

**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Work Session

February 13, 2003

A work session of the Board of Regents was held on Thursday, February 13, 2003, at 1:30 p.m. in the East Committee Room, 600 McNamara Alumni Center.

Regents present: Maureen Reed, presiding; Anthony Baraga, Peter Bell, Robert Bergland, Frank Berman, Dallas Bohnsack, William Hogan, Jean Keffeler, Richard McNamara, David Metzen, and H. Bryan Neel.

Staff present: President Robert Bruininks and Executive Director Ann Cieslak.

Chair Reed called the work session to order, indicating the purpose of the session was to continue the discussion on financing the mission of the University of Minnesota. It was noted that this is the second in a series of work sessions that will be devoted to this topic. This month the presentation will focus on historical revenue and expenditure trend data and information regarding the direct and indirect cost of financing the University's missions of instruction, research, and public service. It was acknowledged that the discussion would be somewhat limited by the lack of information on future state funding, as the University waits to hear the Governor's recommendation for the 2004/2005 biennium.

President Bruininks provided introductory remarks followed by Associate Vice President Pfitzenreuter who presented information on expenditure and revenue trends from 1995 - 2002. A copy of the presentation is on file in the Board Office.

Pfitzenreuter reported that after studying this data, the following conclusions have been made:

- Major investments have been made in activities relating to indirect costs.
- Future expenditure for indirect costs are not likely to grow at recent historical rates although there still is demand for services. A new financial system is scheduled at some point and there will be a need for additional data network upgrades and improvements.
- Tuition is supporting a larger share of the direct costs of instruction.
- State revenues are critical to supporting indirect costs.
- Research has seen significant growth but may not continue to grow at these historical rates.
- Other restricted and unrestricted revenues have been relatively flat.
- Funding from foundations and the University endowment need to continue to grow.
- New emphasis must be placed on developing new sources of revenues.

Several regents expressed concerns about increasing tuition. They encouraged the President to use tuition increases as the last alternative in addressing the budget issues. Regent Berman indicated that cost cutting and efficiencies should be considered first. Regent Hogan added that his concern is that the value for students will not rise as the tuition increases and the culture of the University could change dramatically. Bruininks responded that tuition increases will not be considered first. Reductions in costs, use of reserves, and areas where revenues can be increased will be explored. Departments have already been asked to look intently at ways to increase revenue sources responsibly and within the University's public charter.

Regent Keffeler stated that it is important for the Board to understand the degree of real fungibility the University has with its revenue sources. The greater freedom the University has to move its revenue sources to pay for other things, the more creative it can be in allocating those funds.

Questions were raised about use of departmental reserves. Bruininks responded that most departments have budget reserves and have been encouraged to use their reserves in very deliberate ways. However, budget reserves cannot be used for any long-term or recurring commitments.

In response to a question from Regent Bell regarding the use of bonding, Bruininks stated that bonding does not work well for the University for general funding. Bonding is used for specific investments and is not fungible.

Bruininks cautioned about talking specifics until the extent of the budget problem is confirmed. It is important to start by knowing the institution's revenues and expenditures and then set budget goals and priorities. The mission of the University must be protected. Decisions made now will have an effect on the University for years to come.

ANN D. CIESLAK
Executive Director and
Corporate Secretary

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