Minutes*

Senate Committee on Finance and Planning
Tuesday, November 21, 2000
2:15 – 4:00
238A Morrill Hall

Present: Charles Speaks (chair), Jean Bauer, Leanne Baylor, Stanley Bonnema, Charles Campbell, Daniel Feeney, Stephen Gudeman, Elo Charity Oju, Jane Phillips, Terry Roe, Rose Samuel, Cory Stingl, Susan Carlson Weinberg

Regrets: David Chapman, Wendell Johnson, Joseph Konstan, Michael Korth, Richard Pfutzenreuter

Absent: Eric Kruse, Michael Volna, J. Peter Zetterberg

Guests: Professor Sanford Lipsky (Chemistry), Thomas Shaughnessy (University Librarian); Associate Vice President Stephen Cawley (Office of Information Technology), Mr. Steve Fitzgerald (Director of Classroom Management); Ms. Julie Tonneson (Office of Budget and Finance)

[In these minutes: (1) funding for IT libraries and the costs of academic publishing; (2) network node (IP) charges/rates and recovering the cost of the technology infrastructure; (3) biennial request health care data; (4) graduate assistant fringe benefits/tuition benefits]

1. Funding for IT Libraries

Professor Speaks convened the meeting at 2:20 and welcomed Professor Sanford Lipsky (Chemistry) and Dr. Thomas Shaughnessy (University Librarian) to discuss Institute of Technology library issues. He noted that materials had been provided to Committee members and asked Professor Lipsky to highlight issues he wished the Committee to consider.

Professor Lipsky thanked the Committee for putting him on the agenda and pointed out that he is chair of the IT Library Committee. He told the Committee that he wrote to Vice President Maziar last April after he learned that additional cuts would be made in the library budgets—when the library was already in bad shape. He received no response to his letter and believed the administration was not paying attention to the problem.

There was then a meeting to firm up the cuts that would be made; the libraries asked that faculty send letters to the administration asking for help or IT would lose an additional 25% of its journals. Professor Lipsky said he sent a letter to the Faculty Consultative Committee and this Committee.

Faculty are not as concerned as they should be, Professor Lipsky said. The libraries have not released data on what will be cut but some have learned and they are very concerned. At present it was

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

said the libraries purchase only one out of three science and technology books published; he said he checked, on Amazon.com, and learned that the proposition is accurate.

Professor Speaks asked if cuts in the libraries falls disproportionately on IT or if it is a University issue. Professor Lipsky said it is an all-University issue but that the cuts do fall disproportionately on IT because of the cost of its books. Professor Campbell said the summary number is this: IT libraries will have seen what is in effect a 40% decrease in journal subscriptions since 1990 if the planned cuts take place.

Dr. Shaughnessy said this is a national problem and affects the sciences more than other disciplines. Many of the science journals are published by Elsevier, which has just bought out another publisher so has become even larger and will have even more of an impact on universities because of its outrageous pricing.

There was a statement issued by the AAU that said this pricing must stop and that universities cannot keep paying these rates. The problem is that the faculty obtain grants, do research, and publish articles; the copyright is given away to the publisher, which then sells the articles back to the universities that provided them. This is crazy and must stop. The question is how to break the cycle, Dr. Shaughnessy said. One proposal has been that when faculty are being considered for tenure or promotion, perhaps only six or seven articles would be considered and that quality would be emphasized, not quantity.

Another problem is that because of the outrageous cost of journals, the libraries are purchasing fewer books, Dr. Shaughnessy said. At the same time, book costs are high; the libraries can purchase a number of books in philosophy for what it costs to buy a single chemistry text.

What has the University done? Two years ago, Executive Vice President Bruininks convened a library task force which identified the amount of funding needed by the libraries to meet its needs: about $5 million annually, or $10 million for the biennium. The libraries received about $1.5 million for the biennium. Another problem is that much of the money the libraries receive is one-time funding, not recurring, because the state is so stingy; it does not provide enough money for faculty salaries or for the libraries. The University also did a good job when it appointed the budget management task force, chaired by Dean Rosenstone, to look at the larger question of funding common goods. Moreover, to increase library funding does not address the question of "feeding the beast" (i.e., commercial publishers), Dr. Shaughnessy observed.

On the question of common goods, Professor Speaks reported, Ms. Phillips is chairing a subcommittee that is looking into the matter. Ms. Phillips said that she, Professor Speaks, and Professor Ahern (chair of the Senate Committee on Educational Policy) have sent a joint letter to the President asking about the status of the recommendations from the budget management task force with respect to common goods.

The libraries fall in the common goods category, Dr. Shaughnessy said; they have no revenue to speak of and must depend on the state and on gifts. He said he is hoping the recommendations of the budget management task force will help address the library's funding problem. He said he did not know what the prospects are for a big increase in the University's biennial funding but noted that the libraries are prominently featured. What if the requested funds are not received? In his mind there are possible solutions; one, the libraries could work with the students to ask for a library fee of perhaps $2 per credit, which would generate about $2 million.

Professor Gudeman observed that the libraries are a resource for the state and asked Dr. Shaughnessy to talk about the costs related to that role. Dr. Shaughnessy confirmed that the libraries are indeed the research library for the state (except for the Minnesota History Center, which has the resources for the history of the state). The libraries are the library of last resort and lend to other libraries across Minnesota. If someone outstate wants a copy of an article, the libraries provide it for free; this is a service the legislature subsidizes—but it does not pay for the books and journals that are the source of the materials. The libraries lend more books and periodical articles than any library in the United States except the National Library of Medicine—it lends more than the Library of Congress.

The legislature pays for the staff time for this service, Dr. Shaughnessy confirmed, but he agreed with Professor Gudeman that it might be useful to develop an estimate of the percentage of the use of materials that is devoted to public service. He said he could provide an estimate.

Professor Roe inquired what fraction of library services go to research in IT and what level of tax on grants and the like would be needed to support the IT libraries? Dr. Shaughnessy said that the A21 guidelines sharply limit the percentage of grant funds that can be charged for the libraries. The libraries receive about 2%, or about $1.5 million, in Indirect Cost Recovery funds from grants, money that goes directly into the acquisition budget. Do the libraries provide services that cost more than what they receive from these funds, Professor Roe inquired? They do, Dr. Shaughnessy said, but most research university libraries do not receive more than 3%. Even the additional 1%, however, would provide a considerable amount of money, given the volume of research funding the University receives.

There seems to be a discontinuity here, Professor Speaks said. If the administration wants something, it imposes a tax; if parking wants a new facility, it increases rates for users. He said he was not opposed to some student fee unless it were the SOLE mechanism to provide additional funding for the libraries. The talk has been about faculty research needs; for that the University should not go to the students. He maintained also that for the Committee to treat this casually, if the legislature does not provide the needed funding, would mean it was abrogating its responsibilities.

Professor Campbell said there should be discussion of "cutting off the head of the monster." Would the American Association for the Advancement of Science be an organization to talk to, he asked Professor Lipsky? For about half of the faculty in Physics, he said, the most important journals are not published by Elsevier, but there is a vocal minority who do use them and who would face a crisis if access to those journals were cut off. If the AAAS were to establish a movement of journals out of privately-held hands and into professional societies, that would help. He related that he quit publishing in the Elsevier journals because of the issues being discussed at this meeting.

It was not part of the task force charge to consider the option of cutting off journals, Professor Speaks commented. This is a social, societal problem; the University cannot cut the ground out from under its own researchers.

Is there a movement to e-books, Professor Speaks then asked, and if so, with what consequences? The University has about 1500 e-books, Dr. Shaughnessy responded, and there is movement to more electronic access to journals. Elsevier wants to provide access to all of its 1100 journals; the University now spends about $1.2 million on 700 of those journals and for an additional $140,000 would have access to all 1100 for the past three years and into the future, but it must also maintain the print versions. The Elsevier software is "slick," he said, because one can click on a footnote in an Elsevier journal and instantly have on the screen the article cited in the footnote (if it is in another Elsevier journal).

Does not Elsevier recover its costs in books, Mr. Stingl asked? It must not lose money on this offer. Dr. Shaughnessy agreed that Elsevier will not lose money; it is a transnational corporation and the bottom line is money, he said. The journal Brain Research costs $15,000 per year. If it is a monopoly, Mr. Stingl asked, why cannot it be broken up, like Microsoft? Dr. Shaughnessy said the attorneys for the Association of Research Libraries is pressing the government on this point; at the same time, the libraries cannot work together against Elsevier because that is a restraint of trade.

Can one get the leaders of the professions to say that they will not publish in Elsevier, asked Professor Gudeman? Yes, replied Dr. Shaughnessy, but that has not worked. But if professional societies get into the publishing business that would provide competition, Professor Roe pointed out, and as the price goes higher there is more stimulus to do so.

Dr. Shaughnessy commented that the Senate Library Committee is also on top of these issues and trying to help. Has it developed solutions that have fallen on deaf ears, Professor Speaks asked? It has endorsed the budget request, Dr. Shaughnessy said, and it has been very helpful to have a faculty governance committee endorse it; that may in part be why it is in a high position in the University's biennial request.

Professor Speaks said that the problem will not be solved at this meeting and that it deserves more than a courtesy hearing. He said he would like to schedule more time to think about the issues. Rather than reinvent the wheel, the Committee should invite Professor Firchow, chair of the Senate Library Committee, to join the Committee; the two committees can urge that the Senate Consultative Committee give serious attention to the matter.

The Faculty Consultative Committee did have a discussion of this topic generally, Professor Speaks recalled, but that was not intended to lead to immediate action.

There are some things that could be done, Professor Roe pointed out. If IT library costs are increasing, the University could redistribute ICR funds. It would help, Professor Speaks said, to have information on how the administration allocates ICR funds. All of the activities funded are important but the Committee could suggest that the libraries move up on the list. It was agreed that Mr. Pfutzenreuter should be asked to provide data that the Committee could look at and then put this item back on the agenda. Professor Campbell suggested that Vice President Maziar also be invited.

Professor Feeney urged that the University also pursue "the head of the beast," and if faculty governance must initiate the action, "so be it." The beast is getting bigger and bigger, and talk about a tax on students is only putting a finger in the dike—which will eventually collapse. The Elsevier deal is only a lease on the electronic journals, a lease that can be terminated if the University does not want to pay. At least if the University buys hard copies it has the copies. It is imperative that professions take the journals away from Elsevier; it has been done.

Professor Speaks left the meeting in order to attend another; Professor Campbell took the chair.

2. Network Note (IP) Charges

Professor Campbell welcomed Mr. Cawley to the meeting to explain how IP charges are set.

Mr. Cawley distributed a handout with financial data and recalled that this item comes up every year on the agenda of several consultative groups: the cost of the University's data network and the method of allocating costs to colleges and departments. For some time there has been a node (IP) rate; the Office of Information Technology tries to count connections and charge for each. There are two issues involved, he said. First, the cost; if the count is accurate and fair, what makes up the cost (which increases each year)? Second, the way that counting is done.

First Mr. Cawley turned to the cost of the network. There are four elements to the cost: the Twin Cities campus backbone, the Twin Cities modem pool, commercial internet (all campuses), and inter-campus links (all campuses). The campus backbone is all the wiring and equipment needed to operate the system. One can argue about whether the modem pool is a common good, he said, but he has a directive from central administration that modem pool costs are to be included in the node charge. He said there has probably been a peak in modem pool use because many users are changing to broadband services from ATT and Qwest. Use of that alternative will probably increase because the University has negotiated discounts with the companies. The cost of the modem pool will probably come down.

The commercial internet charges are what worries him most, Mr. Cawley related. That is the University's connection to the outside world and the price has nearly doubled in the last two years. There is not a lot the University can do about it, although it has limited some kinds of use (e.g., Napster was taking 60% of the bandwidth; that has been stopped).

The total cost of the network is $7.87 million; the node rate for 1998-99 was $8.28, for 1999-2000 was $13.64, and for 2000-01 is $15.68. Mr. Cawley said he would welcome a discussion of methods and approach and a recommendation for doing things differently in the future.

Ms. Phillips asked if there is a different node rate for etherjack connections. Mr. Cawley said that the charges he presented applied to every network connection, whether centrally managed or on a local area network; in the case of the etherjack connections, there is an additional $4 charge for the last part of the connection into the building. What about wireless use? Now they count as one connection. The problem is that they cannot be counted, Mr. Cawley said. He said he is a big proponent of wireless use, wants to encourage its use, and has supported pilot projects (which are not included in the costs of the network that make up the node charges). But it is a problem for administering charges.

What pricing alternatives is he thinking about, Professor Roe asked? Would he rather charge on the basis of time used rather than connection? That was the first alternative he thought about, Mr. Cawley said, because it would be more accurate and fair. But it could make charges to departments unpredictable and there is no good way to measure use without a lot of additional overhead costs, so he has abandoned that option. As one thinks about the future, people will have more than one connection--home, office, wireless--so it would be best if the charges could be per person. That would encourage units to use the full capacity of the network. The charges could be by headcount, although how students would be counted is unclear; perhaps there would be a technology fee. Counting people would be the best way to go; while not all employees have computers so there is a fairness issue, all employees SHOULD have access to the network, he said.

What are the fairness issues, Ms. Oju asked? His office can count all of the 53% of the connections that are centrally managed, Mr. Cawley replied, but it is difficult to count the other 47% that are locally managed. It is basically an honor system; departments can cheat, which puts his office in the role of policing. Some argue that while they have two or three connections, they only use one at a time and should not be charged for more than one. Classrooms are also a big problem. It is difficult to develop a fair model.

Any change to another model, such as charges based on headcount, must be slow. Part of the problem, Mr. Cawley explained, is that when the charge was moved to nodes, the number of nodes dropped. It is still dropping, month to month, on the locally-managed LANs. He said he is sure that people are not disconnecting, but with the dropping number he can incur a loss at the end of the year. There are a lot of arguments about node charges, some of which are fair, and the accountants do not like the node charges. They spend hundreds of hours counting nodes, he said in response to a question.

Mr. Cawley said his office is now doing a calculation of what charges to departments would be if the costs were per-person. He recalled that when telephone rates dropped and the University moved to full charges for data rates some departments saw a windfall and some saw increased charges. The same situation will likely obtain in this case as well. Professor Campbell recalled that in the case of his department, Physics, the increased charges equaled a junior faculty position. Departments did not have extra money so are using open faculty lines to pay the costs. They received no relief from central administration for the increased costs.

Mr. Fitzgerald explained that even with reduced rates, the charges for classroom connections after technology upgrades will go from $1.2 million to $1.9 million (from 2003-04 to 2004-05).

Discussion turned to the requirements of Circular A21 on indirect cost charges, which bar cross-subsidies. Mr. Cawley related that all of the costs for the network were originally paid from central funds but that they were gradually shifted to users as costs increased. There are no ICR funds in his office, he added. That seems strange, Professor Roe commented, because part of its activities go to support research. Information technology costs are included in the calculation of indirect costs, Mr. Cawley said; Professor Campbell observed there may be a disconnect between the calculation of ICR rates and what is paid for by ICR funds, in part because of the way the University was previously obligated to treat ICR funds. In the past, they were deducted from the legislative appropriation but the legislature funded everything that ICR funds were to support. President Keller convinced the legislature the University should keep ICR funds and they were used for start-ups, etc. There might be a drift in the use of ICR funds that could violate the spirit if not the letter of the rules. The issue of the allocation of ICR funds should be discussed with Vice President Maziar as well as Associate Vice President Pfutzenreuter.

What percentage of the network budget is labor, Mr. Bonnema asked? Mr. Cawley said it is a significant portion, although he did not know the percentage. Who oversees the office and decides whether there are too many or too few people or if it should be cut back, Mr. Bonnema then asked? He noted that in academic departments they must live with the funds they have and cannot increase charges to others. Mr. Cawley said his office was cutting back; the biggest problem he faces is salaries and retention.

Professor Gudeman asked if there had been any analysis of the rate increases. Mr. Cawley said the factor that caused the largest increase was the withdrawal of central support for the inter-campus links after 1999. Capitalization is the biggest factor affecting rates; for example, routers previously paid for by central administration are now on a five-year depreciation schedule.

Professor Campbell said that for a long time, as new items needed funding, central administration provided soft money. Each year there was a debate about how long the items should be funded centrally; some were ultimately charged elsewhere in order to make the budget work--without shifting any funds. There are also IMG effects and Internal Service Organization requirements, Professor Gudeman added, and it is difficult to parse those effects.

If the method of charging is not changed for next year, Ms. Phillips asked, will the charges go up at the same rate as recently? Mr. Cawley said that was a fair question and that he would return to the Committee with a proposed rate structure for next year and would explain the components of the rates.

Professor Campbell said that a colleague had asked if the University would go to a wireless telephone system. He said he would add a question: at what point will a wireless system be cheaper to maintain than the existing network? Mr. Cawley said that time is not now but that it will come. The problem now is bandwidth; even the enhanced technology available cannot replaced what is needed.

Professor Campbell thanked Mr. Cawley for his presentation.

<u>3. Biennial Request Health Care Data</u>

Professor Campbell welcomed Ms. Tonneson to the meeting and observed that the University's health care costs are a complicated issue. He asked for a brief overview of the issues.

Ms. Tonneson said the handout had been prepared to answer a specific question—how can the University's projected health care costs for the next biennium really cost $58 million, given the numbers that have been reported elsewhere. For example, the annual costs are $67 million and rates are expected to rise about 20%; the O&M portion of the salary base is about 50% of the total. The $58 million estimate is what departments will pay through the fringe rate in the next biennium for health care.

The reason that the biennial request amount is higher than what would be expected is that costs are higher than projected, they will increase more than 20%, and there are over- and under-recoveries each year. The University must estimate health care costs each year and every year it is wrong; any under-recovery must be made up in the next two years. She later explained that the federal government requires recovery two years later, when the rates do not recover a sufficient amount, and that the fluctuation in cost 2001-02 is much larger than they had anticipated (the rates must be set almost a year in advance and they had no way to predict the large rate increases).

Ms. Tonneson reviewed the numbers with the Committee and reported that the Committee on Faculty Affairs has asked for additional data. The data will be provided to both Faculty Affairs and this Committee.

Associate Vice President Pfutzenreuter was at a meeting of Big Ten financial officers; the majority expressed a concern about the increase in health care rates and how they can be addressed. Ms. Tonneson said that Mr. Pfutzenreuter would like to consider the option of direct charges rather than use of a fringe benefit pool; there would, however, be distribution effects if the change were made. Those units with higher salaries are contributing more than what it costs to provide the benefits. Models have not been run, she said in response to a question, but if there is interest in making a change, the numbers can be prepared.

So, Professor Roe observed, the rich are being taxed to subsidize the poor. This does not occur only on the O&M base, Ms. Tonneson said. It may be, Professor Campbell said, that the non-O&M salaries subsidize the O&M salaries because there are probably higher salaries on the non-O&M salary base; Ms. Tonneson agreed.

How is this all explained to the legislature, Mr. Bonnema asked? Ms. Tonneson said they have explained it to the Department of Finance staff and have the numbers to back up the request—but they do find it difficult to make easy. But they face the same problem.

Before the Committee can give serious consideration to changing to a direct charge system, Professor Feeney said, it will have to see the numbers. He said he could advocate the change as a benefit to the Academic Health Center but that he worries about CLA; any solution must be equitable for the entire University. Such a change would have a severe impact on Aramark, Ms. Phillips speculated, because it must have among the lowest-paid employees.

Professor Feeney moved that the Committee request the data on changing to a direct charge system. The motion passed unanimously.

Professor Campbell thanked Ms. Tonneson for the clarity of her presentation.

4. Graduate Assistant Fringe Benefits

Professor Roe inquired if Vice President Maziar should be invited to join the Committee again. He said there is a question about the high fringe benefit rate for graduate students; those who are post-prelim would prefer tuition plus salary. The research component is subsidizing the teaching component, especially for students who are post-prelim. A high proportion of graduate students at the University are supported on a Research Assistantship, as opposed to a Teaching Assistantship. Thus, the rather large (46% plus) overhead on an RA (the proportion of the overhead beyond FICA and health and so on) is to cover their tuition costs. But this simply means that the University takes this proportion from the research budget and reallocates it to tuition revenues. Question one, do these revenues transfer to the Graduate School, back to the college in which the student in registered, the college in which courses were taken, or where? Question two, what is the volume of this revenue so that the Committee can obtain some insight into the "tax" imposed? Question three, does this not amount to a tax on those components of the Univ. the are engaged in research (and thus have domestic, e.g., Experiment Station, or outside sources of research revenues) relative to units that are mostly teaching (CLA)? Suppose that the rule is changed. For example, post-prelim, let a student choose whether to accept the current salary (and the department pays the 46% fringe) or to receive about 1.23 X the salary and they pay their tuition.

The Committee also concluded it needed data on the number of graduate assistants who are on 12.5% appointments and how much the fringe benefit rate would increase if the tuition benefit were extended to those students.

Professor Campbell then adjourned the meeting at 4:00.

-- Gary Engstrand

University of Minnesota