Minutes[*]

Senate Committee on Finance and Planning
Tuesday, February 14, 2012
2:00 – 4:00
238A Morrill Hall

Present: Will Durfee (chair pro tem), Sarah Chambers, Catherine Fitch, Susan Hupp, Cody Mikl, Fred Morrison, Michael Rollefson, Ann Sather, Karen Seashore, Arturo Schultz, S. Charles Schulz, Aks Zaheer

Absent: Brittany Bergemann, Martin Caride, Russell Luepker, Lincoln Kallsen, Kara Kersteter, Ruth Lane, Kathleen O'Brien, Richard Pfutzenreuter, Gwen Rudney, Terry Roe, Thomas Stinson, Michael Volna

Guests: Julie Tonneson (Office of Budget and Finance)

Other: Jon Steadland (Office of the President)

[In these minutes: update on FY13 support unit budgets (the cost pools)]

Update on FY13 Support Unit Budgets (the Cost Pools)

Professor Durfee convened the meeting at 2:15, explained that Professor Luepker was out of town, and that the agenda for the meeting consisted of one item, the cost-pool budgets. He turned to Ms. Tonneson to lead the discussion.

Ms. Tonneson began by distributing a chart with the FY13 budget framework for O&M funds only; it provided data on expected increments in resources (projected tuition income and state appropriations) and costs (by category); these are incremental changes FY12 to FY13.

Undergraduate tuition @ 3.5% increase	$18.2 million
Grad/Prof tuition @ 4% increase	$11.6
State Appropriation (recurring)	$16.85
Total uncommitted new resources	$46.65 million

Ms. Tonneson recalled for the Committee that last year the legislature provided an additional $25 million in state funds beyond what was originally projected. The President said that the funds would be divided into thirds: 1/3 on recurring items for FY12, 1/3 to lower tuition for undergraduate residents from what was originally planned, and 1/3 for new investments in FY13. The $16.85 million represents the 2/3 for lowering tuition and new FY13 investments. She also pointed out that the resident undergraduate tuition increase was planned to be a 5% increase had it not been for the additional funds from the state.

The projected incremental costs for FY13 include compensation (2.5% salary increase plus corresponding fringe benefit cost increase), student aid, a variety of facilities-related costs (some of which increase, some of which decrease), non-academic contractual and other obligations ($6 million), strategic

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investments ($8.55 million, the 1/3 of the $25 million for FY13 investments), and academic unit investments ($11 million). The last three items constitute investment pools, about $25.5 million). Total projected increased costs total $45.855 million.

The net result is a projected balance of $795,000 at the end of FY13.

None of the additional resources will be directed to support units but those units will see increased costs totaling $8.8 million ($3.5 million in salaries and fringes; $2.8 million in student aid provided through Admissions, the Graduate School, and international programs; $2.4 million in debt service, facilities cost increases, and so on, but also including some cost reductions in utilities and leases). Because there is a significant transfer out of the cost pools (from the Graduate School to the academic units) there is also a net $2.45 million transfer out that reduces the actual cost pool increases to $6.35 million to be assessed against academic units.

The $46.65 million in additional resources available (see small table earlier) will be directed to academic units and will cover the following costs:

Compensation	$12.165 million
Facilities	$1.33 million after increases and decreases in various categories
Recurring academic investments	$21.36 million
Cost pool increases	$6.35 million
Transfer out of cost pools	$2.45 million (net new spending transferred to the academic units - primarily the funds from the Graduate School)
Total	$44.658 million

Ms. Tonneson turned next to a table that provided the data on the changes in each of the cost pools. The upshot of all the changes, FY12 to FY13, is an increase in cost-pool budgets (in round numbers) from $492.6 million to $499 million, $6.35 million, or an increase of 1.3%. If one subtracts from the total increase the cost of compensation increases and student aid increases, the net increase is $11,092, or 0%. (Ms. Tonneson explained, in response to a query from Professor Durfee, that the largest increase in student aid is a result of a substantial increase in the number of National Merit Scholars attending the University. She also explained, in response to a question from Professor Zaheer about an increase in debt, that while interest rates are down, the University has taken on new debt for facilities.) The overall debt costs for FY13 are down from FY12, but each year there are reductions and increases in that item for different reasons.

If someone is interested in what is in the cost pools, can they find out online, Professor Durfee asked? They can, Ms. Tonneson said, and she provided the URL: http://www.budget.umn.edu/document.htm

Ms. Tonneson then provided Committee members with a detailed table of data itemizing changes in cost pools after a process of calculating what is known as the "double step down," which is a way to transfer costs among the cost pools so that they are more accurately charged to units. For example, there are $8.8 million in charges moved from the facilities cost pool to the other cost pools so that academic units are charged for those costs using the appropriate statistical base. Facility costs associated with library space are charged out based on head count (the library cost pool basis for cost allocation) rather than assignable square feet (the facilities cost pool basis for cost allocation). The movement among the cost pools nets to zero; they would not have to make these transfers but believe that doing so better aligns costs with the units that pay the cost pool charges. Committee members, after having a discussion with Ms. Tonneson about the process and results, urged that the process be memorialized in some fashion so that if she were to leave the University, someone could still figure out what is to be done and explain it to the deans and to this Committee.

Professor Zaheer asked if the "agreed on" principles behind the process were ever reviewed. Ms. Tonneson said they have built in many points of reconciliation; what drives the process is the way the University agreed to measure support-unit costs.

Ms. Tonneson explained why some of the cost pools are charged systemwide and some only to the Twin Cities. They evaluate each cost pool to determine whether it supports only Twin Cities activities or the entire system (e.g., the libraries cost pool is Twin Cities only because the coordinate campuses pay for their own libraries).

Professor Durfee thanked Ms. Tonneson for her report and adjourned the meeting at 3:05.

-- Gary Engstrand

University of Minnesota