

Minutes*

Senate Committee on Finance and Planning
Tuesday, October 10, 1995
3:15 - 5:00
Room 238 Morrill Hall

Present: Fred Morrison (chair), Thora Cartlidge, Craig Dexheimer, Kathy James, David Kittelson, Patrice Morrow, Roger Paschke, Richard Pfitzenreuter, Peter Robinson, Doris Rubenstein, Charles Speaks, Craig Swan, Steven Thelen, Ryan Thrun, James VanAlstine

Regrets: Karen Karni, Gerald Klement

Absent: David Berg, Allen Goldman

Guests: Professors D. Fennel Evans & David Hamilton (re-engineering), Joanne Jackson & Vilis Vikmanis (Academic Health Center)

Others: Mike Berthelson (Budget and Finance), Faye Thompson (Environmental Health and Safety)

[In these minutes: Re-engineering; capital and operating budget request changes for the Academic Health Center]

1. Re-engineering

Professor Morrison convened the meeting at 3:15, called for a round of introductions, and announced that the agenda had been changed. Instead of a presentation on the campus master plans, there would be a presentation on recent changes in the operating budget and capital request. He then turned to Professors Evans and Hamilton to lead a discussion of re-engineering.

Professor Evans reported that he and Professor Hamilton are members of a task force to look at the redesign--not re-engineering--of service operations in the University. He said he wished to provide a brief review of how they came to be involved in the task force, the key issues creating the need for the task force, and the challenges. [The task force has been disbanded since this meeting was held.]

He and Professor Hamilton were added to the grants management task force last spring, Professor Evans related, when it was realized faculty should be involved. The University contracted with Arthur Anderson to produce a document, which report identified five areas that needed to be addressed: roles and responsibilities, policies, software, organizational changes, and training.

The characteristic of the proceedings of the grants management task force was that it was dominated by administrative concerns; the proposed solutions to problems in central grants administration

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carried a budget of \$6.2 million; \$500,000 was later added for departments to make changes.

The key issue was roles and responsibilities; there are 120 steps from the initiation to conclusion of a grant. Grants management touches every operation at the University; if done right, much follows correctly. There are many issues that go beyond grants management, such as attracting good faculty and students and having desirable public relations as a result of a successful research enterprise. The situation right now is that there is central micro-management while the departments are held responsible. Getting a grant is half the responsibility of departments; in the new policy, the University would hold departments responsible for grants management, and if there are any fines, they would have to be paid from departmental funds.

He and Professor Hamilton wrote a minority view pointing out that the report did not take into account the fact that departments now carried as a result of the roles and responsibility document; of the 120 steps identified, 60 are now the responsibility of departments.

Professor Evans said that he and Professor Hamilton subsequently concluded they had "missed the boat" and should have focused on University information systems as well. Probably nearly \$40 million goes into information systems at the University--in Human Resources, grants management, student systems, and so on--and none of the systems talk to each other. Unless remedied, this will stabilize bureaucracies and antiquated procedures and will effectively prevent needed changes. They wrote to the President and Senior Vice President Infante pointing out the need for a task force to address the larger issues.

Professor Evans turned to a few slides and related that they tried to get a handle on the University as a financial operation and identified three goals: increase revenue flow from customers, optimize and minimize support costs, and assure compliance with federal, state, and University of Minnesota regulations. The assumption is that the financial situation has deteriorated to the point that operations are dictated mainly, if not entirely, by cash flow. Customers are organizations or individuals who provide money--all others are special interest groups who are managed in order to maximize cash from customers. Customers pay the University for three main processes involving education, scholarship and research, and special services. They estimate that 2/3 to 3/4 of the University's income goes to support costs, so only about 1/4 is spent on core competencies--faculty and TA salaries, GA salaries, and so on. Some see this is a ridiculous characterization of the University, Dr. Evans conceded, but he argued that it is about right; the balance between research, education, and services may vary between the provostal units.

The question is whether the University is to become more competitive, as state funds decline, and remain as one of the last 25 major research universities. There is no guarantee it will, Dr. Evans observed. In addition, the institution is going to adopt Responsibility Center Management (RCM)--that is a commitment made by the administration.

Supply costs are caused by bloated monopolies at the University; with RCM, the money will be given to departments and then taxed back, which will destroy them. It costs \$80 for a purchase requisition at the University because there is so much paper involved in the process; at some institutions it costs 15 cents. Dr. Hamilton interjected a comment that there are annually 690,000 purchases of less than \$2000 at the University, and it costs between \$40 and \$80 for each transaction.

Professor Evans said they want to be able to track the flow of money at the University; if one looks

at how expenditures are reported, one realizes that the University has difficulty tracking how the money is distributed between core competencies and support activities. It would be helpful if one could track the money flow and relate it directly to why people pay money to the University.

If the University could be made more efficient and could allocate funds more efficiently, that additional money could be directed towards the core competencies. Seventy-five percent of the \$1.8 billion budget goes to support services; if there were a 20% increase in efficiency and half of that money could be reinvested in core competencies, that would make the University competitive--and that should be a strong motivation to make it more efficient.

This may be an unusual way to look at things at the University, Professor Evans said; he invited comments.

One Committee member approved the analysis but questioned whether 75% of funds went into support activities. Professor Hamilton said that from the perspective of a college or department, the figure was not that high, but if all other activities were included, the amount creeps up to 75%. Professor Evans said that the figures include such things as building management, but the University needs to get a handle on those costs or it will not understand RCM.

One Committee member said he was intrigued by the analysis but concerned at a statement that parts of the University are bloated and sucking dollars from other parts. Faculty support has dried up in the last 20 years, and one should be leery about saying that a lot of money could be withdrawn from other parts of the University. The question of effectiveness applies to both the academic and non-academic sides of the fence, Professor Evans observed. Professor Hamilton agreed that for a faculty member who must do teaching and research, the support funds are not in colleges and departments; the costs arise outside academic departments while the core is being starved so faculty cannot do their jobs.

Another Committee member noted that there are non-academic activities that support the education of students and that the University cannot do without. One example is Housing, which is inadequate and underfunded but essential to the enterprise. Professor Evans agreed; if the University is to be attractive, it must provide supportive environments for students. The problem is that the University is bureaucracy-centered; it needs to deliver all its support services well.

The argument is not that support services are bad, observed one Committee member, but that their costs are higher than they need to be. Professor Evans concurred. He said there are a lot of high skilled, dedicated employees who make the University run; however, there is too much paper-passing. Each step in the process must be checked and the locus of responsibility identified. No one is responsible, now; compliance issues are defined in such a way that no one is responsible.

One needs to identify who is bringing in the money, said one Committee member--whether faculty through research grants, students, etc.--and those people must be supported. That is implicit in the analysis, Professor Evans replied; one can look at who brings in the resources and look at the flow of funds to see how they are used. The goal is to obtain more money. If the University is pictured as a box, grant management is a horizontal flow of money--the funds go in and out--and it could have a perfect grants management system with no money. The focus is too often on mechanisms and not on enabling activities that raise the money.

One Committee member noted that the situation for the coordinate campuses could be quite different. Professor Evans said their initial analysis focused on the Twin Cities but did not intend to exclude the coordinate campuses.

The motivation for the analysis was not to focus on regulations, which is the common concern of Morrill Hall; the focus is on enabling activities--why people give the University money and on stabilizing the University's position. One only needs to look at the NRC ratings to see that it has slipped over the last 20 years.

Different units have different support costs, said one Committee member, and asked if they have looked at other places for model that works better. In Europe, for example, management is more localized and they have less overhead. Does the University need to invent a new model or are there ones that could be used? Not on an overall basis, Professor Hamilton said; there is information about subsets of institutions, but not overall data.

Everyone agrees that support costs need to be reduced, said one Committee member, and the \$9 million retrenchment in the central administration is one part of that reduction.

His experience before coming to the University was at private institutions, Professor Evans related, and it was a culture shock to come to the University. The University must change the way it operates; it won't cease to exist if it doesn't, but it will cease to matter.

The lines between support and other costs are sometimes blurred, said one Committee member, and they can be hard to track when funds change categories. One provostal area is cutting funds from the central office, but they are largely pass-through funds for educational purposes; if cut from the provost's office, they are support funds, but if cut later, they are reductions in education.

Another area where there are multiple steps is in searches, it was pointed out. One of the most appalling examples is the number of steps and signatures required for a department to hire a temporary secretary or hire a faculty member--the latter being one of the most important things the University does. One Committee member recalled that it required a bundle of paper 1/4 inch thick to hire a temporary secretary, and the process took five months.

Professor Evans said they had developed a diagram of the steps the University follows in a national search; there are boxes all over the place, he said, and everyone he shows the diagram to giggles when they see it. "It is self-evidently ridiculous."

Professor Evans then noted the make-up of the redesign task force and the six areas it is looking at. One of them, information technology, is enabling and is key; it is an area where the University spends about \$42 million per year and has 425 employees. This is a major issue, Professor Hamilton added; for decades the University has had two information technology tracks, one under the finance vice president and one under academic affairs. There are significant areas of overlap in the two functions. There have been a number of committees that have recommended merger of the units and that they report to a single individual in order to streamline the operations, eliminate duplication, and make the system more customer-responsive--the last a very important aspect of information technology that the University has not done well with. This is an extremely important area--it includes such things as human resources, student systems, grants management, and financial management, all of which rely on information

technology. The task force spent a lot of time with individuals in information technology; it will see what can be done with the merger that is being effected.

Not all of the six problem areas will be worked on at the same rate, Professor Hamilton explained. The NIH letter has pointed out the problems in grants management, so it will be a priority. Information technology is important to grants management and to the human resource data needed for grants management, so these three (grants management, information technology, and human resource systems) will receive attention first.

They have identified a critical problem, commented one Committee member, the question is what will be done, and how?

Professor Evans said if one looks at the grants management process and the division of responsibility and the paperwork, there is much ambiguity in the allocation of responsibility. According to the roles and responsibilities document, the principal investigator, department administrator, department head, dean, and provost all are responsible in many of the steps involved in grants management. Given that definition of responsibilities, what is ORTTA's role?

There are low-hanging apples, Professor Hamilton observed, things that can be done. One possibility might be credit card purchases for those 690,000 transactions; a number of higher education institutions have them and they have reduced costs from \$80 to 15 cents per transaction, which saves a lot of money. There is also electronic ordering and payment. Asked if the \$80 cost is associated with people, Professor Hamilton said it was, to process paper; in some places positions have been eliminated to achieve savings. The Hospital has adopted a credit card system that achieved tremendous savings and reduced personnel costs.

There has been much talk of streamlining the budget process, observed one Committee member; the same streamlining needs to occur with accountability as well. Egregious behavior by someone at the University has led to the development of a policy on high to deal with the behavior, and the result is that there are layers of steps one must jump through. One could get rid of the layers of hoops by locating accountability.

If one had prompt financial reports on a grant like one does on a credit card, the principal investigators would FEEL more responsible. Now, if one tries to figure out what has been spent, it's like Kafka. That is what has driven the shadow systems, Professor Hamilton commented. Gail Klatt, the University Auditor, is developing a document that identifies practices that lead to compliance.

Dealing with grants is the easy part; what about the entrepreneurial activities of the faculty, such as in the private practice plans? There is an ethical problem there that the Medical School does not understand, said one Committee member. This is not confined to the Medical School, Professor Hamilton commented.

One concern about re-engineering determining the success of the University is the restructuring of the upper administration and the establishment of the provosts, Professor Evans said. An ambiguity is introduced. Some of the services with the most trouble presently report simultaneously through two vice presidents; that problem needs to be addressed.

They believe there is an inherent conflict when the chief operating officer is also the vice president for finance; the finance vice president needs to be neutral with respect to all parts of the University.

Professor Hamilton said he would leave the Committee with another statistic: there are 17,000 PAFs backlogged; anyone trying to process one will be in trouble--that is a year and a half's work.

Professor Morrison noted that they had identified a problem; the difficulty will be in implementation. He expressed the hope that Professors Evans and Hamilton would return to the Committee in the future to discuss the issues. Professor Hamilton agreed it would be important to keep the Committee informed, and noted that there is a Web page on the administrative process redesign task force.

One Committee member asked who appointed the task force (the President) and to whom its recommendations would go (the administration). It was urged that the task force work with the support units rather than shouting at the administration. Professor Hamilton said that is not what they are trying to do and need to correct any impression that they are. There are a large number of people on the service side of the University who feel the same as they do, Professor Evans said, who want the problems addressed in partnership with the academic side of the house.

Professor Morrison thanked Professors Evans and Hamilton for their presentation.

2. Budget Changes

Professor Morrison next turned to Associate Vice President Pfutzenreuter, who distributed several handouts to Committee members.

One Committee member objected at the outset that it was necessary to have a surprise agenda change at noon the day of the meeting when something is coming to the Board of Regents; the chair of the Committee should work with Mr. Pfutzenreuter to avoid these last-minute changes. Professor Morrison said he had been informed of these items at 10:30 that morning and expressed concern that there should be consultation before the proposals are turned into hard copy.

Mr. Pfutzenreuter then explained that there were three items: a change in the capital request, a legislative proposal from the Academic Health Center (hereinafter AHC), and the programmatic impact document mailed to the Board of Regents last week.

Mr. Pfutzenreuter noted that the Regents had reviewed the preliminary capital request in May and June; Professor Morrison pointed out that the Committee had reviewed it in August. The Board acts in the spring, Mr. Pfutzenreuter said, because the legislative timeline does not coincide with that of the Board; the legislature wants to spend the summer consider the requests. In September the Board reviewed the final capital request again and will act on it this week.

The total request is \$144,800,000, of which \$69 million is for Higher Education Asset Preservation and Renewal: health and safety costs, classroom renewal, and other space renewal/renovation. The other items are

-- Archives Facilities

43,200,000

-- Crookston Controlled Environmental Science Facility and Road Connection to High School	3,100,000
-- Duluth Library	20,000,000
-- Morris Facilities Review and Science IV (Design & Drawings)	3,000,000
-- Academic Health Center Center of Excellence Facilities	6,500,000

There are three changes in the request since August that have increased the request by \$20 million. First is an additional \$12 million under the Asset Preservation category for the Department of Public Health building [on Oak and Delaware]. The state intends to vacate it and donate it to the University; this is high on the Governor's priority list and is an opportunity for the University to obtain the building.

The second change is an increase in the funding for classroom renewal, from \$7 million to \$8.5 million. The third change is the addition of the last item, centers of excellence in the AHC, for Magnetic Resonance Imaging and for Molecular & Cellular Therapeutics.

Mr. Pfutzenreuter said the Board will act on these changes on Friday, and he understands that the state is moving fast on the capital budget; it will probably be the first thing on the legislators' desks from the Governor when the legislature convenes in January.

One Committee member inquired about the University policy of "no net increase" in square footage; what will be decommissioned when the Public Health building is brought on line? And what about the one-third debt service required by the state?

Mr. Pfutzenreuter said the University is asking, for the entire request, that the one-third debt service requirement not apply. The University's position is that it cannot take on all the projects and priorities that reflect statewide values and that it should not bear the cost. There is no formal policy calling for no net increase in space, Mr. Berthelson commented. Mr. Paschke explained that a domino effect may ensue: relocating parts of (the School of) Public Health to the (Department of) Public Health building means Epidemiology may move out of the FMC building, which will mean that as part of the information technology merger the University may be able to close down the Lauderdale facility and get out of space it is now leasing. It may also permit taking some of the Jackson-Owre-Millard-Lyon space off-line.

There is a new MRI facility on the East River Road, one Committee member pointed out. Mr. Vikmanis agreed and explained that it had been expanded twice already. They now have three magnets, have received a lot of additional money, and have the opportunity to add a fourth, but cannot expand in the existing facility. In addition, the East River Road parking ramp is scheduled to be demolished, so it seemed a good idea to build a new facility now, especially since they cannot expand in the existing, confined facility. Doing so would also conflict with the campus master plans.

One Committee member expressed a concern about operating costs of the new buildings. They have heard a lot from the administration about new buildings and the need to retrench operating budgets in order to run them because there is no other money. What are the provisions for operating costs? Ms. Jackson said the operating expenses would come from grant money. The Committee needs a guarantee of that, it was said; they have seen more space go on-line than off. Another Committee member expressed skepticism that grant funds would continue to be available.

Asked again about demolition of the existing MRI facility, Mr. Vikmanis explained that it was built for a very specific purpose, although perhaps there are some other functions for which it would be useful, but it was basically built to hold three magnets and computers. The building was inexpensive, he said; it is five years old and only had an expected life of five to ten years.

There is a process to establish the capital request, pointed out one Committee member, to weigh priorities; to have this come in at the last minute is hard for this Committee to evaluate. Was the regular capital request committee involved? Mr. Berthelson explained that the state has been considering a new facility for the Department of Public Health but no one thought the University would have an opportunity to get the building until 2001. The Governor has announced he wishes to accelerate the move and to accomplish it now, which is why events have moved so fast. Facilities Management has reviewed the building, and the School of Public Health has been considering the possibility of the move for a long time. In terms of classrooms, the Committee believed an additional request would be met with favor. The others are projects of opportunity, he said, since the Governor wants to help the University. He has a focused agenda to help advance the research priorities of the health sciences.

One Committee member inquired whether or not this was likely to be met with approval, since the legislature had not been excited about funding the new Hospital. Mr. Pfutzenreuter said there appears to be bipartisan legislative support for addressing the issues that confront the AHC; neither the University nor the AHC are seen as a political issue, at least not now.

How will the expression of support from the Governor for AHC items change the University's priorities, asked one Committee member? What if the University receives less than the total request, and must make choices? Mr. Pfutzenreuter said the Regents have a resolution asserting that the \$69 million for Asset Preservation will be the first priority; after the House of Representatives has completed its work on the capital appropriation, the Regents will meet as a committee of the whole to re-establish priorities. The decisions will also depend on how the legislature appropriates the money; it can line-item appropriate for items.

Discussion then turned to the changes in the operating budget, specifically a proposal for state support of the AHC. The proposal would move the AHC toward a "public resource model," because it has become evident that the Hospital and AHC cannot compete with the mergers that have taken place.

The support would be for two years. \$10 million is being requested for education of students in the health professions; \$15 million is sought for information technology systems and health care delivery improvements. The latter funding would be one-time. These amounts are for two years, so the total request, 1997 and 1998 total \$25 million. Mr. Pfutzenreuter briefly outlined the projected source of funds.

Asked how the funds would be used, Mr. Vikmanis said it would be a mixture of equipment purchases, teaching and administration and outreach, and information technology. They have not fully developed the details of the request, he said. Mr. Berthelson explained that the money for education was essentially replacement funding for declining private practice income; there will also likely be significant effects from the projected decline in federal revenues.

The proposed expenditure on information technology reminds one of the presentation by Professors Evans and Hamilton, and some of this the University could perhaps do itself; is the right hand talking to

the left hand? There are data problems in the Medical School and Hospital, Mr. Pfutzenreuter said, that will not be addressed by the institution-wide re-engineering effort; they have unique problems.

One Committee member suggested using the partnership proposal approach that has proven reasonably successful; only half the equation is here--where are the University's contributions?

One Committee member inquired if there has been any rethinking of the private practice plan funding of the Hospital now that those plans are not generating the income they have in the past. And have some of the ethical questions about them been addressed? There have been two major changes in the private practice plans in the last quarter century, explained another Committee member. In the late 1960s they were made subject to monitoring, to be sure that private practice plan income was only used for authorized expenditures; such as research, and to supplement absurdly low faculty salaries on state funds. In the last few years, the plans have been consolidated into 18 plans that are closely related to the University and subject to controls. Many health insurers now do not let patients go to the University, so the flow of funds to the plans has declined considerably. Once they covered clinic operating expenses and portions of salaries not funded by the state; in some departments, salaries have declined because there have been insufficient practice funds to pay the full salaries. The ability of the plans to put additional money into the University is disappearing.

The issues before the AHC are very serious, agreed another Committee member; the University must address the market competition problem and it is important to the University and the state that the AHC is positioned as a leader. These, however, are the same issues that are confronting the rest of the University as well, in different ways. It must be recognized that the University has slipped in the NRC rankings; if that problem is not addressed, the University will be permanently mired in the second rank of institutions. What is frustrating is not that AHC does not have the needs, but that the same needs exist elsewhere in the University.

Mr. Pfutzenreuter then very briefly outlined the contents of the reallocation and programmatic impact document, outlining the impact of the cuts that were approved last spring. \$11.5 million in recurring cuts were approved for 1995-96; another \$8.9 million in cuts must be made for 1996-97; it is the latter amount that the President has said will come from central administrative offices only. Examples of where the \$8.9 million in cuts were outlined. One Committee member inquired how much of the \$8.9 million in central cuts will actually consist of passing costs on to departments.

Professor Morrison said that these cuts would be back on the agenda in four weeks, and that he would summarize for the administration the sentiments of the Committee on the budget issues that were presented today. He then adjourned the meeting at 5:10.

-- Gary Engstrand