SENATE COMMITTEE ON FINANCE AND PLANNING COMMITTEE
Sept 22, 2015
Minutes of Meeting

[These minutes 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: [Budget framework changes needed for sustainability; Changes in employee vs. employer costs for health benefits and the effects of the affordable care act]

PRESENT: Dan Feeney (chair), Lincoln Kallsen, Jill Merriam, Sandra Potthoff, Catherine Fitch, Sarah Chambers, Kara Kersteter, Aravind Boddupalli, Fred Morrison, Paul Olin, Michael Korth, Erik van Kuijk, Bob Goldstein, Jennifer Gunn, Karen Ho, Richard Pfutzenreuter

REGRETS: Tracy Peters

ABSENT: David Fisher, Laura Kalambokidis, Michael Volna, Karen Seashore, Megan Wiza, Quinn Jurgens

GUESTS: Ken Horstman, director, Benefits and Compensation, Office of Human Resources; Julie Tonneson, associate vice president, University Budget and Finance

1. Welcome: Professor Feeney welcomed the committee and guests.

Feeney opened the meeting by asking the committee members what they were interested in addressing during the 2015-2016 academic year. He reported that he discussed potential agenda items with committee members over the last year and throughout the summer. Professor Erik van Kuijk brought attention to how job reclassifications were announced and said he would like to talk to Kathy Brown, vice president, Office of Human Resources (OHR) about Human Resource's procedure. Feeney said that he would also like to talk to OHR regarding the length of time the hiring process is now taking. Jill Merriam mentioned that OHR was working on modifications, and through the creation of a "super group" a better call center is being addressed. The consensus was that it was important to invite Kathy Brown to an upcoming meeting to discuss these issues.

2. Budget framework and changes proposed for sustainability: Richard Pfutzenreuter, vice president, University Finance, and Julie Tonneson, associate vice president, University Finance, addressed the University budget assumptions.

Pfutzenreuter provided an overview of the presentation given to the Board of Regents (BOR) in September. He said that the budget process starts in the fall of every academic year and that the process starts with building a budget framework. There are many budget pieces in the revenue framework and to understand the revenue end, one must understand the spending end as well. This year, the BOR has decided that they want to engage in the budget assumption process, which is new for the BOR. They wanted to know how the assumptions led to the President's budget recommendations. Next month, Pfutzenreuter will conduct presentations for the BOR on cost drivers at the University, as well as giving an administrative benchmarking update, and a reallocation primer to clarify what reallocation means at the University for new members of the BOR.

Pfutzenreuter then directed committee members' attention to materials outlining the budget framework:

- Both the President's budget and the University's budget as a whole were used to create the assumptions, which feed the budget framework. Long-range planning and budget assumptions ultimately have to create a balanced budget to be presented to the BOR. Since next year is a bonding year for the state legislature, the President's budget will be presented in MAY with JUNE approval.
- Budget oversight meetings start in October.
- Revenues and expenditure assumptions aren't balanced. They are the start of the discussion concerning what expenditure needs are for the University and what can be driven out of revenues.
- Priorities are shifting within the legislature with issues such as an aging population, which reduces funding for higher education and reallocates it to health care needs.
- The percentage of funding the University received in 1997 was higher than today because of the shifting focus in the legislature.
- The University's share of the state budget is still below what it was before the recession.
- Costs and investments working with available resources is what comes together to create a balanced University budget. State appropriation, internal reallocation, tuition and other resources compared to compensation, strategic choices, facility and capital expenses, and operations need to align to balance the budget.
- The President's goal was to reduce administrative costs by $90m over six years. This goal equals $15m a year over six years. While the University is ahead of schedule by a year, $32.2m still needs to be reduced. The question before the BOR was whether to slow down or speed up cuts - to keep on the trend or slow down. The BOR decided they didn't want to slow down the pace and the predilection was to stay on course.
- Enrollment is not growing as well this decade as it did last decade. The years 2000-2010 saw a 14.8% increase in enrollment, while enrollment from 2011 to the present has been flat. This has stressed the University budget.
- The University Twin Cities is currently lowest within its peer group for the cost of non-resident undergraduate tuition. This was done on purpose to create a national profile and attract a set of students from around the nation.
- Budget framework costs were broken into four pieces; compensation, operations, facilities & capital expenses, and strategic choices. Compensation is the biggest driver of framework costs.
- Operational costs center around contractual obligations such as licensing of products, use of software, library purchases, etc. There are network improvements that need to be made which are estimated to be around $58m.
    - Professor Fred Morrison asked Pfutzenreuter about the process of updating the network and wondered if the institution was prepared for what it ought to have rather than simply replicating what it already has, which will become outdated quickly again.
    - Professor Karen Ho responded to Morrison by commenting that if the original network lifespan was 10 years, it can be assumed that as technology advances, the

lifespan of each network will be truncated and the same amount of money will need to be spent in a shorter time period.

- Conserving utilities and the declining cost of fuel is helping on the expenditure side of the budget.
- Professor Sandra Potthoff asked Pfutzenreuter if when looking at enrollment if demographic information was being considered and evaluated. Lincoln Kallsen said that Minnesota high school graduates were declining in general and that is one of the things that drove the non-resident tuition strategy in the beginning of the decade. Potthoff asked if there was data concerning how many non-resident University students stay in Minnesota after graduation. Kallsen said that the data was beginning to be pulled together via state tax records, and state tax records can be cross-referenced with University graduation records to find this information.

3. Changes in employee vs. employer health benefits and the effects of the Affordable Care Act: Ken Horstman, director, Benefits and Compensations, Office of Human Resources, addressed the committee regarding changes in health care benefits, which are affecting University employee groups.

Horstman began by reviewing the actual performance of the University health plan (UPlan). He said that insurance costs are impacted by trends in the marketplace and the behavior of vendors and drug manufacturers. His review went back five years and all totals were from the average costs for all employees.

The years 2011 - 2012 saw a significant loss in state funding from the legislature. The plan to make up for this loss in funding was to take 5% of the employer contribution out of the employee benefit medical plan. This means the employee cost rose 5%. The change was to the rates and not the benefit structure, which meant a significant increase in the benefit contribution by employees. The employee wellness rates went into effect in 2013 and employees who choose to participate in the employee wellness plan save on their monthly premiums.

ACA planning and reviewing the excise tax began in 2013. Due to the current health insurance plan design and the tier structure for premiums, the excise tax would be hit by 2018 and $48m in taxes would be owed by the University. A strategy emerged and in 2014 the tier structures were changed and other internal administrative expenses were taken out of the UPlan. As a result, out of pocket expenses went up while employee and employer contributions decreased. The projection for 2015 is that there will be an increase in out of pocket expenses and the employer contribution will increase as the wellness program rates continue to have a positive impact on premiums for employees. With the flat increase in 2016, there is a favorable impact on the estimated excise tax. The initial period of time up to 2025 had been predicting a cost of $15m; now the University is looking at only $5m. There is still more work to be done to reduce this amount, Horstman said.

Ho asked about a fund set aside in previous years to assist employees with out of pocket expenses as employee rates rose. Horstman responded that two funds do exist and that there were 1,100 applicants this year.

Jennifer Gunn, director, Institute for Advanced Study, asked about student health insurance and said that grad students were asked to pay for 5% of their insurance plans, when they had previously paid nothing. Horstman said that while OHR has an advisory role for these plans, Suzanne Jackson, Boynton Health Services, actually manages the student plans.

Gunn asked what happens to the information gathered through the employee wellness program. Horstman responded that the information is gathered, aggregated for performance reasons with identifiers stripped out and kept with the vendors. It is not sold to anyone by the University or outside vendors.

Potthoff asked a clarifying question about the University being self-insured. Horstman said that the University is self-insured and there is no markup, which is verifiable. Medical and pharmaceutical claims made up 94.5% of the cost last year, while 3.3% was administrative fees. The rest of the cost was from stop loss insurance, etc. Note that most administrative costs for insurance plans are around 10% while the University sits at 3.3%. Horstman also noted that there is a consistent audit schedule.

Hearing no further business, the meeting adjourned at 5:06pm.

Avonna Starck
University Senate