Minutes, Budget Committee of Academic Senate

Meeting of September 26, 2003 (As approved Dec. 1, 2003)

Present: Michael McIntyre (chair), Stephen Calkins, Charles Elder (late with notice), Carol Parker, Charles Parrish (late with notice), Louis Romano*, Vanessa Rose*(left early), Linea Rydstedt, Assia Shisheva, William Slater, James Woodyard.

Absent with Notice: Marc Cogan, Ravi Dhar, Diane Gebard*, Marlyne Kilbey, Harley Tse, William Volz.

Invited Guests: John Oliver, Vice President for Research (first 30 minutes); Seymour Wolfson, President of Academic Senate

*Liaison

1. The meeting convened at 1:32 p.m. The minutes of the meetings of June 25, 2003, and July 28, 2003, were approved, and the agenda for the day was adopted.

2. *Announcements*. The Chair announced that his Annual Report of the Budget Committee for Academic Year 2002/03 has been finalized in light of comments from committee members and has been submitted to the Policy Committee. It is available on the committee's web site. The Chair also announced that a subcommittee was formed in July to review the budget forms for centers and institutes. Professor Woodyard is the chair, and the members are Professors McIntyre, Parrish, and Romano. It is expected that the subcommittee will be bringing revised forms back to the committee for discussion.

3. *Use of Indirect Cost Recovery (ICR) Money for Bonds to Renovate Research Facilities*. The Administration is requesting approval from the Board of Governors at the BOG meeting on Oct. 1, 2003, for the issuance of $43 million in bonds to renovate some of the decaying research infrastructure of the University. There appears to be broad faculty support for renovating the University's research facilities. The plans for paying the debt service on the bonds, however, have generated considerable controversy. In brief, the Administration proposes to divert some the ICR money currently going to the principal investigators (PIs), the Departments, and the Colleges to a Facilities Fund, which would be used to pay the debt service on the bonds. In addition, ICR funds would be diverted to the operating budget of the Research Division. The proposals were brought to the BOG at its July 30, 2003, meeting. At that time, there had not been any meaningful consultation with the faculty. The Administration promised full consultation with the faculty before any of the proposed changes went into effect.

The Chair began the meeting by noting that both the Policy Committee and the Budget Committee have been jointly involved very recently in the consultative process. He called attention to the memo he distributed to the committee on the IRC issue, which he wrote in an attempt to provoke meaningful dialogue between the faculty and the Administration. That memo is posted on the committee's web site. The Chair suggested that the faculty should speak with one voice on the ICR issue.

To achieve that goal, he suggested that any motions for action on this issue be directed to the Policy Committee, which could then formulate the position for the Senate. He asked if there were objections to that approach, and none were voiced. The Chair then noted that he had been informed by President Wolfson just prior to the meeting that John Oliver, Vice President for Research, was willing to meet with the committee for a half hour to discuss a compromise position on the revision of the ICR distribution formula. Believing that the committee would want an opportunity to discuss the matter with Dr. Oliver, the Chair had extended an invitation to him. He then introduced Dr. Oliver.

A. *Presentation of Dr. Oliver.*

Dr. Oliver addressed the committee and answered various question. He began by acknowledging that the Administration's proposal was formulated rather hastily, without adequate consultation with the faculty. This haste was due, he said, to the need for urgent action. He stated that an inventory of research facilities taken three years ago showed that many research facilities were antiquated, but that no action had been taken to remedy the situation. A continued failure to act, he insisted, would have serious adverse effects on the University's research program.

Many members of the faculty were critical of the diversion of 3% of the ICR funds for the operating budget of the Research Division. Dr. Oliver suggested that some of the critics may believe that the Research Division has not been subjected to any of the budget cuts affecting other divisions. To correct that possible misunderstanding, Dr. Oliver circulated a draft paper showing the budget cuts that had been imposed on his division in recent years. He acknowledged that the diversion of the ICR funds to his division would spare the division from the most recent round of cuts. He indicated that he was not insisting on an earmarking of ICR funds to his division for future years. Indeed, he generally agreed with comments made by some members that the earmarking of ICR funds for his division was not a good budget system; he suggested that the whole issue of earmarking should be examined.

In response to faculty concerns about the proposed distribution formula, Dr. Oliver circulated a paper (posted on the committee website) containing a revised formula and a proposal for the appointment by the University President of a committee to review the formula periodically. The following table shows the proposed revisions in the formula:

	Current Distribution	Initial Proposed Distribution	Modified Distribution	% Reduction
PI	8.5	5.0	7	17.65%
Department	15	13	11.5	23.33%
College	10	8.0	7.5	25.00%

In response to questions, Dr. Oliver conceded that no study was undertaken to determine what adverse impact the curtailment of ICR funds going to the PIs,

Departments, and Colleges would have on the University's research effort. He stated that he believed the PIs were making appropriate use of their ICR funds. He repeated that the current proposal was formulated quickly, without due deliberation. He said that he had taken to heart many of the faculty complaints and was trying as best he could under the circumstances to respond to those complaints. He also acknowledged that his division has been diverting some of the funds allocated to the Research Stimulation Fund for the operating expenses of his division. He defended this diversion on the ground that his division provided administrative support to those receiving grants from the Research Stimulation Fund.

B. *Proposed Earmarking of ICR Funds for Operating Budget of Research Division*.

After Dr. Oliver left the meeting, the committee discussed how it should deal with the ICR issue and with the Administration's new proposal. In accordance with the committee's agenda, it first discussed the diversion of 3% of ICR money to the Research Division. Several members indicated that an earmarking of General Fund revenues for one division was an unsound budget practice and a dangerous precedent. In the view of one member, such an earmark is like the Financial Aid Office taking 3% of scholarship grants or the Admissions Office taking 3% of tuition fees.

One member pointed out that the 3% diversion for FY 2004 had been approved by the BOG at the July 30, 2003, meeting. He suggested that the committee focus on the issue of future diversions. The Chair noted that neither he nor the committee was aware of the 3% diversion at the time of the July 28 meeting, due to the fact that the matter was not discussed with the committee and simply inserted in the voluminous budget materials that arrived the day of the committee's meeting on July 28, 2003. As a result, neither he (Faculty Representative) nor Professor Elder (Alternate Faculty Representative) discussed that issue at the July 30 meeting of the BOG's Budget and Finance Committee.

One member suggested that the basic problem of earmarking is that it insulates the recipients of the earmarked funds from competition for those funds from other divisions and from the schools and colleges. All units of the University are undertaking activities that they view as important. The goal of the budget process should be to allocate scarce resources to those uses with the highest priority. The Chair suggested that earmarking for divisions can be distinguished from the allocation of funds to particular units as part of a decentralization system. Every workable decentralization scheme, he noted, requires some decentralization of responsibilities and the revenue needed to fulfill those responsibilities. Another member expressed concern that Dr. Oliver might view a resolution opposed to earmarking as a "stick in the eye" after his efforts at reaching a compromise resolution of the funding issue. Several members felt that such a reaction was both unlikely and unwarranted, given Dr. Oliver's concession that earmarking for his division is not a desirable budgeting mechanism.

After discussion, the following motion was made and seconded:

> Believing that the earmarking of General Fund revenues for particular divisions of the University is inconsistent with sound budgeting principles, the Budget Committee recommends to the Policy Committee that it oppose any permanent earmarking of ICR funds to the Research Division and that it work with the Administration to end that practice for FY 2005 and beyond.

The motion was adopted unanimously.

C. *Proposed Changes in the ICR Distribution Formula and Committee Response to the Revised Administration Proposal*.

The committee discussed the proposal for using ICR money currently allocated to PIs, Departments, Colleges, and the Research Stimulation Fund to fund the renovation of the University's research facilities. There appeared to be a broad consensus on two points: (1) that the research facilities needed to be renovated promptly and (2) that the process followed by the Administration in advancing its bonding proposal was badly flawed. In particular, consultation with the faculty did not occur until very late in the process, and the Administration did not assemble the information needed to assess the impact of its proposal on the research efforts of the University.

Several members expressed the view that the proposed cuts in funding for the PIs and Departments would affect the University's research efforts adversely. Unfortunately, the Administration had done nothing to try to determine the impact of the cuts on those research efforts.

One member distributed the preliminary results of a very recent survey taken at the School of Medicine that showed how the ICR was actually being utilized by PIs and Departments. That member suggested that the Departments play a critical role in providing bridge money — money that allows a bench scientist to continue operations during the period between the termination of one grant and the startup of another. The key results of the SOM survey are set forth in the table below:

Uses of ICR Money by Departments and PIs, SOM (Fall 2003)

Uses	**Amount**	**Percentage**
Salary (RAs, Technicians, Etc.)	$1,364,000	26.4%
Fringe Benefits	270,000	5.2%
Student Stipends	20,000	0.4%
Equipment	789,000	15.3%
Supplies	2,626,000	50.9%
Travel	90,000	1.7%
TOTAL	**$5,159,000**	**100.0%**

One member took the position that the distribution formula contained in University Policy 86-2, as approved on 2/9/1989 and so far unchanged by the University, should continue in force for another year. He argued that funds for debt service on the renovation bonds could be taken from ICR funds already diverted to the General Fund in the last two years. Another member suggested that the effect of this approach would be to burden the entire University, not just those engaging in funded research.

The following motion, supported by a memorandum to the committee, was made and seconded:

> The Academic Senate Budget Committee requests faculty members of the BOG's Budget and Finance Committee to introduce a motion that Executive Order 86-2 be continued for FY 2004 and that a document supporting the motion be presented to the BOG's Budget and Finance Committee prior to the meeting on October 1, 2003.

The motion failed.

The committee then discussed the compromise proposal offered by Dr. Oliver. Several members expressed the view that the proposal was unacceptable as a long-range solution. Several members felt, however, that it did provide a basis for resolving the issue for the current year. One member suggested that there would be a political cost to the committee if it was unwilling to move toward a compromise after the efforts, albeit belated, of the Administration to consult. Another member suggested that the compromise would result in too deep a cut in Department funds, which the member felt were crucial for bridge funding. In reply, a member suggested that the formula change reducing the cuts on PIs, which the faculty has been recommending, required some increase in the cuts imposed on the colleges and departments.

After discussion, the following motion was made and seconded:

> That the Budget Committee recommends to the Policy Committee that it endorse, for the current FY year only, the revised proposal of Vice President John Oliver for funding the renovation of University research facilities by reducing the allocation of ICR funds to PIs, Departments, and Colleges to 7%, 11.5% and 7.5% respectively, with a firm understanding that the allocation formula will be revisited for FY 2005 and beyond by a 2N committee jointly appointed for that purpose by the Administration and the Policy Committee.

The motion passed by divided vote.

The committee then discussed Dr. Oliver's proposal for the appointment by the President of a committee to "review periodically" the distribution formula. According to Dr. Oliver's memorandum, this approach "will allow a review of the long term use of F&A [ICR] reimbursement funds and will not lock in any 'earmarks.'"

The chair suggested that there may be a need for two committees. One committee is needed to review the current proposal and recommend action for FY year 2005 and beyond, based on an actual study of the likely effects of the temporary solution adopted for FY 2004. The other committee is needed to undertake the periodical reviews contemplated in Dr. Oliver's revised proposal. He suggested that an additional issue was the role of the Senate in the selection of members of the committees.

Discussion followed. One member suggested that the important committee to establish now was the committee to examine the temporary solution and come up with a plan for FY 2005 and beyond. That committee could be responsible for the design of the second committee, which would do the periodical review proposed by Dr. Oliver. Another member suggested that this first committee needed to have members selected by the Academic Senate if it was to serve its consultative function effectively.

After discussion, the following motion was made and seconded:

> That the Budget Committee recommends to the Policy Committee the formation of an ICR Committee, with half of the members selected by the University President or his delegate and half selected by the Policy Committee. The ICR Committee would be charged to undertake the following tasks:
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> - To make recommendations for the revision of the ICR distribution formula for FY 2005 and beyond, with an understanding that adequate funds must be made available to pay the debt service on the research-facilities renovation bonds to be issued in FY 2004.
> - To make recommendations for funding sources for any additional bonds that may be issued in addition to the $43 million of bonds that are expected to be issued for FY 2004.
> - To develop an overall plan for the renovation of all of the research facilities of the university that takes into account a deferred maintenance problem far in excess of the problem addressed by the $43 million of bonding.
> - To recommend the composition and charge of the committee to review periodically the ICR allocation formula, as proposed in the memorandum from Dr. Oliver.
> - To collect and analyze data relevant to the ICR issue, including data on the amounts spent internally on research, absolutely and in comparison with peer institutions, how the internal research money is spent by the Central Administration, the Colleges, the Departments, and the PIs, and the costs for research facilities that the various units are generating.
> - To explore the appropriateness of the cap on ICR money — limiting the application of the distribution formula to the old

49% reimbursement rate — in light of the costs that were used to justify the higher reimbursement rate.

- To examine the use of earmarks of ICR money in light of sound budgeting practices, with particular attention to the new earmark to the Research Division and the old earmark to the Research Stimulation Fund.
- To determine under all relevant national benchmarks the standing of Wayne State University over some relevant period as a research institution, with special emphasis on Federal benchmarks that both include and exclude the amounts of internal funds devoted to research.
- To make appropriate use of various documents generated by the Budget Committee and other faculty committees, including the Chair's memorandum to the Budget Committee of September 22, 2003, titled "Proposed Changes in ICR Distribution Formula."
- To explore the needs for better reporting of the expenditure of ICR funds by PIs, Departments, Colleges, the Research Stimulation Fund, the Research Division, and the Central Administration, with a view towards establishing a better linkage between the obligations to support funded research and the revenues generated by that research.

The motion passed unanimously.

4. *Maccabees Building*. The Administration presented its plans for the Maccabees Building to a joint meeting of the Policy Committee and the Budget Committee on September 24, 2003. The Administration is asking the BOG to approve a bond issue for renovations of the building. Several members noted that they had expressed misgivings about the acquisition of that building and several other buildings included in a package of properties acquired from the Detroit Public Schools. One member noted that he had asked for a business plan for the properties but that a plan was not produced until after the buildings were acquired. Several members objected to the process by which the acquisition was approved. One member suggested that the Administration is coming to the BOG with parts of the plan and then using the expenditures for those parts as justification for further expenditures. He suggested that the Administration be required to present a full plan to the BOG.

The financial condition of the University, resulting from cuts in State allocations, has created serious problems in utilizing the Maccabees Building effectively. Nevertheless, the building has been acquired, and the issue now is how best to utilize it in light of the University's revenue situation. Some members suggested that there really is no ideal solution but that the plan cobbled together by the Administration may be a reasonable practical solution.

Several members suggested that the proposal to move various academic departments (Africana Studies, English, Humanities, Linguistics, Philosophy, and Psychology) into the Maccabees Building should not be done without the consent of the

respective faculties. There is some concern that the faculties are being pressed to accept a plan that they oppose. The Chair suggested that this issue, although a valid one, was outside the jurisdiction of the Budget Committee. Other members suggested that the matter is being treated as a budget matter by the Administration in that it is taking the matter to the BOG's Budget and Finance Committee. The general consensus of the meeting seemed to be that the faculty members of the BOG's Budget and Finance Committee should note the concern about undue pressure on the various academic departments to accept the transfer and should request that a valid system of consultation be put in place before any transfers of departments are made.

One member noted that the Administration proposes to use money from its investment in Lumigen, Inc. to fund part of the cost of the Maccabees Building renovations. Some of that money was paid to the University as reimbursement for legal fees paid in its failed defense of a patent suit. [Note. Lumigen, Inc. was a commercial venture undertaken by a faculty member in the Chemistry Department and the University some years ago. A Michigan Court found that the faculty member had misappropriated the scientific discoveries of another researcher and that Lumigen, Inc. had no rights to certain patents it was using in its commercial operations. The parties ultimately reached a settlement, the terms of which were sealed by the court at the request of the university.] Several members were surprised at this source of funds. It would seem that this money would be General Fund money and not some captive pot to be used outside of the General Fund budget. The Chair was asked to make inquiries about this source of funding and to ask if there are any other such pots of money that have not been included in the General Fund budget.

5. *Other Budget Issues Going to the BOG*. The Administration is presenting a long list of additional items to the BOG's Budget and Finance Committee. Due to time constraints, the committee was unable to review those items.

6. *Early Formulation of Budget Review Committee*. At the June 25, 2003, meeting of the committee, Provost Nancy Barrett gave her assurances that the Budget Review Committee would be appointed in timely fashion in the early fall. (See the minutes of that meeting, posted on the committee's web site.) Before that committee can be appointed, the Policy Committee needs to submit a slate of five candidates to the President or his delegate, out of which one faculty representative is selected. The President of the Academic Senate or his designee also serves on that committee. At the request of the Chair, the following motion was made and seconded:

> That the Budget Committee respectfully requests the Policy Committee to select a slate of five candidates for the Budget Review Committee and to submit that slate to the Administration as soon as possible.

The motion passed unanimously.

5. *Adjournment*. The committee adjourned at 3:25 p.m.

Michael J. McIntyre