

Financial Policies Committee

Annual Report 2020-2021

Draft: 5.16.2021

Committee Membership

Douglas Antczak

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Lawrence Blume

David Easley

Ronald Ehrenberg

Rayna Kalas

Ravi Kanbur (Chair)

Neema Kudva (ex officio)

José Martínez

Luis Schang

Adam Smith

Charles Van Loan (ex officio)

Charles Walcott

Overview

Introduction

The Financial Policies Committee (FPC) of the Faculty Senate normally meets once a month during term time. On a normal pattern it has two meetings each semester with the Provost and the VP Budget and Provost. There are presentations to the FPC on Operating Budget, Capital Budget, 10 Year Budget Projections, in sync with cycle of presentations leading up to the Trustees. A range of themes and issues emerge and are discussed and developed as they mature (examples follow in the meeting summaries below).

This is the “normal” pattern. But the previous academic year 2019-2020 was not normal. By April 2020 the University was into a full blown Financial Crisis caused by the repercussions of Covid. The salience of the FPC escalated as it engaged with the Administration’s proposals to address the Crisis. Monthly meetings became weekly meetings, every other meeting being with the Provost and VP Budget. The FPC prepared a report and a presentation for the Senate, at the same session as the presentation of the President and the Provost. This report is appended to last year’s Annual Report, for 2019-2020.

This academic year the operations of the FPC have slowly come back to normal, although the meetings with the Provost and VP Budget have still focused on recovery from the Crisis. But alongside these, a number of other issues and themes have been taken up and discussed, including in meetings with the Chief Investment Officer, the Vice Provost for Research, and Assistant Director of Institutional Research and Planning. Summaries of FPC meetings for this year are available in Appendix II of this Report.

Recommendation on Research Costs

One theme, which had been set aside last year with the focus on the Pandemic, was that of Research Costs. During the Fall semester of 2019, the FPC assembled a sub-committee to examine financial implications of policies surrounding Cornell research. The sub-committee examined a range of issues, from Facilities and Administration (F&A) rates to College policies on revenue returns to PIs.

One particular issue highlighted by the sub-committee (the full report is in Appendix I of this Annual Report), is Cornell’s definition of off-campus research:

“For all activities performed at a location which has neither the use nor aid of owned or leased University operated facilities and with personnel off campus *for two months or longer*, the off-campus rate will apply” (emphasis added).

The sub-committee argues in its report that the stipulation of a required duration for off campus research is quite unusual compared to our peers and may be a result of an earlier standard that has not been revisited in some time. Most of our peers, in contrast, define off campus research in terms of a preponderance of effort.

The sub-committee argues that apart from being an unexamined vestige of the past this definition has significant negative consequences: (i) Cornell researchers conducting off campus research find that their projects, assessed at an indirect cost rate of 64%, cannot compete for awards alongside peers assessed at the lower 26% rate; (ii) this can and has led some researchers to off-shore their research grants to other universities or private think tanks; (iii) the current “duration away” measure for off-campus research unfairly impacts two groups more than others: female scholars and faculty in administrative roles (e.g., department chair).

The sub-committee thus recommends that the criterion be changed as follows:

“The criterion for determining whether the on- or off-campus F&A rate is applied to a research award is an assessment of the preponderance of effort. If over 50% of budgeted direct costs support activities to be performed on campus, then the on-campus rate applies to the entire budget. If over 50% of the budgeted direct costs support activities that take place off campus, then the off-campus rate applies to the entire budget.”

The sub-committee recommendation was endorsed by the full FPC. We have communicated the Report and Recommendation to the Provost with whom there will be continued engagement prior to this summer’s F&A discussions with the Department of Health and Human Services.

Other Themes

The Research Costs recommendation is an example of an issue that came to fruition in a specific way. But the FPC has been discussing a number of other themes, as highlighted in the meeting summaries which follow. These themes will be prioritized and furthered explored next academic year:

- Salaries: Diversity and Inclusion Dimension
- Debt Capacity and its allocation across units
- Contingency Fund for the Next Crisis
- Endowment Returns
- Research Costs continued: Allocations of indirect cost income to units on campus that directly bear costs such as utilities and building maintenance; F&A policy effect on contracts and grants; F&A policy within and between colleges.

Two Operational Issues

The FPC has regular interaction with the University Administration in the person of the Provost and VP Budget. It reports back to the Senate through its Annual Report. However, perhaps the interaction between the FPC and the Senate could be enhanced. If there is a desire, the FPC is ready to make presentations to the Senate from time to time on specific financial themes to engage the Faculty. Moreover, if Faculty would like the FPC to consider an issue, they can propose that through the Dean of Faculty, or directly through FPC members closest to their unit at Cornell.

Although this is “above its pay grade”, because appointments to the FPC are a matter for the Nominations Committee, in its last Annual Report the FPC has noted that its composition is imbalanced in terms of (i) gender, (ii) URM and (iii) Contract Colleges. We know the Nominations Committee is trying to change this as turnover happens, but it is difficult to find replacements. So we would like to say to Cornell Faculty to give serious thought to serving on the FPC—it has great esprit the corps, it interacts with Senior Administration on a regular basis, and it is fun!

Appendix I
Report and Recommendation of Sub-Committee on
Research Costs

Financial Policy Committee

Subcommittee on Research Costs

Recommendation on off-campus determination policy

April 29, 2021

Adam T. Smith, Doug Antczak, Larry Blume, Ronald Ehrenberg, Luis Schang

During the Fall semester of 2019, the FPC assembled a small subcommittee to examine financial implications of policies surrounding Cornell research. The subcommittee, chaired by Adam Smith, included Doug Antczak, Larry Blume, and Luis Schang. We were fortunate to also be joined by Ronald Ehrenberg during the final stages of our discussions. During deliberations, we conferred with Emmanuel Giannelis (Vice Provost for Research), Paul Streeter (Vice President for Budget and Planning), and Jeffrey Silber (Senior Director, Sponsored Financial Services) on matters and wish to thank them for their contributions to our deliberations.

Having examined a range of issues from Facilities and Administration (F&A) rates to College policies on revenue returns to PIs, we have been strongly encouraged by the mechanisms currently shaping the flow of resources related to research. But we recommend one change in policy that will be of significant import to field-based research and will bring us better in line with our peers on a matter where we currently face a competitive disadvantage.

We recommend that Cornell alter its definition of off-campus research. Currently, Cornell uses this definition of off campus research:

“For all activities performed at a location which has neither the use nor aid of owned or leased University operated facilities and with personnel off campus *for two months or longer*, the off-campus rate will apply” (emphasis added).

The stipulation of a required duration for off campus research is quite unusual compared to our peers and may be a result of an earlier standard that has not been revisited in some time. Most of our peers, in contrast, define off campus research in terms of a *preponderance of effort*. As an example, here is Harvard’s policy:

“The criterion for determining whether activity is conducted on-campus or off-campus for a sponsored project is as follows: when 50 percent or more of budgeted Harvard time and effort is performed on-campus, then the on-campus indirect cost rate applies; when more than 50 percent of budgeted Harvard time and effort is performed off-campus, the off-campus indirect cost rate (26%) applies.”

We recommend that Cornell adopt a “preponderance of effort” for assessing whether research is on or off campus. An example of a preponderance policy might be worded as follows:

“The criterion for determining whether the on- or off-campus F&A rate is applied to a research award is an assessment of the preponderance of effort. If over 50% of budgeted direct costs support activities to be performed on campus, then the on-campus rate applies to the entire budget. If over 50% of the budgeted direct costs support activities that take place off campus, then the off-campus rate applies to the entire budget.”

Our recommendation is based on several observations gathered during the committee’s deliberations.

First, the existing policy harms Cornell researchers competing for federal research grants. With congressional allocations flat and F&A costs rising, Cornell researchers conducting off campus research find that their projects, assessed at an indirect cost rate of 64%, cannot compete for awards alongside peers assessed at the lower 26% rate. NSF panels, to take one example, weigh the funds directly supporting research and if there is a choice between awarding one large project with a 64% F&A rate or two leaner projects with just 26% F&A rate, the one bloated by the higher F&A rate may lose out regardless of how meritorious the proposal.

Second, the harms of the existing policy extend beyond a single grant. We have extensive anecdotal evidence that the high F&A rates and the existing policy on off campus research at Cornell have led a significant number of researchers to off-shore their research grants to other universities or private think tanks. Some have even begun to establish their own non-profit organizations. These tactics can provide more advantageous terms for funding research but at considerable loss for Cornell.

Third, the current “duration away” measure for off-campus research unfairly impacts two groups more than others: female scholars and faculty in administrative roles (e.g., department chair). For female scholars who often bear a sizable caretaking burden, a 2 month away standard is unfairly discriminatory. These scholars often must conduct off campus research during multiple shorter periods rather than a single period of duration in order to meet familial obligations. There is no reason why their work should be assessed differently than the scholar who is free to sojourn off campus for longer periods of time.

For faculty in administrative roles, like department chair, the rule forces them to choose between research obligations and administrative duties. If a faculty member serving as a department chair wishes to conduct off campus research during the summer, they would not be able to be off campus for two months given their administrative obligations. And hence they too would find their work assessed at a different F&A rate than a colleague who did not willingly commit to university service.

Based on these findings, the Research Costs subcommittee of the FPC recommended changing Cornell policy to a “preponderance of effort” model for off-campus research. In conversation with Jeffrey Silber, we learned that the projected cost of such a move is not highly significant and see the potential

economic benefit of “re-shoring” awards now funneled through other organizations as important to the University. Anticipating a surge in research following the COVID-19 hiatus, we recommend that this policy change be negotiated with federal authorities this year as part of any discussion of F&A rates, whether a request for extension or renegotiation.

On May 13, this recommendation was unanimously endorsed by the full body of the Financial Policy Committee.

Appendix II

Meeting Summaries

9.17.2020

First meeting of the year, to take stock and look ahead to possible agenda items for the year to come.

Issues raised:

1. If there have been better than anticipated financial outcomes, is the University considering refunding of some of the salary cuts, as some other Universities seem to be doing? And undoing some other austerity measures?
2. How is the University progressing with thinking (and doing) on:
 - a. Administrative reorganization to increase efficiency
 - b. Remote working to save on space expenses
 - c. Contingency Funds
 - d. Sustainability of current financial model based increasingly on tuition
3. There is a sense that Faculty and Senate engagement, with the FPC playing its role, did influence Administration thinking and responses to the Pandemic crisis.
4. But there is also a clear sense that there needs to be more Faculty involvement in the budgetary process in non-crisis situations. We need to understand from the Administration its budgetary process so as to offer and agree on the best possible modalities and entry points for engagement by the FPC.
5. In parallel, we can take up specific issues (eg Research Cost Allocation, Faculty Salaries, Contingency Funds), and ask the Administration how Faculty and the FPC can be substantively involved in University deliberation on these and other issues.
6. At the same time, the FPC can also engage more with the Faculty Senate. Following on from the reception of the engagement last Spring, one specific suggestion is to make a presentation to the Senate in late Fall on selected issues, paired with a presentation by the Provost.

10.29.2021

Discussion with Provost and VP Budget on FY 20 outcomes and FY21 projections.

1. The bottom line is that the bottom lines are better than projected . The FY20 outcome is in fact an operating surplus after transfers. The FY21 projection based on First Quarter outcome is around better than projected.
2. Focusing on FY21, the bottom line is the combination of a number of positive and negative factors. Enrollment at undergraduate and graduate levels is higher than projected, and Financial Aid is lower than projected (because the unemployment rate is turning out to be lower than was assumed in the FA model). However, the costs of quarantine and isolation are turning out to be significantly higher than projected, and State appropriations are now projected to decline by greater amounts.
3. A key takeaway for Faculty is that given improved projections for FY21, the Administration is considering ending salary and retirement benefit cuts from January, 2021.
4. The discussion touched on a number issues which were more medium term in nature. In no particular order:
 - a. The Structure of Financial Aid, and vulnerability of FA to sharp economic downturns.
 - b. Reviving discussion we had begun last year on a Contingency Fund for sharp downturns.
 - c. The question of the low return on the endowment.
 - d. Administrative reorganization to reduce costs and achieve greater efficiency.
 - e. Down side risks on New York State appropriations.
 - f. Philanthropy: the extent to which the additional support received last year and this year, which contributed to the better than projected financial performance, comes at the expense of contributions in the future.
 - g. Capital campaign and impact of the crisis.
 - h. Building on the success story of online teaching this year to generate cost-efficient revenue streams for the future.

11.19.2021

Meeting with Provost and VP Budget on FY21 projections and assumptions for FY22 budget.

1. The bottom line is that the overall situation is now better than projected even a month ago at our last meeting. The two main reasons are (i) better than projected enrollments and (ii) lower than projected Financial Aid costs.
2. These projections contributed to the decision, mooted at our last meeting, to halt the salary and retirement plan contribution cuts from 1 January onwards, a decision now announced by the President.
3. Coming to a more granular level, the impact of actions like no SIP or no discretionary spending would affect units differentially. Paul also explained the metrics by which increased Covid costs on testing, quarantine, etc, would be differentially allocated across Colleges (primarily in proportion to undergraduate tuition revenue).
4. A question was raised on the incentives under such a mechanism for Colleges to be prudent, and whether this would in effect penalize Colleges who had been prudent in containing costs. Mike replied that this was a concern, but given that major cost saving actions like hiring freezes, or the discretionary spending halt were relatively easily monitorable, this should not be an issue in the short term, albeit there would be a concern if it continued into the medium term.
5. Mike raised a concern about whether the Faculty salary increase pool was too low, given that there was no SIP and there were salary/retirement contribution cuts in FY21. This led to a discussion along different dimensions.
6. Some members of the FPC recounted experiences of departments losing out in hiring and retention because of salary competitiveness. Mike made the point that studies he had seen suggested that on average, even for fairly granular comparisons, Cornell remained competitive. A question was then raised about salary increase being focused primarily on hiring and retentions, without regard to those who commit to the University and make excellent contributions. There was a lively discussion on this.
7. Given the both structural and immediate importance of the topic, and the FPC's expressed desire to take up the salary question in its deliberations, it was suggested that we try to find a meeting slot with Mike and Paul devoted to this range of questions. Mike agreed to this proposal.

12.10.2020

Meeting to discuss (i) the idea of a Contingency Fund and (ii) Taking up the issues of Research Costs

Contingency Fund

1. The central question is: should the University develop a Contingency Fund as insurance against future down turns? There are high level aspects to the question as well as nitty gritty design elements. Comments from FPC members raised a number of issues.
2. The efficacy of a salary specific contingency fund versus a general contingency fund, given that the nature of the shock cannot be predicted (eg what if the biggest need is for Financial Aid?).
3. Flows into a contingency fund, whether salary or general, have to come from somewhere (eg from unit reserves or built up research accounts—to one pocket from another?).
4. Fungibility of funds mean that a salary specific contingency fund is difficult to protect de facto even if there is no de jure violation. The example was given of an endowment fund raised in a department which was in effect tapped not directly but indirectly through cut backs in other funds (which then had to be supplemented by the department through the endowment fund).
5. Might Faculty and staff prefer to get the salary increment now rather than insurance for later, in particular because (i) they may trust their own ability to use funds to insure themselves and (ii) lack of trust because of fungibility type issues discussed above.
6. Is the endowment in effect the general contingency fund? If so, should there be a policy on conditions under which it will be tapped (as it was in this cycle)? The counter to this is that it will be difficult to develop such a policy, and difficult to get administrators to adopt it, given that the nature of the contingency is difficult to predict.

More general issues arising

7. The 10 year model assumptions have very low Faculty salary increases built in. Can Cornell's competitiveness vis a vis its peers be sustained with these assumptions?
8. Much of our financial difficulties over the medium term stem from the fact that the Cornell endowment has been performing so poorly. While the management team has been changed, there is a current narrative that it will take some time to unwind the portfolio commitments made in the past. It was suggested that the FPC meet with the CIO. This was in fact also suggested by the Provost at the last meeting. We will try to set this up for next semester.

Research Costs

9. The sub-committee's presentation focused on four categories of potential issues to raise with Vive Provost for Research Giannelis: (i) Policies surrounding research income; (ii) Policies surrounding flow of research income within the University (iii) Relation of Cornell policies to incentive structures; (iv) Institutional structures supporting external research. A brief discussion followed and among the issues raised were the following:
10. The definition of "off-campus research" (which carries a lower overhead rate) is much stricter at Cornell than at peer institutions (see attached analysis, which is also in the FPC Box). This is one area where the university could bring itself more in line with its peers.
11. The great variety of concrete situations and incentives depending on the specific source of funding (eg NSF, NIH, Foundations etc) and type of research (off-campus etc).

12. Lack of systematic knowledge (as opposed to many anecdotal accounts) of the responsiveness of grant raising to recovery rates and in particular “off-shoring” of grants to avoid high IC recovery rate.
13. However, the average rate of IC recovery is more or less given by the need to meet a range of research related expenses at the University level. This would mean that a lower rate for some categories requires a higher rate for others.

12.18.2020

Meeting with Provost, VP Budget and Assistant Director of Institutional Research and Planning (William Searle) on Faculty Salaries.

1. The data analyzed is base salary (excluding summer support, research support, and other adjustments for administrative load etc) for each individual tenure track and tenured Faculty member at Cornell, with complementary information including: field/discipline, rank, age and whether endowed chair or not.
2. For market comparisons, a number of data bases of salary information from peer institutions are used, and these have confidentiality requirements. There are also confidentiality issues in public presentation of finely disaggregated Cornell data. [There was some discussion on the bigger question of confidentiality of salary information at Cornell, compared to public University systems where the information is publicly available].
3. Each year a presentation is made to each Dean comparing salaries in that College to what would be predicted by the market on the basis of the characteristics above. This highlights both average position relative to the market and individual outliers for discussion with the Deans.
4. On average and overall, correcting for the characteristics above, Cornell salaries appear to be in line with market comparators.
5. On internal equity, regression analysis does not show statistically significant coefficients on race or sex, once the above characteristics are accounted for.
6. Conclusions 4 and 5 above led to a discussion around a series of questions, exploring the potential disconnect between these data and a ground level perception that market competitiveness and internal equity are real issues. These questions included:
 - a. What fraction of departments are below the relevant market average or median?
 - b. How does the variance of salaries in each specific category compare with market variance?
 - c. How does time to promotion and distribution across ranks differ across sex and race?
 - d. How would the analysis be affected by going beyond base salary to include research support?
 - e. How would the analysis be affected by including measures of productivity (recognizing the issues with these measures)?

Mike, Paul and William asked the FPC to collate detailed questions and send them on to William, who will do his best to address them given data and human resource constraints. [Further correspondence with VP Budget led to an agreement to have a follow up meeting next academic year, bringing in Vice Provost for Academic Affairs Avery August].

1.21.2021

Meeting with Vice Provost for Research Emmanuel Giannelis.

1. Emmanuel emphasized that he views himself as an enabler of and advocate for research, and highlighted services his office provides on grant preparation etc.
2. The University Administration, and Government agencies, frame the F&A rate issue as being closely related to how much research costs, and recovery of these costs. One view, based on narrow financial accounting, is that research costs more than F&A raises, so lowering F&A to “raise net revenue” is not an appropriate way to think of the issue. Overall, the notion of F&A as a “tax” on research which leads to “off-shoring” and thus loss of “revenue”, needs to be rethought.
3. However, some FPC members highlighted that taking a broader perspective on the benefits that research brings to the University through reputational effects (and through this, financial benefits) might change this calculus. There are incentives for Faculty to off shore their research grants and this is detrimental to the University. What further carrots (for example, payment of some part of the grant overhead into Faculty discretionary accounts), or indeed sticks, might be appropriate to reduce off-shoring?
4. Emmanuel said he would take on board the issue of off-campus and on-campus rates, highlighted by the FPC sub-committee, in his discussions with Administration.
5. While Cornell seems to be doing well in (non-normalized) rankings of grants raised from NSF etc, it is not doing so well with corporates. What can be done to improve this?
6. In terms of internal flows of F&A, the bulk of this goes to the College. It is up to the College to distribute this, and practices vary significantly. These variations can act as a drag on cross-College proposals, which Emmanuel and his office try to address on a case by case basis.
7. On detailed financial issues, Jeff Silber could be an important interlocutor for the FPC. It was agreed that the Research Costs sub-committee would arrange a meeting with him and report back to the full committee.

2.24.2021

Meeting with Chief Investment Officer Ken Miranda.

- Ken gave an informative and broad introduction to endowment investing at Cornell and in effect addressed the central question of perceived poor performance relative to Ivy League peers.
- He characterized the situation when he took over in 2016 as being one of poorly performing long term contracts and unfunded commitments to invest which reduced liquidity and room for manoeuver. Unwinding these arrangements takes considerable time (he talked about an average “half-life” of six years, or longer, for long term contracts).
- He also discussed organizational and management changes, with fewer accounts and fewer managers, which has saved significantly on fees.
- The situation has improved significantly, with performance now being a little above the relevant benchmark, and more improvements are expected.
- However, looking ahead, Cornell’s risk tolerance cannot be as high as the wealthier Ivies and so the return on average will be lower. Ken said that he doesn’t expect we will get near the top of the league of our peers on endowment performance (we are close to the bottom now) but around the middle of the league would be an appropriate target.
- Finally, he did not think being locked out of the hydrocarbon sector was a major constraint—as those contracts are unwound and resources were released, there were exciting new opportunities on the horizon for investing those funds.

After the meeting a Committee member sent a very interesting piece on the turnaround in Cornell’s endowment management which talked about some of the organizational changes mentioned above, and more: <https://www.institutionalinvestor.com/article/b1gph4ll0jcj9r/Dysfunction-Cost-Cornell-700-Million-Can-a-New-Investment-Crew-Turn-It-Around>.

3.17.2021

Meeting with Provost and VP Budget to discuss (i) FY21 Budget Update, (ii) FY22 Capital Budget, (iii) FY 22 Budget Outlook.

1. Overall, the FY21 Outlook for the operating budget is similar to that presented in Fall ie significantly better than budgeted. Despite Covid-related expenses being worse than anticipated, key items of revenue (enrollment, financial aid, state support, Federal relief) and expenditures (non-personnel expenses like travel) are doing better than projected.
2. However, limitations on debt capacity, the capacity having been expended in supporting Weill Medical's needs, are putting constraints on capital spending, with implications for major projects like Balch, McGraw and Sibley.
3. The unanticipated budgetary surplus will be used to address: (i) budget risks for next year (financial aid, graduate enrollment, Covid expenses), (ii) capital renewal, (iii) contingency fund.
4. "Return to normal" trajectory in FY22 for the operating budget. Tuition revenues rebound expected. Hiring freeze and spending restrictions (eg travel) likely to be lifted.

Discussion Points

5. In response to a question, Mike elaborated on the genesis of the debt capacity constraint. There was a discussion on the allocation of debt capacity across units.
6. On capital budget, for contract colleges, there is state funding for building renewal. There is no such funding for endowed colleges. A concern was raised about the implications of the current capital spending constraints for buildings like McGraw. Mike acknowledged the concern, in the context of the debt capacity constraints, and that University leadership was also concerned and thinking about these issues.
7. Contingency Fund. Various issues surrounding such a fund, ranging from overall size to operational modalities and safeguards, have been discussed in the FPC. The Administration will discuss these with FPC as the Fund proposal develops.

4.15.2021

Internal meeting covering matters of Committee process and substance.

Committee Size, Composition and Working

1. It is getting increasingly difficult to get Faculty to serve on Committees. There are bigger picture issues of incentives and recognition for Faculty service, but expansion of FPC numbers appears to be a non-starter for now.
2. Increasing the length (up to 4 years?) of each appointment cycle is one way of relieving the pressure to find replacements. But this conflicts with another objective, which is to change the composition of the FPC, which is imbalanced in terms of gender, URM, and contract college membership.
3. The idea of mini-task forces bringing on external members as needed was discussed. This has some attractions, for example accessing specialist expertise, but faces some of the same issues of eliciting faculty service when they are not part of the FPC with its regular meetings and its esprit de corps.

Presentation to Senate

4. There will be an FPC presentation to the final Senate meeting of the year, on May 19 at 3.30--5.00 pm. It will go beyond the usual Annual Report presentation, although that will be done as well. It will (re) introduce the FPC to the Senate and give a broad account of what it does. FPC members should block out this slot in their calendars.
5. The Annual report will be drafted and circulated to FPC members for finalization in the week following the final meeting of the FPC this year, in time for the May 19 presentation.

Issues for May 4 Meeting with Provost and VP Budget

6. A range of issues for this meeting were discussed, and the agenda will be finalized with VP Budget.

5.4.2021

Meeting with Provost and VP Budget.

1. Mike updated the FPC on the search for VP Budget, which is still ongoing. Mike agreed that once the appointment is made the FPC should meet with the new VP Budget over the summer.
2. This was the last official meeting of the FPC with Paul Streeter in his role as VP Budget. The FPC expressed great appreciation for Paul and for his interaction with the Committee over the years.
3. Paul reviewed an update of the financial picture. In broad outline this was similar to the financial projections presented two months ago. Some items of revenue (eg Federal relief grants) and of expenses (eg non-Personnel items like travel) had performed better than anticipated, but other items (eg Covid related expenses) had performed worse. Overall, the situation was better than anticipated.
4. In FY22 the University is anticipating close to normal operations. The major risks are on the international enrollment side, particularly at the graduate level. The impact of this will vary across Colleges.
5. Mike agreed to discuss with the FPC, the financial and reputational risks of international partnerships. The University has put in place monitoring and mitigating measures including legal assessment of partnerships. Perhaps the biggest liability is individual Faculty engagements in some countries.
6. A question was raised about the possible financial impact of new New York State requirements (starting AY 22-23) which will effectively require more hours of teaching for some 4 credit courses, or converting them into 3 credit courses. This needs to be tracked and monitored—its impact will depend for example on how many students graduate with more credits than needed for graduation. This can be taken up by the FPC next year.
7. Mike highlighted a risk factor based on new working practices and preferences post-pandemic. When the pandemic hit, the concern was whether Faculty would be willing to work from home. Now the concern is the other way round. There may be loss of efficiencies if the University does not set appropriate expectations about working from campus or working from home.
8. Paul also provided a capital budget update, which led to a discussion of calculation of overall debt limit for the University and allocation of total debt capacity across units. There are many factors which go into calculating an overall limit, but maintaining the University's AA1 credit rating is an important factor. The University is currently above this limit because of Covid exigencies, but the plan is to bring the debt back to the limit in the next two or three years.
9. On allocation of debt capacity, the sudden shock of Covid required breaching the debt ceiling for the University as a whole. This is expected to return to normal—roughly a debt ceiling for each unit in proportion to its revenues. A point was made that not proceeding now with renovations to buildings like McGraw because of debt capacity might actually increase costs of these renovations as the buildings deteriorated.

10. While not final, the University was proposing to set up a Contingency Fund with a first injection and then grown over time. There was not enough time to discuss operational details of the Fund.

5.13.2021

Additional internal meeting to take up a number of pending issues.

Farewell and Thanks

1. The Committee thanked Charlie van Loan for his engagement and his guidance to the FPC over his years as Dean of Faculty, and it welcomed Eve De Rosa as the incoming Dean of Faculty and ex officio member of FPC.

Annual Report and Senate Presentation

2. It was agreed that a Draft Annual Report would be prepared in time for the Senate presentation on May 19. The Recommendation of the Sub-Committee (see below) would be in the Senate Presentation, and Report of the Research Costs Subcommittee would be appended to the Annual Report.

Sub-Committee on Research Costs

3. The FPC endorsed the Report and the Recommendation of the Sub-Committee on Research Costs.
4. In the discussion on next steps, as noted above it was agreed that the proposal would be flagged at next week's Senate presentation. A process would be put in motion for Senate approval of the recommendation.
5. With a view to the timing and sequence of the F&A rate negotiation processes, an email would go from the Chair of the FPC to the Provost, copied to relevant parties, setting out the proposal outline, with considerations of the timeline, and making clear that the proposal has gone for Senate approval and we are awaiting that outcome. The detailed proposal would be attached.
6. The FPC also agreed that the Sub-Committee should continue its work and take up in detail other items it had already begun to think about. One possible direction is to follow through on College level policies and their implications for Faculty.

Endowment Growth

7. There was a discussion of how the FPC should take on the issue of endowment growth and its three components: (i) flows in from donations, (ii) the return on the endowment and (iii) flows out through expenditures.
8. We should begin a discussion of these issues, including metrics for assessing endowment performance, and accountability for the performance, next year. A good start would be a meeting with Executive Vice President and Chief Financial Officer, Joanne DeStefano.

Issues for next year

9. A full range of issues have been identified over the year as possible areas of focus for next year. These include, for example, (i) further work on research costs, (ii) contingency fund, (iii) salaries, (iv) debt capacity, (v) endowment returns. We will need to prioritize and focus on a small selection of these and other topics.
10. The first meeting of next academic year will be devoted to a discussion of this prioritization.