic goals as well as the policies and procedures adopted to reach them. It also resides in the accountability of the systems. The situation Professor Sampson describes should not happen, he said, and top-flight departments with no external revenue sources should not be harmed. They are part of a land-grant university and must be funded. This will be a top-three public UNIVERSITY.

Does that mean 90% of the money will go into the sciences? It does not, Dr. Cerra said. The University will have a process to invest funds in areas that are critical to the University and some of them may need to be funded internally. That is where internal processes come into play. He said he believes the University has a good governance system and a good administration, and one or the other will catch any difficulties along this line. Professor Sampson commented that he liked transparency more than simplicity because successful assigning of costs for crucial public goods sometimes produces sensible complexity.

-- Professor Sullivan said as a political scientist, he tries to identify structures that can survive bad leadership. This new budget model will not do that, he said, and one result of it will be that islands of excellence will disappear. Excellence takes a long time to develop but it can disappear fast. For that to happen there will have to be both bad administration and bad faculty governance, Dr. Cerra said. "If we have both, God help us." And bad luck, Professor Sullivan added. How will colleges build strong departments, Professor Windsor asked? There must be discussion through the compact process with the dean and the vice president, Dr. Cerra said. If there are funds in the college and the compact pool, the question is "who will pay?" This is an era of matching funds, with each contributing. It is possible there will be strong pockets but not strong colleges, Professor Windsor commented; Professor Martin pointed out that is already true. But the University will lose those pockets, Professor Sullivan predicted. This is not a budget-model issue, Dr. Cerra maintained, which is intended only to set stable cost attribution and revenue models.

-- What happens when there is not good leadership, Professor Sullivan asked? One hopes there will be strong faculty governance and good luck, Dr. Cerra said. There is a lot more protection now for pockets of excellence without revenue; they will be much more vulnerable under this system, he said. The budget model committee talked about this a lot and reached a different conclusion, Dr. Cerra said.

-- Cause and effect will have to be identified quickly so the University can react, Professor Roe said. Deans, for example, will need to be reviewed in X rather than X+Y years.

-- The change is to be revenue-neutral, with a year of grace, Professor Martin recalled. What if a unit, over the next year, decided to decrease enrollment, knowing there is demand, so it can increase it the first full year of the new system? There will be a lot of gaming going on. That could happen now, Dr. Cerra said, although there is no incentive, but such a change would have to get through the vice president and President. The compacts include enrollment management and is fairly rigorous. To cut enrollment a unit would have to answer a lot of questions, even assuming the reduction got through the dean.

-- Professor Lanyon said he was concerned about the revenue-neutral part of the plan, which solidifies inequities; the change sets the clock from that point. There are units that have been disadvantaged by the current budget model; those problems should be fixed before a change is made. Dr. Cerra agreed. What is needed is revenue-neutral-plus, Professor Lanyon said, with leadership to make the changes. To the extent changes are needed before the clock is re-set, they will be made, Dr. Cerra assured the Committee.

-- Professor Gunnar asked if the new budget model would lead to the proliferation of appointments of people needed to manage budgets, people who do not engage in the teaching and research mission. If so, that will not help the University achieve its goal. But that is the group of people that has expanded the most in recent years. Dr. Cerra agreed that the managerial group had grown a lot because of the need for shadow systems, a financial system that did not work well, and so on—that is why the budget model committee decided to implement the model only at the college level. One problem is that when the University hires staff to do something, they stay; has the administration thought about temporary hires for the transition rather than hiring 200 permanent new staff because there is a new budget model? If they think temporary hires are needed, they will be hired, Dr. Cerra said.

-- Professor Roe said that with respect to transparency in management and overhead costs, the model should track money to management (dean and department head). Professor Sullivan noted that he is a department head; rather than watch the quality of the department decline, he would go off-campus and rent cheaper offices and classes to save quality. Dr. Cerra said that departments are "in" but there is an approval system to move off campus. A unit must apply to get "out."

-- Professor Sampson asked about the language providing that "good performance measures and good data are essential for analysis." Do these refer to generation of income? They do, Dr. Cerra said. Excellence will be accompanied by revenue, he said, or revenue must be increased. There must be, for example, retention funds and units must point out they have problems that have to be dealt with. This is a problem in the current budget model as well.

-- With respect to basic services to be provided by Facilities Management, Professor Balas inquired, will there be conversations about the charges and what constitutes basic service? There will be, Dr. Cerra said, and the rates must be decided in a transparent process. And users must be involved, Professor Balas said. Dr. Cerra agreed and said the process has not been determined; he said he would welcome ideas.

-- Professor Balas also asked about $81 million in administrative units. What if the administration decided to add seven new vice presidents; do the end users have a role in making these decisions? There must be transparency and accountability, Dr. Cerra said. Will faculty know about the fixed costs of, for example, Morrill Hall administrative staff, Professor Kleiner asked, or only about their own schools' overhead? They will know about Morrill Hall, Dr. Cerra said. They can, for example, look at his office costs. Faculty can look at that now.

-- How will they deal with transparency when someone is looking for something provocative to put in the news, Professor Gunnar asked? That happens now, Dr. Cerra said. When the system is transparent and people are accountable, the University should have an explanation for things. But the news stories will happen.

-- What if a unit cannot afford the one-third contribution required for a new facility; is the funding to be obtained through the compact process, Professor Windsor asked? Either through the compact or a direct appeal to the President, Dr. Cerra said.

-- Professor Martin asked how the cost of general purpose classrooms will be allocated. Many of them are used by many departments. They go into the central pool (both maintenance and debt), Dr. Cerra said. The problem is that classroom scheduling does not think about the quality of the experience; it IS good for students to have classes close to their professors and should if this is to be a top-three university, Professor Gunnar said. Dr. Cerra agreed but said that is not a budget model issue.

-- Dr. Cerra commented that there was a lot of discussion about funding the libraries and they decided on a weighted-headcount model lagged one year. They will evaluate the weighting in the future.

Professor Balas asked if the "broad definition" of faculty would include those on P&A appointments. It will, Dr. Cerra said.

-- Professor Sampson noted that the budget defines library income in terms of enrollments of various programs. Thus if journals in some fields cost ten times as much as other journals, and if those fields have fewer undergraduate and graduate students, then the rest of the departments are subsidizing those high-cost journals. Dr. Cerra agreed and said that means there must be a process to evaluate what journals will be obtained. If a mediocre department has a high-cost journal, that could mean funds will be moved from a journal needed by a top department. That is a judgment that must be made, Dr. Cerra said.

-- One result of this funding is that there will be less incentive for departments to invest in their own libraries, Professor Roe said. Dr. Cerra agreed.

-- This funding model says that enrollments drive the library budget and there is no additional income stream from overhead that collegiate units collect on research grants, Professor Sampson said. That is true, Dr. Cerra said, although a unit could choose to pay its library costs with ICR funds. Professor Sampson said the libraries can't decide not to have chemistry and physics journals, so the libraries will not and should not cut journals of those kinds, and it seems odd that the library budget is entirely disconnected from research overhead. In large colleges there are large and small departments, Dr. Cerra said. The question is whether small departments get hearings before their dean. The vice presidents must assure themselves that the small departments are getting hearings so that some decisions are strategic in terms of growth and some in terms of what is critical to a university. As centers are created, they need niche journals that departments do not support, Professor Gunnar said; how do they get into the discussion? That is part of the challenge for the process that has not yet been set up, Dr. Cerra said.

Professor Martin said it was refreshing to have a budget explanation delivered by a surgeon; she thanked Dr. Cerra for making the model understandable. Dr. Cerra explained that much of the work had been done by Julie Tonneson in the budget office and said that it has been a healthy exercise. Professor Martin said there will be a challenge: Those around this table understand the new model but it will be difficult to drill down to all faculty and staff about the changes and their responsibility for helping to conserve resources.

Professor Sullivan agreed that it was a good presentation but said he disagreed with much of it. One can wonder if there will be any time left to do research because all faculty will become fiscal managers who have to fill out forms and track everything. That must be dealt with in the departments, Dr. Cerra said. But the formulae for implementing the system are very simple and should not require a lot of faculty work. And if it turns out in way faculty don't like, they should try to rectify the problem.

Professor Feeney said he has heard the discussions about the budget model here and the concerns are not new. There was a conscious effort to respond to questions (such as the concern about ICR funds not going to the library). This model will move some things more to a consideration by the whole and there are acknowledged cross-subsidies for the good of the entire institution. There were spirited discussions, he said, and he was pleased with the outcome. The final budget model is not different from what came through the faculty governance system.

Professor Bauer thanked Dr. Cerra for his presentation.

3. Academic Freedom

The Committee voted unanimously to close the meeting. Committee members held a discussion of an academic freedom issue.

4. Searches

A former FCC member expressed concern about one of the University's advertisements in the New York Times for a dean. The advertisement seemed to suggest that the candidates need not qualify for faculty appointment. Professor Gunnar said she has heard there has been a shift toward non-academic types for decanal appointments but said it was not an issue in this case. Professor Windsor agreed and noted that the University's position description required that candidates qualify for appointment in the college as a senior faculty member with tenure.

Professor Carpenter asked about the responsibilities of this Committee and the Senate Consultative Committee with respect to searches. It was noted that there is a protocol in place, approved by the Senate and the administration, that governs how the governance system is to be involved with searches for senior officers.

5. Other Business

It was agreed that the Committee would talk about the capital budget at its next meeting.

One or two Committee members will be asked to join a committee dealing with the future of the University's role in Rochester.

It was agreed that the Committee would revisit with the President or Provost the strategic positioning goal, given the recent publication of a revised ranking of the 200 top world universities by the Times of London.

Professor Bauer adjourned the meeting at 3:00.

-- Gary Engstrand

University of Minnesota

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Excerpt from the minutes of the Senate Research Committee 10/31/05

1. New Budget Model

Professor Ruggles convened the meeting at 1:15 and welcomed Senior Vice President Cerra to lead a discussion of the new budget model. Dr. Cerra distributed a handout and briefed the Committee on the new model.

Dr. Cerra noted that in the previous model, all state funds, indirect cost recovery funds, and tuition went to the central administration, which in turn doled out money to the colleges and support units. In the current model, state funds go to the administration, ICR funds are split roughly 50/50 between the administration and academic units, and tuition revenue goes to the colleges. After adoption of the current model, the University added the Internal Revenue Sharing (IRS) assessment to fund institutional common goods and academic priorities (the IRS currently yields about $100 million). It also added the University Fee to fund central services and other investments (such as compacts); for the current year, the Fee produces about $52 million.

The institutional budget model is a group of "attribution rules for revenues and expenditures," Dr. Cerra said, "that assist in achieving (but don't determine) the strategic goals and objectives" and do not change policies and priorities. The budget model is a tool so that units know what comes in and what goes out. The University's strategic goals surround and direct the development of policies, priorities, and procedures. The budget model is intended to allow the University to align its strategic goals with policies and procedures; Dr. Cerra emphasized that the budget model does not determine priorities or goals.

Dr. Cerra outlined the eleven working principles of the budget model committee. Two were of particular importance, he said: transparence and simplicity. The principles were developed based on conversations with a lot of people who registered their complaints, likes, and dislikes about the current system. Simplicity and transparency were particularly important because people should know where revenues come from and what they are being spent on. Dr. Cerra also noted the principle that the budget model should "place the management of financial risk at the level of the institution that can best control the contributing factors and act to address them."

The new model, entitled "earned income and full cost," provides that units receive the dollars they earn and pay for what they use. State funds will go to the President (except where state special appropriations by law must go to stipulated units), tuition will continue to go to colleges (and will continue to be split 75/25 for students taking courses outside their college of enrollment), the University Fee and ICR funds will go to academic units, and all other revenues earned by units will stay with the units (as at present). The state appropriation will go to the President. Money will be taken "off the top" of the state appropriation for academic compact investments. Central services will be funded on the basis of rates that are being developed in line with bases of attribution recommended by the budget model committee.

There are nine attributed costs (utilities, custodial/operations, debts and leases, libraries, research, information technology, student services, central administrative units, and general purpose classrooms). The bases for attribution of costs range from actual consumption/costs (utilities, debt and leases) to assignable square feet (custodial), to weighted faculty and student numbers (libraries) to headcount (information technology) to credit hours (classrooms) to total expenditures (central administrative units). The three cost-allocation measures are consumption, cost-driver based (using a proxy rather than measurement of actual use), and common-good based allocation based on a variable accepted as reasonable (e.g., for central offices). They drew a distinction between public goods (there are none in the system, so there are no funds off the top for one) and common goods (costs for which are assessed to the units).

Dr. Cerra said there are several points that should be understood about the new model (much of the following language is a direct quote from the handout).

1. The model is a set of stable revenue and cost attribution rules that do not determine strategic goals.
2. A sound process for budget approval and rate development is key for units whose costs are assessed to academic units.
3. The process is dependent on strong leadership to approve "cost pool budgets" (units whose costs are charged to academic units) and to make strategic allocations of state funds—leadership must do its job of making allocations in line with priorities, saying "no" when necessary, and putting incentives in place.
4. The model will be implemented at the college/RRC level, not at departments. The University is not ready to deal with this model below the level of the deans; it is not clear that the information needed can be obtained. It will be up to the colleges to decide if they want to implement the model at the department level.
5. Good performance measures and good data are essential for analysis.
6. Existing consultative groups will be essential to promote transparency and understanding of decisions (e.g., this Committee).
7. The process will evolve over time. Year one will largely be a conversion to the basic structure and there will be refinements in the future. The plan is to be implemented July 1, 2006, and will be revenue-neutral for units in the first year. After that, the units will determine what they buy, and do not buy, within certain limits.

Dr. Cerra reviewed the methods by which various costs will be assessed to academic units (Facilities Management, information technology, administrative service units such audits, Board of Regents, Budget and Finance, Human Resources, Senior Vice President for Academic Affairs and Provost, etc., principal and interest on debt, and so on). Research expenditures, $14 million, will cover the Office of the Vice President for Research, Sponsored Projects Administration, Patents and Technology Marketing, Sponsored Financial Reporting, and the Academic Health Center Office of Research). In essence, the people who use these services will pay for them; the rate (which will be the same for all academic units) will be calculated as a percentage of sponsored research expenditures using a three-year rolling average (to minimize the impact of annual fluctuations).

Vice President Mulcahy reported that his office looked at a number of ways to assess research administration costs. The bottom line is that sponsored research expenditures is the most convenient and most consistent way to assess the costs. Professor Ruggles said that there could be large differences among units (e.g., IT has no human subjects and no animal research). Dr. Mulcahy said those are actually very small differences in the total costs. Dr. Paller said that clinical grants, which tend to be larger, will thus pay more. Units may be losing a little in one place and gaining in another and it seems that things will come out about even. Dr. Cerra said that users pay, and while there may be very minor cross-subsidies, they went round on this quite a bit and finally concluded that the sponsored research expenditures is the best measure.

Professor Ruggles said that the $14 million seemed low for an institution that has $561 million in sponsored research expenditures. This is really a very small percentage of expenditures. That says how economically the University performs the research administration function, Dr. Mulcahy responded; it has very low overhead.

Dr. Cerra turned next to the libraries, the assessment for which is to be based on a weighted headcount (Lower division student = 2, UD student = 3, professional and graduate students = 4, faculty = 4). These weights were developed 30 years ago and are still used as part of the instructional cost studies; the budget model committee thought they were a good place to start. The libraries assessment will be based on a unit's proportional share of total headcount, based on the weightings.

Mr. Spetland reported that the libraries are not completely comfortable with this methodology because the entire information technology world did not exist 30 years ago and because they must now do their budgets in advance of academic units—the libraries are now considered a service unit. Dr. Cerra said the University will track these assessments as the budget model is implemented. Professor Ruggles said that the University can track hot air, electricity, and so on, but then uses this rather vague formula for the libraries. One might measure the cost of brain research journals compared to journals in the social sciences; library expenses are not the same across fields. Dr. Cerra said that is difficult to know given the "electronification" of the libraries. He said that all service units must do their budgets before the colleges and campuses so that they (colleges and campuses) can know the costs they will be assessed. Professor Ruggles pointed out that the majority of the student headcount is in CLA but the majority of library expenses is not CLA. That is why the headcount is weighted, both Drs. Cerra and Paller responded; 6,000 professional students equals 12,000 lower division undergraduate students. Dr. Cerra agreed that they will have to check the validity of the weighting as they go along. Professor Ruggles remained unpersuaded and said the formula seems implausible.

The first year will be revenue-neutral, Dr. Paller observed; after that, there will be pressure to right-size budgets so units can cut costs. How can CLA affect the libraries, he asked Dr. Cerra. What is needed is a process that is not yet in place, Dr. Cerra said. The rate-setting must be transparent. This is a starting point for a formula and the transition provides a year to develop a second-year formula. That will be needed when direct use cannot be measured.

Professor Edgell asked when they would expect to have a second-year formula and how long it would last. One wants the formula(e) adjusted so it is accurate, but the goal is also to achieve stability so units can predict their costs. How long will it take to get a second-generation formula and how stable will it be? There is no question about the stability of the formula (e.g., headcount for the libraries), Dr. Cerra said; the question is the weighting. One assumes the weighting may continue to be adjusted, including perhaps on a year-by-year basis.

Does everyone agree that headcount is the best way to assess library costs, Professor Ruggles asked. To start with, Dr. Cerra said, and there would have to be a good reason to change. Did they do an analysis of different library costs across disciplines, Professor Ruggles inquired. It did not make much difference in the assessments, Dr. Cerra said. Professor Ruggles said he found that hard to believe. The biggest element of the denominator is the number of users. Dr. Cerra said one can carve out the cost of journals but the resulting complexity would make the assessment difficult to understand There was an argument the libraries should be a public good but the budget model committee did not accept it and concluded that library costs depend on the number of users. Professor Ruggles said he believed that is demonstrably not true. Dr. Cerra said the budget committee did not agree with him.

Dr. VanDrasek asked about assessing outsider users of the library. Dr. Cerra said that was so small a percentage of library use that it was not worth the complexity of developing a charge.

In response to a question from Professor Seybold, Messrs. Volna and Wink explained that the new budget model would have no impact on the University's ICR rates and arrangements with federal agencies.

In the discussion about the assessment of the cost of general purpose classrooms (assessments to academic units will be based on their proportionate share of student credit hours), Professor Edgell asked if this included thesis credits. Dr. Cerra said it does: if the student gets a credit, it's in the count. Again, he emphasized that they opted for simplicity and transparency. Carving out special cases will cost more to administer. Professor Edgell said it should not be difficult for the Registrar to differentiate between registrations that use classrooms and those that do not. But one exception leads to another, Dr. Cerra said. This is not an exception, Professor Edgell insisted; the data are already available. Dr. Cerra pointed out that there are 65,000 students in the denominator; it would require a large number to have an effect and to make it worth the programming time to change the software. The capacity is there, he agreed, but said it would not make sense to put in this exception. He said that the Graduate School agrees with this view. Professor Ruggles wondered if the thousands of students taking thesis credits would not, in fact, be a large number that would affect the outcome. Dr. VanDrasek noted that the Graduate School can accept this because it is not paying for the classrooms. Dr. Cerra conceded at the end that the formula may not be completely right.

Dr. Cerra then reviewed the approach to academic investment pools (for compacts and within the President's and vice-presidential offices). They will be taken off the top of the state funds but will be removed from the budgets of central units before those unit cost assessments are developed. The decision will be made about the size of the compact pool and the pools within the central offices.

In terms of the state subsidy, the budget model committee did not feel it had the authority to tell the President how to spend the money. What it did was develop a set of general principles. The President will make decisions about its distribution annually. It will be used to implement University priorities with the leadership to be held accountable for addressing priorities through the budget. Allocations will be made in support of unit-level performance agreements based on programmatic outcomes and financial management. The budget process, information, and formatting will be consistent across units to support decision-making. Total annual allocations of state funds cannot exceed the available amount. Allocation decisions cannot force a unit into a deficit for the year—but it "can force discussions about alternative levers in revenues and cost allocation strategies."

Professor Ruggles asked for Committee discussion of the implications of the budget model for incentives for doing different kinds of research and for collaborative research. In the past, revenues from "rich" areas that generated a lot of ICR funds were used to support fields that were not so rich (not so able to generate ICR funds). Now there are a lot of incentives for colleges not to use revenues in this way. At the same time, the strategic positioning goals say the University should invest in new and collaborative research in order to become one of the top three public universities. The budget model, however, will provide an incentive to invest in fields that generate a lot of ICR funds. There is no incentive to invest in the classics, for example.

Those things are true today, Dr. Cerra said. The appearance is that programs were funded by ICR revenues, but ICR funds actually covers expenses that the University has already incurred. In addition, the process is dependent on strong leadership. That must be part of the discussion between the vice president and the dean about what is going on in the college. The Medical School cannot drop the family practice program because it does not generate enough ICR funds; the academic mission of the University must be protected. There could be abuses, he agreed, but the relationship between the faculty governance system and the administration provides checks and balances—they would hear about abuses. And one must look at the strategic directions of the University: Is it likely that some things will not be funded? Yes, Dr. Cerra said, although he could not say what those things might be; the University community will have to make those decisions.

How is the commercialization of intellectual property covered in the new budget model, Professor Luby asked? Dr. Mulcahy said the budget model only covers the cost of what his office pays for, such as Patents and Technology Marketing. It does not cover revenues from licenses and so on.

Dr. Cerra added that there are no Internal Service Organizations in the cost structure and certain auxiliaries are also not included, because they set their own rates, with administrative approval, and recover their costs.

Professor Gantt asked if what might be considered "research infrastructure" is covered by the budget model. The services for research and grants management are, Dr. Mulcahy said, but other items such as equipment, buildings, etc., are not. What is here is what is in the Office of the Vice President for Research budget (plus Sponsored Financial Reporting in the Comptroller's Office), Dr. Cerra said. This is an important question, but other portions of the research infrastructure are funded in other ways.

Are there any mechanisms built in to control the costs of service units, Professor Ascerno asked? They must go through a yearly review, Dr. Cerra said, although the process has not yet been set. The process must be transparent and the units must be accountable. They will talk with the President about beginning to develop the process. He repeated that the budget model is built on transparency; if it is not clear how rates are set, and that they are valid, the model will not get anywhere.

Professor Ascerno maintained that one University goal is to encourage interdisciplinary teaching, it would be better to direct tuition to the designator rather than the college. Now it requires a subset of agreements to transfer tuition for interdisciplinary teaching. Dr. Cerra said he made that same argument and the issue is one that needs watching.

What will be the biggest impact of the new budget model in one or two years, Professor Sera asked? The first year will be a "wow" year, as units look at the numbers, Dr. Cerra said. "I had no idea we spent this much on that item." One oddity he has noted, he said, is that when the air-conditioning is set for 68 degrees, for example, some people in the building have space heaters. This may not be a wise expenditure of funds. The major questions will be about transparency and rate setting and the accountability of the rate-setting process.