MINUTES

SENATE FINANCE COMMITTEE
April 30, 1987
3:20 - 4:45
Regents Room, Morrill Hall

Members present: Tim Allison, William Boylan, Andy Collins, Jill Gaudette, David Hamilton, Wendell Johnson, Sally Jorgensen, Gerry Klement, Thomas Scott, W. Phillips Shively (Chair).

Guests: Vice President Roger Benjamin, David Berg, Carol Campbell.

1. Legislative update (in executive session).

Vice President Benjamin and Assistant Vice President Berg briefed the Finance Committee on the status of bills in the various committees of the House and Senate. Dr. Benjamin reported that on April 23, given two hours to answer a query from the legislature, he, President Keller, and Provost's Planning Advisory Task Force Chair Charles Campbell made a $16 million cut in the budget. Dr. Benjamin told SFC he would not regard it as a total disaster if Funding Rank Adjustment (FRA) is not funded until the second year of the biennium; he noted that Strategy for Focus planning decisions will not be made until the fall of 1987. He added that the legislature will in two years expect the University to be able to demonstrate changes it has said it would make if it were freed from the Average Cost Funding formula.

Mr. Berg explained that the Board of Regents would set enrollment targets for 1992-93 and the legislature would provide the University with constant funding even though enrollments decline. Legislative riders will require the University to return to the state the tuition money for any students who exceed the projected number (Senate bill) or who exceed by more than 2% the projected number (House). The Board of Regents will establish the target number.

The vice presidents also reported the following items:

- Comparable worth appropriation is expected to be $500,000.

- Civil service salaries and Supplies and Expenses will be increased 2½% per year;

- Faculty salary increase appropriation will be 2½% per year; Dr. Benjamin said the University will reallocate to provide an average 5%

increase per year.

Mr. Berg described three areas of difference which exist between much of the legislature and the University, even though the legislature is generally sympathetic to the University and wants to do right by it: (1) Populism vs. what is suspected of being elitism; (2) the belief education should be, more than it is, for job training and the view that the University is actually moving away from that; and (3) the sense that investment in the University largely benefits the Twin Cities whereas people in greater Minnesota are suffering and deserve relief.

2. Status of the several proposals on faculty leaves.

Professor Shively recalled that Vice President Benjamin had reported to SFC late last fall that he had assigned Assistant Vice President Robert Kvavik to compile and study information on faculty leaves. Dr. Benjamin recommended deferring the subject to a SFC meeting later in the spring when he and the committee would have in hand the proposal from the Faculty Development Committee. It is anticipated that FDC will propose decentralization of leave decisions and broadening the Bush grants, making them a major prize awarded at the University level.

3. The Vice President's items.

Dr. Benjamin told SFC that the main business is the planning effort to try to focus University priorities a little better. He termed the process a careful one and added that the reports of distress and discomfort indicate that the process is indeed working.

4. Report of the Chair.

A. Faculty retirement.

Professor Shively referred to rather dramatic changes necessitated by that part of the Congressional tax reform which prohibits institutions (including the University) from having different kinds of pension plans for different employees. Either the civil service retirement plan will have to be moved up to the level of the faculty's or the faculty plan will have to be reduced. It costs 11-12% of the faculty payroll to pay for the faculty pension plan; it costs between 4% and 8% of the civil service payroll to pay for its pension plan.

There might be major ramifications if the University had to decouple the civil service retirement plan from the state plan. The University has decided to gather the relevant information. The University will get an IRS judgment on whether a 401K plan would be allowable.

B. Proposal to move the faculty salary change date from July 1 to September 16. (Old business.)

Professor Shively reported that President Keller had announced this morning to the Faculty Consultative Committee that he intends to change the date new salaries go into effect although SFC and SCFA recommended against it. Professor Shively remarked that it the administrative's prerogative to order such a change. The Finance Committee will invite the President and either Vice President Benjamin or Vice President Lilly to the May 21 SFC meeting to tell the committee their reasons for preferring the change.

C. Proposed decentralization of the fringe benefit system.

Professor Shively reported that the President had also told FCC this morning that the Management Committee had decided that the funds budgeted for faculty fringe benefits would go to the departments or the colleges, joining the salary line items. The administration intends to implement the change for FY1987-88. This item will also be on SFC's May 21 agenda.

Professor Shively thought the proposal appeared sensible but that the numerous complexities merit discussion.

D. SFC attention to the FY88 budget.

Professor Shively reminded the committee that the University's budget will come before SFC in the summer. He invited committee recommendations on what group the new Finance Committee chair should convene for a summer meeting (i.e., old membership, new membership, or combined membership).

5. Possibility of FICA withholding from the paychecks of student employees. Guest: Carol Campbell, Director of Accounting Records and Services, Controller and Treasurer.

Ms. Campbell reported that apparently the proposal to impose that deduction had not passed Congress, but she was uncertain as to its present status. She will try to get the answer for the Committee.

6. Taxability of University operations. Guest: Carol Campbell.

Ms. Campbell explained the IRS category of "unrelated business income" which pertains to some tax-exempt enterprises. An institution states its purposes when it files for tax exemption. With respect to IRS rules, the University's purposes are primarily education and research and secondarily public service; these purposes are tax-exempt to the extent that they are primarily for the benefit of faculty and students. To the extent that income-generating activities do not contribute to these purposes, they are taxable.

The tax law has not changed, but IRS oversight has since the Treasury Department criticized the IRS for insufficient enforcement of its own rules.

The University may file the proper form (990T) to declare unrelated business activity. While only the profits of any such activity are taxed (at the rate of 30%), filing is a substantial burden because costs must be analyzed and revenues determined. Whether or not the University files, said Ms. Campbell, it is likely to become subject to an audit sometime within the next few years.

Several Big Ten universities have filed in the past several years. Based on the University of Michigan's experience, the U of M might have to pay approximately $200,000 per year in taxes, plus the accounting costs. She commented that rules clarification pertaining to universities increases year by year as the IRS issues more interpretations following audits.

Handout: Ms. Campbell distributed copies of a document entitled "University of Minnesota Unrelated Business Activity: Determination Criteria," together with a flowchart of the same and a list of examples of specific types of non-exempt sales. In response to questions, she emphasized that when any University activity generates a byproduct in just sufficient quantity to serve the teaching or research function, sale of the byproduct is not taxable.

7. Taxation of student scholarships and fellowships.

Ms. Campbell reported that while scholarship and fellowship awards in excess of tuition and necessary fees are subject to income tax, the burden of reporting income is entirely on the students. Universities have been relieved of any reporting requirements.

NEXT MEETING: May 21, 3:15 - 5:00.

The meeting adjourned at 4:45 p.m.

Respectfully submitted,

Meredith Poppele
Secretary