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## Finance minutes 02/01/2012

Finance Committee

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## UMM Finance Committee Minutes – February 1, 2012

Members Present: Roland Guyotte, Lowell Rasmussen, Pieranna Garavaso, Laura Thielke, Mary Zosel, Timna Wyckoff, Michael Korth, Reed Olmscheid, Gwen Rudney, Manjari Govada, Sara Haugen

Members Absent: Andy Sharpe

Guests: Jacqueline Johnson, Colleen Miller, Amanda Krosch, Bryan Herrmann, Bart Finzel, Sheila Windingstad (Notes)

### **Promise Scholarship discussion (See hand outs from Colleen)**

Chancellor Johnson started out with suggesting that we return to the discussion of the Promise Scholarship “hole” from last week, revisit the three strategies suggested by Lowell Rasmussen regarding picking a number to use for the budgeted degree-seeking students (i.e., aggressive, middle-of-the-road, conservative), and hold off on talking about the Merit Scholarships. After we revisit the strategies, Colleen Miller will present a schedule showing the approximate impact on FY2013 Tuition projections using the three scenarios of enrollment numbers from Bryan Herrmann.

Colleen introduced the Promise scholarship program as having evolved over the last 10+ years at the University of Minnesota and as being the most current version of financial aid programs and funding that has been offered and managed by Central including the Promise Scholarship, U Promise, Middle Income, Stimulus funding, Founders Free Tuition, Founders Opportunity Scholars, Promise of Tomorrow, Partnership Grant, etc. In looking at the Promise program, we are looking at just one of the many need- and merit-based scholarship programs that are tracked by UMM. Colleen reviewed her Scholarship Discussion document dated February 1, 2012 (attached) at this point. Colleen was asked to clarify who Julie Tonneson is, as the person who is communicating to UMM and recommending that we include a plan to reallocate \$650,000 to the Promise scholarship program. Per Colleen, Julie is the University’s Budget Director; she works in the Office of Budget & Finance with Fitz and other budget development officers, and is one of the “Budget Six” who make the final budget decisions regarding how much each college/campus receives as an O&M allocation. Colleen then proceeded to lead the group through a timeline document from January 2009 to December 2011 that covers events leading up to the current situation whereby the Budget Office is proposing that \$650,000 needs to be reallocated within UMM over a period of four years to replace dollars that should have been directed to the Promise scholarship program from FY2001 through FY2006.

Mary Zosel asked how we could have such a drastic change in one year’s time (FY2010’s deficit of \$169,000 to FY2011’s projected deficit of \$472,241). Colleen and Bryan responded that the amount of financial aid disbursed each year can vary depending on students’ Expected Family Contribution (EFC), Pell eligibility, program parameters, plus other things. Timna Wyckoff and Gwen Rudney clarified their understanding that at a point in 2010 the deficits were a result of programs managed by Central and that Central was “O.K.” with transferring in additional

funds to cover the deficits, is that right? Colleen and Chancellor Johnson agreed that, "Yes," that appears to have been the case – given, however, that Central was still asking questions of UMM about how our financial aid programs were working in conjunction with Central programs. Colleen continued to explain the timeline document.

In the earlier years (2000 to 2005), Central was not specific in how the additional O&M allocations were to be assigned within financial aid (e.g., financial aid Set Aside, need based financial aid, etc.) when sending out the Annual O&M Allocation Letter. It was not until 2006, after they changed the format of the Annual O&M Allocation Letter, that they started to give specific labels to the incremental allocations (e.g., FY06 Compact – Merit Scholarships, Founders Opportunity Program, Founders Free Tuition Program, etc.). Note that each financial aid program has a unique account string on UMM's general ledger that allows us to track the funds allocated to that program and the related expenditures for that program. Per Julie Tonneson's communication to UMM on December 1, 2011, UMM should have been directing an additional \$1,006,396 into the Promise/Founders program annually since FY2006. Chancellor Johnson does not necessarily agree with that amount and will have an opportunity to present our case at the March 2012 Budget/Compact meeting. Linc Kallsen suggested that we may be able to persuade Robert Jones/Fitz/Julie that \$512,174 is a more documentable amount to be used.

Manjari inquired as to what the funds, shown in Line 12 of the handout and referred to as Partnership Grant Program, were. Colleen and Chancellor Johnson replied that it is a predecessor to the current Promise program.

Chancellor Johnson stated we can't just take \$500,000 from our merit scholarship programs and lob it off to make this right with Central. We have already made commitments to students that extend out several years. We need to work with the Budget Office in getting to an acceptable amount of funding that needs to be allocated to the Promise program over a period of time.

Timna asked, "How do we ensure that we cover the cost of the Promise Scholarship if we can't be assured Central is going to back us with the needed funds?" Colleen replied that they covered the Promise deficit of \$161,000 in FY2009; the deficit of \$169,000 in FY2010; the deficit of \$468,000 in FY2011; and have committed to covering the Promise deficit in FY2012.

Bryan reminded the Committee that UMM has needier students than some of the other campuses. He also reminded the group that there was a big change in the federal guidelines of Pell eligibility during the past several years that has affected the expenditures for the Promise program. The University has had to modify the need-based financial aid programs based on what we can sustainably afford.

Mary Zosel asked if Duluth and the Twin Cities campuses are also being scrutinized for this same issue. Colleen replied that she can't tell because we don't use the same account strings to track financial aid programs between the campuses. Chancellor Johnson stated that this might be interesting, but there is probably no way to know.

Michael Korth inquired, "Where does the money reside?" Colleen replied that prior to the beginning of the fiscal year we get our O&M allocation number in one lump sum (e.g., for FY2012 the amount was approximately \$18 million). Central does not provide a detailed listing

of how the money is to be allocated. (Note: It is for compensation, for financial aid, for SE&E, for Cost Pools, etc.) It is an accumulation of preceding years' additions and subtractions over a base that was established years ago. We have had at least three O&M general reductions in the last several years (i.e., \$1.8 million reduction in FY2012; \$410,000 reduction in Fy2011; \$900,000 reduction in FY2010). Even though Central may specify where the dollars should be directed when they give us an increase, they do not specify which programs should be reduced when there is a general reduction. There has been more of an attempt in the last several years for each campus to identify where they are implementing reductions, but this still does not necessarily translate back to individual programs.

Chancellor Johnson is going to propose that the \$1,006,396 and the \$650,000 are not acceptable amounts to use for the reallocation to Promise, but that we would find the \$512,174 feasible. Bryan added emphasis, "This will be done incrementally over four years until we reach \$512,174." Colleen added that the \$512,174 will be a recurring expense every year thereafter, until such time as the Central program is again modified.

### **Reviewing - FY2013 Budget Planning (Colleen)**

Colleen: At this point in the budget process there is no planned reallocation (i.e., no planned cuts and no additional O&M allocation). Chancellor Johnson will be asked to present a budget that includes her best estimate of the number of degree-seeking students in our student population.

Manjari Govada inquired, "Line 28, the \$603,000, does that take in consideration "the melt" from fall to spring?" Colleen replied that, "Yes," it has been taken into consideration.

Michael asked, "Excess tuition revenue is the difference between actual and budgeted tuition revenue. The difference should be greater than the amount of \$136,716 listed on the sheet (between lines 25 and 28). Where did it go?" Colleen and Chancellor Johnson replied that the remainder has been used to fill projected holes for FY2012. The majority of this projected hole is our merit scholarship program. Colleen has made budget assumptions to get to these numbers for the purpose of showing what impact changing the number of students has on Tuition using the Low, Middle and High from Bryan Herrmann's projection last week. This exercise is not a complete balanced budget. Additional information is needed to use for budget assumptions, and that will drive the ultimate final budget we present in Linc's Model. There may be other lines (e.g., compensation, other expense lines, and other revenue lines) that will need to be addressed before we have a complete picture of the proposed budget. Per Chancellor Johnson - things will be changing as we go along. This is a "plan" at a point in time and is not the same as actual results.

Michael, "As the Finance Committee, we are asked to respond to the budget for the next fiscal year. We don't have enough information to work with." Chancellor Johnson responded that we are providing the information that the Committee has asked for. There are more decisions to be made in order to present a complete budget and we have a limited number of meeting times available before the FY2013 Budget/Compact meeting with materials due in the Twin Cities at least a week before the actual meeting date of March 9.

Colleen added that we need to start with some budget assumptions in order to build a first-pass budget. One option is to wait until we have all the information needed for a complete budget, but that does not allow enough time to be ready for the March 2 materials due date. Lowell Rasmussen added that we have to pick a number and we need to get working on this. Chancellor Johnson offered that we are trying to get information to the Committee that will help them set the number. We should be discussing what happens if we set the number too high/too low and what are the repercussions? Bryan made a point that financial aid commitments have already been made for the incoming class in the fall of 2012, so that doesn't play into this discussion at this time.

Pieranna Garavaso stated that she thought it would be good to have a meeting next week so Colleen and Bryan can present more information on merit scholarships and can bring the Committee to a better understanding of the numbers we currently have to work with.

This discussion will continue next Wednesday, February 8 at 1:00 in the Welcome Center.