

# **FY07 Budget Instructions Academic Units**

**January 2006**

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## **Introduction**

The distribution of FY07 budget instructions begins a new chapter in the evolution of the University's strategic planning and budgeting process. As with the implementation of the original incentives contained in Incentives for Managed Growth (IMG) in 1996, the new budget framework introduces new transparency, better predictability, improved efficiency and cost control, and fosters a more information rich discussion regarding institutional goals and objectives, an improved alignment of service units to support the academic mission and an improved focus on academic unit goals and objectives.

While there are many new features to the budget framework, one critical factor is to understand the manner in which investments will be made on an annual basis. It is important to recognize that the University will make investment decisions for both service units and academic units. In the past, much of the academic budget framework relied on the concept of a distinct compact pool. While not abandoning the need for 'investment pools', the new process will evoke a broader "all funds" framework for reviewing and approving investment decisions. The resource decisions for making new investments will differ by unit. In some cases, as service unit budgets are reviewed and rates are set, service and academic units will see that institutional priorities have been included in those rates. During compact/budget discussions with academic units, agreements will be reached regarding both the sources of funds for strategic investments and the use of those funds. Annual budgets developed under the new budget model will include complete descriptions of all investment decisions. The new model will better allow the University to track academic investments and report on them in conjunction with investments made in service units identified with each of the cost pools.

The new budget model, while improving the clarity and focus of budget decisions, will not eliminate the need to continue to strategically reposition the University in the years to come. Service units and academic units must understand that the University will continue to strategically invest in both institutional and unit level priorities and that the answer to the University's resource constraints will continue to require a high priority on new revenue sources, cost reductions, productivity increases, and improvements in service levels.

### **A. Modified Budget/Compact Process for FY07**

To foster more complete compact conversations and strengthen an all-funds approach to supporting initiatives and achieving goals, the compact process is being aligned with the budget discussions for FY07. The compact instructions have been distributed as a separate document, but the content, submission deadlines and process have been coordinated with these budget instructions to result in one priority setting and resource planning process with central administration.

This better coordination is a direct result of recommendations surfacing through the recent process to redesign the University's internal budget model. In July of 2004, President Bruininks launched a "working group on the internal budget model" with the following charge:

"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 excellence and use of resources."

The budget model in place through FY06 had evolved into a complicated decision making process. The President and Senior Vice Presidents would make decisions on a variety of budget variables, the result of which was difficult to predict and difficult to communicate.

During the last 18 months, the work group met regularly and consulted with various groups to build a recommended budget model based on the goals stated above. The principles used by the group in their discussions were as follows:

1. **Mission and Goals** – Model should encourage behaviors that support the University’s mission and goal to be one of the top three public research Universities in the world and the actions and strategies necessary to achieve that goal. Specific attention should be given to supporting efforts that crossing disciplinary and collegiate boundaries in working toward that goal.
2. **Transparency** – Model should make budget decisions related to subsidies, investments, reallocations, etc., transparent and acknowledge that no units are “tubs-on-their-own-bottoms”.
3. **Efficiency/Cost Control** – Model should optimize the use of the University’s physical, financial and technological resources; encourage excellence, service and continuous improvement; and provide clear incentives for members of the University community to control costs.
4. **Revenue Enhancement** – Model should provide incentives where appropriate to enhance revenues.
5. **Simplicity** – Model should be as simple as possible to understand and administer.
6. **Predictability** – Model should result in predictable rules, consistent application of policies and clear outcomes.
7. **Adaptability** – Model should be responsive to external “shocks”.
8. **Central Investment** – Model should support the ability of the President to “steer the ship” through reallocations and central investments.
9. **Information Rich** – Model should foster an all-funds discussion using detailed information related to true costs and service levels and provide good information to support fact-based decision making at all levels of the University.
10. **Implementation** – Model should be as easy to implement as possible.
11. **Risk** – The model should place the management of financial risk at the level of the institution that can best control the contributing factors and act to address them.

The working group made final recommendations to the President on October 3, 2005, and he approved those recommendations for implementation. The model being implemented can be described as an “Earned Income/Full Cost” model. In essence, revenues will go directly to the units that generate them, and in turn, all costs (including infrastructure and central administrative costs) will now be allocated to those revenue generating units. The state appropriation and some miscellaneous institutional fees are the only revenues that will continue to be recorded first as “central” revenue and will then be allocated out to the academic units through the annual budget process. The “costs” of central support **that were previously funded through a central allocation** will be billed out to academic and business units (on a variety of bases explained later in these instructions) and the payment of those bills will fund the operations of the support units. A graphic depiction of the new budget model structure is included with these instructions as a separate attachment.

### Level of Implementation

For purposes of budget development, the “unit” designation used in these instructions remains the Resource Responsibility Center (RRC). Although some aspects of the new model require calculations at an area level (identified below), by and large the model will continue to rely on RRC level decision making. One of the model recommendations approved by the President is to keep systematic implementation of the model at that RRC level: if a Dean wishes to systematically or formulaically allocate costs down to a department level, for example, he or she will first need approval from the Senior Vice Presidents. RRCs remain the organizational level of the University to be held accountable for the financial management of the units within it, so there is no expectation that a unique knowledge and skill base in financial management be developed in all departments in response to this change of budget model. In addition, in some cases the data used to run the methodology of the new model may not initially be reliable or available at the departmental level, making systematic implementation at that level difficult. There will likely be cases within many RRCs where it is appropriate, however, to incorporate a full-costing methodology to some activities. This could indeed be desirable and should be pursued, so understanding each academic unit’s plans in this area will be valuable and as a result will be included as an agenda item for the compact/budget meetings.

### **B. Academic Units Included in these Instructions**

Units receiving these instructions are considered academic units for purposes of the new budget model. These are the units that will:

- 1) receive earned revenues directly - that previously were first recorded in central accounts for later allocation (University fee, 100% of ICR)
- 2) receive as allocations 100% of the state appropriation
- 3) receive charges annually for the costs represented by central support unit budgets

#### Unit

#### Budget Office Contact for FY07

Crookston Campus	Carole Fleck
Duluth Campus	Carole Fleck
Morris Campus	Carole Fleck
Rochester	Carole Fleck
Ag. Experiment Station	Julie Tonneson
Architecture/Landscape Arch.	Lincoln Kallsen
Athletics	Brian Swanson
Auxiliary Services	Julie Tonneson
Biological Sciences	Julie Tonneson
Continuing Education	Carole Fleck
Education & Human Dev	Lincoln Kallsen
Liberal Arts	Julie Tonneson
Ag., Food & Environmental Sc.	Lincoln Kallsen
Carlson School of Mgmt	Robin Dittmann
Dentistry	Julie Tonneson
Duluth School of Medicine	Julie Tonneson
MN Extension Service	Julie Tonneson
Humphrey Institute	Robin Dittmann
Institute of Technology	Julie Tonneson
Law School	Robin Dittmann
Medical School	Julie Tonneson

Nursing	Julie Tonneson
Pharmacy	Julie Tonneson
Public Health	Julie Tonneson
Veterinary Medicine	Julie Tonneson
284 – Academic Counseling	Robin Dittmann
285 – Weisman	Robin Dittmann
291 - University Press	Robin Dittmann
292 – CURA	Robin Dittmann
293 – Air Force ROTC	Robin Dittmann
294 – Army ROTC	Robin Dittmann
295 – Navy ROTC	Robin Dittmann
311 – Concerts & Lectures	Julie Tonneson
343 – Hormel Inst.	Robin Dittmann
539 – Ctr. Transp. Studies	Robin Dittmann
652 – Cancer Center	Julie Tonneson
686-91 – Boynton	Lincoln Kallsen
695 – Rec Sports	Lincoln Kallsen
699/701 – TC Student Unions	Lincoln Kallsen
702 – Student Legal Serv.	Lincoln Kallsen
787 – Children, Yth, Families	Robin Dittmann
811 – CUHCC	Julie Tonneson
845 – RAR	Julie Tonneson
846 – MMCT	Julie Tonneson
847 – Bioethics	Julie Tonneson
852 – Ctr. For Global Change	Robin Dittmann
875 – Ctr. For Drug Design	Julie Tonneson
881 – Spirituality & Healing	Julie Tonneson
883 – Genomics	Julie Tonneson
889 – Infectious Diseases	Julie Tonneson
893 – Bioinformatics	Julie Tonneson
900 – Interprofessional Ed.	Julie Tonneson
904 – AHC Mayo	Julie Tonneson
910 – Post Harvest Food	Julie Tonneson
911 – Obesity Prevention	Julie Tonneson
914 – Student Conflict Res.	Robin Dittmann
915 – Clinical Research	Julie Tonneson

Please note, the colleges being restructured during Wave 1 of Strategic Positioning changes will proceed through the process by planning budgets based on their future structures. The transition will be documented, and financial information presented in the budget materials will flow from the old structure to the new. These instructions are being sent to all current colleges, but information pertaining to FY07 will be presented in the restructured format only. Unique instruction will be given to those units along the way as necessary.

### **C. What This Change in the Budget Model Means for You**

Each unit at the University will be impacted by the new budget model: some more than others. For academic units receiving these instructions, the primary changes will be realized in the following ways:

1. Compacts – Rather than doing a separate compact in the winter and spring, with budget decisions and analysis disconnected and made in late spring, the new model will better coordinate the two

processes. Compact and budget instructions are being distributed at the same time, and each unit will experience a combined compact and budget meeting with the relevant senior vice president.

2. All Funds – Fiscal pages used for budget review and analysis will be created on an all-funds (all sources) basis. Therefore, units should be prepared to discuss their various revenue sources and trends, overall expenditures and trends, and balances for all funds.
3. Cost Allocations – The primary change for FY07 budget development is the new process for allocating costs to the academic units. Each support unit's centrally allocated budget has been incorporated into one of the nine major cost pools, and those pools are being distributed to the academic units as costs based on the formulas described in Appendix A. A further description of the cost allocations for FY07 is provided in section F-8 on page 26 of these instructions.
4. Revenue Attributions – Beginning in FY07, academic units will receive 100% attribution of the University fee. For FY07 budgeting purposes, the total estimated University Fee revenue will be prorated to each of the academic units based on their proportionate share of estimated tuition revenue. The actual attribution will take place during the year based on actual activity – just like tuition (75% to the college of instruction and 25% to the college of enrollment). There is more information on this beginning on page 18. In addition, units will begin to receive 100% of their generated ICR revenue, rather than 49.5%.
5. IRS – Beginning in FY07, the Institutional Revenue Sharing assessment will be eliminated.
6. Accounting Model – Budget Prep set up will remain largely the same for academic units with one exception. A new series of expenditure codes is being set up to record the expenditures associated with payment of the cost pool allocations. At this time, the plans are to automate those payment transactions based on how units budget during budget prep, so units will not be responsible for manually originating the payment transactions. The one exception to this plan is the payment of utility cost allocations. Because those will be done monthly based on actual consumption, a separate process is being designed for those payments. A separate communication detailing the specific instructions for making payments will be sent to all RRCs in the next month.
7. Investment Allocations – In the past several years, units received incremental increases and decreases to their base O&M allocation on a yearly basis. The increases were generally tied to decisions made on the allocation of “compact pool” funds. Because there will not be a “compact pool” in the way the University has become accustomed to it, the language of investment will change, and communication on investment decisions will be done in an all-funds context.. **There will continue to be support and funding for compact initiatives**, but the resource choices available to make those investments have changed and will differ by unit. As the compact/budget meeting conversations proceed, these choices will be discussed and clarified. Additionally, beginning on page 34 of these instructions there is a section dealing with the communication of investment decisions.

#### **D. What Will Remain Unchanged**

As the new budget model is implemented, it is important to understand that some things will remain unchanged from prior years.

1. Revenues – With the exception of the University Fee and ICR changes mentioned above, revenues will continue to be recorded directly into academic unit accounts. In addition, the O&M

allocations will continue as they have in the past – the amounts are changing with the revenue neutral implementation of the budget model, but the overall structure of revenues and allocations is not changing.

2. **Budget Process** – The timeline for academic unit budget development is not changing. Compact development will occur simultaneously with budget development, which will help in making final investment decisions within the budget development timeline, but generally, the budget process will begin in late winter and will end with unit approved budgets in June. Decisions related to compensation, tuition, reallocations, compact initiatives, and so forth will be done within the same general timeline as in the past.

### **E. FY07 as Conversion Year**

As has been mentioned, the University’s budget for FY07 will be developed using the new model. However, not all aspects of the proposed model will be fully developed or implemented in this first year. A revenue neutral conversion of budget information for FY06 is being communicated through the fiscal page format sent out in conjunction with these instructions. In addition, the new timeline and the preparation of rates to each of the academic units will be done. However, full implementation will require more analysis of units’ financial strengths and weaknesses, enhanced development of performance measures and benchmark data, further refinement of some of the technical aspects of the cost allocation formulas, and so forth. These types of improvements will be done in subsequent years. The goal this year is to convert our planned budget for FY07 to the new process and methodology with the understanding that more in depth analysis and further refinements will take place beginning with the FY08 budget. FY07 is a good year to make the conversion, because the University communicated decisions on the major planning parameters for FY07 at the time the FY06 budget was approved by the Board, and the state appropriation for FY07 is known.

### **F. FY07 Budget Parameters – Planning Assumptions**

1. **Preliminary FY07 Financial Plan Submitted to the Board of Regents** – In June of 2005, the President submitted a preliminary financial plan for FY07 to the Board of Regents along with the proposed budget for FY06. The planned FY07 investment and resource assumptions submitted at that time, resulting in a balanced budget for FY07, included:

- A general compensation increase of 3% for all employee groups
- A competitive compensation pool for faculty and some P&A
- Continued academic investments in biosciences and research
- Necessary infrastructure investments in classrooms, technology, utilities and so forth
- An increased state appropriation of \$23.4 million
- A tuition and University Fee increase of 6.5%
- University reallocations of \$15.5 million

Although some of the specific spending plans and revenue estimates for FY07 will be modified through the budget development process, the basic construct of the plan will remain the same.

**2. Salary and Fringe Benefit Assumptions:** Information in this document related to compensation matters has been prepared for budgeting purposes only and should not be interpreted as an attempt by the University to disregard good faith bargaining with affected employee groups or to ignore all other mandates of PELRA. In addition, all described plans are subject to Board of Regents approval.

For planning purposes, the preliminary financial plan presented to the Board of Regents last spring for FY07 included the following general salary increases:

Non-faculty academic employees	3.0%
Civil Service/Bargaining Unit Employees	3.0%**
Faculty	3.0%

A set of documents from Human Resources, outlining the details of implementing the salary plans for the different employee groups for FY07, will be disseminated by the end of February.

\*\* Please note: the Civil Service pay plan for FY07 is currently under review by the Civil Service Committee, and the proposal being considered includes a 3.5% salary increase to be implemented with the new pay year. The plan is expected to be finalized by the end of February, so final decisions will be included in the pay plan letters prepared and distributed by Human Resources.

Projected fringe benefit rates for FY07 for use in budget planning are outlined below. These are the same rates that were projected for FY07 at the time the FY06 budget was approved by the Board of Regents, with the exception of the Graduate Tuition rate, which has been updated. The Budget Office is reviewing fringe benefit estimates now to see if a change in the projected fringe rates is warranted. If the decision is made to change rates, a separate communication will be distributed with the specific modifications. See Figure 1 on page 10 for a listing of the rates by component.

	<u>Projected 2006-07</u>
Civil Service (and undergraduate students)	36.5%
Academic	33.7%
Graduate Assistant	
Health	18.6%
FICA	7.5%
Tuition	\$11.87/hour

**Figure 1**  
**2006-07**  
**Fringe Benefit Rates by Component**

<b>2004-05 Actual</b>	<b>CIVIL SERVICE</b>	<b>ACADEMIC</b>	<b>GRADUATE ASSISTANT</b>
Retirement	4.1	13.3	--
Group Life & Disability	--	0.5	--
Workers Compensation	.9	--	--
Unemployment	--	0.8	--
Social Security	6.0	5.4	5.9
Medicare	1.4	1.5	1.4
Tuition	1.5	0.4	**
Health Insurance	17.9	10.6	14
Vacation	.7	.3	--
	<hr/>	<hr/>	<hr/>
	32.5	32.8	21.3
<b>2005-06 Actual</b>	<b>CIVIL SERVICE</b>	<b>ACADEMIC</b>	<b>GRADUATE ASSISTANT</b>
Retirement	4.1	13.5	---
Group Life & Disability	---	.8	---
Workers Compensation	1.3	---	---
Unemployment	.8	.4	---
Social Security	5.9	5.3	6.1
Medicare	1.4	1.5	1.4
Tuition	1.5	.5	**
Health Insurance	18.9	10.6	12
Vacation	1.1	.4	---
	<hr/>	<hr/>	<hr/>
	35.0	33.0	19.5
<b>2006-07 Proposed</b>	<b>CIVIL SERVICE</b>	<b>ACADEMIC</b>	<b>GRADUATE ASSISTANT</b>
Retirement	4.3	13.4	---
Group Life & Disability	---	.7	---
Workers Compensation	1.2	--	---
Unemployment	.3	.3	---
Social Security	6.3	5.4	6.1
Medicare	1.5	1.6	1.4
Tuition	2.1	.6	**
Health Insurance	19.7	11.3	18.6
Vacation	1.1	.4	---
	<hr/>	<hr/>	<hr/>
	36.5	33.7	26.1

\*\* Graduate Student tuition remission is a flat charge per hour the student works.

### Budgeting for Graduate Student Remission Charges:

Graduate assistants qualify for tuition benefits according to the number of hours worked per semester, with 100% tuition benefits earned for 390 hours (20 hours per week for 19.5 weeks, which is a 50% appointment.) Students appointed between 97.5 and 390 hours per semester will receive prorated tuition benefits; for example a 12.5% appointment (97.5 hours) would receive one quarter of the tuition amount and a 25% appointment (195 hours) would receive half tuition. As in the past, students appointed below the 12.5% level will not receive tuition benefits. Those students appointed between 12.5% and 25% only get the hourly benefit toward resident tuition. A student must have a 25% appointment (195 hours) in order to qualify for the waiver of non-resident tuition. All graduate assistants will be required to be on biweekly payroll. It is possible to move individuals currently at the University to “positive pay” to avoid requiring them to begin keeping a timecard.

Graduate assistants will be required to register for at least 6 credits (except for those in the special advanced Ph.D. categories described below.) Students (such as masters students who have completed their coursework and thesis credits and part-time students) may petition to the Graduate School to register for fewer credits.

### **Charges to Employers**

1. The fringe benefit charge for tuition is a flat hourly rate that is set to recover the tuition benefit which the graduate assistant earns. To recover next year’s projected \$5,146 semester benefit (graduate school tuition plus the University fee) for 390 hours of work requires a tuition fringe rate of \$11.87 per hour. Because tuition rates have not yet been approved by the Board of Regents, the rate of \$11.87 is preliminary and reflects our best estimate at the time these instructions were written. This hourly rate will be charged to employers for every hour of work, even if the student works less than 12.5% or more than 50% time. Anticipated charges for graduate student tuition remission should be budgeted in object code 7102.

2. The graduate assistant health insurance benefits program will continue with similar benefits for graduate assistants and their enrolled dependents; the student will again pay 5% of the plan premium. The plan administrator will again be Blue Cross Blue Shield of Minnesota. The health fringe rate for FY07 will be 18.5% of salary.

### **Ph.D. Candidates**

1. Once a Ph.D. student has passed the preliminary oral exam and completed 24 doctoral thesis credits he/she is eligible for employment in one of three job classes at a significantly lower tuition fringe cost. The student would receive the value of one credit of tuition. This benefit would be prorated for those appointed less than 50% time, as noted above. The employer would pay a corresponding hourly fringe rate estimated at \$1.90.

### **Summer**

1. The full benefit for 260 hours of graduate assistant employment during the 13 week summer period will equal the previous year’s semester value. Students who work fewer than 260 hours will receive prorated benefits (except for summer session teaching assistants; see below.) Students may use this benefit for any mix of registrations during summer session terms. Employers will pay the same \$11.87 hourly fringe rate on these job classes.

2. In order to avoid unnecessary tuition fringe charges for graduate assistants who don't need to register during the summer, four job classes are available for that period only. They carry no tuition benefit or tuition fringe charge, but of course they must then incur FICA taxes because the employee is not a registered student. For graduate assistants who do need to register during the summer, the regular year-round job classes should be retained. Health insurance coverage and fringe charge continues on both sets of job classes.

3. Summer session teaching assistants pose a unique problem because their entire salary (as with summer session faculty) is paid (at a higher hourly rate) in the 200 hours of a five-week term. To provide the same tuition benefit that a comparable graduate assistant would earn for teaching a course during fall, winter or spring quarters, requires charging a higher hourly fringe rate (\$28.07 for 2006-07) on those recorded 200 hours of teaching during the summer session. They end up with the same total pay and benefits as in other semesters and summer session departments will pay the same total fringe charge.

### **Professional Program Assistantships**

1. The job classes of Medical Fellow and Dental Fellow are clinical residency positions that typically involve 100% time appointments. Therefore, the fringe rate has been set to recover the tuition costs over 780 hours of work per semester.

2. Students pursuing professional post-baccalaureate degrees outside the Graduate School (such as JD or MBA) do not generally need the teaching or research experiences as preparation for their future careers. A specific job class, Professional Program Assistant, is for such students in those professional degree programs who are employed within their college of registration. These positions will carry no tuition benefit or fringe charge, but will be included in the graduate assistant health benefit program for students whose appointments are 25% time or greater.

The above information is summarized in table format in Figure 2 of these instructions. For questions about this policy, please contact George Green, Associate Dean in the Graduate School (625-7368 or [green007@umn.edu](mailto:green007@umn.edu).)

**Figure 2**

**Graduate and Professional Student Fringe Table**  
**Tuition Fringe as Dollar per Hour Charge**

**Fiscal Year 2006-07**

	<b>Tuition</b>	<b>Health</b>	<b>Social Security Medicare</b>	<b>Total % Fringe</b>
<b>Summer Only</b>				
9571 Summer Quarter TA	\$0.00	18.5%	7.5%	26.0%
9572 Summer Quarter RA	\$0.00	18.5%	7.5%	26.0%
9573 Summer Quarter AF	\$0.00	18.5%	7.5%	26.0%
9574 Summer Quarter TA w/ T. Ben	\$28.07	18.5%	7.5%	26.0%
9575 Summer Session TA w/o T. Ben	\$0.00	18.5%	7.5%	26.0%
<b>Academic Year and Summer Quarter</b>				
9511 Teaching Assistant (TA)	\$11.87	18.5%	7.5%	26.0%
9515 Graduate Instructor	\$11.87	18.5%	7.5%	26.0%
9517 Ph.D. Cand. Graduate Instructor	\$1.90	18.5%	7.5%	26.0%
9518 Advanced Masters TA	\$1.90	18.5%	7.5%	26.0%
9519 Ph.D. Cand. w/24 thesis cred. TA	\$1.90	18.5%	7.5%	26.0%
9521 Research Assistant (RA)	\$11.87	18.5%	7.5%	26.0%
9526 Graduate Research Project Asst.	\$11.87	18.5%	7.5%	26.0%
9527 Ph.D. Cand. Grad Research Asst.	\$1.90	18.5%	7.5%	26.0%
9528 Advanced Masters RA	\$1.90	18.5%	7.5%	26.0%
9529 Ph.D. Cand. w/24 thesis cred. RA	\$1.90	18.5%	7.5%	26.0%
9531 Administrative Fellow (AF)	\$11.87	18.5%	7.5%	26.0%
9532 Advanced Masters AF	\$1.90	18.5%	7.5%	26.0%
9533 Ph.D. Cand. w/36 thesis cred. AF	\$1.90	18.5%	7.5%	26.0%
9535 Professional Program Asst.	\$0.00	18.5%	7.5%	26.0%
9538 Legal Project Assistant w/T. Ben	\$21.94	0.00%	7.5%	7.5%
9539 Legal Project Assistant w/o T. Ben	\$0.00	0.00%	7.5%	7.5%
9553 Dental Fellow	\$11.87	0.00%	7.5%	7.5%
9554 Med Fellow, Graduate Program	\$5.94	0.00%	7.5%	7.5%
9559 Med Resident, Graduate Program	\$5.94	0.00%	7.5%	7.5%

FICA assessed only if student fails test for exclusion. Graduate students employed at the University will be exempt from FICA withholding on their University wages, and therefore, their salaries will not be assessed for the employer’s share of FICA, if they meet the following test:

- Enrolled for at least 6 credits per term if an undergraduate student; or
- Enrolled for at least 3 credits per term if a graduate student (one credit for Ph.D. candidates working on a dissertation)

Social Security and Medicare components are 6.1% for FICA and 1.4% for Medicare (7.5% total)

**3. Enterprise System Assessment** - The Enterprise Assessment was established as a systematic method of assessing units for the purpose of paying for the development, implementation, maintenance and replacement of institutional business systems. Under the new budget model, the Enterprise Assessment will continue until the projects currently and previously funded through this mechanism are paid off. Therefore, the assessment is projected to continue through FY13. No additional projects will be added to this payment method.

The assessment rate for FY07, as well as the current methodology, will remain the same as the rate and methodology used in FY06. The following assumptions should be built into the FY07 plans at this time:

- Estimated assessment cost of **1.25%** of projected FY07 salaries
- Object code used for budgeting the expected assessment is **8610** – Administrative Fees
- Assessment is on **actual** salary expenditures in the following fund classes, with a few individual account exceptions:
  - GOM** – General Operations & Maintenance – funds 1000-1003
  - GOM** – University Fee Income – funds 1005-1008
  - GOM** – Tuition Income – funds 1010-1013
  - AUX** – Auxiliaries – funds 1100-1125, 1163
  - ICR** – Indirect Cost Recovery – funds 1040-1043
  - RSS** – Restricted State Specials – funds 1521-1526, 1528-1533, 1535-1540, 1543-1549, 1556-1558 (this excludes LCMR funds 1520, 1527, 1534, 1542)
  - UNR** – Other Unrestricted – funds 1021, 1022, 1190, 1194-1198
  - Funds 1570 and 1571** – Private Practice
- Assessment occurs near the end of an accounting period based on actual salary expenses in that month. Both debits and credits to salaries are included in the assessment calculation.

Salary expense used in the calculation will include the following object codes with all the related subobject codes except subobject 50 (workstudy):

- 7000 – Academic Salaries
  - 10 – Professional/Administrative
  - 20 – Ranked Faculty
  - 30 – Student – graduate
- 7005 – Academic Salaries-Stdts-Grad/Prof/Trng
  - 10 – Grad/prof/Trng
- 7010 – Civil Service & Union Salaries
  - 10 – Civil Service
  - 30 – Union Represented
- 7015 – Undergraduate Student Employees
  - 10 – Academic
  - 20 – Civil Service

Questions regarding the Enterprise Assessment process can be directed to the FSS Helpline at 624-1617.

#### **4. Property & Liability and Non-Profit Organization Liability Insurance**

**Property and Liability Insurance:** The University centrally purchases property and liability insurance for all of its campuses and programs. General Liability insurance provides coverage for third party injury/damages. This policy responds to injuries/damages to students, volunteers, and visitors on campus when the University is determined to be negligent. The University’s property insurance provides coverage to buildings and contents for perils such as fire, windstorm, hail, explosions, smoke, vandalism, water damage, etc.

Since July 1, 1997, the Office of Risk Management has charged RRCs for University property and liability insurance premiums based on each RRC’s share of total University space, and that will continue under the new budget model. The premium expenditure should be budgeted by each RRC as object code 7301. The Office of Risk Management will then initiate an IX document to complete the transaction in July of 2006.

**Non-Profit Organization Liability:** The University centrally purchases Non-Profit Liability Insurance for all its employees, officials and authorized volunteers. Non-profit liability insurance has primarily focused on the cost of employment disputes, including claims of sexual harassment, unlawful discrimination and various constitutional violations. Employment related litigation has increased during the past ten years, as has the volatility of damage awards.

As done previously, the Office of Risk Management will continue to charge RRCs for a portion of the university Non-Profit Organization Liability insurance premiums based on each RRC’s share of the total current, non-sponsored salaries in fiscal year accounts during FY05. The premium expenditure should be budgeted by each RRC as object code 7301. The Office of Risk Management will then initiate an IX document to complete the transaction in July of 2006.

The estimates of cost for these insurance items are based on the best information available today. For FY07 planning purposes, each unit should assume a 6% increase in the amounts estimated for FY06. The FY06 estimate and the projected FY07 estimates are listed below by unit. These estimates have been prepared at an RRC level only – not at a departmental level. The estimates have also not been prepared based on the new structure of the Wave 1 colleges at this time – that is one of the refinements that will need to be completed over the next month.

	<b><u>FY06 Estimate</u></b>	<b><u>FY07 Estimate</u></b>
Crookston	\$108,205	\$114,697
Duluth Medicine	23,096	24,482
Duluth	566,656	600,655
Morris	185,455	196,582
Rochester	426	452
Ag. Experiment Station	28,300	29,998
AHC-Shared	95,075	100,776
Architecture/Lndscp Arch.	28,170	29,860
Athletics	230,278	244,095
Auxiliary Services	722,596	765,952
Biological Sciences	91,801	97,309
Continuing Ed.	33,322	35,321
Ed. & Human Dev.	99,305	105,263
Human Ecology	40,994	43,454
Liberal Arts	267,763	283,829

Natural Resources	72,156	76,485
Ag., Food, Env. Sciences	285,861	303,013
Carlson School	57,444	60,891
Dentistry	69,184	73,335
Extension Service	18,720	19,843
General College	20,036	21,238
Humphrey Inst.	18,635	19,753
Inst. Of Technology	391,128	414,596
Law School	65,828	69,778
Medical School	333,836	353,866
Nursing	13,106	13,892
Pharmacy	28,090	29,775
Public Health	60,352	63,973
Veterinary Medicine	102,000	108,120

## **5. Utility Rates**

In the new budget model, utility costs will continue to be managed by each campus (or research and outreach station).

On the Twin Cities campus, costs for steam, electrical, and gas use will be allocated to each RRC based on the actual consumption of these utilities by the buildings in which the RRC has programs in operation. The cost for the remaining utilities (water and chilled water – more commonly called central air conditioning), will be included in the Facilities Management O&M (Operations and Maintenance) cost pool and spread on the cost/ASF charge. If your RRC is not included in the O&M cost pool, you will continue to be directly billed for all FM services and these additional utilities.

Below is a short summary of these utilities, their cost components, how FM develops and tracks both cost and utilization of these utilities, and a summary of the rates themselves. The process for actually billing for these rates is being finalized and will be communicated as part of later Budget Office instructions for all billing and accounting aspects of the budget model.

### **1. Rates Allocated based on consumption to all RRCs**

There are 2 factors in determining the allocated utility cost for electricity, steam (heat), and gas:

- a. Utility rate
- b. Utility consumption

The Steam, Electrical and Gas utility rates are applicable to units on the Twin Cities campus. The newly published rates will be effective on July 1, 2007 and are held stable for the complete fiscal year. The rates include costs to purchase, produce, manage, and deliver the utilities and will be described in more detail below. Utilities are operated as ISOs (Internal Service Organizations) and are managed to be a ‘break-even’ operation. Therefore, at the end of each fiscal year, the difference in actual cost to provide the utility vs. the published ‘rate’ cost to provide the utility is rolled into future published rates (i.e. surpluses help lower future rates, and deficits increase future rates).

Consumption of steam, electricity, and gas are metered for every building on campus on a monthly basis. This information is then used to allocate cost for the month based on the ASF (assignable square feet) of each program within each building (area level information from the space database ‘snapshot’ taken in the fall). The space information used for this allocation will be updated annually in the fall (see Space Information section in Appendix B for more on this process).

To assist in budgeting for these utility costs, the FY06 cost neutral amount and the projection of costs for FY07 for each unit is included on the fiscal page. In addition, a schedule with this information and with projections of utility consumption for each building and RRC (with area detail) will be made available when detailed billing and accounting information is provided. A projection of consumption is also available to non-supported customers such as academic enterprises, independent organizations, and institutional supported departments upon request. Requests can be made to Twila Jensen at x59514.

	<b>FY2005-06</b> <b><u>Current Rate</u></b>	<b>FY2006-07</b> <b><u>Estimated Rate</u></b>
<b>Steam – 1,000 lbs of steam (Mlb)</b>	<b>\$20.00</b>	<b>\$19.81</b>

Steam costs are allocated based on Mlb (M-pound, or 1,000 pounds of steam). The steam rate includes the costs of fuel, operations of the boilers and plant, capital and maintenance of the distribution systems, energy conservation projects, and administration.

<b>Electric – Kilowatt Hours (Kwhr)</b>	<b>\$.0641</b>	<b>\$.0793</b>
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Electric costs are allocated based on Kilowatt Hours (Kwhr). The electric rate charged to the U by Xcel is a complicated set of formulas based on peak use, fuel cost pass-throughs, etc. The above University rate is set for the fiscal year and is a budgeted average cost. The electric utility rate includes the purchased costs of electricity, distributions costs, capital renewal, energy conservation projects and administration.

<b>Gas – Therms</b>	<b>\$.937</b>	<b>\$1.206</b>
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Gas costs are based on Therms (100,000 BTUs). The University rate is set for the year and is budgeted based upon average cost. It includes the costs of purchased gas, administration, and energy conservation. The purchased gas is a commercial/industrial firm gas provided by CenterPoint Energy or Xcel. This gas charge only applies to buildings not on the campus steam system.

**2. Rates Allocated in O&M cost pool for supported units & billed based on consumption for others**

The cost for the remaining utilities (water and chilled water/central air conditioning), will be included in the Facilities Management O&M (Operations and Maintenance) cost pool and spread on the cost/asf charge (see Appendix A for a description of the O&M cost pool) for FY07. If your RRC is not included in the O&M cost pool, you will continue to be directly billed for all FM services and these additional utilities.

	<b>FY2005-06</b> <b><u>Current Rate</u></b>	<b>FY2006-07</b> <b><u>Estimated Rate</u></b>
<b>Chilled Water – Gross Square Feet (ASF)</b>	<b>\$1.11</b>	<b>\$1.19</b>

Chilled water, used for cooling the buildings, includes electric, steam and water costs used to generate the chilled water. Costs also include maintenance, capital renewal, energy administration and energy conservation.

Energy Management is in the process of a meter initiative for chilled water. It is anticipated that for the FY08 budget, Chilled Water costs will also be directly billed based upon metering consumption and

pulled out of the O&M cost pool. During FY07, Facilities Management will be testing and evaluating the meters and cost allocation procedures.

**Water/Sewer – Hundred Cubic Feet (CCF)**

<b>Minneapolis</b>	<b>\$6.98</b>	<b>\$7.36</b>
<b>St. Paul</b>	<b>\$3.25</b>	<b>\$3.21</b>

The Minneapolis water and sewer rate includes purchased costs for water, sewer and storm water. The St. Paul rate includes water and sewer. Also included in the Minneapolis and St. Paul rates are costs for maintaining the water distribution system and capital renewal projects.

Questions for utility rates should be directed to Twila Jensen, Facilities Management, at 625-9514.

**6. Tuition and University Fee Estimates**

The attribution of tuition revenue will remain the same as previous years with 75% of the revenue delivered to the college that teaches the course and 25% of the revenue delivered to the college where the student taking the course is enrolled. Collegiate units are asked to review the centrally developed tuition revenue estimates and then either accept them or revise them based upon their own intersession/summer session, and regular session tuition revenue estimates for FY07 using the following information.

Figure 3 below has preliminary tuition revenue projections for FY06 and FY07. The same estimates for FY07 have been entered into the fiscal pages for each unit.

Projected tuition revenue by campus and college was originally modeled for both FY06 and FY07 in February 2005 in preparation of the “President's Operating Budget Plan 2005-2006 and Preliminary Financial Plan 2006-2007.”

The tuition projections for FY06 have been updated and adjusted based on the actual tuition attribution for the fall 2005 semester, on the assumption that deviations between the model for fall 2005 and the actual attribution for fall 2005 will hold true for FY06. The FY07 tuition projection was then updated based on the new FY06 projection.

The University fee projections for FY06 and FY07 were calculated for each campus and then updated using the same basic methodology that was used for the tuition revenue projections. On the Twin Cities campus, the University Fee was then prorated to each college based on the distribution of tuition revenue, since attribution of the University Fee will follow the same methodology as the attribution of tuition.

For the Wave 1 colleges being restructured through Strategic Positioning, the FY07 projections reflect the new structures. Essentially, the FY07 tuition projection for General College has been folded into the projection for the College of Education and Human Development; and the FY07 tuition projection for the College of Natural Resources has been folded into the projection for COAFES. For the College of Human Ecology, the FY07 tuition projection has generally been prorated by department based on the FY05 actual tuition activity (by using course designators and student program information). Those departmental estimates were then folded into the colleges they are being structurally realigned with.

The updated numbers take into account differences in actual enrollment and registration patterns between fall 2005 and fall 2006, as well as other changes that could not be modeled accurately last year (e.g., the actual FY06 tuition increase for Wisconsin students, which was not known last February, the move of the Master of Health Care Administration program from the Carlson School of Management to the School of Public Health, and so forth).

In the model of projected tuition revenue for FY07, rates have been set for different kinds of students on each campus so that the combined tuition and University fee increase for an individual student will be 6.5 percent. Rates for non-resident students were set to produce the same dollar increase for non-resident students, as for resident students. The University Fee is planned to increase from an annual rate of \$900 to \$975.

Questions regarding the updated tuition revenue and University Fee projections for FY07 may be directed to Peter Zetterberg ([j-zett@umn.edu](mailto:j-zett@umn.edu)). Questions on the Wave 1 college transitions may be directed to Julie Tonneson ([tonne001@umn.edu](mailto:tonne001@umn.edu)).

#### Analyzing and/or Modifying the Tuition and University Fee Estimates

There are two main areas of analysis that must be considered when determining the college's FY07 revenue estimate:

- Rate changes from FY06 to FY07, and
- Enrollment changes from FY06 to FY07

##### 1. Rate changes from FY06 to FY07

For planning purposes, the tuition and University Fee rate increase from FY06 to FY07 is 6.5%. The University Fee is set to increase from \$900 per year or \$450 per semester (\$45 per credit, capped at 10 credits) to \$975 per year or \$487.50 per semester (\$48.75 per credit, capped at 10 credits).

For undergraduate programs, there is no collegiate discretion in setting the tuition rate. Current Board of Regents tuition policy has each campus at a single undergraduate rate. As in the past, coordinate campuses and graduate and professional programs may propose tuition plans for consideration that deviate from the average increase of 6.5% for programmatic reasons (e.g., market factors). Such proposals will be reviewed on an individual basis.

##### 2. Enrollment changes from FY06 to FY07

Under IMG, 25% of a student's tuition is attributed to that student's college of registration. Therefore, it is important that individuals within a college with responsibility for enrollment management communicate very closely with those individuals within a college with responsibility for estimating tuition revenue. Since colleges often provide instruction for students in other colleges, it is also important to be aware of possible enrollment changes in other colleges that may affect instructional demand and tuition revenue. In developing the estimates on Figure 3, stable enrollment was assumed.

**Figure 3**  
**Tuition and U Fee Revenue Estimates Fiscal Year 2006-07**

A	B	C	D
Unit	FY2005-06 Updated Tuition Estimate	FY2006-07 Tuition Estimate	FY2006-07 U Fee Estimate
Crookston	5,503,727	5,838,719	1,008,847
Duluth	63,953,256	67,831,831	9,407,654
Morris	10,529,097	11,181,764	1,582,019
Graduate School	424,257	448,649	46,303
Ag., Food & Env. Sciences	10,898,240	16,043,995	1,655,990
Architecture/Lndscp Arch.	5,878,950	10,155,029	1,048,074
Biological Sciences	13,248,900	14,009,908	1,445,962
Carlson School of Management	42,870,019	45,340,865	4,678,761
Continuing Education	11,082,203	11,726,442	1,209,493
Education & Human Dev.	29,277,051	45,478,318	4,692,364
General College	9,112,959	(footnote 1)	(footnote 1)
Human Ecology	9,416,473	(footnote 2)	(footnote 2)
Humphrey Institute	3,976,485	4,204,093	433,987
Institute of Technology	56,194,682	59,420,470	6,132,992
Law School	17,646,435	18,657,930	1,925,902
Liberal Arts	114,572,684	121,150,286	12,504,267
Natural Resources	3,187,478	(footnote 3)	(footnote 3)
Bell Museum	44,102	46,625	4,813
Dentistry	9,504,138	10,055,734	1,037,265
Duluth School of Medicine	2,390,491	2,529,494	260,894
Duluth Pharmacy			
Medical School	24,142,788	25,551,660	2,634,903
Nursing	5,114,523	5,409,995	558,190
Pharmacy	10,405,648	11,005,089	1,135,655
Public Health	8,145,963	8,615,424	889,037
Veterinary Medicine	9,212,819	9,743,412	1,005,471
Health Sciences – Sr VP	548,447	580,094	59,857
AHC-Shared	39,160	41,398	4,274
Executive VP and Provost	211,140	223,206	23,043
Research	0	0	0
Rochester	644,724	681,945	70,364
<b>Total</b>	<b>478,176,839</b>	<b>505,972,375</b>	<b>55,456,381</b>

- (1) FY07 tuition and university fee revenue from General College (\$9,635,544 tuition and \$994,573 U fee) has been included in the College of Education and Human Development in order to align with new strategic positioning goals.
- (2) FY07 tuition and U fee for the College of Human Ecology has been included in the College of Agriculture and Environmental Science, the College of Architecture and Landscape Architecture, and the College of Education and Human Development as follows: College of Agriculture and Environmental Science \$1,150,110 tuition and \$118,699 U fee; College of Architecture and Landscape Architecture \$3,938,254 tuition and \$406,455 U fee; College of Education and Human Development \$4,869,295 tuition and \$502,544 U fee. This is done to align with strategic positioning goals,
- (3) FY07 tuition and university fee revenue for the College of Natural Resources (\$3,370,340 tuition and \$347,876 U fee) has been included in the College of Agriculture and Environmental Science in order to align with strategic positioning goals.

### Budget Response

For this budget submittal, complete Figure 4 to indicate your estimated tuition revenue and University Fee revenue for FY07 (intersession/summer session and regular session). The response should be prepared to indicate whether or not the college agrees with the estimate that appears on Figure 3 for FY07, and if not, present an alternative estimate and include all relevant assumptions and rationale.

**Figure 4**

**FY07 Tuition and University Fee Revenue Estimate – Response**

Please use the following format to submit a tuition revenue estimate for FY07.

**Resource Responsibility Center:** \_\_\_\_\_

Budget Office estimate of tuition revenue for FY07 \$  
(See column C of Figure 3)

Collegiate estimate of tuition revenue FY07 \$

Please include assumptions included in the collegiate estimate. Make clear any proposed rate changes from the assumed average increases included in the tables above. Include any supporting schedules that are necessary to explain the change in estimate.

Budget Office estimate of University Fee for FY07 \$  
(See column D of Figure 3)

Collegiate estimate of University Fee FY07 \$

Please include assumptions included in the collegiate estimate. Include any supporting schedules that are necessary to explain the change in estimate.

## **7. ICR Estimates**

In November 2004, the University signed a new Facilities and Administrative (F&A) rate agreement with the Federal Department of Health and Human Services (DHHS). Effective November 15, 2004 the F&A rate charged to new federal grants increased to 49.5% from 48.5%. This new rate only applies to new grants. Any grant previously awarded at the old 48.5% rate will continue to use the 48.5% rate through the end of the grant. The 49.5% Facilities and Administrative rate will be effective until June 30, 2007. Individual cost components comprising the 49.5% are as follows:

<b>Rate component</b>	<b>On Campus</b>	<b>Off Campus</b>
Building depreciation	4.6	
Equipment depreciation	3.3	
Interest on external debt	1.4	
Operations & maintenance	12.7	
Library	1.5	
Administration	<u>26.0</u>	<u>26.0</u>
Total	49.5	26.0

### **Budgeting for ICR Revenue**

In accordance with the new budget model, there will no longer be a sharing of indirect cost revenue between the college or unit performing the research and central administration. Instead, beginning in FY07, the college or other unit will receive 100% of the indirect cost revenue. This will have no impact on units that have preexisting agreements for manual rebates. Those agreements will continue unchanged.

Each unit that generates ICR revenue must develop an estimate of how much ICR they expect to generate in FY07. Figure 5 contains estimated total ICR revenue for FY07 developed by the Budget Office. Column b presents an updated estimate of total annual ICR revenue for FY06 ICR. This updated estimate was developed using actual ICR revenue generated over the first six months of FY06 and includes both the collegiate and central share of the revenue. Column h, FY07 Estimated Revenue to College, was derived by inflating the current estimate of FY06 ICR revenue in column b by 2%.

The amounts on Figure 5 represent a starting point in estimating FY07 ICR revenue by RRC. It is very important for each unit that generates ICR revenue to evaluate these estimates in light of any circumstances or facts that may be known by the unit but not reflected on the Budget Office estimate. For budget submittal, please complete Figure 6 entitled *FY07 ICR Revenue Estimate - Response* to indicate your estimate for FY07 ICR revenue and associated rationale.

Electronic reports designed to assist managers with the analysis of ICR at the unit level can be located under *Finances* at <https://www.umreports.umn.edu>.

If you have any questions regarding these instructions or calculating the ICR revenue estimate for FY06 or FY07, please call Robin Dittmann at (612) 626-9277.

**Figure 5 has been moved to last pages of this document for printing purposes.**

**Figure 5 has been moved to last pages of this document for printing purposes.**

**Figure 6**  
**FY07 ICR Revenue Estimate - Response**

Please use this page to verify or propose a change to the preliminary ICR revenue estimates for FY07 as shown in Figure 5. Note, given the new budget model, the estimated ICR revenue should represent 100% of the amount generated.

Resource Responsibility Center:

1. If you agree with the proposed estimate for FY07 ICR revenue as presented in Figure 5, please record the estimated amount of total ICR revenue.

2006-07 estimated total ICR:

2. If you do not agree with the proposed estimate for FY07 ICR revenue as presented in Figure 5, please record a new unit estimate for total ICR revenue.

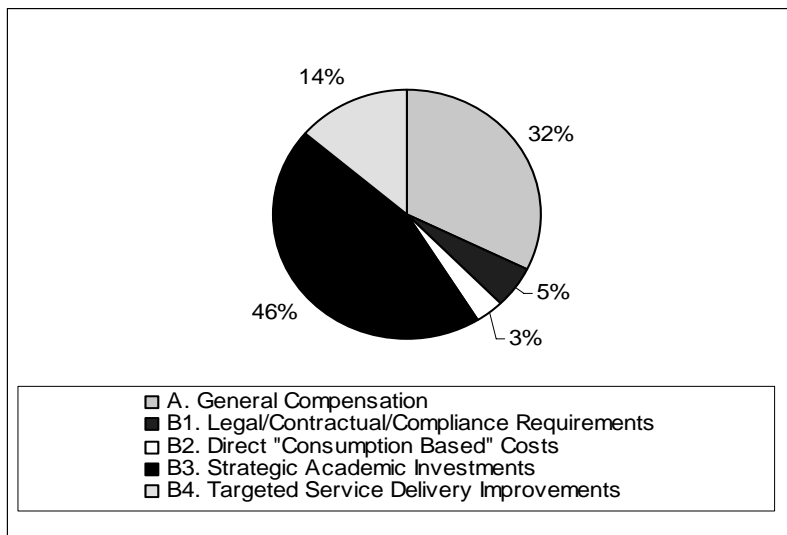
2006-07 estimated total ICR:

### 8. Cost Pool Allocations

Decisions made on the support unit budget items will lead to increases in the cost pool allocations for FY07. The specific impacts on each academic unit will be entered into the fiscal page, so units can see the difference in what each of the costs would have been for FY06 and what they will be for FY07. In aggregate, however, the changes in cost pool totals are as follows:

<u>Cost Pool</u>	<u>FY06 Base</u>	<u>FY07 Total</u>	<u>Change</u>
Admin. Service Units Systemwide	\$72,176,704	\$75,730,117	\$3,553,412
Technology Systemwide	28,522,942	30,479,451	1,956,508
Facilities O&M	62,778,527	65,565,211	2,786,683
Admin. Service Units Twin Cities	9,357,090	10,041,190	684,100
Technology Twin Cities	22,162,999	23,256,969	1,093,970
Student Services (All) Systemwide	10,108,227	10,870,110	761,883
Student Services (All) Twin Cities	2,312,348	2,334,783	22,435
Research	16,638,795	18,959,970	2,321,175
Library	44,010,011	46,865,185	2,855,174
Student Services Undergraduate	32,093,248	35,997,726	3,904,478
Student Services Graduate	16,984,544	19,876,618	2,892,075
General Purpose Classrooms	<u>10,151,523</u>	<u>11,399,325</u>	<u>1,247,802</u>
Subtotal (non-consumption pools)	\$327,296,958	\$351,376,654	\$24,079,696
Utilities (direct to academic units)	42,113,527	44,909,473	2,795,946
Debt (direct to academic units)	17,320,893	16,810,782	(510,111)
Leases (direct to academic units)	3,269,621	3,593,563	323,942
Warehouses (direct to academic units)	<u>469,329</u>	<u>485,756</u>	<u>16,427</u>
Totals	\$390,470,328	\$417,176,228	\$26,705,900

The budget increases approved through the support unit budget process can be described in various categories. The specific items funded and added to each cost pool will be included in the materials to be posted to the Budget Office web site in the next two weeks (along with the specific calculations of each cost pool by unit). The budget investments made, however, can be summarized as follows:



As the chart indicates, a significant amount of investment in the academic priorities of the institution is implemented through the support unit budget development process. 46% of the increase in the non-consumption based cost pool allocations represents “Strategic Academic Investments”. The complete list of items by cost pool will be posted to the Budget Office web site, but examples of the major investments included here are Technology Enhanced Classrooms, Library Collections and Priorities, Interdisciplinary Investment Pools, Graduate Student Funding Support, Merit and Need-Based Financial Aid and so forth. Under the new budget model, these types of University priorities will continue to be funded through the cost pool methodology. When the budget for next fiscal year is finalized for Board review, all investments (whether included in the cost pools or direct funded in the colleges and campuses) will be summarized and explained together.

**G. Submissions – Budget Information (supplemental to draft compacts)**

**Items 1 – 6 in this section should be submitted to the relevant Budget Office contact one week prior to the compact/budget meeting scheduled for each unit.**

1. Revenue Estimates – Tuition/University Fee/ICR

Please see sections F-6 and F-7 above and complete Figures 4 and 6.

2. Fiscal Page – All Non-sponsored Fund Sources

Budget discussions this year will focus on each unit’s overall financial structure and health. To that end, all-funds (all sources) fiscal pages have been created for each unit (sent electronically to each RRC in the next week). The format of these fiscal pages is the same for all units. The pages hold the following information for FY04 and FY05 (Actual Year End) and the FY06 Approved budget - in columns A, B and C:

- Revenues and expenditures by summary categories – all funds or sources combined (information on the specific revenue and object codes under each category will be sent along with the fiscal page)
- Net transfers in/out from other units – all funds (sources) combined
- Actual central allocation
- (Decrease)/Increase in net assets overall - defined as Revenues less Expenditures plus Net Transfers plus Central Allocation
- Net assets at the beginning of the year (carryforward) and net assets at the end of the year (ending balance) – all funds (sources) combined.

Column D restates the FY06 approved budget implementing the neutral transition to the new budget model. For academic units, the primary changes in this column include: the addition of University Fee revenue (if applicable), the increase in ICR revenue to 100%, the elimination of the IRS expense, and the addition of the cost pool charges within the expenditures. In addition, a box at the bottom of column D details the changes in revenues and expenditures that lead to a neutral result between column C and column D. After all changes, the ending balance in each of these two columns should be equal.

The final column (column E) is for creating a projection of FY07 activity. The budget submittal should focus on completing column E based on the planning parameters described earlier in this document. Estimates for tuition, the University Fee, ICR and cost pool allocations have been entered in each sheet by the Budget Office. As in past years, units have the opportunity to review these estimates and make

justified changes to them for budgeting purposes. The process for submitting these revenue estimates was described in sections F-7 and F-7 above.

Please fill in each blank row of column E using the best information available at this time. **DO NOT** include in this column projections related to any *new* initiative requests, such as those submitted as compact initiatives – ***this column should reflect the ongoing costs of current operations only.*** Also, please note that projected increases entered in the various expenditures categories of column E do not guarantee approval of that expenditure level or increased allocations. The purpose of this part of the exercise is to best represent the costs of ongoing current operations. Decisions made on whether that level of activity is appropriate or desired will be made through the budget development process.

To better understand anticipated changes, please submit a narrative explanation of each material increase or decrease projected for revenues (excluding tuition, University Fee and ICR) and expenditures (excluding the cost pool allocations). For example, if a unit is projecting a material decrease in external sales revenue, that unit should provide a brief explanation of what is causing that decrease. Similarly, if a unit is projecting a material increase for communications expenditures, that unit should provide a brief explanation of what is generating that increase.

Units should also project their ending balance (all non-sponsored funds/sources) for FY06 – which may differ from the approved budget column projection of ending balance (columns C and D) due to more current information, and enter that in the “net Assets Beginning of the Year” row of column E. This entry should just be an updated estimate of what the FY06 ending balance will be for all non-sponsored funds.

If there is information missing in these instructions necessary to complete column E, please contact your budget contact for assistance. Please note – the central allocation line in column E is intentionally left blank at this point and will not be filled in until final decisions are made on the budgets for each unit.

### 3. Balance Description

As just described, the ending balance is included as part of the fiscal page. In order to fully understand the resources available to each unit, further information is needed on those balances. Please break the FY05 actual ending balance (Net assets at the end of the year – column B) and the FY06 projected ending balance (Net assets Beginning of the Year – column E) into two categories – 1) ISO and restricted funds and 2) unrestricted funds. Then for each of those two categories, please allocate the balances into categories as displayed in the table below (definitions follow). The totals of columns A and C should equal the ending balance of column B on the fiscal page, and the totals of columns B and D should equal the beginning balance of column E on the fiscal page.

	A FY05 Ending Balance- ISO/Restricted	B FY06 Ending Balance – ISO/Restricted	C FY05 Ending Balance- Unrestricted Funds	D FY06 Ending Balance- Unrestricted Funds
Debt & Internal Loans				
Inventory				
Facilities				
Equipment				
Revenue Contingencies				
Programmatic Reserves				
Faculty/Chair/Professorship				

Accts.				
Employment Related Pay Outs				
Emergencies				
Cash Flow				
Other				
Total				

Debt & Internal Loans – Funds reserved to conform to required debt service schedule on bonds or the required payment schedule on internal loans.

Inventory – funds representing the value of any inventory recorded on the general ledger as of June 30 (e.g. livestock, gold).

Facilities – Funds reserved for capital expenditures related to facilities construction, remodeling, development and deferred maintenance.

Equipment – Funds reserved for equipment purchases.

Revenue Contingencies – Funds held in reserve to mitigate the potential negative impact of actual revenues being less than anticipated.

Programmatic Reserves – Funds reserved for attracting and hiring key personnel and for programmatic enhancements or multi-year program design.

Faculty/Chair/Professorship Accounts – Funds held in accounts assigned to individual faculty members for their academic use.

Employment Related Pay-Outs – Funds reserved for potential payout of accrued vacation, severance, disability leave, etc.

Emergencies – Contingency funds held at the unit level for unanticipated needs.

Cash Flow – Fund reserved by business units for working capital – obligations inconsistent with revenue flows.

Other – To be explained by unit.

#### 4. Significant Financial Concerns

Some financial concerns and issues cannot appropriately be described as strategic priorities as identified in the compact instructions. There are items that need to be addressed, but should not be elevated to the level of a unit’s strategic priority. Each unit with a financial concern should provide a brief narrative summary of the issue. The suggested length for this response is no more than one brief paragraph per issue.

#### 5. ISO Rate Setting

Under the new budget model, ISOs must continue to submit their rate proposals through the budget process, so this section is intended to provide instruction for that. Any unit without ISO operations can disregard this section. Please note: no ISO funds can be used to pay the cost allocation charges.

Therefore, rate development for ISOs should **not** factor in cost increases associated with the new charges. This rule must apply in order to eliminate the potential for “double-charging” sponsored research grants for overhead operations – once through the ICR rate and once through the cost allocation charges.

University of Minnesota financial policy 3.2.1, Selling Goods & Services to University Departments, 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 Organization has grouped ISOs based on various “risk factors”. Each of these groups undergo various rates of review to insure compliance with set policies. 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.

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 FY06. For FY07 budget development, these ISOs should submit a summary of their major rates for FY05, FY06 and proposed for FY07, 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 are comparable.

Instructions for ISOs 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 FY06. For purposes of FY07 budget development, these ISOs should submit rate information only for rates which are new for FY07 or for anticipated increases in a current rate that exceeds a 3% inflationary rate. In the submission, include:

- Rate for FY06
- Proposed rate for FY07
- Product line involved
- Description of any new product line or businesses involved
- Process for setting the rate
- Cost components included in the rate
- Review and approval process for the rate
- Total annual revenue projected for FY07 and growth over FY06 if applicable

#### 6. Course and College Fees

Each unit owning **college, course and incidental fees charged to a student** (most of which – but not all – are charged to a PeopleSoft student account and appear on billing statements) must review these fees, propose changes and submit this information using the web site fee request system found at <https://intranet.oess.umn.edu//osf/fee/>. The information submitted will be incorporated into the overall tuition and fee plan presented to the Board of Regents along with the budget in June.

**The Fee Request and Approval system will be available for entry of FY07 fee information beginning February 20. All fee entry should be completed by April 10.** This system will be used to

capture all student fee information and will help ensure that units receive the fee revenues approved in the annual budget process. The fees owned by each college and approved for FY06 have been rolled over in the system to FY07 as pending fees. They are ready to be approved as is, or they can be edited or deleted.

The following data is necessary for fee setup:

- The CUFS account number (fund, area, org, suborg [optional], revenue source and subrevenue) where the fee revenue is to be recorded.
- The amount of the fee.
- The amount of expected revenue for term fees (fees not associated with a particular course or class). Expected revenue is not required for course and class fees.
- The semesters that the fee should be charged.
- Rate structure (example, is this fee a flat fee or a per credit rate? Are different amounts charged at different credit levels?).
- For course fees, the course subject and designator (for example ACCT 2050). If there are multiple components, the component to attach the fee to must be identified. If fees must be broken down to a section level, the section numbers are necessary.
- The method of assessment, that is, will it be posted as part of the tuition calculation process, will a department be posting it directly to the student accounts, or is it collected by some other method?

Additional information and instructions, including procedures designed to minimize data entry, can be found on the website referenced above. As a reminder, this site should also be used throughout the year to request any late changes or to make clarifications to previously approved fees. Adding changes in the system allows all users to access a complete, up-to-date source of student fee information. It also allows late changes to be included in the rollover process to provide users with more accurate, comprehensive future year fee data to review in the next cycle.

After fees are submitted, the relevant budget officer in the Office of Budget and Finance will receive an e-mail message indicating that a proposal is awaiting action. After approval is given, the RRC manager will be able to go online and see the results. A report listing the final fee approvals will be generated for review by the Board of Regents. It is this final list of fees that will be entered into PeopleSoft for FY07 implementation.

Please keep in mind, proposals for new course fees must meet the parameters established in Regents Policy – course fees must be designed to recover specific costs. They can be assessed for the purposes of paying for transportation related expenses associated with field trips, paying for expendable materials utilized in instruction, or addressing cost demand for services such as music lessons or access to very specialized equipment. The appropriate rationale for a proposed new fee will need to be entered into the web request system in order for your request to be considered.

**There is no other process for implementation of fees – please make sure the list you submit is complete and accurate. Fees that are not requested via the fee request system and approved by the Regents may not be implemented until the next budget year.**

#### 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 currently employed at the University. One clear result was 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 2006-07. 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 (i.e., 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. Programs on the list below were reviewed last year, and therefore do not have to 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](mailto:jmerriam@umn.edu) with any questions 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 this budget submission:

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

Programs currently approved for fee waivers

*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*

**H. Process**

**1. Budget Compact Meetings and Due Dates**

The combined compact and budget meetings have been scheduled from mid-February to very early April. The meetings will include key people from each unit, the Budget Office and the administrative team to which the unit reports. The agenda for each of these meetings will be distributed in advance, but will essentially include discussion of the issues included in the draft compact documents and the budget submittals. No other formal budget presentation materials are necessary.

**Submittal Due Date – One week prior to the scheduled meeting, please send budget submittals (items G1 – G6 detailed above) to the relevant budget contact.**

**2. Budget Recommendations**

At the conclusion of the compact/budget meetings, the Senior Vice Presidents will make recommendations to the President on the approval of specific initiative requests and the level of O&M allocation for each unit. These recommendations will take into consideration the proposals and funding levels necessary to make the unit successful and the necessity of presenting a balanced budget to the Board of Regents. The budget for the University must be balanced by the end of April in order to meet presentation deadlines for the May Board of Regents meeting. As a reminder, that budget framework for FY07 does include a planned internal reallocation of over \$10 million, so while new investments will definitely be made, there will also be decisions made related to expected reallocations.

As mentioned previously in these instructions, communication on investment decisions going forward will be done in an all-funds context. Each unit will receive a response to the items submitted for consideration in the budget.

For each requested budget increase, the response from the senior academic leadership could take several different forms. For example, a unit might be told one of the following:

- Yes – go forward with proposed activity and it will be funded through an increased O&M allocation (similar to the past)
- Yes – go forward with proposed activity and it will be funded through the use of increased unit revenues – tuition, ICR, etc.
- Yes – go forward with proposed activity and it will be funded through internal reallocation of unit resources
- Yes – go forward with proposed activity and it will be funded temporarily through the use of unit balances
- No – do not go forward with proposed activity

The budgets will be reviewed in an all-funds context, and as a result, the decisions made about initiative funding will be communicated in that all-funds context.

### 3. Cost Allocations

The FY06 revenue neutral cost allocations and projected FY07 cost allocations for each unit are detailed in the unit-specific fiscal pages that will be distributed within the next week. Additionally, the spreadsheets used to calculate the cost allocations and the related summary of charges by college, along with the detailed FY07 line-item increases added to each cost pool, will be available on the Budget Office web site in the very near future. An e-mail announcement of that posting will be sent out as soon as those documents are available for viewing.

The general description of the budgets funded within each cost pool is included with these instructions as Appendix A.

### 4. Balancing the Overall University Budget

Approximately half of the budget process has been completed with the distribution of these instructions.

- Support unit budget instructions were distributed in October;
- Compact/budget meetings were held with each of the support units in November and early December;
- Forecasting items (salary and fringe, tuition estimates etc.) have been updated to provide a context for making decisions within the University's overall budget framework;
- Support unit budgets for FY07 have been recommended to the President and he has given approval to proceed based on those recommendations;
- Cost allocations have been calculated for FY07 based on the approval of support unit budget

The remaining components of budget development for FY07 will include:

- Compact/Budget meetings with each of the academic units between mid-February and early April
- Development of academic budget recommendations to the President based on the available resources, all-funds analyses and investment plans of each unit – to be completed by late April

- Adjustment of support unit budget, cost allocations and planned academic unit budgets near the end of the process only when a significant unforeseen impact to the budget occurs – otherwise, hold to approved budgets and cost allocations and deal with moderate to low impact variances through the use of central reserves or through adjustments to budgets and rates the following year.
- Delivery of the President’s recommended operating budget for FY07 to the Board of Regents for review in May and approval in June.

5. Assistance on the Budget

This is a new process and a new way of developing budgets. Every question is important and may prove useful in advancing the process or clarifying the materials for others, so please feel free to call or e-mail your budget contact for any assistance you may need.

**APPENDIX A**  
**Cost Pool Descriptions**

There are nine primary cost pools in the new budget model. A brief description of each cost pool and the basis for allocating the corresponding costs is described below. In addition, the detailed FY07 model that calculates the distribution of costs for each pool (the “double step-down” model) contains the specific unit-level statistics on which each cost pool is allocated and will soon be posted to the Budget Office web site for reference.

1) Administrative Service Units

This cost pool includes the budgets for those units with general administrative responsibilities. Most of them have institution-wide oversight, policy or programmatic responsibilities, but several areas clearly provide services only to the Twin Cities campus, so this cost pool incorporates a two-tiered methodology – spreading the “systemwide” budgets across all campuses and the “twin cities” budgets only to units on the Twin Cities campus. On the “double step-down” model, the statistics and cost allocations for this pool are split into two separate columns – one for System-wide and one for Twin Cities only. The units included within this pool are:

System-wide

Audits  
Bldg Systems Automation Ctr  
Board of Regents  
Budget and Finance  
Capital Planning & Project Mgmt.  
Controller  
General Counsel  
Human Resources  
President’s Office  
Public Safety (excluding Police)  
Sr. VP – Academic Affairs & Provost (excluding academic areas)  
Sr. VP – Health Sciences (excluding academic areas)  
Sr. VP – System Administration (excluding academic areas)  
University Health & Safety  
University Relations  
VP for University Services

Twin Cities Only

Bursar’s Office  
Campus Mail  
University of MN Alumni Assoc.  
University of MN Police  
University Services (Finance, HR, IT)

This cost pool is allocated to the academic units based on their proportionate share of total expenditures (all funds) of the most recently closed fiscal year. The combined total of the FY07 approved budgets for the units listed above will be allocated based on the academic units’ proportionate share of FY05 total expenditures. Total expenditures was chosen as the base simply to represent the most reasonable way to spread a shared cost across all units. There is no recognized link between the amount of spending in a unit and that unit’s “use” of the services of a particular office within this pool.

2) Technology

This cost pool includes the portion of the Office of Information Technology’s (OIT) budget that previously was funded through central allocation. The portions of OIT’s budget that have been managed as an Internal Service Organization (ISO) will continue to operate that way. In other words, units across

the University are currently billed separately for telephone service, and that will continue. The cost allocation charge implemented through the budget model will fund such things as the Data Network, Email, UMCAL, File Storage, Peoplesoft, E-Research, Helpdesk, Digital Media Center, Security and so forth.

As with the Administrative Service Unit Pool, much of the budget within this cost pool supports institution-wide oversight, policy or programmatic activities, but some areas within OIT primarily provide services only to the Twin Cities campus, so this cost pool also incorporates a two-tiered methodology – spreading some of the budget across all campuses and some only to units on the Twin Cities campus. For example, the data network is primarily a twin cities campus activity, while the Peoplesoft systems and security policy and procedures are system-wide activities. For FY07, approximately 57% of OIT's approved budget has been allocated on a system-wide basis and the remaining 43% has been allocated only to the Twin Cities campus. Again, on the “double step-down” model, the statistics and cost allocations for this pool are split into two separate columns – one for System-wide and one for Twin Cities only.

This cost pool is allocated to the academic units based on a proportionate share of total employee and student headcount from the fall of the prior year. The FY07 approved centrally allocated budget for OIT is spread based on the academic units' proportionate share of total headcount from the fall of 2005. Total headcount was chosen as the basis for this cost allocation because it was believed to be the best proxy for “use” of technology service across the institution. Whether any particular employee actually uses their x.500 account is not measured. Instead, the provision of the opportunity for use and the recognition that all students' and employees' records are maintained within the computer systems and networks of the University were the basis for the decision. It is a relatively stable, predictable and simple basis on which to allocate costs. The detailed query results that led to the headcount statistics for this pool on the “double step-down” model will be available for reference on the Budget Office web site.

### 3) Facilities Operations & Maintenance

This cost pool includes services within Facilities Management (FM) on the Twin Cities campus only. Facility operational and maintenance costs will continue to be managed outside of this cost allocation pool by each campus (or research and outreach station).

Services provided within the FM O&M cost pool include:

- Custodial Services
- Maintenance (preventive and repair maintenance to facilities and major equipment)
- Landcare
- Waste management
- R&R (Repair and Replacement, ex. extraordinary maintenance and replacement of building components like roofs, windows, elevators, etc.)
- Water, Sewer and Stormwater utility costs
- Facilities Management administration

The costs within this cost pool are based upon an agreed upon set of service levels for the Twin Cities campus. These service levels and the associated costs have been (and will continue to be on an annual basis) reviewed and approved through the budget process. Details of these service levels will soon be available to download from the FM website (<http://www.uservices.umn.edu/fm.html>). Additional services beyond those funded within this cost pool are available by FM at their identified rates.

This cost pool is allocated to the academic units based on a proportionate share of total assignable square feet (ASF) from the fall of the prior year. The FY07 approved budget for these activities within Facilities Management will be allocated based on the academic units' proportionate share of ASF from December 2005. Each unit was given an opportunity to review the space data assigned to it and make necessary changes prior to "locking" the data base for use in the budget model. That same process will take place each year. A more complete explanation of the rules used in the assignment of space is included in these instructions as Appendix x.

This pool excludes buildings operated to support auxiliary functions that are required to pay their actual costs, such as athletic venues, residential life student housing, parking ramps, student unions and Boynton. In addition, O&M costs (and the associated ASF) for "warehouse" type space is assigned costs from a separate direct consumption-based cost pool (since these facilities are much cheaper to operate and receive a lower level of services, ex. no custodial services). Warehouse space includes facilities such as gyms, field houses, and barns.

Lastly, the space (and costs) leased to non-university tenants are excluded as well. Non-university tenant space is funded through lease revenue which off-sets these costs.

The space statistics for each academic unit are included on the "double step-down model" that will be available for reference on the Budget Office web site.

#### 4) Student Services

This cost pool is divided into three categories, containing the budgets of various central administrative units dealing with student services.

- a. Category 1 – Services to All Students (regardless of type or level).* This category includes the budgets for Student Finance Administration (primarily Peoplesoft system administration) and the Registrar. Due to the nature of some of these activities, this cost pool also incorporates a two-tiered methodology – spreading some of the budgets across all campuses and some only to units on the Twin Cities campus. Approximately 89% of the Student Finance Admin budget is distributed system-wide, and the remaining 11% is distributed just to the Twin Cities units. Approximately 80% of the Registrar's budget (excluding classroom activities) is distributed system-wide, and the remaining 20% is distributed just to the Twin cities units. On the "double step-down" model, the statistics and cost allocations for this pool are split into two separate columns – one for System-wide and one for Twin Cities only.

The basis for distribution of this cost pool is total student headcount from a point in time during fall semester of the previous year. The FY07 approved budgets for these two units is allocated based on the academic units' proportionate share of the total student headcount from the fall of 2005. The detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

- b. Category 2 – Services to Twin Cities Undergraduate Students.* This category includes the budgets (previously funded by central allocations) for:
  - Admissions Office and Scholarships
  - Orientation & First Year Programs
  - Health Career Center
  - Student Affairs (excluding activities funded through student fees)
  - Student Finance – Financial Aid

The combined budgets for these activities are distributed only to units on the Twin Cities campus. The basis for distribution of this cost pool is total undergraduate student headcount from a point in time during fall semester of the previous year. The FY07 approved budgets for these units and activities is allocated based on the academic units' proportionate share of the total undergraduate student headcount from the fall of 2005. The detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

- c. **Category 3 – Services to Students Enrolled in the Graduate School.** This category includes the budget for the Graduate School.

The basis for distribution of this cost pool is total headcount of students enrolled in the Graduate School and total headcount of Graduate School faculty – again from a point in time during fall semester of the previous year. The FY07 approved budget for the Graduate School (excluding the University Press) is allocated based on the academic units' proportionate share of the total headcount of students enrolled in the graduate school and total headcount of graduate school faculty from the fall of 2005. Again, the detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

#### 5) Research

This cost pool includes the budgets for central units that administer, support and monitor sponsored research activity. Structurally, these budgets exist within the office of the Vice President for Research (excluding the Hormel Institute), Sponsored Financial Reporting in the Controller's Organization and the AHC Office of Research.

This cost pool is allocated to academic units based on their proportionate share of the average of the last three years of total sponsored expenditures. The three-year rolling average is used in this formula to recognize the relative variability in this revenue source for some units, which will serve to lessen large swings in the costs distributed by unit. The total of the FY07 approved budgets for the units identified above will be allocated based on the academic units' proportionate share of the average of FY03, FY04 and FY05 total sponsored expenditures.

#### 6) Library

This cost pool includes only the approved centrally allocated budget for the University Libraries. Because this budget supports Twin Cities activities almost exclusively, this cost pool is allocated only to units on the Twin Cities campus. The basis for distribution is a weighted faculty and student headcount from the previous fall. The weighting factors are as follows:

Lower division undergraduate students	.5
Upper division undergraduate students	.75
Professional and graduate students	1.0
Faculty (broadly defined)	1.0

This weighting scheme has been used for many years as part of the instructional cost study. There is concern, however, that perhaps the scheme is outdated and doesn't best reflect the usage patterns of today, so over the next year or so, this weighting mechanism will be reviewed and potentially revised.

The FY07 approved budget for the University Libraries is allocated to the academic units based on the weighted headcount from the fall of 2005. The detailed query results that led to the headcount statistics for this pool on the “double step-down” model will be available for reference on the Budget Office web site.

#### 7) Utilities

This cost pool represents the actual costs for the following utilities: steam, electricity and, beginning in FY08, chilled water. A more complete description of this cost pool is included within the instructions, Section X on page x. Some units will continue to need the utility rates to plan for their budgets, so that information was included in the instructions as planning parameters.

The actual costs will be allocated to the academic units on the Twin Cities campus based on their actual consumption of the utilities involved. The cost is calculated at a building level and then distributed within the building based on each unit's share of total assignable square feet for that building.

#### 8) Debt & Leases

This pool includes the costs of centrally supported debt service and leases on behalf of units on all campuses. Costs are allocated based on the actual occupancy of space for which the University pays debt service or lease costs (again distributed within a shared building based on each unit's share of total assignable square feet for that building). For FY07, the University's known and estimated costs of debt service and leases are allocated to units based on occupancy during FY07.

#### 9) General Purpose Classrooms

This cost pool includes the budgets for central units that support, monitor and manage general purpose classroom space on the Twin Cities campus. The units involved are the Classroom Management Offices within the Sr. Vice President for Academic Affairs & Provost Office and the Sr. Vice President for Health Sciences Office.

This cost pool is allocated to the academic units based on their proportionate share of total course registrations in the fall of the prior year. The approved budget for these activities for FY07 is allocated based on total course registrations from the fall of 2005. The detailed query results that led to the course registration statistics for this pool on the “double step-down” model will be available for reference on the Budget Office web site.

**APPENDIX B**  
**Treatment of Space in the new Internal Budget Model**

**Space Information as it relates to Cost Pools:**

There are four cost pools in the new budget model which rely upon how much space is assigned to RRCs:

Property & Liability Insurance (not a new cost pool)  
Twin Cities Campus Utilities  
Twin Cities Campus O&M costs  
Twin Cities Debt allocation

[Note: For coordinate campuses and research/outreach stations, the cost allocation processes for the Twin Cities (utilities, O&M, and debt) will be allocated based on the campus/site and will not utilize individual space allocations within a building.]

Separately in these instructions, (in the Property & Liability and Non-Profit Organization Liability Insurance section on page 14 and in Appendix A) the cost allocation for each of these cost pools is described. This section is intended to explain how the baseline space information is generated, managed and will be used to support cost allocation.

In a memo dated October 25, 2005 to RRC managers from the Budget Office and the Space Management Office, each RRC was asked to verify the CUFS area to which each room on the Twin Cities campus is assigned. This memo summarized how and where the University maintains the allocation of space:

“The SPACE database, which tracks assignment, function and use of every room in every building at the University of Minnesota, is now being used as the basis for determining the quantity of assignable square footage (ASF) assigned to each Area Group (RRC) for calculation of the costs which will be allocated by ASF in the new budget model. Assignment information is normally updated by the SMO on a one to three year basis for strategic planning purposes, indirect cost recovery, and allocation of insurance and utilities costs.

With this notice RRCs were given the opportunity to update the information within the SPACE database. In the future, early each fall, the Budget Office in collaboration with the Space Management Office will send a listing of rooms assigned to each RRC by building. RRC Managers should review this information and send back corrections if needed. (There will be a link on the Budget Office website for an example of this form.) After the SPACE system is updated, a snap-shot will be taken and that information will be used to calculate the building cost allocation for the following fiscal year. Changes to space allocation after that point and throughout the fiscal year will not be utilized to change any cost allocation throughout the year, but will be part of calculating the allocation of costs for the next fiscal year.

Any change in the allocation of space needs to be reviewed and approved by the Office of Space Management. Though changes in the assignment of space may be approved or dis-approved for a number of reasons, some general criteria and practices include:

- Space assignments within an area require approval by the Director
- Space assignments within an area require approval by the RRC (Dean/AVP/etc.)
- Space assignments within a VP unit require approval by a VP

- Space changes between units require the approval of both sides of the change or the administrative leader for both of them (ex. a Dean can approve changes between departments) and the Space Management Office.
- Space may be considered for a ‘return’ to the University as unassigned or changed to inactive (and not charged to an RRC) if:
  - The change helps achieve a strategic goal
  - The space is contiguous, accessible from a public corridor, and of sufficient size to be assigned to another program

All cost will be allocated according to **Assignable Square feet**, defined as:

Assignable square feet (or “ASF”) is the sum of all areas on all floors of a building assigned to, or available for assignment to, an occupant. It is measured and tracked at the room level. Note that it does not include space used for the general operations of the building as described under non-assignable space below.

This means that all the costs relating to non-assigned space is excluded from the cost allocation process and are shared equally by each ASF within a building. **Non-Assignable space** is defined as:

The sum of all areas on all floors of a building not available for assignment to an occupant or for specific use, but necessary for the general operation of a building. This includes areas like public restrooms, corridors, stairwells, elevator lobbies and shafts, custodial closets, loading platforms, and mechanical rooms.

Finally, there is **Unassigned Space**, i.e. space which could be assigned to someone but is not due to it being decommissioned, unfinished, inactive or under renovation. Space that is unassigned is handled based on the following rules.

- Decommissioned or unfinished space is excluded from the total assignable square footage.
- Inactive space is assigned to the Twin Cities Administrative Cost Pool and allocated accordingly.
- Space that is being remodeled is assigned to the future tenant.

There will soon be a link on the Budget Office website to this year’s space inventory. A communication describing all budget model information available for reference on the Budget Office web site will be distributed in the next two week. Any questions regarding the space data base should be directed to the Space Management Office at 6-7996.

Space Management Office  
400 Donhowe Building (3121)  
319 – 15<sup>th</sup> Avenue South East  
Minneapolis, MN 55455

Figure 5

Estimated Indirect Cost Revenue  
FY2005-06 and FY2006-07

Manual rebates have been removed

**Coordinate Campuses @ 85.5%**

	a FY06 Approved Budget Revenue	b Jan-FY06 Updated Revenue Estimate	c FY06 Projected Unit Share 49.50%	d FY06 Projected Central Share 50.50%	e FY06 Additional Off campus estimate	f FY06 Estimated Revenue to College	g FY06 Estimated Revenue to Central	h FY07 Estimated Revenue to College
								1.02
1 Crookston	17,544	40,754	34,845	5,909		34,845	5,909	41,569
2 Duluth	1,831,072	1,831,290	1,822,601	265,537		1,822,601	265,537	1,867,916
3 Morris	29,776	29,192	24,959	4,233		24,959	4,233	29,776

**Academic Health Center**

4 Sr. VP	-	-	-	-		0	-	0
5 Academic Health Center-Shared	5,610,122	4,802,508	2,377,241	2,425,267	4,427	2,381,668	2,420,840	4,898,558
6 Duluth School of Medicine	733,333	713,466	353,166	103,453	2,042	355,208	101,411	727,735
7 School of Dentistry	2,087,677	1,939,500	960,053	979,448		960,053	979,448	1,978,290
8 Medical School	36,502,230	36,014,386	17,827,121	18,187,265	223,310	18,050,431	17,963,955	36,734,674
9 School of Nursing	536,478	527,920	261,320	266,600	204	261,524	266,396	538,478
10 College of Pharmacy	1,558,001	1,527,452	756,089	771,363	3,247	759,336	768,116	1,558,001
11 School of Public Health	11,266,058	11,266,058	5,576,699	5,689,359	90,924	5,667,623	5,598,435	11,491,379
12 College of Veterinary Medicine	1,460,613	1,431,974	708,827	723,147		708,827	723,147	1,460,613
13 Total Academic Health Center	59,754,512	58,223,264	28,820,516	29,145,901	324,154	29,144,670	28,821,747	59,387,729

**Executive VP and Provost**

14 Executive VP and Provost	10,000	1,657	820	837		820	837	1,690
15 College of Biological Sciences	3,989,865	3,911,632	1,936,258	1,975,374	24,652	1,960,910	1,950,722	3,989,865
16 College of Liberal Arts	4,008,342	3,929,747	1,945,225	1,984,522	22,597	1,967,822	1,961,925	4,008,342
17 General College	83,636	87,441	43,283	44,158		43,283	44,158	(footnote 1)
18 Institute of Technology	18,163,150	19,473,056	9,639,163	9,833,893	70,920	9,710,083	9,762,973	19,862,517
19 Agricultural Experiment Stations	-	29,240	14,474	14,766		14,474	14,766	29,825
20 Architecture and Landscape Architecture	127,754	125,249	61,998	63,251		61,998	63,251	168,667

Budget Instructions for FY07 – Academic Units

	a	b	c	d	e	f	g	H
	FY06	Jan-FY06	FY06	FY06	FY06	FY06	FY06	FY07
	Approved	Updated	Projected	Projected	Additional	Estimated	Estimated	Estimated
	Budget	Revenue	Unit Share	Central Share	Off campus	Revenue	Revenue	Revenue
	Revenue	Estimate	49.50%	50.50%	estimate	to College	to Central	to College
21 Education and Human Development	3,927,543	4,162,732	2,060,552	2,102,180	11,185	2,071,737	2,090,995	4,490,286
22 College of Human Ecology	270,412	265,110	131,229	133,881	10,161	141,390	123,720	(footnote 2)
23 College of Natural Resources	790,486	774,986	383,618	391,368	9,964	393,582	381,404	(footnote 3)
24 Agriculture, Food and Environ. Sciences	2,243,874	2,197,524	1,087,774	1,109,750		1,087,774	1,109,750	3,106,350
25 Carlson School of Management	306,809	300,793	148,893	151,900		148,893	151,900	306,809
26 Humphrey Institute of Public Affairs	416,996	824,744	408,248	416,496	110,893	519,141	305,603	841,239
27 Law School	85,727	84,046	41,603	42,443		41,603	42,443	85,727
28 Minnesota Extension Service	436,458	427,900	211,811	216,090	117,673	329,484	98,417	436,458
29 Bell Museum	96,221	94,334	46,695	47,639		46,695	47,639	96,221
30 College of Continuing Education	35,923	35,219	17,433	17,786		17,433	17,786	35,923
31 University Libraries	27,863	27,317	13,522	13,795		13,522	13,795	27,863
32 Total Executive VP & Provost	35,021,059	36,752,727	18,192,600	18,560,127	378,045	18,570,645	18,182,082	37,487,782
33 VP for Research	-	-	-	-				0
34 VP for System Administration	322,179	365,994	181,167	184,827		181,167	184,827	373,314
35 Campus Life	22,210	24,774	12,263	12,511		12,263	12,511	25,269
36 <b>Grand Total</b>	96,998,352	97,267,995	49,088,950	48,179,045	702,199	49,791,149	47,476,846	99,213,355

1) FY07 ICR revenue from General College (\$89,190) is included in the College of Education & Human Dev. in order to align revenue with new strategic positioning goals.

2) FY07 ICR revenue from the College of Human Ecology is included in COAFES (\$74,390), CALA (\$40,913), and CEHD (\$155,109) in order to align revenue with strategic positioning goals.

3) FY07 ICR revenue from the College of Natural Resources (\$790,486) is included in COAFES in order to align with strategic positioning goals.