Senate Committee on Finance and Planning (SCFP)
June 7, 2016
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 represents the views of, nor are they binding on, the Senate, the Administration, or the Board of Regents.

[**In these minutes**: Review of Operating Budget]

PRESENT: Dan Feeney, chair, Catherine Fitch, Kara Kersteter, Jill Merriam, Paul Olin, Richard Pfutzenreuter, Gary Cohen, Robert Goldstein, Jennifer Gunn, Michael Korth, Fred Morrison, Sandra Potthoff, Karen Seashore, Erik van Kuijk

REGRETS: David Fisher, Tracy Peters, Aravind Boddupalli, Emily Meyer, Adam Peterson

ABSENT: Laura Kalambokidis, Lincoln Kallsen, Pam Wheelock, Karen Ho

GUESTS: Julie Tonneson, associate vice president, University Budget and Finance

1. **Review of operating budget**: Professor Feeney welcomed Vice President Pfutzenreuter and Associate Vice President Julie Tonneson from University Budget and Finance, who were invited to provide the committee with an overview of President Kaler's recommended FY17 annual operating budget. Associate Vice President Tonneson began by walking members through the PowerPoint presentation that had been distributed along with the agenda.

Tonneson began by noting that the FY17 annual operating budget is the second year of the biennium. Pfutzenreuter added that there will be a long-range financial planning presentation to the Board of Regents (BOR) Finance Committee on Thursday, June 9, and this will tee up a discussion of the FY18 and FY19 biennial request. He suggested that this item be on the SCFP first agenda in the fall because it will go to the BOR in September for information and action in October. There is expected to be a lot of dialogue around the operating framework for the FY18 and FY19 biennial request and BOR involvement.

Regarding the all-funds budget structure, said Tonneson, the FY17 estimated revenues are $3.8 billion, which are broken out into sponsored funds ($575 million) and non-sponsored funds ($3.2 billion). The "local unit generated" funds are generated by departments and go directly into departmental accounts. While these accounts are monitored, the administration does not approve them or watch over them to the same degree as the "centrally distributed and attributed" funds. It is the centrally distributed and attributed funds that the budget process focuses on and where incremental investment decisions are made. However, the budget that the BOR approves is for all-funds. Next, she turned members' attention to a pie chart with this same information, but in a different format making it easier for members to see the relative significance of each of the revenue sources.

In response to a question from Professor Feeney about whether any of the Academic Health Center (AHC) operations, e.g., clinical revenues, are included in these numbers, Pfutzenreuter said to the extent that University of Minnesota Physicians (UMP) makes payments from its clinical operations to the University for the dean's tax, or academic support, etc., these dollars are included in the University's financials. Tonneson added that where the clinical income is reported is different depending on the unit, e.g., vet med treats its clinical revenue differently than dentistry.

Next, Tonneson spent some time on the centrally distributed and attributed funds. The estimated beginning balance of these funds for FY17 is $22.6 million and the estimated ending balance is $19.4 million. The balance in these funds is almost entirely central reserves.

Tonneson then talked about the FY17 operating budget framework, which focuses primarily on the operations and maintenance (O&M) and tuition portion of the budget, and depicts the incremental changes in resources that are used to pay for incremental increases in spending. It is important to note that with no additional funding from the State of Minnesota for FY17, all the University's incremental expenditures will be supported by increased tuition revenue and internal expense reductions and reallocations. Also, as a reminder, for the current biennium, the University received an increase in FY16 from the state of 4.4% for 1) tuition relief/support of mission, 2) the Medical School, and 3) Alzheimer's research, but for FY17 the University received nothing as an incremental increase. Regarding available incremental framework resources, said Tonneson, 61% of the solution for FY17 is unit level resources/reallocations, and 39% is tuition ($13.2 million from rate and enrollment changes and $4.3 million from the uncommitted current year (FY16) tuition revenue above budget). There are a number of colleges that are estimating revenues over and above what they budgeted and planned for during FY16 that will be used to cover FY17 costs.

Which colleges are estimating revenues over and above what they budgeted for, asked Professor Seashore? Tonneson said these colleges are:

- College of Food, Agricultural and Natural Resource Sciences (CFANS).
- College of Science and Engineering (CSE).
- Medical School.
- College of Liberal Arts (CLA).
- School of Dentistry.
- Crookston.

The bulk of the internal resources, noted Tonneson, are reallocation. Two and a half million has been earmarked for the Human Research Protection Program, and $20.3 million for system-wide cost increases/new investments, which totals $22.8 million. The budget document only contains examples of expense reductions that are definite and have been communicated internally. The primary action in the reallocation area is elimination or restructuring of positions in order to lower costs.

Regarding the president's goal of reducing administrative costs by $90 million over six years, said Tonneson, the first two years are final (FY14 $18.8 million and FY15 $21.6 million), FY16 is in process (estimated to be $17.4 million), and FY17 is estimated to be $14.7 million, which totals $72.5 million, leaving $17.5 million to implement in the final two years. The $17.5 million may need to be done all in FY18 given what is happening with costs next year, but no final decision has been made yet. To be clear, said Tonneson, just because there are only two years left in the goal to reduce administrative costs by $90 million does not mean there will not be future cuts going forward; instead, these cuts would simply be outside the six-year plan.

In terms of tuition, Tonneson highlighted the following:

- A 0% rate increase is planned for resident undergraduates for each of the system campuses (Crookston, Duluth, Morris and Rochester), and this is in recognition of the competitive environment in which they are recruiting.
- A 2.5% rate increase is being proposed for resident undergraduates on the Twin Cities campus, but this increase will be offset for eligible University of Minnesota Promise Scholarship (U Promise) recipients. With this change, it is anticipated that about half of the undergraduate population will see no tuition increase (either because they are on a system campus or because they receive U Promise program funds on the Twin Cities campus).
- The tuition increase for non-resident, non-reciprocity undergraduate rates on the Twin Cities campus was initially proposed to be 9.9%, which would help the University move slowly to the middle of the Big Ten, but President Kaler has decided to reduce this increase to a 7.5%. Therefore, the original differential of $10,154 will be reduced to $9,664; this action will save incoming non-resident, non-reciprocity students $490.
- Continuing non-resident, non-reciprocity undergraduate students on the Twin Cities campus will see no more than a 5.5% tuition increase for the duration of their time at the University (through FY20).
- The Duluth campus tuition rate for non-resident, non-reciprocity students will increase by 2.5%.
- The Morris campus has proposed to reinstate a differential, which they have not had since about 2002. The proposed differential is $2,000, but they will waive this differential for continuing students completely, and for incoming fall 2016 students by $1,000 for their four years at the University.
- The Crookston and Rochester campus do not have a differential. The rationale for this decision is due the market; they cannot recruit non-resident, non-reciprocity students when the tuition rate is above the resident rate.
- The graduate and professional tuition rates will be aligned with market conditions and peer institutions. The average resident graduate tuition rate will increase by 2.5%, and the resident rate for professional programs will range from 0% - 3.5%, and non-resident, non-reciprocity increases will generally be about 2.5%, but, again, there will be some variation. Detailed information about these rates was shared with the committee.
- The campus/collegiate course and miscellaneous fee increases will be minimized.
- With the 2.5% increase for Twin Cities' campus resident undergraduate rate, the University ranks seventh out of fourteen in the Big Ten for FYI2016 – FY2017, and this is not anticipated to change.
- Over a five-year period (2012/13 – 2016/17), non-resident tuition increased approximately $5,000. Similarly, over the same period, the resident tuition rate increases by campus remained low, e.g., 1% for the Twin Cities campus and 0.4% for the system campuses.

In Professor Olin's opinion, there is a segment of the School of Dentistry faculty who are not enthusiastic about the school's tuition and debt rates. At some point in time, it will be an issue and unsustainable. For example, when looking at the $81,000 out-of-state tuition for students plus the other costs they incur while attending school, this will restrict what they do when they graduate. He said he does not think that enough has been done internally to bring the costs down or at least remain flat. Pfutzenreuter agreed and added that dentistry also does very little in the way of financial aid for its students.

Next, Tonneson highlighted the FY17 student aid changes:

- The Federal Pell Grant will increase by $40 for most recipients.
- The Minnesota State Grant Program is increasing its awards between $260 - $420 based on financial need with $246 specifically attributed to the "living & miscellaneous expense" component.
- The U Promise proposed changes include 1) an award increase of $134 for Twin Cities students that qualify for the Minnesota State Grant Program and $306 for those unlikely to qualify with the intent to completely offset the 2.5% tuition increase for all Minnesota resident undergraduates who qualify for U Promise, and 2) creation of a new middle income tier for all campuses with awards going to students from families with an adjusted gross income from $100,000 - $120,000.

The next five slides, said Tonneson, illustrate the change in tuition, fees, and room and board from FY16 to FY17 for each campus. Total rate increases will be:

- Crookston – 0.8%.
- Duluth – 1.5%.
- Morris – 0.5%.
- Rochester – 0.0%.
- Twin Cities – 2.9%.

A couple quick notes regarding fees, said Tonneson, for the first time in a number of years, there will be four different collegiate fee increases (College of Continuing Education, College of Food Agriculture and Natural Resource Sciences, College of Liberal Arts and the College of Pharmacy). Additionally, the stadium fee is being cut in half because of the advanced refunding of the original state supported stadium bonds, which were refinanced at a lower interest.

On the spending side of the budget, noted Tonneson, based on a projected 2.5% salary adjustment plus related fringe benefit cost recovery for all employee groups, compensation costs will increase $13.6 million (29.3%) in FY17 in the O&M and State Special funds. Overall, the estimated FY17 compensation costs are $2.1 billion. She added that while the FY17 fringe rates will be decreasing because of the FY15 legal settlement that was put into the fringe pool (artificially decreasing the fringe rates for one year), the FY18 rates will increase. Therefore, in FY18, the compensation costs will be significantly higher. For example, assuming another 2.5% compensation increase for FY18 plus the fringe will mean approximately a $30 million dollar cost increase in O&M and state specials. Both Tonneson and Pfutzenreuter said in their opinions a 2.5% salary increase in FY18 will be difficult to afford, especially in a low tuition, low state support environment. Then, in terms of student aid spending, said Tonneson, $2 million is for U Promise enhancements and $61,000 for the President's Scholarship Match Program.

Ms. Tonneson went on to highlight the other costs and investments on the spending side of the budget, which have been categorized into four groups:

- Core operations and services.
- Enhanced student services.
- Program enhancement.
- Facilities and technology infrastructure.

(For more detailed information, go to http://regents.umn.edu/sites/regents.umn.edu/files/docket/JUN_2016_FIN_Docket.pdf).

The next five slides, noted Tonneson, contain technical information and are specifically prepared for the Board every year. Regarding ICR, Tonneson said that more needs to be done to address how units budget ICR because currently it is being budgeted very conservatively. Professor van Kuijk commented on how challenging it can be to accurately budget for ICR, and suggested units submit two numbers, a worst case scenario and a best case scenario.

Before summarizing the operating budget changes, Tonneson turned members' attention to a slide that Regent Hsu requested, which depicts two different scenarios for reducing the resident undergraduate tuition rates. While it is not anticipated that the Board will approve either of these scenarios, they were nonetheless discussed in terms of what each scenario would mean and which investments would not be possible.

Tonneson then summarized the changes that were made to the operating budget after the May Board meeting:

- Decreased the undergraduate non-resident, non-reciprocity tuition increase from 9.9% to 7.5%.
- Receipt of $900,000 from the State of Minnesota in new appropriations ($800,000 recurring for health training restoration that the University requested, and $100,000 one time amount for a collegiate recovery (addiction) program in Rochester.
- Increased allocations from central reserves because the University needs to pay money back to the State of Minnesota.
- Receipt of $14.7 million new approved Legislative-Citizen Commission on Minnesota Resources (LCCMR) - http://www.lccmr.leg.mn/ - projects for next year. LCCMR appropriates funds primarily from the Environment and Natural Resources Trust Fund (ENRTF), and gives it to the University and other organizations to do research projects. These are multi-year appropriations.

Professor Feeney thanked Tonneson and Pfutzenreuter for this information and opened the floor for questions. Professor Goldstein asked about the maturity of the University's structured debt. Pfutzenreuter said the University pays off its debt fairly aggressively. For example, the University is paying off approximately $80 million in principle on its debt each year. While the debt is issued for 25 – 30 years, the University uses an aggressive amortization schedule. Pfutzenreuter added that about 3% of the University's operating budget is paying debt service. He also noted that the University's debt is relatively young, which is good given the low interest rates.

Professor Morrison asked about the University's long-range financial plan. Pfutzenreuter said the University does a long-range forecast every year, which includes creating a baseline scenario to start the conversation about the biennial request. He reiterated that the biennial request goes to the BOR in September and gets approved in October. This committee will want to put this as one of its first agenda items for next fall. In the mid to late 1980s, recalled Pfutzenreuter, the University was about 8% - 8.6% of the State of Minnesota budget, but today the University is just under 3% of the state budget. He added that he would not be surprised if this number continues to decline over the next 10 – 12 years due to the pressure on other forms of spending and the reluctance to raise revenue.

Professor Feeney voiced concern about the health of a number of the collegiate budgets because from what he has heard several are spending their reserves. While Pfutzenreuter agreed that there are a handful of colleges that are stressed, Tonneson optimistically said that these situations are typically cyclical.

2. **Adjournment**: Professor Feeney adjourned the meeting, and invited members to attend a reception to honor Pfutzenreuter's service and upcoming retirement in the room next door.

Renee Dempsey
University Senate Office