Senate Committee on Finance and Planning (SCFP)
January 23, 2018
Minutes of the 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 minutes represent the view of, nor are they binding on the senate, the administration, or the Board of Regents.

[**In these minutes:** FY19 Cost Pool Review; Retirement Outlook and Readiness; Financial Implications for the University under a Trump Presidency; Board of Regents Policy Review: Endowment Fund]

PRESENT: Dan Feeney (chair), Harrison Frisk, Frank Gigler, Robert Goldstein, Jennifer Gunn, Lincoln Kallsen, Michael Korth, Dan Lockren, Jill Merriam, Fred Morrison, Paul Olin, Tracy Peters, Scott Petty, Carl Rosen, Karen Seashore, Julie Tonneson, Michael Volna

REGRETS: Catherine Fitch, Erik van Kujik

ABSENT: Lisa Babbs, Michael Berthelsen, Brian Burnett, Erin Deal, Laura Kalambokidis, Karen Ho, Tolulope Odebunmi

GUESTS: Ken Horstman, director, Total Compensation, Office of Human Resources; Al Levine, vice president for research; Stuart Mason, associate vice president, Office of Investments & Banking, University Finance; Pamela Webb, associate vice president, Sponsored Projects Administration

Chair Dan Feeney welcomed the committee and the members introduced themselves.

1. FY19 Cost Pool Review

Julie Tonneson, associate vice president, Budget and Finance, provided an overview of the FY19 cost pool review. She provided a handout to members and highlighted the following:

- They are entering the Academic Unit process on February 16, 2018.
- The decisions made on allocations that go into the cost pools are preliminary at this point; the current list includes 2018-19 academic year totals and the changes proposed for FY19.
- The proposed changes would result in a total increase in cost pool charges of 1.4% compared to the current year. President Kaler has proposed a 2% salary increase assumption for next year.
- The budget for the Promise Program, which provides need based financial aid, has a structural positive balance, meaning there is more funding available than is being used. The current recommendation includes a $2M decrease in the allocation for this program as a result. The number of students eligible for this program has decreased slightly over

the years, without corresponding changes to the program eligibility requirements (in fact the program has been expanded to include "middle income" students).

- The salary increase will cost a total of $7.8M across all of the pools. Public Safety is the only unit that has not been asked to cut expenditures.
- Facilities Management funding has decreased because two buildings have been emptied, and therefore will not need to be maintained.
- OIT and Libraries cost increases are significantly driven by vendor relationships. OIT has projected software licensing and maintenance costs of $2.2M, due in part to the Canvas Learning Management System and Moodle existing simultaneously during the transition. The Libraries projects cost increases of $889,000, which includes subscription costs. The president has requested that these projections be revisited. Seashore commented that subscription costs to the publishers will need to be mitigated by a collaboration of the leadership of research institutions. She emphasized that universities both produce the content of the journals as well as purchase the subscriptions.
- Strategic Support Initiatives - $500,000 has been allocated to the Disability Resource Center, which provides accommodations for employees and students.
- Funding has been allocated for two additional national recruiters on the Twin Cities campus, as an attempt to maintain the number of non-resident students on campus in response to the 15% non-resident student tuition increase for incoming freshmen.

Tonneson then provided an update on the overall budget framework:

- Current planning estimates include a 2% increase in the resident undergraduate tuition rate on the Twin Cities campus, 0% for the system campuses;, generating $6.9M. There is a planned 15% increase in the tuition rate for incoming non-resident, non-reciprocity students on the Twin Cities campus resulting in a $7.8M gain.
- Tonneson said that if the University requests additional funding from the state, the President will likely recommend that it be allocated to reduce the planned tuition increases for resident students.
- There is a planned $15M reallocation for FY19. It is recommended that $11-12M of the $15M be made in administrative cuts in order to achieve the final year of the President's goal to reduce administrative expenditures by $90m over six years.
- The FY19 goal for the budget is to maintain core activities at current levels rather than pushing for program expansion..
- All planned increases in resources will result in $34.8M to cover the estimated compensation increase, and facilities/infrastructure costs, , which will leave $3M to address the needs of academic units discussed in the spring part of the process.

Chair Feeney thanked Tonneson and introduced the next agenda item.

2. Retirement Outlook and Readiness

Ken Horstman, director, Total Compensation, Office of Human Resources, attended the meeting to discuss the retirement plan. He highlighted the following:

- Excluding Social Security, the Faculty/P&A Retirement Plan and MSRS provide the following replacement ratios on average:
  - Faculty/P&A: Using the average P&A salary at 35 years, this plan yields a 67% replacement ratio.
  - MSRS: Used by all other employee groups, using an average salary at 35 years, this plan yields a 56% replacement ratio.
  - Voluntary plans offer employees the opportunity to contribute beyond the standard plans, pre-tax.
- The University is competitive within the local market in comparison to other employers, due in part to the immediate 10% contribution per 5.5% employee contribution.
- The general account fund is the default option for retirement investment. Employees can elect to be invested in other funds that are more appropriate for their age group. There is a discussion about changing this default, because the general fund could impact retirement savings over time because it is not as risky as others. A governance committee was established for the retirement fund and this is one issue that will be discussed.
- Education for benefits is offered by each recordkeeper and this can be confusing for participants. Communication of benefits for both health and retirement needs to be improved, especially for recruiting efforts. Lockren commented that Vanguard on-site visits were helpful, but they have not visited in recent years. Horstman said that participation in the voluntary plans has not supported continued visits.

Horstman will return to the committee in April or May. He will provide an update on the Securian visit, as representatives will be attending a meeting of the Retirement Subcommittee. More information about the Retirement Plans can be found here:
https://humanresources.umn.edu/employee-benefits/retirement

3. Financial Implications for the University under a Trump Presidency

Chair Feeney introduced Al Levine, vice president for research, who was invited to speak with the committee on the practical implications of a conservative administration for the National Institute of Health (NIH) and National Science Foundation (NSF). Levine began the discussion by sharing the following information:

- 60% of research awards are from the federal government
- The University has been diversifying and seeking other sources of funding.
- The USDA requested a list of researchers working on environmental research, so outside of a loss of funding, intimidation is a factor as well.

Levine asked Pamela Webb, associate vice president, Sponsored Projects Administration (SPA), to share information on how the University responds to a government shutdown. She explained that there are strategies for before, during, and after a shutdown:

- Before a possible shutdown, proposals that can be submitted are submitted, and bills are submitted. The Sponsored Projects Administration has a website that publishes information on the shutdown, and they gather as much information as possible because each agency reacts differently.
- During the shutdown, information is pushed and posted by SPA. For example, some projects are exempt from the shutdown, while others are not. In 2013, a project had to be shutdown and it was necessary for that communication to be released immediately. Study sessions and review committees are also shutdown.
- After the shutdown, projects need to be started up again and funding resumed.
- NIH funding has increased by 2 billion, but there are constant threats to federal funding. There is talk of limiting the number of sponsored projects and/or grants that an individual investigator can conduct. This did not come to fruition due to pushback, but this idea could resurface.
- The BASIC Act requires that a member of the public or taxpayer advocate needs to be included on study sessions.
- Under the Obama administration, the Office of Science and Technology Policy had 135 employees, there are now 45 employees and no plans to rehire.
- The University is a member of the Federal Demonstration Partnership (FDP), which is a group that is organized to try to reduce the administrative burden associated with obtaining federal grants and contracts. Members were encouraged to answer any emails from FDP to assist in this effort.

With no further questions, the next agenda item was introduced.

4. Board of Regents Policy Review: Endowment Fund

Stuart Mason, associate vice president, Office of Investments & Banking, University Finance, and Andrew Parks, finance director, University Finance, presented changes that have been proposed to the Board of Regents Endowment Fund policy. The board already approved changes to asset allocations and they have been incorporated into the policy. There are three main recommended changes:

- Liquidity: Allow for up to 50% in illiquid assets in normal market environments and up to 75% in stressed market environments. The prior limitation was 40%. After the decline in the stock market in 2009, the illiquid assets peaked at 68%. These ratios are reported to the board on a quarterly basis. Private assets are valued every quarter by accounting firms that have developed values based on the types of assets.
- Leverage: Allow for up to 110% of fund-level gross leverage. Currently there is a prohibition of leverage, however the ability to leverage would facilitate easier rebalancing and enhance returns.
- Co-investments: Often there are fund restrictions that prohibit managers from investing in a single investment. Co-investments are minority investments made into operating entities alongside a financial sponsor, like a private equity fund, usually through a

syndication of equity needed to acquire the asset. Such transactions can provide another tool in the toolkit to reduce fees, eliminate J-curve headwinds, increase exposure to high conviction managers and/or deals, and more effectively manage cash flow. If approved, the proposed revisions would allow for up to 3% of the endowment fund to be invested in such transactions and would require those transactions be executed only through private equity firms with whom the endowment fund has invested.

Mason explained that these are conservative changes, and they are lower limits than those imposed by peer institutions.

With no further business, Feeney adjourned the meeting.

Bobbie Erichsen
University Senate Office