MINUTES
SENATE FINANCE COMMITTEE
MARCH 31, 1988
3:15 - 5:00

Present: Mark Brenner, Shirley Clark (Chair), David Hamilton, Sally Jorgensen, Gerald Klement, Bill Kukowski, Geoffrey Maruyama, Richard Mealey, Cleon Melsa, Tom Scott, Mark Umland, Walter Weyhmann

Guests: Neil Bakkenist, Provost Roger Benjamin, David Berg, Mary Bilek, Carol Campbell, Gayle Grika (Footnote), Nick La Fontaine, David Lilly, Irwin Rubenstein, Phil Shively, Maureen Smith (Brief)

1. The minutes of March 3 were approved with the following addition to David Hamilton's report on page 3: Any unit which would receive less ICR money than it did before as a result of this proposed model could make up the difference, subject to University priorities, from central reserve money.

2. Progress on the University's 1988 legislative request

   Provost Roger Benjamin reported that though President Keller's resignation followed by the discovery of significant reserves resulted in the withdrawal of the request, he is confident that we will "get our house back in order" for the request next session.

   Irwin Rubenstein addressed the issue of the bonding bill--the Senate, since it is not going into an election, does not want it while the House is in favor of such a bill. A compromise may actually result in more money coming in to the University.

3. University Reserves

   Provost Benjamin began by commenting that the figure of a $221 million fund balance publicized in the media was unfortunate because it gave the public the impression that the University had all of this reserve money to spend. There are actually $70 million in reserves currently that is under control of central administration; $18 million of this money is committed. Another misconception is that this money is available to fund ongoing needs when the central reserve is actually a source for non-recurring expenditures. It is not "hard" money and in that sense is similar to an endowment in that when it's gone it's gone.

   There are additional significant reserves in the hospital, the medical school and support services. There are other department reserves that may warrant attention as well. The $70 million figure is getting the most attention and questions. The question is this: in light of the withdrawal of the legislative request, how do we spend this money? And what is an appropriate reserve level?

   The following questions and concerns raised by the Committee were addressed by the University administrators who were present at the meeting.

The availability of reserves in the past Professor Maruyama asked why, if reserves are necessary, weren't they available in 1982? Roger Benjamin said that it was the most traumatic point in the history of the University that he could remember. It was a devastating time as far as cutbacks. Apparently there was a reserve of $12 or $13 million that was not known. David Lilly commented that as a result of this experience reserves were built up to prepare for incidents of "de-allotment" which comes in many forms. There was fear that the reserves would be offset in the legislature in the same way that the permanent University funds had been offset in the appropriation.

The secrecy of reserves Professor Weyhmann asked if a public institution can hide its reserves in order to prevent their being offset in the appropriation. David Lilly said that the secrecy has been a long time practice of unknown origin and that he was beginning to make changes before this all blew up. Professor Clark said that in the 70's there might have actually been only one person who knew how much there was in reserves. It has become more public since then and had been moving towards that on its own.

David Berg mentioned that in the 17 years that he has been working with the legislative analysis and the Department of Finance he was instructed to report and did report to them the amount of the reserves. In 1982 the legislature did ask what the reserves were and they were reported at that time. Whether they were widely enough known is another matter. Professor Scott added to this that the issue of reserves in institutions has always been a politically difficult matter.

Professor Clark stated that this committee should, from now on, be involved in review of proposals for the spending of reserves in order to affect decisions. She also expressed concern over current policies for spending and the need for change. First of all the committee needs to know the process of making allocations from reserves.

The policy for allocations from reserves Provost Benjamin said that currently there is a management committee made up of the President, the Vice President for Finance and the Academic Vice President that responds to requests that come in. President Sauer has issued a request that no individual--vice president or president--can make a decision about the spending of reserves. This is an interim move. Provost Benjamin suggested that given the present situation a moratorium be made on soft money commitments. He also called attention to the need to get the budget proposals in line with University priorities.

Professor Hamilton asked how the requests to the management committee are made. Mary Bilek said that the collegiate units make their requests through the vice presidents. David Berg said that the management committee had been meeting every other week for several years. In the past year they have been meeting less, until recently. David Lilly said that Ken Keller formed, however, a "vice presidents cabinet" that met quite often and made a lot of decisions that were formerly made by the management committee. Minutes were kept in the management committee but not in the vice presidents cabinet until recently.

The Committee adopted the following resolution concerning Vice President David Lilly proposed by Professor Brenner:

"The Senate Finance Committee wishes to express its deep appreciation for the many fine contributions Vice President David Lilly has made to improve the financial operations of the University.

Among the many notable accomplishments he has made, or in which he has played a leadership role, are improved options in the faculty retirement plan, creation of a special mortgage purchase program for faculty, creation of a credit union for all members of the University, establishment of methods to ensure stability in University financial operations, improvement in the investment practices of the University, the concept for the use of permanent University fund to create endowed chairs, and a commitment to improving the quality of the campus environment.

The Senate Finance Committee also wishes Vice President Lilly well in his retirement years."

4. <u>The spending of the central reserves</u>

Professor Clark began by saying that the Regents expect a recommendation for the spending of the central reserves for their April meeting. Roger Benjamin referred to the Management Committee Tentative Recommendations handout for his comments. After going through the recommendations with the committee, he answered the following questions.

<u>The interest income</u> Professor Maruyama asked how the interest income can remain at 3 million dollars while the base decreases. The plan needs to show an appropriate decrease over the years. Provost Benjamin agreed with this observation. He said that as a result of the bull market, the University generated $27 million. But considering the October crash, we can't count on that in the future. He also called attention to the ending balances on the last page of the document and their depletion over the years, indicating a need to re-trench over the next few years and/or be successful in legislature.

<u>The profit margin</u> Why do the support services need to operate at a profit margin above zero once reserves have been established from these profits? Neil Bakkenist said that this is correct for a contingency reserve. The rates are not set so that there will be $1.5 million available for transfer to central reserves, but rather the rates are set according to agreed-upon margin so that if there were no unforeseen problems this money would be available.

The politics versus management issue was discussed. Professor Maruyama commented that building a reserve is very bad politically. Neil Bakkenist responded that there is a fine distinction between support services profit margin and the profit from bookstores going into central reserves. He said that we could tighten down or we could keep transferring that money and thereby have more available for student and University concerns. He also made the distinction between "above the line" and "below the line" returns. He suggests actually budgeting for a return in an "above the line" manner as a reasonable return on investment. He also pointed out that the profit margin, even though small, can go a long way towards student concerns and eliminating that profit margin would really detract from the student experience here.

Mark Brenner brought up the fact that since Support Services provides services for the institution and costs the institution money, shouldn't there be some kind of return for that money. Possibly it should be labelled differently. It is a return on investment.

Several members of the committee agreed that we have to be careful with the labels to prevent misunderstandings. Sally Jorgensen said that rather than listing the transfer as a revenue, it should be used and listed as a "repair and maintenance fund." David Lilly warned against using a label that overly restricts the money. There is the possiblility that there would be a loss in a certain year and money is needed to cover that loss but that money is in a tightly labelled fund.

A discussion followed regarding textbook sales. The FCC recommended last year a co-op system for textbook sales and that policies be developed to favor the purchase of books rather than discourage them. This recommendation was rejected. Irwin Rubenstein said that a stipulation was put into a House bill that if there is a profit in the bookstores that it be used to offset the following year's cost. There was some confusion as to the purchasing and profits--left unresolved in the interest of moving on to other topics.

<u>Policy changes</u> Roger Benjamin cautioned making any long-term policy decisions in a hasty manner, but to concentrate now on "getting our house back in order."

5. Faculty Salaries

This discussion was based on a letter from Professor Maruyama representing the Senate Committee on Faculty Affairs, which he chairs. The letter, which discusses the "shortfall" in faculty salaries was also discussed in the FCC meeting. Professor Clark and Professor Shively summarized for the committee the discussion that took place in the FCC. SCFA has singled out two burdens on the funds which were supposedly allocated for salary raises:

1. The sharp increase in health benefits plans
2. Tuition benefits

Professor Shively reported on some of the suggestions that came out of that meeting to make up for these losses.

Mary Bilek said that the fringe benefit item that we receive is $2.5 million, so are short by $2.5 million. Professor Maruyama said that in effect the grant is not covering the cost of research assistant tuition.

Professor Hamilton observed that if it is true that the tuition benefit for graduate students is coming from the faculty salary pool it will cause an enormous uproar when word gets out. Roger Benjamin agreed that it is a problem that needs to be sorted out.

David Berg called this an accelerating problem since it is related to the fringe benefit rate that is being charged back--the deficit in the first year doesn't really become a budgetary problem until the subsequent year because the fringe benefit account is in essence paying these down and they are recovered in the subsequent year.

Some important information items were not known, so not many conclusions could be drawn at this meeting. It was decided that a continuation of this discussion, with the benefit of the necessary information, would take place at the joint meeting with the FCC.

Respectfully Submitted,

Kelly Craigmile

 3/31/88

University of Minnesota
Central Reserves: Balances and Expenditures
MANAGEMENT COMMITTEE TENTATIVE RECOMMENDATIONS 3/31/88

		Proposed FY 1989
A.	**Expected Balance Beginning of Year**	**70,000,000**
B.	**Revenues**	
	Interest Income	3,000,000
	Support Service Transfer	1,500,000
	Securities Lending	3,000,000
	Repayment of Rec/Sports Advance	
	Recurring (Funding Rank Adj.) funds (hard)	2,758,000
	Total Revenue	**10,258,000**
C.	**Total Available Resources**	**80,258,000**
D.	**Recurring Annual Commitments** (soft funded)	
	Academic Programs	
	Acad Program Commitments/Resrvs	3,000,000
	Biological Sciences	500,000
	Biomedical Ethics	200,000
	Cognitive Sciences	25,000
	Computer - Academic (Note 1)	850,000
	Equipment - Instruction (Note 2)	1,000,000
	Foreign TA Training	150,000
	Grad School - Administration	85,000
	Grad School - Interdisciplinary	75,000
	International Education	290,000
	CLA	500,000
	Libraries (Note 3)	1,300,000
	Management Information System	292,000
	Minority Program/Mtge	900,000
	Pharmacy	250,000
	President's Commitments? (Note 4)	1,220,000
	Public Affairs	350,000
	Public Health	400,000
	Technology, Institute of (Note 5)	1,500,000
	UROP	218,000
	Veterinaty Diagnostic Laboratory	50,000
	Young Scholars	195,000
	Student Aid	
	Advising - Undergraduate	300,000
	Presidential Scholars NO FUNDING RECOMMENDED: PROGRAM WOULD BE CAN(	
	Duluth-Scholarships/Support	300,000
	Support Programs	
	Admin Information Service	2,000,000
	New Space Operating Cost	3,200,000
	Regents' Office	85,000
	Research/Technology Office (Note 6)	0
	Staff Asst Prog - Faculty/Staff	150,000
	Student Support Services	300,000
	U Relations Office	400,000
	Total Recurring Allocations	**20,085,000**

E. Allocations for one-time or short-term expenditures

Existing Commitments		
Rec/Sports Building	7,000,000	625,000
Insurance on O&M, State Specials	2,234,000	2,234,000
Fuel & Utilities Deficit	4,105,000	0
Gift Matches		
McKnight	3,000,000	1,000,000
Ford	300,000	
Union Pacific	150,000	
Faculty/Staff	7,600,000	2,000,000
Student Support Services Deficit	2,000,000	0
Accounting/Payroll Systems Devel. Deficit	1,300,000	0
Total	**27,689,000**	**5,859,000**
Top Capital Priorities (Fire & Life Safety)		
Rosemount Cleanup	4,200,000	0
PCB - Transformer Replacement	3,800,000	1,600,000
Fire/Live Safety Deficiencies	1,400,000	400,000
Asbestos Removal	1,250,000	450,000
Lighting & Safety Phones		
Twin Cities	700,000	0
Duluth	74,000	74,000
Chemical Waste Disposal/Duluth	273,000	273,000
Chemical/Fertilizer/Becker	148,000	
OSHA Requirements - Hormel	165,000	165,000
Physically Disabled Access	1,200,000	400,000
Water Distribution-Fire/Mpls.	432,000	
Water Distribution-Fire/St. Paul	362,000	362,000
Coal Silos - St. Paul	2,760,000	2,760,000
Student Study Space	300,000	300,000
Total	**17,064,000**	**6,784,000**
Strategic Initiatives		
Duluth Instruction/Support	500,000	
Morris Instruction	400,000	400,000
Writing Across Curriculum/Deluxe	1,000,000	1,000,000
Undergraduate Advising	1,000,000	0
Accounting System Improvement	300,000	0
Total	**3,200,000**	**1,400,000**
Construction Planning		
Heating Plant Study	300,000	300,000
Vet Diagnostic Lab (OSHA)	1,200,000	0
CBS Addition	1,554,000	
Basic Sciences	1,740,000	
Total	**4,794,000**	**300,000**
Total Non-recurring Allocations	**52,747,000**	**14,343,000**

F. Total Allocations	**34,428,000**
G. Ending Balance	**45,830,000**

Note 1: Also $1,150,000 assigned from recurring ICR and Equipment Replacement funds.
Note 2: Also $1,000,000 assigned from recurring Equipment Replacement funds.
Note 3: Also $500,000 assigned from recurring ICR funds.
Note 4: Nature of commitment not yet clear. Estimated at $720,000.
Note 5: Also $500,000 assigned from recurring Equipment Replacement funds.
Note 6: $350,000 assigned from recurring ICR funds.

Total from other recurring funds: $3,500,000/year. Uses the full $2 million of equipment replacement funds for high priorities, rather than distributing funds by formula to all colleges. Also uses $1.5 million approved by Senate Research Committee from ICR budget.

Resolution concerning Vice President David Lilly

I move that the Senate Finance Committee adopt the following resolution:

The Senate Finance Committee wishes to express its deep appreciation for the many fine contributions Vice President David Lilly has made to improve the financial operations of the University.

Among the many notable accomplishments he has made, or in which he has played a leadership role,are improved options in the faculty retirement plan, creation of a special mortgage purchase program for faculty creation of a credit union for all members of the University, establishment of methods to ensure stability in University financial operations, improvement in the investment practices of the University, the concept for the use of the permanent University fund to create endowed chairs, and a commitment to improving the quality of the campus environment.

The Senate Finance Committee also wishes Vice President Lilly well in his retirement years.

Mark Brenner, Chr.
Senate Finance Committee

March 31, 1988