Senate Committee on Finance & Planning
Minutes of the Meeting
June 2, 2015

[These notes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions or actions reported in these notes represent the views of, nor are they binding on, the Senate, the Administration or the Board of Regents.]

In these minutes: [Proposed FY16 University operating budget; annual capital budget update]

PRESENT: Gary Cohen, chair; Dan Feeney, Samantha Jensen, Erik Van Kuijk, Karen Ho, Taylor Barker, Tracy Peters, Linc Kallsen, Jennifer Gunn, Kara Kersteter, Paul Olin, Jill Merriam, Russell Luepker, Pam Wheelock, Richard Pfutzenreuter, Michael Korth

REGRETS: Karen Seashore, Renee Cheng, Megan Wiza

ABSENT: David Fisher, Catherine Fitch, Laura Kalambokidis, Michael Volna, Fred Morrison, Quinn Jurgens

GUESTS: Julie Tonneson, Associate Vice President, University Finance; Brian Swanson, CFO, University Services;

Professor Cohen welcomed the committee and guests.

Cohen said he had distributed to the committee a draft of a letter regarding the unsustainability of disbursement rates for University endowments to President Kaler and Vice President Pfutzenreuter. A separate letter to the same effect was prepared to go to the UM Foundation. He reported that he had also consulted with Stuart Mason and Andrew Parks in the Office of Investments and Banking and Douglas Gorence, UMF Investment Advisors, regarding the substance of the letters. Pfutzenreuter alerted the committee that all parties were not in the same place about changing the payout. After discussion the committee unanimously approved the drafts of the letters and sending final versions to recipients.

1. Review of proposed FY16 University operating budget

Richard Pfutzenreuter, vice president, University Finance, and Julie Tonneson, associate vice president, University Finance, reviewed the University operating budget for FY16.

Pfutzenreuter provided a brief background, saying the budget framework is developed concurrently with each biennial request so the two are in alignment. The Board of Regents typically approves the biennial budget in the fall, and that is when the internal budget process begins, starting with the support units.

Tonneson then reviewed the figures with the committee:

President's FY16 Recommended Operating Budget
FY16 Budget Framework (Primarily State Appropriation and Tuition Funds)

Incremental Resources	
Increased State Appropriations	$26,600,000
Tuition Revenue Increase	$15,100,000
Unit Resources	$36,800,000
Total Incremental Resources	$78,500,000
Incremental Expenditures	
Compensation	$23,000,000
Student Financial Aid	$750,000
Academic Initiatives	$48,550,000
Mission Support and Operations	$6,100,000
Total Incremental Expenditures	$78,400,000
Balance	$100,000

Incremental Resources: totals $78.5M

- $26.6M - state appropriation increase (not $53.2M; on annual basis); allocated to:
  - $11.1M to hold down cost of attendance & support research, education, and public service; using $8.7m (78%) of this to "buy down" the tuition increase for resident students
  - $15.M for Medical School, response to Blue Ribbon Commission
  - $500K for Alzheimer's/dementia research - added to University-Mayo partnership

- $15.1M - tuition increase
  - Resident undergrad - using state money to buy down the increase from 3% to 1.5%
  - Resident graduate/professional - using state money to buy down the increases from 3.5% to 2.5% (generally – some will differ)
  - NRNR (non-resident, non-reciprocal) up 3.5% for graduate/professional generally
  - NRNR undergrad - up $1,350 on TC campus (7%) and $461 at UMD (3%)[more in future]

- $30.5M - reallocations
  - $8.4M approved from TC academic units for strategic plan
  - $22.1M reallocated from all units to balance budget

  - So far an estimated $13.4M of this $30.5, plus another $4M from other non-sponsored funds - i.e., $17.4M, will be administrative reductions toward the $90M goal for administrative reductions
  - Of the $30.5M, $5.8M is not yet fully itemized; units are working with decisions but plans are not yet complete, so the $17.4M will likely grow

- $6.3M - Other resources
  - Includes things like FY15 tuition yields above budget, central reserves transfer, increase in international fee, increased sales, etc. in units

Incremental New Spending: totals $78.4M

- $23M - compensation increases at 2% average plus fringe (2.5% UMD and UMC faculty)
- $739K - merit-based financial aid
- $15.5 - Medical School and Alzheimer's and dementia research (appropriation)
- $8.4M - TC strategic plan pool (post budget)
- $1.4M - system wide strategic investments (post-budget)
- $23.3M - itemized recurring academic investments in colleges, campuses and support units
- $3.5M - mission support and operations recurring investments
- $2.6M - facility operations (debt, leases, utilities, etc.)

Tonneson went on to highlight other noteworthy points:

- After three of the six years (through FY16) administrative reallocations will be at least at $58M of the $90M (64% of goal)
- Due to increases in the need-based aid programs, a typical full-time Minnesota resident undergraduate student who qualifies for Pell, the MN State Grant program and/or the Promise program will experience no increase in tuition for FY16. (Total cost of attendance includes tuition, fees, room, board, and other miscellaneous living expenses.)
- TC room & board lowest in Big 10 for FY16
- Human Subjects - document will include paragraph on timing and funding
- Relatively few and minor increases in fees

Tonneson said they were planning for a total incremental increase in resources of $78.5M and an incremental change in spending of $78.4M for FY16. She noted the increased state appropriation was $26.6M. It was discussed publicly and by the state as a $53.2M increase ($26.1M/year). However, Tonneson said, the money is all received in year one and there is no additional funding provided by the state in FY17. Tonneson said $11.1M would be used to hold down the cost of attendance and support the research, teaching and public service mission of the University of Minnesota. Further, $8.7M of that (78%) was to buy down the resident tuition rates from what was otherwise planned. Tonneson reviewed in greater detail the tuition rate schedule changes for primary tuition rates and compared changes in tuition, fees, and room and board FY15 versus FY16, and the 2015-16 undergraduate and graduate tuition plan. Cohen referred to the Twin Cities campus non-resident undergraduates increases, and said if students were already attending they were going to get hit with a notable increase**.** Tonneson concurred and said the University of Minnesota was currently at the bottom of the Big Ten in non-resident undergraduate tuition rates (charging the lowest rates). President Kaler has stated his strategy would be to pull tuition to the middle of the Big Ten range. Tonneson said the president had talked to legislators and Regents about the impact of rate increases on existing students, as it affects admissions and becomes a retention issue as well.

At this point in the discussion, the committee agreed to go off the record.

Tonneson then continued to review the changes in resources and spending. Luepker asked how the reallocations were operationalized. Tonneson said every college, every campus, and every support unit was given a target. As they create their budgets, they are asked to focus on administrative cuts as much as possible. The central Office of Budget and Finance then does the framework math for each college or other major unit, and determines whether tuition revenue increases or additional central allocation can be provided to assist each particular college or other major unit or whether there must be further reallocation. Tonneson emphasized that the budget planning process did not regard operations and management funds (O&M) in isolation: they are considered in combination with all the funds.

Cohen asked Tonneson about the new fringe rates, saying that there are now five major categories. In order to set a distinct fringe rate for part-time and temporary employees in any one category, the same would have to be done in all categories. Tonneson said the fringe rates were designed and calculated to recover an exact amount based on costs from two years prior, and she emphasized only actual costs were recovered. Tonneson said it is an insurance pool, with costs spread across five pools, divided by total salary expenditures for the five distinct employee groups, to arrive at those five fringe rates. At the point of transition to this methodology, each unit's budget was held harmless for O&M. The fringe rate applied to part time salaries does not subsidize anything or create a surplus of funds; adding separate fringe rates for part time salaries would only change the distribution of costs. Tonneson added that with the new fringe rate methodology, actual costs are coming in less than estimated for most units.

Professor Olin referred to tuition increases, and said if he were a freshman coming to the University and would be subject to a 7-8% increase in all four years unbeknownst to him at the start, he would not be happy. Lincoln Kallsen said that discussion was still taking place, and one major issue was that the state budget was approved so late that there was no time to pull all the pieces together, such as educating people about the variety of things that were likely to happen on campus. Pfutzenreuter said they were looking at re-examining the long-term financial outlook and at more advanced modeling to spur policy discussions, in which he said it would be good to engage the committee. However, he noted, the reality is that the University's percent share of the state budget continues to shrink.

Cohen thanked Pfutzenreuter and Tonneson for the discussion.

2. Annual capital budget update

Pamela Wheelock, vice president, University Services, and Brian Swanson, CFO, University Services, reviewed the annual capital budget. Wheelock said the budget would be on the agenda for the next Board of Regents meeting and they expected a vote on it by the second meeting in June. Wheelock said that University Services did multi-year planning for capital projects, and the projects noted are those they expected to move forward on in the next year. Wheelock discussed the information distributed to the committee and began with some background:

1. Board of Regents policy requires the Board to approve annual capital budgets and annual capital budget amendments for projects with a value greater than $500,000 each.

2. The Annual Capital Budget is typically approved in May/June each year after the end of the legislative session and before the start of the new fiscal year.

3. To be included in the Annual Capital Budget, projects:
    a. Need to have a completed predesign
    b. Must be fully funded or have a finance agreement approved by the Office of Budget and Finance
    c. Should be ready to proceed into design and/or construction

4. The Annual Capital Budget includes both pools of funding to complete multiple projects, as well singular authorizations for specific construction projects.

5. Funding pools exist for Higher Education Asset Preservation and Replacement (HEAPR) projects and for Repair and Replacement (R & R) projects. These are non-programmatic facility renewal projects intended to extend the life of existing facilities and infrastructure.

6. Project funding is identified by 5 major funding groups:
    a. Local Funds - These funds have been allocated to or generated by colleges and departments, including state appropriations, tuition, internal and external sales, and other unrestricted funds.
    b. Grants/Gifts - Grant and gift funds are provided to the University to support specific construction projects.
    c. Institutional Funds -This category of resources represents a broad array of funds from within the University including, but not limited to, funds allocated from the internal loan pool, central reserves, prior year balances, and funds budgeted annually for specific repair and replacement projects
    d. State Debt - These funds are provided from State sold bond proceeds for use on legislatively authorized projects.
    e. University Debt - These funds come from the sale of bonds issued by the University. The source of the debt service payments varies by project

Wheelock went on to review the 2016 Annual Capital Budget Summary, and noted that the list only contained those projects that needed Regents' approval (those over $500K). Wheelock said they asked Regents to approve specific projects and also requested authority to spend pools of funding.

CAMPUS	**PROJECT**	**AMOUNT (dollars in thousands)**
Individual Projects	Animal Sci/Vet Med - 3rd Floor renovation	$ 1,197
TC Campus	Donhowe Work + Phase II	$ 1,000

TC Campus	Food operations programmatic renovations	$ 650
TC Campus	Lot C73/ACC parking lot development	$ 800
TC Campus	Mariucci Arena-locker room renovation	$ 4,382
TC Campus	Mechanical engineering north wing lab renovations	$ 5,045
TC Campus	Health science facility design	$ 10,000
TC Campus	Northrop organ restoration and re-installation	$ 3,200
TC Campus	Transportation infrastructure	$ 2,580
TC Campus	Vet med - preventative medicine and wellness center	$ 3,200
UMD Campus	Cina Hall - remodel first floor	$ 1,500
UMD Campus	Griggs Field - replace field turf	$ 1,000
UMD Campus	Research lab building - restore Oregon Creek	$ 600
UMD Campus	Residence hall dining - renovate food service area	$ 2,500
WCROC	Dairy barn equipment upgrades	$ 513
Repair & Replacement Funding		
TC Campus	R&R - athletics	$ 1,350
TC Campus	R&R - dining services	$ 3,790
TC Campus	R&R - energy conservation	$ 2,900
TC Campus	R&R housing and residential life	$ 21,023
TC Campus	R&R - parking infrastructure	$ 3,533
TC Campus	R&R - Twin Cities	$ 9,966
TC Campus	R&R - utility infrastructure	$ 7,537
UMD Campus	R&R - facilities management	$ 3,000
UMD Campus	R&R - student life	$ 1,650
Dollars in thousands		**$92,916**

Wheelock went on to explain the principles behind how and when they decide to redo buildings, and said the goal was to develop a building-by-building investment strategy. Cohen noted that while he saw locker room upgrades on the list, he did not see any new athletic structures. Last year the committee had asked that athletic facilities be on the active list regardless of the funding source, and Cohen asked if this meant they were not being constructed in the next year. Wheelock said funds had been approved to take them through the design phase for some of the projects, but separate approval would be needed to actually fund the construction of the projects, one of which is Athletes' Village. Wheelock noted that the construction market was booming and there could be an escalation in cost beyond the 6% originally calculated.

Luepker said that Norwood Teague, Director of Athletics, had told the committee that funding for the new athletic facilities would be raised independently. Luepker asked if that was still the plan. Wheelock said the expectation was the facilities would be self-funded. She noted it might not all be donations, and they expect some additional revenue, retiring of debt, gifts, corporate sponsorship and the like.

Luepker asked about the status of the new power plant. Wheelock said construction was well under way and would be substantially completed by October 2016. The goal is to have it available to provide power to the campus as part of the University's utility provision by the 2016-17 winter. Wheelock said the state provided a $10M appropriation for the project, and noted it would be a more efficient way to provide services to campus as well as being more sustainable and environmentally friendly. She noted they were also trying to phase out the use of coal, and Swanson added that institutions are asked to use other means, such as coal or fuel oil, if there are gas shortages for residential customers in extremely cold weather.

Professor Korth noted there were no updates slated for the Morris campus. Wheelock said there was $4M each for Morris, Crookston and Duluth in the programmatic renewals funds portion of the 2016 Capital Request. She said the Morris campus was advocating a renewal of existing facilities vs. an expansion of facilities. To Korth's query about the 6-year plan, Wheelock said there was funding for improvements in library and collections across the system, but it was not broken out specifically by campus. Korth said it had been some years since anything significant had happened on the Morris campus and wondered if it was a strategy problem. Wheelock said she looked forward to talking to the Morris chancellor again so that she would fully understand the priorities on that campus.

Cohen thanked Wheelock and Swanson for the discussion.

Members of the committee thanked Cohen for his service as chair.

Hearing no further business, Cohen adjourned the meeting.

Mary Jo Pehl
University Senate