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Transcript of the Faculty Senate Special Meeting November 15, 2001

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MINUTES OF THE SPECIAL FACULTY SENATE MEETING OF NOVEMBER 15, 2001

A special meeting of the Faculty Senate was called to order on November 15 2001, at 3:03 p.m. in Room 201 of the Buckingham Center for Continuing Education.

Forty of the sixty-eight Faculty Senators were in attendance. Senators Calvo, S.Clark, Fenwick, Hebert, Holz, John, Laipply, Steiner, Sterns, and Wyszynski were absent with notice. Senators Brouthers, Carri, Chafin, Dechambeau, First, Garn-Nunn, Louscher, Mothes, Pinheiro, R.Pope, S.Pope, Purdy, Qammar, Redle, Sakezles, Schmith, and Turning were absent without notice.

Chair Sheffer began the meeting by stating that he had two announcements to make before the Senate began the business for which the body had been called together today. First, we had two new Senators for all to greet. From Arts & Sciences, Julie Drew, and the Grad/Law Student representative, Matt First. Dr. Drew was here, but Mr. First was not present. The body welcomed Dr. Drew.

Secondly, the Chair referenced a report on the front table from the Research Committee and asked that Senators review this before the next meeting **(Appendix A)**. It was not something the body would act on today. The report contained revenue allocation agreement information and also notification of the cancellation of the spring faculty research grant competition. Chair Sheffer then asked Senator Kinion whether she wished to speak about the report at this time.

Senator Kinion stated that the committee had learned that they only had $64,000 to work with this year. Ordinarily, they had had in the past around $200,000. In light of that, the committee had felt that the fall funding was already in process. The committee reviewed the fall proposals and determined that two of those proposals could be funded. With the summer competition coming up so quickly, the committee had not wanted to cancel but did feel it needed to limit the number of proposals funded based on the money they had. So, all agreed that seven proposals for summer would be funded, but not any for spring.

Chair Sheffer thanked Senator Kinion for her remarks and reminded Senators to please pick up a copy of the report. He also asked each Senator to initial the sheet next to the stack of reports. This would ensure that duplicate copies were not mailed to Senators who had already picked one up at this meeting.

The Chair continued by stating that this was the special meeting of the Faculty Senate. The topic for today's meeting was the proposal from the Planning & Budgeting Committee to begin using a ROI or Return on Investment method for allocation of budgets for this fiscal year. He asked the co-chair of the PBC, Senator Franks, to please lead off this discussion and information session.

Senator Franks asked whether all had a copy of the resolution that was distributed at the November Senate meeting. If not, there were copies available **(Appendix B)**. He just wanted to review a few points before the presentation to explain how PBC came to recommend ROI. PBC began looking seriously at alternatives to the historical implemental budgeting that had been used traditionally on campus. We looked at it all year long. Then a smaller focus group continued to look at the ROI over the summer and into early fall in order to come up with a model that would work for The University of Akron. This particular model was presented to the PBC on Nov. 1 by that small focus group. Phil Brown would be presenting here today, who Senators would find very informative. This particular ROI model had the support of the President and also had approval of people in the budget office. It looked like something we could work seriously with **(Appendix C)**. This special meeting was called for Senators to become more educated as to what this particular model was.

Chair Sheffer called for a formal motion to be made regarding the proposal. Senator Franks complied, and the Chair opened the floor for discussion.

Senator Reed stated that she wanted to review some of the concepts and give more detail as to how PBC had come up with this model. Basically, when we first started down this road and we had our new Provost who was beginning to work with PBC, it started as a snapshot. One of the things we needed to really understand was how the University revenue was generated and how we were currently spending it. We all knew from the many presentations by the President that really 93% of our revenue, like it or not, was generated by student credit hours. So as we were starting to think about this, we really began to put together a budget development tool that helped us link productivity with resource allocation.

Senator Reed continued to say that our challenge from year to year was really trying to create a tool. This was not some kind of formula that was in concrete, nor was it going to generate numbers that nobody actually looked at or thought about. It was really a process for us to begin to put in place a model that would help us as an institution by providing incentives and disincentives for the growth and improvement as an institution. It gave us a tool to work with in the colleges as far as decisions made and how the process might affect the University as a whole. Also, she thought that the really important thing for us in academic units to consider was that this model was gradually phased in over time and would actually give us a real stake in terms of growth of the University. Certainly, as the resources to the University grew, so did resources to academic units.

She continued by stating some of the concepts PBC had considered such as, since 93% of the revenue was generated through student credit hours, the colleges were the primary revenue generators. She did not mean academic versus administrative, but this model really looked at college expenses and other than college expenses. So things like the library, health care for faculty and lots of other things would not be included in the numbers for the colleges.

An important point that she wanted to note was that this model would be a real benefit to the colleges in terms of allowing them to share in a portion of the revenue above and beyond their necessary share of overhead of the University. It also provided some vehicle for units to compete for quality and strategic priority funding. PBC had been very patient and had spent a lot of time discussing and debating what elements to include. One thing that was really important was simplicity and flexibility. She thought the gradual implementation that we were proposing was very important too, because obviously none on the committee had felt it would be appropriate to pull the rug out from under any unit. In fact, we really had not wanted to penalize any unit but did want to create some kind of a model that clearly set some responsibility and accountability and some return in terms of units that were highly productive. So this would be phased in in a gradual way.

One thing that had come up really dealt with the general fund budget. Obviously, that was a huge portion of our total resources for the University, but that did not mean that these were the only dollars that were available to the academic units. All of our colleges were engaged in fund raising and units got pretty much 100% of those dollars. If they were restricted, they came right back to the unit. So that was an additional opportunity for revenue enhancement that was not in this model. This model also did not include research expenditures, so, except for the indirect costs, money that came back into a college was at their discretion of how that incentive share was spent. But in terms of research, most of those dollars were restricted. So the lion's share of those dollars were actually spent for their intended purpose. There were lots of units with large research dollars, so that would be in addition.

It would not be the end-all, be-all, of resources or even really the end-all, be-all, of budgeting. It was a very important concept. As we came together as a university community and, if we agreed these ideas were important, it was important to establish these types of ground rules to get people structures that would result in positive decision making and in strategies that really benefitted the institution as a whole as well as the individual units. Senator Reed then quoted Dean Roger Creel who had made a wonderful comment about the creation process - "Let's not let perfect get in the way of good." Clearly, this was a work in progress, and if this was the perfect budget model, we ought to immediately trademark it and sell it because nobody else had come up with it in higher education. Universities were trying all sorts of things to do, so she thought it was pretty forward thinking on the committee's part. One thing we had put into the resolution was that this needed to be truly assessed by the PBC each year and that we might have to make adjustments from time to time. Also, we should not be afraid that we did not have the perfect formula before we went forward with this as an institution.

Another thing that she knew was an issue with a lot of people concerned whether this included productivity measures for the administrative/service units. She guessed the one thing she would observe and was definitely true as we looked at it was that when you had this ratio of 1.7, that was really implying about a 60-40 split, with 60% going to the colleges and 40% going to other than colleges. So just by the nature of the formula there remained a balance of resources. There was some expectation that as changes in resources occurred, those kinds of proportions would be maintained. We also knew with health care, for example, that we might have a big increase in something that benefitted the whole that was larger than inflation. So you might have to adjust as we moved forward. Utilities was another area that was a budget issue as well. As she knew from her home's gas budget, certainly there was a huge jump after deregulation. What we were expecting in line with the President and Provost's vision of how they saw the Balanced Scorecard included the ideas of accountability, productivity measures, with the administrative units as definitely part of the plan. We could not cover everything in one model. Looking at service-type benchmarks would be different from student credit hour benchmarks and was really the basis of this model. So she guessed that overview she wanted to turn to magnetic effect, because that was really something the committee had worked on a lot in the summer.

Senator Reed continued her oration. In her report to Faculty Senate last year she had talked about some of these basic features. One of the things that had become clear was that obviously for the upper colleges, they played a critical role in terms of recruiting students, retaining students and moving them on in their programs. However, we did not necessarily see their enrollment until they completed their general studies and moved into colleges. So it was very clear that we needed to have some kind of a magnetic effect in terms of how we would give units credit for attracting students to the University even though those students were not sitting in our classrooms at the moment. What the committee had come up with was the idea that each student credit hr. would be divided three ways and could potentially be 100% to a unit depending upon that individual student. But the lion's share of the cost would go where the course was taught or credit hr. because that was really where the expenses were associated, the primary expenses of teaching that credit hr. A college would get a portion of the credit for a student who had a declared major, and that could be a freshman coming in the door with having declared a major in a college. She guessed the committee's hope was that maybe this would give our colleges some return as far as spending time and resources on trying to work with students, recruiting them, having them declare a major and begin to be affiliated with units. This would then be a retention tool. Finally, a small portion of each credit hr. would go to the college of record where that student was currently admitted whether it was in University College or in any other college. There were expenses associated with students where they were currently enrolled. We called this the magnetized ROI for lack of a better term. Also, as we were thinking about it, that could be an incentive in colleges as they worked with students and help them gain admittance to colleges. That would provide then some return on that investment in terms of helping students move along.

Finally, and she promised this would be her final point before she turned this over to Phil Brown, what the committee was proposing was that at full implementation, this would be about a 50-50 split where units would keep 50% of the tuition revenue generated beyond their target return on investment. Fifty percent would go into a pool for allocation by the Provost toward quality, strategic priority-type initiatives. The committee had not developed those at this point but the Provost had invited us following Senate approval of this proposal. The PBC as well as the Council of Deans would advise the Provost as far as setting up some of the criteria that might be appropriate. She certainly thought that the Balanced Scorecard planning activities this year would produce priorities that would be eligible for this type of funding.

Mr. Phil Brown from the Office of Institutional Planning then began his presentation on the ROI model. Mr. Brown began his presentation by introducing himself and stating that he had been asked earlier this year by the Provost, "Could we make this ROI thing work?" The short answer was, yes we could. What he wanted to do today was run through discussion of what the ROI plan was for The University of Akron, what the concepts were, what steps we took to work through this, and then go through the actual process that was used to build the model.

Senators were then invited to ask questions concerning the presentation as they developed. If Senators had questions following the meeting today, Mr. Brown provided his extension (x8191) and email address (pmbrown@uakron.edu) for them to contact him. He would be happy to speak about the plan with anyone.

Mr. Brown started his presentation with the basics - budget income and expense. As was already mentioned, basically speaking the University had two main income streams - tuition dollars, and subvention dollars. Both were generated from student credit hours. We had all the expenses, salary and benefits, buildings, grounds, heat, etc., but those were not the things we would be talking about today. One thing he wanted Senators to keep in mind as he went through this was we were talking about the University and the colleges. The discussion needed to be kept at that level because everything would filter down from that. What the ROI was addressing was the University as a whole and then the colleges that fed into that.

Return on investment had come out of the business world, and it was traditionally used for new product or new program development. When people had a new idea for a new program, they would present it to the CEO or the Board of Directors and they would say, "This was how much it was going to cost and this was what we needed to do." The question that got asked and the thing that most of the CEO's would ask was, "What were we going to get for this project? What kind of return were we going to get? You were asking for a million dollars; how much were we going to get back?" That was the basis for the ROI; it was not how the University was going to used it. He simply wanted to make all aware that this was where the idea had come from.

The model developed for The University of Akron was in alignment with the four goals presented by PBC. Tie budget to financial performance. Allow for some incentive-based budgeting; align resources with priorities, and quantify the magnetic effect, as Dr. Reed talked about a little earlier. The magnetic effect - this was not the best definition but it was the one he had come up with at the time.

Provost Hickey then wanted to give a summary of an easy way to remember that. For example, a student who wanted to be an engineer was probably not going to come to a university that did not have an engineering college. So they come to The University of Akron because we had an engineering college. Before they could really become an engineer, they had to pass through all of the general ed courses that generate credit hr. production for Arts & Sciences and probably to some extent Fine & Applied Arts. But they were here because of the college of engineering. If they were not here and we did not have a college of engineering and they didn't choose to come here, obviously the gen. ed. courses would not generate any credit hr. revenue. So there the magnetic effect is due to the college of engineering. The college of engineering deserved some credit for any calculation, some credit for the credit hrs. that were generated in Arts & Sciences for students headed toward engineering.

Mr. Brown continued. The simple definition of ROI for The University of Akron was total income divided by total expense. He would explain what we used for this and what the numbers were later. When we looked at the expenses of the University over the last three years and what our income was, basically the number we came up with was that for each dollar invested in a college, that college had to return $1.70 for the University as a whole. We differentiated each student credit hr. based upon the college offering the course and the students in that course. For each student we looked at the college they were admitted to and what their declared major was.

Provost Hickey interjected that this was a student-by-student analysis, actually credit hr. by student analysis, and it was done every semester. So it was a real time analysis.

Mr. Brown continued. This was done for the last three years through fiscal year 01 and included summer I and II. Every credit hr. we had in the system was put into this. We took the differentiated student credit hrs., rolled that into the tuition dollars and the subvention dollars (i.e., dollars from the state; state subsidy) to get the monies earned by each school. Again, the total income of the school divided by total expense was the ROI.

Provost Hickey added that the state paid us basically on FTE enrollment. The way they determined FTE enrollment for undergraduates, for example, was to divide the credit hrs. by 15 and that equals 1. For every 15 credit hrs. you got credit for one FTE student, and that went into a formula that the state used to allocate resources to colleges. Senators had been reading about and hearing about the budget cuts the state had been imposing. When the state cut budgets they were actually cutting the number of subvention dollars that they gave us.

Vice President Hank Nettling then added that Senators may have heard the President talk about the state's share of instruction. That was the terminology we were trying to get the state to use rather than subsidy, because subsidy had a connotation of bailing you out of something. So maybe Senators had heard that term.

Mr. Brown stated that in the model, schools that generated an ROI greater than that required (i.e., 1.7), would get a portion of the tuition dollars returned to their budgets. Provost Hickey stated that it would be returned as ongoing permanent parts of the budget. So obviously that had an impact on the ROI because your budget allocation just went up. So you got, over time, a leveling factor of all this, but we were not talking about returning it as one-time money. We were talking about returning it as ongoing dollars that could be used for all the things you needed to use it for including the hiring of faculty.

Senator Lyons then asked if it went to a college, not to a department that might have generated the money. Provost Hickey replied that this was correct. This model took it down to the college. He would certainly anticipate that deans would want to follow suit and develop similar models within their colleges. In fact, Arts & Sciences had already been doing some of that, but this was at the college.

Mr. Brown then said that a last point was that this would be phased in over a 5-year period beginning this current year. The Provost stated that this plan was a good idea and there was no sense waiting. Mr. Brown continued by saying that in the first year, 10% of the tuition dollars over the ROI would go back into the budget of the college. Ten percent would go to the Provost's fund, 80% would go for cross-subsidy. The cross-subsidy was a fund to cover the colleges that may not meet the 1.7 ROI.

Provost Hickey added that the cross-subsidy fund might not completely cover it. So it was a dampening of the impact, both the upside and the downside of the ROI. This did happen. In year 2, it went up by 10% a year. So in year 2, 20% of the tuition component of the monies over and above an ROI of 1.7 went back to the college; 20% went into this pool of money to be allocated for quality measure and investment priorities. Now you were down to 60% left for subsidy, and by the time you got 5 years out, 50% of the tuition over and above the ROI of 1.7 went back to the college; the other 50% went into this pool based on quality and investments and you were down to zero cross-subsidy dollars. So at that point in time, colleges on the downward trend who had not changed their mode of behavior would be in trouble.

Senator Erickson then stated that she noticed that the Provost was using the word tuition - was that different from subvention? To which the Provost replied that he was only including tuition in the model at this point in time because our subvention was so uncertain with what the state did that, and there was a delay in getting the subvention dollars back. The only dollars that he actually knew he would have to return were tuition dollars. What he suggested was, as this model went forward and we got comfortable with it and experienced with it, we might want to in effect join a tuition dollar with a dollar or portion of a dollar of state subvention money. So the money going back to the colleges included both tuition and subvention. Right now it was just too unknown, and he did not want to make promises he could not keep because he did not know that about the subvention dollars.

Senator Erickson queried as to what then happened to the subvention dollars? The Provost replied that the subvention dollars continued to help in the cross-subsidy effort and continued to help us understand all of the expenses. He was not saying that the subvention dollars were out of the equation forever. He was simply saying that in the start, let's work with this for a year and see the impact. It might be that we could get to the point where every one of these tuition dollars that was being returned had tagged to it a subvention dollar that went with it as well. Ultimately, the model should provide for the allocation of both tuition and subvention dollars.

Senator Erickson then asked that at the moment, it would deal with what percentage of the total? The

Provost replied that the amount of money we got from tuition and the amount of money from state support was about the same right now. Senator Erickson then stated that this did not cover half the money, and half the money would be there to do cross-subsidy. The Provost replied that as we did this and as money got moved, we were going to uncover things we had not thought about. At that point in time what we would have to do was go back (and he had agreed to commit to do so) to the PBC and say, all right, here was something we did not think of. Now we had to build a cushion to take care of it. It might be that a couple of years into this we had thought of everything and we were comfortable with the budget. So then what we would propose was, let's now start tagging a subvention dollar with a tuition dollar and in effect double the amount of money that was going back to a college.

Senator Erickson asked whether fifty percent was to do so with risk and uncertainty. Provost Hickey replied yes, exactly. Risk and uncertainty were associated with what Columbus did.

Senator Hoo Fatt asked about the monies generated - where was the research? When she wrote a proposal and brought in money, where did the research dollar go into this model? Mr. Brown replied that in the model, it did count on the income side of the ROI. It did not go into any return. The only money that got returned was that from tuition dollars. But actually we figured when you took the school's total income, you figured out the percentage of that income that was tuition dollars, and this was talking about that percentage of tuition dollars. So the other things counted for the income side, but the only thing that got returned was from the tuition dollars. Provost Hickey added that a portion of the indirect costs from grants that had indirect costs came back to the college already. There was a formula within the college for how it was distributed within the colleges. He then asked Mr. Hank Nettling whether he could tell them what percentage of the overall IDC actually went back to the college. Mr. Nettling replied that it was about two-thirds. Some went to the principal investigator, some to the college, some to the dean and some to the department.

Senator Hariharan then asked whether it were not 46% going back to the college? Mr. Nettling replied that it was 47 right now. That was the rate, about two-thirds.

Provost Hickey said that the only flexible part of grant funding, the IDC, was already a large portion which was being returned back to the college or to people within the units in the college. The direct cost was part of the grant that directs that dollars be spent on things unless they were paying faculty salary. By and large it had no direct impact on the operating budget of the University.

Senator Sakezles then asked Provost Hickey for clarification regarding his statement about the subvention versus the tuition dollars. He had just said the subvention dollars were about the same as the tuition dollars, correct? The Provost replied that yes, about half of our budget now was derived from tuition and about half was derived from state support. Senator Sakezles' question was, how did that jibe with the earlier statement that 93% of our budget came from tuition? Were tuition and subvention counted together? Provost Hickey replied that ninety-three percent of our state budget was tuition and subsidy, subvention. It was tied to student credit hrs. in one form or another.

Senator Reed then stated that research was really direct and was restricted to a certain purpose, and that was why it was not included here. Except if you had salary bought out by grants, that would go back in because it would be subtracted from your personnel costs.

Senator Hariharan then asked Provost Hickey why a college did not get credit for the total IDC as opposed to just that portion that went to the college or anyone in the college. Mr. Brown replied to the question, stating that you did get credit for it, but that question would be addressed later on. It was all in there in the credit for the ROI calculation. For this, we were talking about the money's return and that was tuition.

Provost Hickey then added that to determine whether or not you were at an ROI of 1.7, you did get full credit for the cost generated. Now think of the amount of money you earned beyond that point. There were multiple components to that. It would be state support, tuition, indirect cost return, and so forth. The only money you got a piece of at this stage was the tuition. We did not give you back more IDC, we did not give you back more state support. All we were talking about now was giving back initially a 10% portion of the tuition. The only other piece that we could really give you back would be a portion of that subvention dollar. He thought that might be the legitimate next step for all of us. Mr. Brown then added as a footnote to that, when we were thinking about this, some funds could be reallocated. Some funds were earned but could not be allocated for anything else. So when we talked about pulling this all together, keep that in mind.

Senator Binienda then asked whether this implied that every unit was producing more than 1.7 ROI. Mr. Brown said no, it did not mean that. Senator Binienda then asked what happened when a unit was at 0.7. The Provost replied that that was why it was being phased in, to give units a chance to change their behavior. If they did not change their behavior, they went out of business.

Senator Binienda then asked whether it were possible to know where units were in respect to this 1.7. Provost Hickey stated certainly; we knew exactly which units were there and we could polarize a discussion in a big hurry. The purpose was to develop a model here that would provide for productivity-based budgeting. Right now what you had was a historical model that was not connected in any measurable way to productivity of units. Did the implementation of this model mean that some units were going to have to change their behavior or suffer the consequences? Absolutely, no question about it. Did it mean that some units that had traditionally been extremely productive were going to get more revenue? Absolutely.

Mr. Brown then stated that he felt the real question was whether this were a valid process? Did Senators agree with this process or not? That was really the fundamental question. It was not who was more productive or who was not; it was a chance to put measures in place. He thought the question here was, is this a good model to do that, regardless of who wins or loses if you want to put it into that context.

The Provost stated that the model created a rule book that was out there for everyone to read and everyone to understand. Then there were no surprises. It says you did the following things and this happened; you did not do the following things and these were things that happened. It was out there for everyone to read, everyone to know, and everyone to do their planning around. Remember one of the NCA's concerns was that we did not have budget allocations tied to productivity. This tied it to productivity without a doubt. It tied it to quantitative productivity in credit hr. production, and the other half was tied to qualitative productivity and provides for new investments. Please do not view this as a pool of resources in my office. This was a pool of resources that he would work with the PBC and the Council of Deans to define some qualitative criteria that again, would be in the rule book as to how we were going to measure quality and how we were going to fund that. And there would be some criteria there for how we were going to go about making investments and new initiatives. He would look to the PBC and the Council of Deans to help in evaluating which new proposals would be worthwhile. Five years out we could be in a position with requests for proposals going out to fund new initiatives that would be in the hundreds of thousands of dollars, not the thousands or even tens of thousands of dollars. This could produce the kind of revenue that would actually allow us to launch whole new adventures within the institution.

Provost Hickey continued by stating he thought it helped to give concrete examples. Polymer Science/Polymer Engineering was going to have a real hard time coming out well on the credit hr. production side of this. It would have a much easier time coming out well on the quality side of it. So different colleges were going to earn different portions of their budget, some in credit hr. production, some on the quality side, and many were going to have a combination of the two. That was why we divided it right down the middle, 50-50.

Senator Jordan asked how one judged quality? Provost Hickey replied that we were going to ask PBC and the Council of Deans to come up with real measures, real written-down, agreed-to measures of quality. What he was not going to do was ask to evaluate whether they were good or not, because he thought he knew the answer he was going to get there. But we would have measures of quality everyone could agree to or that the majority could agree to that these were what we were going to use. They would be written down; they would not be a secret. We did not have those yet; that was the PBC's and Council of Deans' next challenge, assuming we went forward with this.

Senator Lyons then wondered whether there were any empirical evidence on magnetic effect, or whether this was just someone's intuition?

Provost Hickey said that he did not know about empirical evidence - were there any studies he could show you - he could not show you any. What he could show you or what he could tell you about were many recruiting events we did and that many of you have done. A significant number of those students were there because they wanted to go into engineering, because they wanted to go into business, because they wanted to go into biology, or whatever. They profess to be at that recruiting event because The University of Akron had a high quality college of engineering. Now how many times they changed their mind along the way he did not know, but this sampled the data every semester, so if they stopped professing to want to be an engineering major or they dropped out of engineering and went into physics, then the funds got channeled in a different direction.

Dean Capers was given permission by the body to speak. She stated that as a member of the WOW group we had a year or so ago, there was indeed a group that had looked at responsibility-centered budgeting, and we traveled to Indiana University, Purdue University of Indianapolis and we also looked at other universities that used that model. She did not want to rely on her memory and perhaps Mr. Nettling could help us with the other models that we used. Some of the universities that used the model had something like the magnetic effect built into their model. So we were not the first to venture forthwith this notion of looking at where the student had claimed his/her major.

Provost Hickey stated that when you saw the formula, you would see that the reward to the magnetic effect, while there, was the smaller amount of the money. Of the model we put forth, 80% of the student hr. credit went to the unit offering the course.

Senator Erickson asked on what basis the 18-15-5 split was made? What was the analytical basis? Provost Hickey replied that to some extent it was subjective and that was why we ran a number of scenarios. We ran a number of balances in there. He picked 80 because it seemed to him that the unit offering the course deserved most of the money because they had the expenses. Now should the right number be 75? Maybe. He guessed as you would approach 50 it would seem unfair to him, so he thought somewhere in the 70-80 range was probably a good one. But again, he would suggest assuming this went into effect and as the PBC monitored it, maybe one of the recommendations that came back was that the formula should be adjusted over time. If we could get some measure of the effort, the workload that went along with either teaching students or having students declare a major versus having the student registered in your college. Now remember, a student admitted directly to engineering was both a declared major and in the college, so you added 5 and 15 together and they got 20%.

Senator Hajjafar then wanted to know whether, if faculty bought out time, was that considered tuition? Provost Hickey replied that if the grant actually bought out faculty time, that would go in as negative expenses; it reduced expense. So it increased your ROI by reducing the expense.

Mr. Brown added - total income: Tuition, subvention, course fees, IDC and other, which was international business that really only applied for the school of business, but it was in there. Total expense - total resources depending on how you looked at it that were available to each college. Budget - part-time faculty dollars, summer faculty, grad assistants, benefits, course fees, infotech fees, tech fund and IDC recovery. All those went into the total expense which was used to figure the ROI.

Senator Belisle then asked about the graduate assistants. How much expense would that be? Mr. Brown replied that that would be just the stipend portion, because that went to the college.

Senator Binienda then asked what happened to the tuition of the graduate students who were not paying - did they have a waiver? Was it going to be added and subtracted at the same time? Mr. Brown replied that you had to subtract it, so we wanted to use actual tuition dollars.

Senator Hoo Fatt then asked whether there was any distinction made between graduate teaching assistants and research assistants, because the research assistants got paid out of the grant.

Mr. Hank Nettling replied that the revenue for that research assistant would be part of the revenue we would be including here. Provost Hickey clarified by adding that it would count on the revenue side, but there would be nothing on the expense side.

Senator Broadway asked wheher graduate assistants who did take courses were part of the subvention formula in the sense that they were taking credit hrs.? When the Provost replied affirmatively, Senator Broadway continued by stating that, therefore, those graduate assistants would show up in the college income because it would be part of the subvention to the college.

Mr. Brown then began explaining the process of calculating ROI's for each college and academic unit. What follows is a summary of this process in Mr. Brown's own words:

"We pulled all student credit hrs. for all courses for academic year 98-99 and 2000 by semester, allocated the student credit hrs. by the college offering the course, allocated student credit hrs. by the college the student was admitted to, and by major. This was the process. We took all that, summed it by college, calculated allocations for graduate and undergraduate courses, calculated an average tuition dollar per credit hr. That was total student credit hrs. divided by actual, total tuition earned, undergraduate and graduate. So it was two separate calculations, just the same calculation for each group. Again, calculated for each year rolled up each semester into the year for graduate and undergraduate. Then we went through and did the whole thing again for subvention dollars because there are two categories for students for graduate and undergraduate, but when you get into the subvention dollars, it actually breaks it out into 13 levels. Each course has a subvention level accorded it by the state."

Mr. Brown continued, referring to charts as part of the accompanying Powerpoint presentation. "This is actually from a 5-yr. averaging of subvention dollars rather than doing it year by year. The student credit hrs. generated times the average tuition rate was the tuition dollars. Student credit hrs. times subvention rate equals subvention dollars. This is the academic year 2000, fall semester. You see the tan column that's each college. That's the college offering the course. At the top you've got the college of admission, the colleges, the college of major. Each credit hr. fits into one of these blocks on the matrix. This matrix is repeated for each college. As you can see here, you've got admission, College of Arts & Sciences and then a major Arts & Sciences. You've got the admit A&S and then C&T major. That same Algorithm would go out about 80 or 90 cells, so you'd cover every combination of college of admission, college of major and then fit the student credit hrs. into it. Then you end up with a number in the cell and this is just a small piece of it, but if you look at college of A&S admits, college of A&S major and classes offered by college of A&S as 5,950 credit hrs., that makes sense. Those are majors who are admitted to the college taking classes in that college. That should be the highest number. Again, CBA going down and across. So again, then as you go through you take all the hrs. across a row and add all those hrs. up. That is the total for the college of A&S for fall of 2000. Do that for each college, do it for each semester, and roll it up to a total and that's what we're talking about. That's the model for the student credit hrs. That's the basis for this whole thing, allocating the credit hrs. that are earned and then dividing it all out between the college that offers the course and the major in the admitted college of the student."

Mr. Brown continued stating that this was information that was not exactly readily available, but it was information the University used all the time. It was in the fact book. We had kept it for years and years. We reported this to the state and it was absolutely verifiable.

Senator Erickson then asked about University College. To which Provost Hickey replied by stating that you were never going to see a lot of credit hrs. associated with courses taught by University College, because the only courses taught by University College were developmental courses. The number for developmental courses was fairly substantial. But that would be the only course offerings for which they would need. Referring to Mr. Brown's chart, he noted that some students were listed in developmental courses. Senator Erickson then asked whether, given the college of admittance status and few courses like developmental, the maximum University College might receive would be 5%?

Provost Hickey relied that was true and that was one of the reasons we ended up with 5%. There was a little reverse reasoning here. When we ran it with bigger numbers because of the huge number of students who were admitted to University College, University College's budget became one of the largest budgets in the University. But the fallacy of that was that the amount of teaching the course to the student and having them as a declared major was a greater workload than having the student as an undeclared major hanging around University College. University College did things and needed to be paid for the effort, but in accord with that effort, teaching the course was more work than just providing the advising for the student. Also, we did not want to build a model that encouraged students to remain in University College. We had talked about a host of things. Late in some of these meetings we had even talked about bounties on students leaving University College going to some other unit. But incentives for University College should not be to keep them there, but to do what they needed to do in order to get the students into the degree-granting colleges.

Senator Harp then asked what happened with double majors. The Provost replied that while that had come up at the PBC meeting, quite honestly it was not something we had thought about. Now there would need to be a primary major defined or we would have to come up with some way of altering the model to account for double majors.

Mr. Brown added that in the system there was a primary major, and that was what showed up. Forgive him, but he did not know what differentiated the first and second majors in the system. It would probably change with Peoplesoft.

Senator Buckenmeyer then stated that maybe in the same respect it might not behoove a person in one college to go teach in another college. In one way it would be an advantage but another way it wouldn't be an advantage, unless there was a magnetic effect. He did not know whether that happened very much.

Provost Hickey stated that one of the perceived problems and sometimes realized problems with any productivity-based system, and it probably showed up the quickest in responsibility-based budgeting, was that it tended to discourage collaborative, interdisciplinary undertaking. He simply offered that that was something we needed to be aware of, and we needed to do what we could to allocate the credit hrs. in a way that makes sense. But one of the reasons responsibility-based budgeting had not been successful in a lot of places was that you tried to account for absolutely every conceivable event in the model and it did not work. Another problem with responsibility-centered budgeting, and he had some direct experience with this several years back, was that you could debate forever the allocation of expenses. He was at a university that spent $2 million trying to allocate expenses and never got it done. So he did not think we wanted to go that route. Mr. Brown added that we were talking about millions of dollars. The Provost then stated that a number of double majors, in the grand scheme of things, would not buy us the allocation all that much.

Senator Conrad then asked whether this was the end of a university-wide raise pool. After proclaiming his fascination at how Senator Conrad came to even ask such a question, the Provost stated that there must be something here he was missing. Senator Conrad then stated that if you returned revenue to the unit that generated it, what was the unit going to do with the revenue? Hold ice cream socials?
The Provost then asked whether Senator Conrad's question was, could this result in differential raise pools in different colleges, the answer was yes, it could. There could be an institutional raise pool which then could be added to by units with the resources to add to it. So we could end up with differential raise pools in different colleges, and deans who applied this could end up with differential raise pools in different departments within colleges.

Mr. Brown continued his explanation of the model. He just wanted to show Senators that these were the figures that were used to come up with the calculated student credit hrs. These were from the budget office actual tuition revenue, undergraduate, graduate, the totals for each year. Then the total undergraduate student credit hrs., graduate student credit hrs., and then simple division to get an average, all the tuition income, divided by all the student credit hrs. That was it; there were no adjustments, no finessing, no anything, just straight calculation. The Provost added that a differential rate paid by an out-of-state student would have driven up the revenue pool, so it went in that way. Senator Hariharan added that graduate student fees were much higher. Provost Hickey replied that as long as you were dealing with the dollars really received, all of that other stuff washed out.

Mr. Brown stated that he would have to do the next part of his presentation in two steps. He presented a matrix of credit hours. These were where we actually plugged in the student credit hr. differentiation according to the college of admittance, major, so forth. We looked at .50, .25, .25, and went through, and you could see what it did to the credit hrs. For the College of A&S, if you looked at .50, .25, .25, you saw they got a total of 59,767 hrs. Looking at the .8, .05, .15, it was 79,452, and that made sense because they were getting a greater proportion for the courses they were offering. The college of A&S offered a lot of courses, so there were a lot of student credit hrs. generated by those courses.

Senator Norfolk then asked whether they had broken each credit hr. according to its subsidy level.

Provost Hickey replied that the point was that in A&S and teaching general ed. courses, they were teaching 100-200 level courses that had a lower subsidy rate from the state. But if you averaged together all of the subsidy rates, that artificially inflated the subsidy dollars.

Mr. Brown added that each course had the level and each course was done by averaging for the subvention dollars. This was an average subvention dollar rate over the 5-yr. period, because he did not want to have to calculate it each year.

Senator Lyons then asked, in order to evaluate this, whether the Provost could briefly explain how it would work if we did not use ROI. Where would this money go if we just did it the way we did it now? Provost Hickey said that we had a perfect example right now. He had looked hard for any meaningful tie between the current budget allocations to colleges and their productivity, and he could not find it. He thought what had happened here was what had happened at many institutions, particularly when you got into tight budget time with small increases. Your budget was a percent increment over what it was last year, independent of whatever else had happened. And my sense was that at this institution in the past there had been a lot of coming to Buchtel Hall for a handout and saying, "I need money for such and such." And people were given money. He did not mean that to be negative because that happened in a lot of places, but if it happened often enough over enough time, then any clear relationship between productivity and budget allocation broke down. He thought that was where we were right now. This was a way to get it back on line with productivity, but ROI did so gradually so as to show people what they needed to do in order to increase their budget. If they were going to drop, to cushion the drop. It gave them time to change behavior.

Dean Creel then addressed the body, stating that he thought he could respond to what he felt was the heart of Senator Lyon's question. The 23,594,000 there in total resources (depicted in a chart as part of the presentation), was the resources that came to the college of A&S. That was what A&S spent. 62 million was from courses generated from tuition and subsidy. So that was the amount that went into the general fund, and got redistributed as it did right now.

Provost Hickey added that there was nothing wrong with cross subsidizing. However, all should agree ahead of time what was worthy of cross subsidization. Right now you did not know what you were cross subsidizing. This provided you the opportunity to find out. It might be that you looked at something and said this entity was so important to the institution and of such prestige to the institution and because of the type of unit it was, it would never be able to survive on this model. We wanted to be able to cross subsidize that type of unit. That was one of the reasons there were no subvention dollars in here because that provided for that kind of rational-based, openly-discussed cross subsidization. The variables really were the percentages, and to his way of thinking that was as good a place to start as any. He could not tell you that .8 was better than .75 or better than .85; it just felt good as a place to stop. Others might feel differently. Beyond that he could not give you any justification. He thought only giving .5 to the unit was too small. Much more than .8, you started really diluting the impact of the magnetic effect. Either way, we were a university and as highly as he thought of Dean Creel and the arts and sciences, he did not think we wanted to become just one of the best funded arts and sciences colleges in the world. Rational people would not have that feeling.

Senator Hoo Fatt then asked whether the ROI was also for the college of engineering. Mr. Brown replied that sure, engineering was on the bottom (again, referring to his spreadsheet). The reason there's a difference is because this is year by year - 98-99, 99-2000,2000-01, depending on whether you're using academic or fiscal year. The one on the left is without direct benefit expense, one on the right column is with direct benefit expense. Senator Hoo Fatt then said she wanted to understand something - the reason the ROI was so low in engineering was because the classes in engineering were smaller? What made this ROI lower than the previous one?

Provost Hickey replied that the faculty there taught fewer students. Two reasons - your salaries were higher and you taught fewer students. That was a similar problem for the college of business administration. Salary level drove up your expenses and you taught fewer students so your revenues were down. Without the magnetic effect the college of engineering did not have an ROI of 1.7 and would not participate in any revenue stream; in fact, it would probably have negative revenue. You would have negative budgets.

The Provost continued. Nursing was one of the colleges that was going to have a challenge here, as they had a 1.59. Dean Capers knew that; in fact, it was coming up already, but it was one of the units where we would work to assist in getting the revenues up. It also might be one of those units where you decided and you had to do a bit of bench marking around the country and ask how this nursing school was doing relative to others. In fact, with regard to enrollments, nursing nationwide took a 40% decline in enrollment and this nursing college took a decline but nowhere near 40%. So relative to other nursing colleges this college was doing well, but in this ROI model it might in the end need to have some agreed-upon subsidization.

Senator Kahl then asked for information purposes and management purposes whether it was possible to break this down by department, or how feasible it was to break this down by department?

Provost Hickey stated that they had not broken it down by departments. But the rollup of the data was such that the credit hrs. came out of departments and some into colleges, so it could easily be broken down by departments.

Mr. Brown then pointed out, since he had been working with this for a long time, it seemed to him that Senators had a choice. Some schools were going to meet this easily and some were not. The question was, was this a fair system or was it not? Did you want a system or did you want to continue with a budget system that was not based on anything? It was based on historical something. While he had no vested interest, when working with this it seemed to him a question of, here was a system to take a chance on.

The Provost stated that he thought that if you started with something that was known and predictable, then use good judgment and consensus to decide where you needed to adjust this cause or not. But rather you said that a given unit, because of its value to society, the University, the community, deserved a certain level of additional support to do what it did. Nursing must keep classes small. It had a lot of clinical teaching responsibilities which were very time consuming, including clinical teaching responsibilities off campus that people had to drive to. It was a time-consuming way of educating. The Law School probably did the worst on the return on investment of any of the colleges, but you had to decide - did you want the value, the prestige that went with having a law school and did you want all of those extremely well-placed people who were alumnus of the University who were now part of the political structure of the state? Those were the sorts of things you got when you had high-level professional schools like nursing and law. You made those judgments in the open and you made them based on a foundation. Law knew the extent to which you were willing to subsidize law and therefore it had to modify its behavior to stay within the range. Law would never get to a 1.7 ROI. But it needed to do as best it could in the range that it could do. Then it became an institutional decision. The decision was really, were we going to have a law school or not? If the decision was to have a law school which this institution had made, then you said we wanted an efficiently run law school. But we wanted a very, very good law school that brought prestige to the institution. On the other side, the 50% that was quality money, they had a good chance to access that money. The program in intellectual property law would be a prime candidate to access resources on that side. So at least the foundation of the budgeting process was a very open, known, and predictable way of doing business.

Senator Hoo Fatt then had a question about the return of the money to the college. Who determined, as some of these colleges were going to be over the 1.7, that the Provost would give back some money to the various colleges and to do what?

Provost Hickey replied that the colleges in turn could do whatever they wanted to do with it. The budget would be ongoing dollars. So if you had sufficient dollars you created a faculty position. If you wanted to set aside a supplemental raise pool you could do that. If you wanted to increase travel budgets, operational budgets, whatever; he was not going to put any strings on what came back. Colleges had to act prudently because if you had one college that for some reason one year got a big spurt and got an extra $100,000 and they went out and hired 2 or 3 faculty members with that $100,000 and the next year they got a big dip, they would have a problem. So there had to be a certain stability to this. But remember, when you got more money as a result, in order to maintain your ROI at the same level you had to make more money the following year. Otherwise, your ROI would go down because your expenses had gone up and your revenues had stayed the same. But he thought that what would happen over time was this was a way of budgeting in real time. Colleges would get what they earned as opposed to what they were capable of. In the back of airline magazines you always saw that you did not get what you were worth; you got what you negotiated. Give him a $1,000 and Alex Karas or whoever it was would teach you how to negotiate. In this way the colleges actually got what they earned.

Chair Sheffer then asked whether Vice President Nettling would like to say something on behalf of the model. Mr. Nettling wanted to add that we talked about revenue-centered management a couple of times. One of the things that went into that was that colleges would be asked to set aside a certain percentage for reserves in case of a rainy day. In the model we saw in Indianapolis they were required to set aside 5% annually for that rainy day. Provost Hickey joined in that that would certainly be shielding us from what we were going through right now.

The Chair then called for any additional discussion. None forthcoming, he read the resolution to the body: **That the Faculty Senate approve the Return on Investment model as the new**

University budget development tool based on revenue generation and other measures of quality and productivity. It is further recommended that the model be phased in over a 5-year period beginning 2001-2002, and that results be presented and reviewed annually by the PBC.

The Senate voted its approval of the resolution. The meeting adjourned at 4:50 p.m.

Transcript prepared by Marilyn Quillin