Senate Committee on Finance and Planning (SCFP)d
March 26, 2019
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:** Systemwide Strategic Priorities FY 18-19 and Units with Structural Deficits and How They Can Be Addressed; Overview on the Types of Unrelated Income Activities the University is Engaged In, and the Scope of Their Importance to the University As a Whole; Annual Capital Financing and Debt Management Report and Upcoming Planned Debt Issuance; Strategic Use of University Land (Strategic Land Review]

PRESENT: Frank Gigler (chair), Brian Burnett, Liz Davis, Catherine Fitch, Harrison Frisk, Tony Fussy, Jennifer Gunn, Linc Kallsen, Michael Korth, Jill Merriam, James Pankow, Carl Rosen, Rod Squires, Julie Tonneson, Sashank Varma, Traci Woollums

REGRETS: Bailey Johnson-Cavanaugh, Erik van Kujik

ABSENT: Lisa Babbs, Atharva Choudhary, Aleksander Holleran, ZiRui Su

GUESTS: Carole Fleck, Director of Debt Management, University Finance; Leslie Krueger, Assistant Vice President of Planning, Space and Real Estate, University Services

Chair Frank Gigler welcomed the committee and the members introduced themselves.

1. Systemwide Strategic Priorities FY 18-19 and units with structural deficits and how they can be addressed

Brian Burnett, senior vice president, Finance and Operations, and Julie Tonneson, associate vice president, University Finance, started their presentation by telling members that the institution values fiscal responsibility and a balanced budget. Burnett explained that the University Budget Office can craft any number of budgets for the institution, depending on what they are requested to prioritize: they can plan to expand the University, shrink the University, or keep the University the size it is now; but whatever the future is for the University, it should include being financially viable with a sustainable plan to support the initiatives of the institution. Burnett noted that President-Designate Gabel has indicated that she values this approach as well. Burnett suggested that the institution may have to evaluate whether the size and scale can be maintained with state support not growing with projected cost increases, but explained that the Board of Regents (BOR) has expressed that they do not want to make final decisions about the financial future without input from a new President and her team.

Burnett also walked members through units with structural deficits, reporting that the law school has seen the most volatility, mainly due to the national market and how it has affected law school enrollment across the country. There is currently a committee working with the dean of the law

school, he explained, and they have agreed on a three-year plan that was brought to the BOR last year. So far, he said, the law school is meeting all of the metrics of the three-year plan, including enrollment, staffing costs, financial aid, etc. He explained that the administration committed to a three-year plan to stabilize the law school finances and added $1.7 million in the first year of the plan, planning to increase Operations and Management (O&M) allocations $1.5 million in the second year (FY20), and $1.3 million in FY 21. The Board of Regents approved the plan and the first installment of additional O&M support in the FY19 budget. Tonneson explained that the O&M funds had been taken out of the budget when the law school was doing well with tuition revenue generation, and are now being returned to help with the deficit; but even with the addition of those funds the school made a substantial operating cost cuts, she cautioned.

Burnett said that Duluth is also working on their structural deficit with help from the administration and work locally, which was at $9.6 million when President Kaler took office, and has now been reduced to $4 million. He hopes that the Duluth campus will be out of the structural deficit in three to four years. Morris has a smaller structural imbalance, mainly due to enrollment, and Burnett told members that Crookston also has enrollment challenges. The dental school, which Burnett explained was previously running a deficit, now has a balanced budget, and is refilling its reserves through excellent work by its leaders and fiscal staff. Tonneson said that there are three basic solutions for a structural deficit: more O&M dollars, revenue growth in other parts of the unit, spending reduction, or some combination of those three strategies.

Gigler asked about the possibility of tuition differential within the University, across colleges. Burnett acknowledged that peer institutions are using this strategy, most notably in engineering and business. He explained that the College of Science and Engineering has proposed tuition differential, and the BOR had already approved this in February 2019 to begin in fall of 2019. It's happening, Burnett said, and he expected the trend to continue in public higher education due to challenges in state support.

Burnett closed by saying that the institution is more tuition dependent than it has ever been, but is also fortunate to be 17% funded by the state. He told members that the incoming administration will help guide and finalize the system-wide strategic plan, subject to approval by the Board of Regents.

2. Overview on the types of Unrelated Income activities the University is engaged in, and the scope of their importance to the University as a whole

Burnett was then joined by Mike Volna, associate vice president, University Finance, to provide an update on the University's Unrelated Business Income activity as it relates to the federal tax code changes. Volna reminded members that the University is tax exempt and therefore allowed to earn income and not pay taxes on it, as long as it is related to the University's mission. When not related to the mission, the University must file an Unrelated Business Income Tax (UBIT) return on the revenue and pay taxes on it; Volna explained that prior to the tax law changes, the institution filed one UBIT return for all of the unrelated business revenue which allowed these activities to offset one another, lowering the tax burden. One significant change as a result of the federal tax code update, Volna said, was a new requirement that tax exempt institutions file each

revenue generating activity on a separate UBIT tax return form, which prevents the institution from offsetting net revenues with losses in other areas of the university.

Volna explained that the University operated under the old tax law in fiscal year 2017, the most recent year filed, and reported $5.8 million in gross revenue on unrelated business income out of $4 billion revenue, and the institution's federal UBIT tax return reported a net operating loss of $7.5 million. He told members that federal guidance on the tax law changes have not been released, but he reiterated that this issue is likely the most significant change to the University as a result of the new law.

3. Annual Capital Financing and Debt Management Report and upcoming planned debt issuance

Volna and Burnett were then joined by Carole Fleck, Director of Debt Management, University Finance, to provide an overview of the Annual Capital Financing and Debt Management report, which is prepared each year as directed by board policy. Fleck shared key metrics, the University's current debt profile, the current amortization structure, recent debt financing activities, the University's current letter ratings from the credit bureaus, the key financial metrics, and an analysis of the key credit ratios.

Panel members discussed the institution's philosophy on paying down debt. Burnett explained that historically the institution has aggressively paid down debt; mainly to open up capacity for future debt issuances for University projects. He told members that this is a continued practice, and noted that the University has a conservative board that wants to prioritize paying off debt. Fleck told members that in fiscal year 2018, the institution has issued $423 million of new debt, which includes the refinancing of existing debt. With BOR approval, the institution also established a commercial paper facility; Fleck explained that the University has issued commercial paper since 2005, but always did so in individual series, which required BOR approval each time. The commercial paper facility allows the institution to issue up to $400 million without BOR approval, and Fleck noted that $75 million has been issued to date, since this change.

4. Strategic Use of University Land (Strategic Land Review)

Burnett then introduced Leslie Krueger, Assistant Vice President of Planning, Space and Real Estate, University Services, who provided an update on Strategic Use of University Land.
She noted that the University of Minnesota owns 28,563.08 acres of land, and told members that the BOR has challenged the institution to think about what the highest and best use of this land is for the University, and whether any of it could be monetized. She said that a strategic review of land assets is ongoing to consider these questions.

Krueger then walked members through the process of acquiring and disposing of land, according to University policy. She offered examples of current projects that University Services is working on, with a goal of maximizing the use of the land:

- Request for Proposal (RFP) for Les Bolstad Golf Course. Burnett explained that the land needs several million dollars of capital improvements, and noted that the improvements are not likely to ever be a priority for the institution.

- RFP for a new childcare facility or facilities on the Twin Cities campuses. Krueger explained that the University has land to offer potential providers to use for childcare programs. Burnett added that the University has received seven bids on this RFP.

Committee members also discussed the future of UMore Park in Rosemount. Carl Rosen emphasized that the land is integral to agriculture research, and stressed that it needs to be available to researchers to do their work.

With no further business, Gigler adjourned the meeting.

Bobbie Erichsen
University Senate Office