FY05-06 Budget Instructions

Phase I

OFFICE OF BUDGET AND FINANCE

Due Date: November 24, 2004

FY05-06 Budget Instructions: Phase I

Attachments:

I. Budget and Compact Schedule FY05-06

"Attachment 1" is a preliminary schedule for the budget and compact development process for FY05-06. This schedule represents a working plan that may change as events warrant. Any changes will be noted in subsequent compact and budget instructions. Questions regarding the schedule should be directed to the Budget Office (ph: 612-625-4517).

II. Context for the FY05-06 Budget

A. Biennial Budget Request

In November, the Board of Regents will take action on the Biennial Budget request to the state, which will include a proposal for new state appropriations for FY05-06 and FY06-07. The proposal has been built on the basis of continued progress in improving the student experience and the University's physical and academic environments, University acknowledgement of the state's current financial outlook, and a 50/50 financial partnership with the state. This financial partnership is built on the following assumptions:

- $42 million in state investment in fiscal year 2006 and an additional $42 million of new state investment in fiscal year 2007
- 5.5 percent annual increase in tuition in each of the next two years, generating $27 million per year, coupled with an annual internal reallocation of current base funding of $15 million per year in each of the years

The table below further defines this proposal.

	Increase over FY05	Increase over FY06
50% University Share		
Faculty & Staff Base Compensation	$32,000,000	$32,000,000
Academic, Facilities & Related Investments	10,000,000	10,000,000
Total	$42,000,000	$42,000,000
50% State Share		
Biosciences for a Health Society	$12,000,000	$12,000,000
Preparing Students for the 21st Century	6,500,000	6,500,000
Competitive Compensation	5,000,000	5,000,000
Research Support	11,500,000	11,500,000
21st Century Technology	7,000,000	7,000,000
Total	$42,000,000	$42,000,000

Final appropriations for the next biennium won't be made until late May at the earliest. Any budget planning assumptions specifically related to the biennial request or variations from that request will be communicated in February in the Phase II Budget Instructions.

B. Budget Model

The evolution of the University's current budget model has become excessively complicated which has led us away from the aspirations, goals and objectives of the original concept of

Incentives for Managed Growth (IMG). When IMG was first launched, the major components of the model were to provide positive incentives for revenue and expense management. Many of the original objectives were achieved: resources have become more closely tied to performance making it easier for colleges and individuals to see how their actions influence the fiscal well-being of their areas; annual budget discussions have become more transparent; service units have been continually pressured to attain greater efficiencies, and incentives have been created to enhance revenues and control costs. However, some aspects of IMG; allocation of facilities costs, strategic realignment of O&M, improved clarity of revenue resources, and improved local understanding of both direct and indirect costs, were either never implemented or were implemented, but failed to achieve the desired outcome. Recent unstable state appropriations have also led to unforeseen manipulations of the model in an effort to balance the budget.

The President has organized a working group to address the shortcomings of the current budget model. The goal is to build a simple and responsive budget model that supports the stated values of the institution, allows for long-term financial investments, and addresses the overhead needs of the University, while providing reliable, stable and predictable incentives for sound financial planning and strong fiscal management. The model should create appropriate incentives and disincentives to enhance the University's operating efficiencies and excellence.

The original timeline for this project includes implementation of a new budget planning process by FY05-06. Depending on the complexity of transitioning to the final recommended model, implementation may occur in stages. For this reason, future Budget preparation documents and timelines may be altered to accommodate changes that are a result of a new budget process model.

III. Establishing Base Spending Levels through Base Adjustments

Working within the budget parameters assumed for FY05-06, the process begins by establishing a preliminary base spending level for the centrally allocated funds. The 2005-06 "base spending level" is developed by applying allowable "base adjustments" to the FY04-05 central allocations. The following equation shows the relationship:

FY05-06 base spending level = FY04-05 central allocations + or – base adjustments

At the institutional level, the goal of the base adjustment process is to properly align estimated revenues with base spending. This is done by eliminating the previous year's one-time allocations, by transferring any necessary allocations between Resource Responsibility Centers (RRCs), and by funding the University's legal obligations, primarily debt service costs. The resulting centrally allocated base spending level is then compared to projected revenues to determine an overall FY05-06 financial outlook for the University.

A. Base Adjustment Types:

Two types of adjustments will be used to determine the preliminary base spending levels for FY05-06.

Type 1: Transfers

Transfer adjustments for permanent transfers of allocated funds from one RRC to another. An example is the transferring of salary and fringe dollars from one RRC to another to reflect a permanent transfer of a position.

Type 2: Nonrecurring/One-Time Expenditures

Any nonrecurring/one-time allocations authorized in the approved FY04-05 budgets must be removed from the base. Items in this category include allocations for equipment purchases or nonrecurring project grants. Note: nonrecurring allocations included in the compacts, but transferred post-budget are not reflected on the allocation worksheets and were never officially in the base allocation; therefore they do not need to be subtracted from the base allocation.

The Phase I base adjustment does not include comprehensive resource planning, and therefore is not the appropriate mechanism to incorporate new investments. Decisions on future programmatic investments will be added during Phase II and throughout the development of the FY05-06 compact documents. Nonrecurring compact allocations transferred in FY04-05 and committed as recurring for FY05-06, however, represent previous investment decisions and therefore have been incorporated into the allocation worksheets as Type 1 Base Adjustments. Compact commitments made as new for FY05-06 (no associated one-time FY04-05 transfers) will be part of Phase II allocations.

B. Special Related Issues

Salary and Fringe Rate Increases – No final decisions have been made regarding salary increases for FY05-06; however, the preliminary planning through the biennial budget proposal assumes a general salary increase of 3.0%. Information on salary decisions will be distributed as soon as it is available.

Estimated FY05-06 fringe rates were detailed in Phase III Budget Instructions for FY04-05. Those estimated rates will be recalculated in December based on updated information for the Uplan health benefits, the dental benefits, and cost projections for all other benefit components. Revised estimates will be communicated to RRCs as soon as they are available.

Enterprise and IRS Rates – FY04-05 rates should be assumed pending potential charge recommendations from the internal budget model working group. Current rates are : Enterprise 1.25%, Sale and Services IRS 3.75%, and Academic IRS 8.5%.

Utility Rates – Final utility rates for the Twin Cities campus are set for the upcoming year in the Phase II budget document, however in order to facilitate early budget projections, a preliminary utility rate projection for FY05-06 is included below.

Like the fringe pool, Twin Cities Facilities Management sets its utility rates to adjust for over or under-recovery of actual costs every other year (i.e. FY05-06 utility rates will be adjusted to return any surplus or collect funds to eliminate any deficits from FY04).

The steam rate includes $4.67 in debt service. The steam rate also includes $8.77 for fuel which is $2.63 higher than the previous year. Increased fuel costs are due to increased gas and oil costs, the volatility of the fuel market, and the elimination of guaranteed efficiency levels by our steam plant management company.

Electric rates include Xcel increases that will take effect in January of 2006.

Chilled water rates are applicable for loops only and include maintenance costs.

Water rates include $.72 for initiatives related to storm and sewer separation and main water loop and valve replacement for St. Paul.

All other preliminary rates identified below reflect similar cost recovery from deficits and early projections for cost increases. These are preliminary figures and are subject to change.

The utility rates listed below. . .

- are only applicable for those units on the Twin Cities campus who currently pay or have made an arrangement to pay Facilities Management for utilities,
- will be effective July 1, 2006,
- will be used in billings that are based on actual consumption,
- are established on a cost recovery basis,
- represent average billing rates for electricity and water/sewer. Monthly rates will vary slightly based on University and zone consumption.

If you have questions, call Twila Jensen, Facilities Management, at 625-9514.

	FY05 Current Rate	FY06 Preliminary Rate
Steam - 1,000 lbs. of steam (MLB)	$18.87	$20.50
Chilled Water – per GF	$0.68	$0.70
Electric Kilowatt Hours (KWHR)	$.0625	$.0685
Water & Sewer Hundred Cubic Feet (CCF) avg.		
Minneapolis Campus	$6.39	$7.38
St. Paul Campus	$2.99	$3.26

Tuition and Indirect Cost Recovery (ICR) – Phase II Budget Instructions will contain information on how projected changes in tuition, enrollment and ICR revenue will be incorporated into budget discussions; therefore, it is not necessary at this time to propose any changes in allocations for FY05-06 based on these factors.

C. Approving Base Adjustments

Proposed base adjustments should be included on the attached FYY05-06 Base Adjustment worksheet. The upper portion of the worksheet shows the Board-approved central allocations to the RRC for FY04-05.

The Budget Office has already listed the base adjustments we have record of, so you should use the lower portion of the worksheet to list any additional adjustments you are proposing.

Complete the lower portion of the Base Adjustment Worksheet by:

1. Reviewing items on the worksheet and revising the figures as necessary. List any proposed revisions directly on the worksheet and provide an explanation for these changes.

2. Listing proposed adjustments (Type 1 - transfers or Type 2 – Nonrecurring/one-time expenditures) in the column of the fund for which you are proposing the adjustment (O&M, State Specials, ICR, Central Reserves and Other Central Pools). Provide a

description for the proposed adjustments including the type of base adjustment, a brief description of the adjustment, and the rationale for its inclusion

If you are not proposing changes, it is not necessary to submit the worksheet, however, please e-mail your budget officer to let them know that you have verified the information.

IV. ISO Rate Setting

University of Minnesota financial policy 3.2.1, Selling Goods & Services to University Departments, became effective in March 1995. The policy is reviewed and revised annually as appropriate. The definitions and procedures may change, but the purpose and intent of the policy remain the same.

The policy ensures that goods and services sold to other University departments are being sold at rates that comply with Federal A-21 regulations and Federal Cost Accounting Standards (CAS); and that they are sold at rates that fully cover, but do not exceed costs unless subsidies are documented in the rate development. The intent of the policy is to accumulate all allowable and allocable costs within an identified, segregated set of accounts; to recognize subsidies of the operation, to provide a feasible means of operating a business within federal guidelines, and to establish rates based on total costs.

The Controller's Office has grouped ISO's based on various "risk factors". Each of these groups undergo various rates of review to insure compliance with set policies.

A. General Assumptions for FY05-06 Rate Development

The ISO rate development instructions are included in Phase I to provide ample time for analysis. ISOs should begin the process for rate setting as described below, however, the **submission of proposed rates for FY05-06 will not be due until Phase II** of the budget process.

Preparation and submittal of rate information through the budget process does not eliminate the need for units to work with Accounting Services in reviewing ISO rates for compliance with federal accounting standards. The submittal of information to the Budget Office as part of budget development is intended to arrive at the appropriate level of individual rates, and does not involve reviewing the rates relative to federal accounting standards.

B. Instructions for ISOs that Meet or Exceed $300,000 in Annual Revenues

All rates for ISO activity in this category should be developed using the same methodology that was used for FY04-05. For the FY05-06 budget development, these ISOs should submit a summary of their major rates for FY03-04, FY04-05 and proposed for FY05-06, including a comparison of the rates, and the percentage increases or decreases each year. "Major rates" are those associated with the product lines that generate the majority (75-80% of annual revenues for the ISO). If the data does not provide for accurate or meaningful comparisons between the years, then include only the years for which the data is comparable.

C. Instructions for ISPs with Less than $300,000 in Annual Revenues

All rates for ISO activity in this category should be developed using the same methodology that was used for FY04-05. For purposes of FY05-06 budget development, these ISOs should submit rate information only for rates which are new for FY05-06 or for anticipated increases in a current rate that exceeds a 3% inflationary rate.

For ISOs below $300,000, complete Figure 1 on the following page. **(The due date for this information will be communicated in the Phase II Budget Instructions)**

Figure 1
ISO Rates for FY05-06
ISO Activity Below the $300,000 Annual Revenue Threshold

If submitting a new or increased rate for consideration under the criteria identified on page 8, please submit the following:

Resource Responsibility Center ____

A. Rate Information

Rate FY04-05: ________________________________

Proposed Rate FY05-06: ________________________________

Product Line:____

Process for Setting the Rate:

Cost Components Included in the Rate:

Review and Approval Process for the Rate:
(New activities should indicate whether approvals have been obtained in accordance with University Policy 3.2.1)

Total Annual Revenue Projected for FY05-06 and Growth Over FY04-05 (if applicable):

Description of any New Product Line or Businesses Involved:

Do not submit it at this time.

The due date for this form will be included in the Phase II Budget Instructions.

D. Rate Setting Issues: As the rate development gets underway, issues or questions may arise that need further analysis. There may be questions surrounding rate restructuring, significant increases in particular rates, cost factors to either include or not, projected revenue shortfalls and subsidies, etc. ISOs with such issues should bring them to the attention of their budget officer. It is hoped that by raising the questions now, the appropriate analysis can be completed and the resulting solutions can be incorporated into the final proposed rates submitted in Phase II of the budget process.

For issues that need to be addressed now, please provide a brief summary of the issue and submit it with any proposed base adjustments according to the deadlines in section VII. of these instructions.

V. Student Service Fee Waivers

In 2001, the Office of Student Affairs assembled a work group to examine the wide variety of student service fee waivers at the University. It was apparent that the process for obtaining waivers for students in a particular academic program was unclear, inconsistently applied, and, in many cases, unknown to the academic programs.

As a result, the Office of Student Affairs is again requesting Twin Cities colleges to apply for waiver status for all academic programs that wish to allow such waivers in FY05-06. If a waiver is granted, none of the students enrolled in the program in question will be charged student service fees. Though this is a financial benefit for students, it will make these students ineligible for access to student fee supported benefits or services such as the recreation centers, Boynton Health Service, and other student fee supported campus services. Students in these programs have the option of paying the student service fee, or they may purchase the Boynton Health Service extended coverage but **are not eligible to enroll in the Student Health Benefit Plan provided by the University (ie. They are not eligible to purchase student hospitalization insurance)**. Please take this into consideration as you apply for program waiver status. Academic programs on the Crookston, Duluth and Morris campuses should consult their student affairs offices for policies specific to their campuses.

Programs must have a unique degree and major code, or have some other way in the registration system in which students, as a group, can be uniquely identified as belonging to the program for which the waiver would be applied. The entire program must qualify for the exemption – specific sections, terms, and locations cannot be made exempt. Remember that all students registering for less than 6 credits during an academic term are automatically exempt from paying the student service fee, and off-campus courses do not count towards this 6 credit limit for purposes of receiving an exemption. Also under current policy, non-degree seeking students and post-secondary enrollment option students are exempt from student service fees, and therefore need not be included in your proposals.

Per the work group recommendations, approved waiver exemptions will be reviewed every three years. Therefore, programs on the approved list (newly developed for fiscal year 2002-03) must reapply this year. Programs currently receiving program waivers are listed at the end of this section. Please contact Jill Merriam at 625-2515 or jmerriam@umn.edu with any question you may have.

Criteria for granting student service fee waivers to programs:

The program must be designed specifically for full-time working professionals AND one of the following must also be true:

- the program is designed and delivered as a weekend-only and/or evening-only program;
- the program is delivered in its entirety via distance education; or
- the program is delivered in its entirety at an off-campus location.

Each college that has a program or programs that wish to apply for a program waiver should provide the following information as part of the Phase I budget submission, according to the due date in section VII of these instructions:

- College
- Name of program
- Degree(s) offered
- Approximate number of students per term
- Approximate percentage of students taking six or more credits per term
- Brief description of program and rationale for program waiver

<u>Programs currently approved for student service fee waivers (all programs **must be resubmitted** for approval for FY2005-06)</u>

Education and Human Development
Office of Professional Development and Outreach
Educational Admin Ed.D Cohorts
Leadership Academy

Carlson School of Management
Evening MBA
Evening Masters of Arts in Human Resources and Industrial Relations
Evening MHA
Executive MBA

Continuing Education
Masters of Liberal Studies

Institute of Technology
MS Management of Technology
MS Manufacturing Systems Engineering
MS Software Engineering
MS Infrastructure Systems Engineering
UNITE

Human Ecology
Masters of Social Work – Rochester and Moorhead programs

COAFES
Cooperative program with SWSU

Medical School
Rural Physicians Associates Program

VI. Significant Financial Concerns

Some financial concerns and issues cannot appropriately be described as “compact” priorities. There are items that need to be addressed in some fashion, but should not be elevated to the level of a unit’s strategic priority, and therefore should not be included in a compact document. **Each unit with a financial concern should provide a brief narrative summary of the issue at this time.** Do not frame this summary as an official, comprehensive budget request. At this point no revenue enhancement or allocation decisions will be made, but it is helpful to raise the issue(s) so that a plan can be developed for further analysis. **These summaries should be submitted with any proposed base adjustments according to the deadlines in Section VII of these instructions.**

VII. Submission Due Date

Base adjustment worksheets, ISO rate setting <u>issues</u>, program waivers for student services fees and summaries of significant financial concerns are due in the Budget Office on November 24, 2004. The President or Provost/Sr. Vice President may communicate earlier submission deadlines for their review prior to the final due date to the Budget Office. Questions should be directed to your budget officer.

Attachment 1

Preliminary Compact/Budget Timeline
FY 05-06

A. Phase I Budget Instructions Sent to RRCs Base adjustments, ISO rate setting, forwarding of major financial issues, student services fee waiver proposals.	November 2004
B. Compact Instructions Sent to RRCs Determining the focus of activity for each unit.	Early Nov. 2004
C. Phase I Responses due to Budget Office In response to A above.	November 24, 2004
D. Compact Planning Meetings Review and discussion of RRCs' issues and plans for subsequent work on compacts.	Jan.- Feb. 2005
E. Draft Compacts Due	3 weeks after Planning Meeting
F. Phase II Budget Instructions Sent to RRCs Financial status of units – planning assumptions for budget development.	January - February 2005
G. Financial Oversight Meetings Financial oversight issues/review.	Completed March 2005
H. Submittal of Phase II Budget Responses to Central RRCs' response to step F, including tuition and ICR estimates, rate & fee proposals	April 2005
I. Phase III Budget Process Budgets loaded into CUFS	March-June 2005
J. Allocation Worksheet Decisions Finalized Allocations finalized, complete budget package finalized	Early June 2005
K. Budget Reviewed by Board of Regents	Early June 2005
L. Budget Approved by Board of Regents	Mid-June 2005
M. Compacts Finalized	August 2005