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### Finance minutes 03/04/2013

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## UMM Finance Committee

Meeting #14

4:30 pm, March 4, 2013

Moccasin Flower Room/Student Center

Members present: Bryce Blankenfeld, Pieranna Garavaso, Sara Haugen, Michael Korth, Gwen Rudney, Dennis Stewart, Laura Thielke, Tara Winchester, Timna Wyckoff

Guests: Colleen Miller, Jacquie Johnson

### **Approval of Minutes of the February 18, 2013 meeting.**

Minutes were unanimously approved after corrections from Sara Haugen and Jacquie Johnson.

### **Contingency Reserve**

Korth invited the committee to return to the conversation about the contingency reserve that began last semester. He explained that he had drafted a statement intended to help structure the conversation about policy. He suggested that the committee begin to answer the discussion questions that were included on the draft. The questions were drawn from previous committee discussion and captured key issues and concerns regarding the reserve. The questions were addressed in order.

#### 1. What is a reasonable size for the fund?

The draft statement included a reserve fund goal of \$3M to \$5M, the amount Korth believed came from a CRPC discussion. Garavaso asked if the goal was related to the model developed by Linc (Lincoln Kallsen). Miller recalled that the goal was higher at \$5M to \$7M. She explained that three factors were considered when setting the goal: the revenue, the risk of something catastrophic, and one additional factor. Korth asked if a formula was used to determine the number, and Miller replied that she did not know of one.

Haugen wondered about the role of Central Administration if something catastrophic were to happen and about their responsibility in such a case. Miller wasn't sure about their role but explained that insurance would cover many things. She added that insurance payments might take time, and the reserve would help before insurance payments were received.

Johnson said that Linc's figure was based on best practice, perhaps from NACUBO (National Association of College and University Business Officers). She added that that at the private institutions where she had worked, the amount of the reserve funds was a higher number. Colleen stated that Linc based his figure on the information he had about the campus from his work on the UMM budget. Korth recalled a goal of ten percent but asked, "10% percent of what?" Zosel read from the committee's October 2012 minutes that indicated that the current fund was \$3M and that \$5M to \$6M would be good.

Korth suggested that what happens with the budget and tuition will play a more important role in determining the size of the reserve than any goal. Wyckoff stated that it is good to have a goal, so that we can decide what will come out of the reserve. Garavaso said that it is important to have savings set aside for emergencies, but there has to be money available for initiatives.

Haugen wanted more information about the role of the greater University. Korth explained that we are expected to be responsible for our own budget. Having a reserve is a part of responsible stewardship. He clarified that Haugen's question was asking about what responsibilities fall to the campus and what fall to the University. Johnson said that it was clear that central was not willing to bail out the campus for what we had mismanaged. She believed that we need to take care of our own needs and gave as an example the need to be able to respond to a public relations disaster similar to one faced by Penn State should one occur. Stewart asked if insurance covers business interruption due to natural disasters and Miller said that it does.

Wyckoff wondered about the size of the reserve and noted that it has been stable at \$3M for several years. Miller reminded the committee that we don't anticipate excess tuition revenue this year, and it is unlikely that the reserve will grow. In addition, we have not solved the structural imbalances. She believes the reserve will decrease in fiscal year 14. Wyckoff asked what expenses have been covered by the reserve and by how much has it gone up and down. Korth stated that the track record wasn't long enough for a statistical analysis.

Rudney asked if the accrediting agency gave us an indication of what the reserve should be. Johnson said that the fact that we had started one was to our advantage and reminded the committee that we had to write an interim report because of the state of the budget.

Korth called the question for the size of the reserve fund. Wyckoff and Garavaso suggested \$5M. Garavaso explained that the fund needs to be large enough to do what is needed, but should not be so large that it prevents the use of funds for other important initiatives.

2. Should departments be able request funds back? ("savings account")  
Thielke stated that once the money goes in, the unit that contributed it does not have a first chance at using it. Miller said that the common way to describe it is that it "loses its identity." Winchester wondered if that procedure would make people want to hoard the funds. The committee discussed the availability of a procedure to ask for money from the reserve fund if needed.
3. Would the self-supporting units be eligible to request funds?  
Haugen stated that self-supporting units should be eligible. She stated that though they are self-supporting for ongoing and routine expenses, they might also have initiatives to fund. Miller said that they are by definition self supporting and did not

believe they should be eligible. Miller added that rates are developed specifically for the activities that the self-supporting units are conducting.

Wyckoff asked if self-supporting units' excess funds are used to help with budgets. Miller explained that those units are provided with services and they pay for those services. The auxiliaries have to pay to offset some costs to ensure that they are paying their fair share. Miller further explained that auxiliary fund 1100 is paid to fund 1000 and not the other way around. Wyckoff suggested that this fact argued against their eligibility, and Korth agreed. Wyckoff asked if the self-supporting units had their own reserves. ORL was given as an example of a unit that had a reserve. It was explained that ORL is required by Fitz (VP & CFO/Treasurer Richard Pfutzenreuter) to retain a 500K reserve.

Garavaso asked about what the self-supporting units do when they make extra money. Miller explained that their budgets had to balance, and they are expected to set fair rates based on what it costs them to provide their services. Garavaso wondered why the units shouldn't be included. Johnson stated that ORL had a plan for renovation or replacement. Miller explained that the Student Center does something similar to pay back what has been done for the building. They are planning for new investments as they operate on a year-by-year basis.

Haugen wanted the process not to be rigid. She gave the example of Duplicating purchasing equipment to print large banners because the public wanted them to provide the service. Thielke said that if somebody has a good idea, we would want to hear about it. She said that the vice chancellors and others would review the suggestions. Stewart suggested that self-supporting units could ask, but theirs would be a lower priority. Rudney wondered if self-supporting units had an idea, would that not make them more money.

Miller clarified that she was talking about the self-supporting activities within a unit that need to be self-supporting. In response to a question from Garavaso, Miller said that based on her experience, she does not think that the self-supporting units should be eligible. Korth agreed. He suggested an idea could go through some other channel or office.

4. Should the reserve be divided into portions--one for catastrophic events, one to act as a buffer against "ebb and flow", and a "grant account" to which departments can apply for funds?

Korth directed the committee to question four. Miller wondered who would keep track of it? Korth said that there were suggestions along these lines. Stewart believed that to answer this, we would have to go back to an earlier question and look at the size of the fund. He stated that for extra things, the fund would need to be above the \$5M which should be retained for emergencies.

Korth reviewed section of the draft statement that he thought addressed the issue:

“When the balance in the contingency reserve exceeds \$3M, the portion in excess of \$3M may be used to make non-recurring investments that benefit the campus as a whole. Departments may also submit requests to use funds from the portion in excess of \$3M for urgent, unplanned expenses that are beyond the ability of the department to pay.”

Stewart suggested that the figure be changed to \$5M. The committee discussed how the process would work regarding when and whether ideas might be supported. Johnson wondered if we should have a number below which we should not go.

Questions:

1. What is a reasonable size for the fund?
2. Should departments be able request funds back? ("savings account")
3. Would the self-supporting units be eligible to request funds?
4. Should the reserve be divided into portions--one for catastrophic events, one to act as a buffer against "ebb and flow", and a "grant account" to which departments can apply for funds?
5. Should the funds be available for investments? What is meant by "investments"?
6. Who will decide when to use funds from the contingency reserve? Should a process be created? Should the Finance Committee be involved?

### **(DRAFT) Morris Campus Contingency Reserve Guidelines (DRAFT)**

The Morris campus contingency reserve serves as a general rainy day fund to be used when revenues fall short, unexpected expenses arise, or the operating budget needs to be balanced. It also serves as an investment pool for one-time initiatives that advance mission of the campus.

The contingency reserve has historically been funded by collecting excess tuition and unused centrally allocated (fund 1000) funds from departments at the end of each fiscal year. Because neither of these can be reliably predicted, the size of the reserve cannot be set in a deterministic manner but a reasonable size for the reserve, given the scale of the financial operations of the campus, is somewhere in the range of \$3M to \$5M.

The process for collecting unused funds from departments is closely tied to the annual budget cycle of the University:

1. In April, each department submits a budget for the following fiscal year that includes a projected year-end balance (or carry forward) for the current fiscal year. If the

projected year-end balance in a fund 1000 account is greater than zero, the department can request that some or all of that projected balance be kept in the department account for the next fiscal year. Such a request must explain the specific purpose for which the funds are being kept. (For example, a department might need to accumulate funds for three or four years in order to buy a specific new piece of equipment.)

2. Once the fiscal year ends, balances in fund 1000 accounts in excess of any requested amount to be kept will be moved into the campus contingency reserve. A fiscal year is not officially closed, however, until the financial statements are approved by the Board of Regents, typically four or five months after June 30<sup>th</sup>, and any actual moving of funds is delayed until that happens. This means each department's entire year-end balance will continue to show as a carry forward in the new fiscal year's financial reports even though all or some of the carry forward is committed to the contingency reserve. Departments should operate as if that committed portion of the carry forward is already gone.

Funds may be withdrawn from the contingency reserve with the Chancellor's approval for the following uses:

1. To cover unexpected expenses or revenue shortfalls.
2. To balance the campus budget (thereby avoiding cuts) when time does not permit a recurring solution to the imbalance of revenues and expenses.
3. When the balance in the contingency reserve exceeds \$3M, the portion in excess of \$3M may be used to make non-recurring investments that benefit the campus as a whole. Departments may also submit requests to use funds from the portion in excess of \$3M for urgent, unplanned expenses that are beyond the ability of the department to pay.

The use of funds from the contingency reserve will be reviewed by the Finance Committee at least annually.