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Finance minutes 09/20/2012

Finance Committee

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UMM Finance Committee Minutes

9.20.2012

Members Present: Brad Deane, Michael Korth, Dennis Stewart, Bryce Blankenfeld, Sara Haugen, Pieranna Garavaso, Mary Zosel, Timna Wyckoff, Laura Thielke, Lowell Rasmussen, Gwen Rudney

Members Absent: Reed Olmscheid

Guests: Colleen Miller, Amanda Krosch-Note Taker

Michael contacted Jeff Ratliff-Crain regarding concerns about the lack of visibility of committee minutes on the UMM website. Jeff replied that the Steering Committee was already aware of some concerns about that and was planning to take up the issue.

He also contacted Dean Finzel regarding the issue of staffing the new college writing course and Finzel responded that he would work with Pieranna Garavaso, the chair of the Humanities Division, to work on a plan.

Michael asked if anyone had any comments on the minutes, no response. He put it to a vote and the minutes were approved unanimously as they were sent.

Michael asked Colleen to present to the committee the FY13 Budget and to identify where changes had occurred from the FY13 Budget that was brought to the Compact Meeting in March 2012. Colleen was also asked to provide information on how the budget is developed.

Colleen had several handouts, see attachment.
Colleen's presentation:

Budget Process: She noted that all budget materials are available at the link in #1 in the handout labeled "UMM Budget Cycles."

4 processes in the Budget Cycle:

1. Biennial Budget- Developed by the Budget Office in conjunction with the University's President. Input includes goals from strategic planning, state revenue forecast, funding requests for desired investments and initiatives of the University. The University's budget is over \$3 billion on an annual basis. This budget sets the parameters on how much O&M the University expects to receive from the state; provides the anticipated percentage of salary increase subject to negotiations with appropriate bargaining units; and has to cover approximately \$15 million increase in fixed costs each year.
Timna: Does Morris have any say in the biennial budget? Very little.

2. Compact Meeting/Budget Development - Instructions go to academic units in January, UMM is an academic unit. Support Units (e.g., central OIT, OGC, President's Office) receive their instructions mid-September. Support unit costs are allocated out to the Academic units via Cost Pools and included in the Academic units' instructions. Units are asked to start with an update to total current year projections. In addition, they are given budget assumptions for the upcoming budget year including: Tuition percentage increase, salary increase, fringe rates, any changes to University-wide financial aid programs such as U-Promise, and instructions for any reallocations. Units are able to request funds for investments and initiatives at the Compact Meeting. No decisions are communicated to a unit at the Compact Meeting. Finance begins working on materials for the Compact Meeting during December and January, updating projections for revenues and expenses.

3. Unit Operating Budget- The operating budget is based on assumptions that have been received thus far. On the Morris campus, the budgets are built from ground up and departments need to have their budgets into the UMM Finance Office by about the first week in May. Each Department is allocated resources (Central Allocation includes O&M and Tuition). The departments also have the opportunity to identify other sources of revenue. UMM's budget is about \$50M for

revenue and expenditures with about 115 different Departments or DeptIDs that need to be budgeted by the departments, input into budget system by UMM Finance Department, and submitted to the Budget Office by the 1st Friday in June who then review and approve the budget. The budget MUST be input into the system and approved by the Budget Office to make certain it is available in EFS by July 1st. Without it in EFS by July 1st, no action can be taken to spend funds, including payroll, which won't run without the approved budget in the system. UMM typically does not receive communication from the Budget Office on the actual O&M allocation until early in May. The budgeting process is well underway by this point in order to ensure that the budget is entered by the budget entry deadline.

We are able to get a preview of the upcoming budget instructions when the Support Unit instructions go out in September. In planning for the FY12 budget in September 2010, we learned that a 5% or \$1.7 million reduction was going to be required and we were able to get a jump start on it before the Academic Instructions came out the following January.

In the handout labeled "UMM, FY2013 Budget Development, Key Dates", the peach colored dates relate to Compact/Budget Development Meeting, the green highlights relate to fees, and the blue dates are for budget prep for the Operating Budget. You will notice that all three have started before we go to present at the Compact/Budget Development Meeting. The Budget Office does not provide numbers for the current year O&M allocation until mid-May. This does not allow for much time to react. Documentation supporting decisions came out on July 27, 2012 for FY13.

Gwen: Who is the finance group? Colleen Miller, Amanda Krosch and Lowell Rasmussen

The next handout is "Super High Level Campus Financial Modeling – UMM" AKA Linc's Model. University has approximately 55 RRCs, UMM is one RRC. There are 4 Budget Development Officers located in the Budget Office. Linc's main areas are Tuition, Financial Aid, and Cost of Instruction. Carole Fleck is UMM's Budget Development Officer, and her expertise is Debt. Robin Dittmann is another and her main expertise is Tuition Attribution. In 2009, when it was learned that UMM had a deficit in excess of (\$4.7 M), Linc was asked to work with UMM to build a Budget Model. The model had multiple purposes: to identify revenue sources; to identify expenditures including compensation which accounts for \$25M or approximately 50% of UMM expenses, Financial Aid which accounts for \$10M or approximately 20% of expenses, Cost Pools which account for \$3M or roughly 5% of expenses, and Debt Service which accounts for another \$1M or 1.75% of expenses; to identify relationships between revenues and expenses; to produce a balanced budget; to identify a plan to pay back the (\$4.7M) before it would be approved as sequestered deficit (we are paying back \$700,000 per year over 7 years and will have it paid back by July 1, 2015); project 5 years out based on reasonable assumptions.

The presentation of data in Linc's Model is different than what you will find in the University's financial statements which are prepared in compliance with Governmental Accounting Standards and NACUBO guidelines. Revenues are grouped together and Expenses are grouped together. This is also a different format than IPEDS which has typically been used by the Office of Institutional Research.

Colleen noted that the carry forwards (in between line 9 and 10) were not included in Linc's original model because UMM was in deficit when the model was developed. She also noted that the U fee has been rolled into tuition, the 13-credit tuition band applies, and calculating tuition isn't simply taking credits times price per credit. To budget tuition, take the most current year's tuition and increase by the % increase in the budget instructions (e.g., 3.5% in FY13), then adjust for the change in the number of students.

Colleen went on to explain some of the relationships between the numbers.

In FY13, UMM budgeted for a decrease in students, line 13- change of numbers of student, this causes the fee revenue to decrease. On Fee hand out, there are the student fees, represented on line 15. Line 18 and 37 are the exact same number, which represents financial aid that is a direct pass thru (i.e., PELL, SEOG, etc.); however, UMM must recognize both the revenue and expense. Line 20, external sales, mostly auxiliary, is related to the number of students. Line 22, Foundation, includes funds brought in from UMF, and other than trending, there is no concrete way to budget since it is unpredictable how much will be requested from the foundation. Also in this line are endowment earnings, which are pushed out to UMM every quarter.

Question was asked if funds were requested from UMF for scholarships, where is that on the sheet? If money comes in from the foundation for scholarships it is brought in as gift. Money that comes to University after foundations were established must go into UMF; all that money comes in through line 22. Line 24, Everything Else includes Internal Sales, Indirect Cost Recovery, Other Revenue and Stimulus money from FY2009, FY2010, and Fy2011.

Budget instructions (e.g., if RIO is going to be offered, 27 pay periods, furloughs, delayed compensation) must be taken into account when budgeting for Salaries, line 28. Fringe, line 31, include all plans self-insured by University: health, dental, etc. Also, workers compensation, Medicare, social security, and other payroll cost. UMM has direct control over how much is spent and budgeted in line 33 (SE&E). Line 35, Financial Aid - Merit, Bryan Hermann has a matrix used to budget for that area, very complex. Line 42 is Cost pools, only certain cost pools are allocated to UMM. See hand out "UMM, University of Minnesota Financial Cost Pool Information requested by UMM Division Chairs" for further detail. Line 47, all other expenses that aren't included above, examples are: materials for resale, capital equipment purchases (\$2,500/item), and transfers. The U promise program was more costly than expected and therefore UMM spent more than had been given by Budget Office, so the Budget Office gave UMM about \$950,000 last year to make the U Promise program "whole." Transfers within the UMM bring each other to zero. Goal for line 51 is to be zero or positive.

Column F was info was taken to Compact/Budget Development Meeting- developed by Colleen with instructions from others, Chancellor, Lowell, etc. Compact Budget assumes O&M is to be stagnant. Column G is the budget that is loaded into EFS system and is therefore the official budget for FY13. Colleen noted that some of the additional O&M funds given are restricted to certain endeavors: UMM was allocated additional funds to research the benefits of a nursing program on campus. Also, since the increase in Cost Pool Allocation to UMM was significantly higher than FY12's cost, the Chancellor was successful in securing additional funds to help support the unexpected increase so those funds must be used for that purpose.

Colleen noted that there is more "Other Revenue" in the loaded budget than she had budgeted in the Compact Budget. She stills need to do more research to answer why that is.

Timna: so the departments decide how to spend the funds? UMM Finance Office tells the departments how much O&M they will be allocated and then the departments say how much they will spend, that is what is loaded into system and in Column G.

Line 39-Utilities expense is very different from Compact Budget to the loaded budget. Colleen believes this is caused by both Plant Services and ORL budgeting for the same expenses since the cost gets allocated out to the different areas but are originally housed in Plant Services. It appears Plant Services budgeted the full amount and the areas that are allocated the costs also budgeted their share.

Repairs and Maintenance- large difference, departments budget so that it shows they intend to spend all their carry forward as well as their current year's allocation. The Compact Budget amount is based on trends from the past 5 years.

End of Presentation

Michael: The main reason the Compact Budget differs from the loaded budget is because they are two different views of the budget. The loaded budget is budgeted to spend all current year's allocation, plus the carry forward. It appears not to be a balanced budget which is misleading, because the carry forwards are not included in the revenue for the year.

Departments budget to spend all because the assumption is that if it's not spent it will be taken away. This is not always the case. If there is good reason to have a carry forward, a department can explain that and then those funds are to be left with the department. However, carry forwards are available to be put into the contingency fund if they are not going to be used. The departments are able to support why they should be able to keep the carry forward.

Timna: Is it okay that the Compact Budget was okay that it is negative? The deficit repayment of \$700,000 is not shown in the Compact Meeting therefore line 51 is shown as positive. No, it's not "okay" because that means UMM didn't come up with enough funds to carry the expenses plus the repayment of debt. We have a structural deficit built into the FY13 budget.

Sara: Where did you find the additional funds for the salary increase as mentioned by the Chancellor at the Campus Assembly this past summer? It seems that if that amount could be found then it doesn't make sense that the budget is in deficit. -- The \$130,000 was identified by reviewing account balances for all account strings across the UMM Campus. Small increments were moved, \$5,000 here and \$2,000 there, from strings that had funds available, but due to changes in operations were no longer being used for that purpose.

Mary: Is this one time money? This is recurring funds and the funds are now repurposed for salaries.

Out of time

Next meeting in the Moccasin Flower Room October 4, 2012 at 8AM.