Minutes*

**Senate Committee on Finance and Planning**
**Tuesday, February 26, 2002**
**2:15 – 4:00**
**238A Morrill Hall**

Present: Charles Speaks (chair), Prince Amattoe, Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Wendell Johnson, Michael Korth, Elo Charity Oju, Richard Pfutzenreuter, Susan Carlson Weinberg

Absent: Gary Jahn, Cynthia Jara, Terry Roe, Michael Volna, J. Peter Zetterberg

Guests: Orlyn Miller (Facilities Management)

[In these minutes: (1) art on campus; (2) central reserves management; (3) the 2002-03 budget]

## 1. Art on Campus

Professor Speaks convened the meeting at 1:20 and welcomed Orlyn Miller from Facilities Management to explain the practice of funding art on campus as part of construction projects.

Mr. Miller told the Committee that it has been law since the early 1980s that the legislature permits up to 1% of the appropriation to public agencies to be used for art. The act does not require the University participate but it has done so and created a Public Art on Campus (POAC) committee to select artists and oversee implementation.

The process has run smoothly for a number of years but because there have been questions about selection and maintenance of the art, the administration decided it wished to have a more formal administration policy identifying roles and responsibilities.

Mr. Miller explained that the University will apply the funds to state-funded projects and will encourage projects not funded by the state to participate in the program as well.

The POAC, appointed by the President, consists of art professionals and representatives of the Art Departments, the College of Architecture and Landscape Architecture, the University Architect, University Planning, and Facilities Management. The POAC works with an ad hoc committee for each project, with the ad hoc committee containing representatives from the departments and the architects for a particular building. POAC and Planning work together on selecting sites for exterior works of art; installation is the result of collaboration with Facilities Management. Facilities Management is responsible for routine maintenance of artwork; the Weisman is responsible for major cleaning and repair. Neither has funding for these responsibilities so they are handled as best the units can.

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The policy also establishes criteria for types of public art to be considered, durability and maintenance requirements, and eligible and ineligible expenditures (e.g., the funds cannot be spent for landscaping but it can, in certain instances, be used for restoration of artwork, such as that in the lobbies of Walter Library).

Do most current capital projects have funds set aside for art, Professor Speaks asked? They do, Mr. Miller said. He added that the program does not extend to non-public buildings (e.g., machine sheds, animal quarters) or to renovation of purely physical aspects of a building (e.g., roofs and windows). The policy does apply to the coordinate campuses as well, Mr. Miller said in response to a question from Professor Korth, but they have their own mechanisms to select the art and artists. The expertise available on the Twin Cities campus is offered for assistance, but the Twin Cities people do not have responsibility for coordinate campus decisions.

Professor Speaks thanked Mr. Miller for his presentation.

**2. Central Reserves Management**

Professor Speaks turned now to Mr. Pfutzenreuter for a discussion of the central reserves. Mr. Pfutzenreuter distributed copies of a summary of the status of the reserves and explained it to the Committee.

Central reserves are one of several centrally-allocated funds that the Board of Regents approves each year (along with O+M funds, ICR funds, etc.). Central reserves receive money from investment income, real estate sales, and miscellaneous other sources. From central reserves are paid several things: investment pool income to departments, special allocations, and miscellaneous expenses; there is also a reserve for contingencies. There are also substantial transfers to the O&M budget. The beginning balance was $27.4 million on 6/30/01; the original projection of the balance at year-end was $14.6 million (the major part of the decrease is due to a one-time payment on a capital debt that cannot be refinanced).

As a result of a decline in projected investment income, the current projection for the central reserves balance at year end is $9.9 million. Most of the commitments against the reserves have been or must be paid. Board of Regents' policy calls for a balance in central reserves of $40 million, but it is not clear to anyone where that number came from. Mr. Pfutzenreuter said he was not sure it was right number; the Board is asking what the right number is. In light of IMG, with significant financial responsibilities shifted to the units, the University may not need to retain a $40-million balance in central reserves, but at the same time the Board is unlikely to be comfortable with reserves of only $10 million.

One step the administration will take is to suspend TIP payments on balances for the rest of this year and for next year. That suspension will not affect funds in University of Minnesota Foundation accounts or plant funds, and contractual agreements with the federal government, which apply to some balances, will be honored. Professor Speaks asked what the balance at the end of the next year might be, if TIP payments are suspended and major one-time charges against the reserves do not appear; Mr. Pfutzenreuter thought it might reach about $17 million. Whether that is the right number is not clear; he said he would return later to the Committee to discuss the question.

What variables would one use to decide the appropriate level, Ms. Barnes asked? That is the question, Mr. Pfutzenreuter agreed. Should it, for example, be a percentage of the state appropriation?

What is the money used for, Ms. Barnes asked? Emergencies; these are not the only reserve funds at the University, but they are essentially the only CENTRAL reserve funds, Mr. Pfutzenreuter explained.

**3. The 2002-03 Budget**

Mr. Pfutzenreuter distributed a hand-out entitled "Base Assumptions for Budget Planning Process" and emphasized that it had not been approved by ANYONE, although it had been seen by the deans. The question at hand is what to tell units they should assume, as they look out for two or three years, about tuition, revenues, state funds, and so on. The handout tried to lay out some assumptions:

Tuition
- continue IMG tuition attribution
- professional schools continue to price to market and have rate-setting flexibility
- portion of annual tuition increase is available for campus and collegiate investments
- University fee stable at $150/term for 2002-03

IRS
- annual increase on academic IRS of 1.25%
- sales and service IRS stable at 3.25%

ICR
- continue local unit/central administration split
- any increase in central portion of ICR dedicated to solving budget issues

Compensation increases
- colleges/campuses responsible for base increases in O&M funds proportional to reliance on tuition; state specials funded centrally
- administrative units O&M and state special increases funded centrally
- increases in funds other than O&M and state specials are unit responsibility
- responsibility for merit and market increases above general increases subject to overall budget situation

Compact pool
- annual funding of $5-10 million for differential reallocation and funding academic priorities

Programmatic and expense review
- continued programmatic and expense reviews (including selected targeted reductions) through internal campus/college processes, compact process, and financial oversight process

Potential changes to base assumptions when University expenses exceed available revenue:

- tuition increases may be higher than the historical average; there may be little or no additional tuition revenue available at campuses/colleges for academic investments; there could be further increases in the University fee
- the IRS could increase more than 1.25%
- academic units could be assigned a greater share or complete responsibility for compensation increases, as could administrative units

-- there could be a reduction in the compact pool; units could be expected to finance a great proportion or fully fund some investments
-- academic and administrative units could be reviewed for additional targeted reductions
-- there could be a general O&M base reduction, if the state reduces University funding

Mr. Pfutzenreuter then reviewed the numbers from the budget plan prepared last spring. It had been expected the University would receive an increase of $36.7 million in the state appropriation. With that increase, and one-time charges and a "must do" list (not all of which are "must do"), there would have been a $37.6 million shortfall, which would have been made up by tuition increases, an increase in the University fee that students pay, reductions in investment plans, an increase in the IRS from 3.75 to 4.6%, and base budget cuts, would have left a balance of $1 million and $9.2 million in revenues left in academic units.

With the new budget, however, it is not clear how the budget will be addressed, because instead of a projected final $1 million surplus, the projected total is $(65.7) million (without any reduced investments, IRS increase, or base budget costs). This includes $77.1 million in "must do" expenses.

The Committee turned its attention to the "must do" list, which covered five broad categories of recurring expenses (and which Mr. Pfutzenreuter again emphasized are not complete or final): facilities ($11.9 million), academic priorities ($12.7 million), compensation ($42.2 million), technology infrastructure ($3.1 million), and miscellaneous ($7.2 million). The majority of the last category consists of expenses related to security--student monitors, equipment, policy, and property/liability insurance. The technology infrastructure includes $1.9 million for an upgrade to PeopleSoft 8.0. Compensation includes a 3% increase for everyone and an additional 3% for faculty.

Professor Speaks noted that while the proposal for a 13-credit tuition band is held to be revenue-neutral, students may begin to enroll for more credits, which would increase tuition income. What will happen? Mr. Pfutzenreuter said he did not know and would have to begin modeling the possibilities.

The Committee took no position on these budget projections. It was informed in the midst of discussion that the House had failed to over-ride the Governor's veto of the appropriations bill, which led to discussion about what the Governor would have to do to "unallot." (Later the House did over-ride the veto.) The Governor would have to balance the budget on spending cuts and reserves, since he has no authority to raise taxes by himself.

The Committee agreed to discuss these issues again before the budget presentations begin with the Board of Regents. It also agreed to a meeting on Thursday, February 28, two days later, to discuss stadium issues.

Professor Speaks adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota