

FY07 Budget/Compact Instructions Support Units

October 2005

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A. Modified Budget/Compact Process for FY07

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 fiscal year 2005-06 had evolved into a complicated decision making process. The President and Sr. Vice Presidents would make decisions on a variety of budget variables, the result of which was difficult to predict and difficult to communicate.

For the last year, the work group has been meeting regularly and consulting with various groups to build a recommended budget model based on the goals stated above. The working 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 recommended model 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 will 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 revenue generating 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) and the payment of those bills will fund the operations of the support units. A graphic depiction of the new budget model is being sent with these instructions as a separate attachment. Income generated by central support units outside of the central allocation will continue to be recorded directly to accounts in those support units.

The revised budget process necessary to implement the new model also led the group to recommend better coordination between the budget and compact processes. It was felt this would be an opportune time to try and streamline procedures, requiring units to go through only one priority setting and resource planning process each year with central administration. This set of instructions is designed to accomplish that recommendation for support units. Descriptions of what will be expected of each unit and how the new process will work are included in later sections of these instructions.

For purposes of budget and compact 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 recommendations to the President, which he approved, is to keep implementation of the model at that RRC level: if a Dean wishes to allocate costs down to a department level, for example, he or she will first need approval by central administration.

B. Support Units Included in these Instructions

Units receiving these instructions in October are considered support units for purposes of the new model. The budgets of these units (that were previously funded through a central allocation) represent cost pools within the new system that are to be billed out to the academic units. The central support units, organized by the nine cost pools for

allocation, are identified below, along with their assigned budget contact for FY07 budget development, and a brief description of the methodology that will be used to allocate the respective costs to the academic units. Please note, some RRCs are split into more than one cost pool. If that is the case, though, the budget for FY07 should continue to be developed for the whole RRC – submittals of information should be done for the unit as a whole. Splitting the budget into different cost pools will occur only after the whole budget for the unit is approved.

Cost Pool 1. Administrative Service Units

Budget Contact

Board of Regents (TREG)	Robin Dittmann
President' Office (TPRO)	Robin Dittmann
General Counsel (TGCL)	Robin Dittmann
Audits (TAUD)	Robin Dittmann
Budget & Finance (TBFI) – excluding Leases	Robin Dittmann
Controller (TCTR) – excluding SFR	Robin Dittmann
VP for University Services (TUSV)	Julie Tonneson
Bldg Systems Automation Ctr. (within TFAC)	Julie Tonneson
Capital Planning & Project Management (TCAP)	Julie Tonneson
University Health & Safety (THSM)	Julie Tonneson
Public Safety (TSAF)	Julie Tonneson
Human Resources (THRS)	Julie Tonneson
University Relations (TINS)	Julie Tonneson
Auxiliary Services-Campus Mail Only	Julie Tonneson
Sr. VP-System Administration (TSYA) – excluding:	Robin Dittmann
Children, Youth & Family	
Ctr. For Global Change	
CURA	
Ctr. For Transportation Studies	
Sr. VP for Academic Affairs and Provost (TEVP) – excluding:	Robin Dittmann
Academic Counseling	
ROTC	
Weisman Art Museum	
Admissions Scholarships	
Admissions Office	
Student Finance Administration	
Orientation & First Year Programs	
Registrar	
Student Finance-Student Aid	
Sr. VP for Health Sciences (THSC)	Julie Tonneson

This cost pool will be allocated to the academic units based on a proportionate share of total expenditures of the most recently closed fiscal year. The total of the FY07 budgets for the units listed above will be allocated based on the academic units' proportionate share of FY05 total expenditures. Some of the budgets for the units above – or areas within them – will be allocated to Twin Cities academic units only and not to the coordinate campuses.

Cost Pool 2. Technology

Budget Contact

Office of Information Technology (TINF)

Carole Fleck

This cost pool will be 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 budget for TINF will be allocated based on the academic units' proportionate share of headcount from the fall of 2005. Approximately 58% of the TINF budget will be allocated to the Twin Cities academic units and Coordinate Campuses, and the remaining 42% will be allocated to only the Twin Cities academic units.

Cost Pool 3. Facilities Operations & Maintenance

Budget Contact

Facilities Management (TFAC) excluding
Utilities and BSAC

Brian Swanson

This cost pool will be 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 this portion of TFAC will be allocated based on the academic units' proportionate share of ASF from December 2005. This cost pool affects only Twin Cities academic units and not the coordinate campuses.

Cost Pool 4. Student Services

Budget Contact

(a) All Students-All Levels & Types

Student Finance Administration (area 710 of TEVP)
Registrar (area 709 of TEVP)

Lincoln Kallsen
Lincoln Kallsen

(b) Twin Cities Undergraduate Students

Admissions Scholarships (area 885 of TEVP)
Admissions Office (area 706 of TEVP)
Orientation & 1st Year Programs (area 884 of TEVP)
Health Career Center (within TAHS)
Student Affairs (TCLF) – excluding:
 Rec. Sports
 Twin Cities Student Unions
 Student Legal Services
 Student Conflict Resolution
 Boynton

Lincoln Kallsen
Lincoln Kallsen
Lincoln Kallsen
Lincoln Kallsen
Lincoln Kallsen

(c) Graduate School Students – Twin Cities & Duluth

Graduate School (TGRD)

Robin Dittmann

This cost pool will be allocated to the academic units based on the proportionate share of the different categories of students identified above from the fall of the previous

year. The FY07 approved budgets for the units in the categories above will be allocated based on the academic units' share of the indicated student headcount from the fall of 2005. Category (a) will be allocated to the Twin Cities academic units and the coordinate campuses; category (b) will be allocated to only Twin Cities academic units; and category (c) will be allocated to only Twin Cities academic units and Duluth.

Cost Pool 5. Research

Budget Contact

VP for Research (TRES) -excluding Hormel
Sponsored Financial Reporting (area 800 of TCTR)
AHC Office of Research (area 870 of TAHS)

Robin Dittmann

This cost pool will be allocated to academic units based on the proportionate share of the average of the last three years of total sponsored expenditures. The total of the FY07 budgets for the units listed above will be allocated based on the academic units' proportionate share of the average of FY03, FY04 and FY05 total sponsored expenditures. This cost pool will be allocated to Twin Cities academic units and Duluth.

Cost Pool 6. Library

Budget Contact

University Libraries (TLIB)

Robin Dittmann

This cost pool will be allocated to academic units on the Twin Cities campus only based on the proportionate share of a weighted faculty and student headcount from the previous fall. The FY07 approved budget for University Libraries will be allocated to the academic units based on the weighted headcount from the fall of 2005. (Weighting scheme: lower division student = 2; upper division student = 3; professional student, graduate student and faculty = 4)

Cost Pool 7. Utilities

Budget Contact

Utility areas within TFAC

Julie Tonneson

This cost pool will be allocated to the academic units on the Twin Cities campus only based on their actual consumption of the utilities involved. Buildings on the Twin Cities campus are metered for use, so the cost for each building can be calculated and then spread across the units within the building based on their proportionate share of ASF for the building.

Cost Pool 8. Debt & Leases

Budget Contact

TDBT
TBF1 (portion for Leases)
(excluding general purpose classrooms)

Carole Fleck
Julie Tonneson

This cost pool will be allocated to the academic units based on the actual occupancy of space for which the University pays debt service or lease costs. The budget for these items for FY07 will be based on known costs for debt service and leased space, and that will be allocated to the appropriate academic units based on occupancy during FY07.

Cost Pool 9. General Purpose Classrooms

Budget Contact

Classroom Management Offices within
TEVP and TAHS
Debt Service/Leases and Utility Costs
Allocated to General Purpose Classrooms

Lincoln Kallsen

This cost pool will be allocated to the academic units based on their proportionate share of total student credit hours. The budget or estimated actual costs for these items for FY07 will be allocated out based on student course registrations from the fall of 2005.

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 most support units receiving these instructions, the primary changes will be realized in the following ways:

1. Timing – Budget development will be moved from the winter/spring time frame to the fall. In order to create the rates to be charged to the academic units, support unit budgets have to be set earlier in the budget cycle. On an ongoing basis, plans are to disseminate budget/compact instructions in Sept.; hold budget/compact meetings with each support unit in November; make decisions on support unit budgets in December and January and develop rates for the academic units by the end of January.
2. 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. For those units completing compacts, compact and budget information will both be included in what units are required to submit in the fall for discussion in November.
3. All Funds – Fiscal pages used for budget review and analysis will be created on an all-funds basis. Therefore, units should be prepared to discuss their various revenue sources and trends, overall expenditures and trends, and balances for all funds.
4. Standards and Benchmarking – When the model is fully implemented, units will be asked to provide information on the services they provide in comparison to peer institutions, local markets or whatever the relevant comparison group is. In addition, some units may be involved in setting service standards and reporting on different levels of service to be offered. This aspect of the model will not be fully implemented for FY07 budget development.
5. Rationale – Because support unit budgets are becoming “costs” to the academic units, there will likely be more of an emphasis placed on building a reasonable justification or rationale for approved funding levels. Each unit will be involved in helping to best describe their functions in a way that reflects its unique value to the institution. Units will not have to provide that justification directly to the academic “paying” units, but the information will be used by central administration in describing the budget approvals made for support units.

Benchmarking and performance metrics will be useful in providing this rationale. Again, this aspect of the model will not be fully implemented for FY07 budget development.

6. University Fee and ICR – Support units that had been receiving allocations of the University Fee or the central portion of Indirect Cost Recovery Funds will no longer be receiving those funds. Some changes in the accounting for these allocations and the corresponding expenditures will need to be made because all the allocations to support units will now be in O&M - none will be in funds 1008 or 1043.
7. Information on Costs – Just as academic units will be shown what their unique costs are related to facilities, technology and so forth, support units will be shown those same costs. Support units will not have to “pay” those bills, but information can be shared as to what those amounts would be if they did have to pay them. For example, the Budget Office can be shown what its utility and technology charges are that ultimately will be paid by the academic units. This information will not be available until late January and will not be used to set support unit budgets. It will just be information provided to support units for management and planning purposes.

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. Allocations – For support units, there will still be a central allocation to fund operations. Instead of coming from the state appropriation, IRS proceeds, ICR or the University Fee, the allocation will be made from the payments made in to central by the academic units.
2. Earned Income – As with the academic units, any income earned by support units will be retained by those units. Any internal or external sales revenue, for example, will continue to be recorded directly into unit level orgs.
3. Accounting – There will be little change in the way funds are accounted for in the support units. The only significant change in accounting should occur in units that currently record revenue and expenditures in the ICR fund or the University Fee fund – those orgs will no longer be used. Otherwise, the central allocations will continue to be recorded during budget prep the same way they have been in the past. No support units (other than Facilities Management regarding utilities) will need to worry about preparing new bills or collecting additional funds from the academic units – that will all be taken care of centrally. For FY07, budget prep will occur in the same time-frame as in the past: roughly March to early June.
4. Financial Concerns and Initiatives – There will still be an opportunity for support units to raise financial issues and proposals with central administration as part of

the budget development process. Directions for that are contained in these instructions.

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 prepared and will be communicated in a new fiscal page format to be sent out shortly after these instructions.. In addition, the new timeline and the preparation of rates to 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 benchmarking data, further refinement of some of the technical aspects of the cost allocation formulas, new formatting of compact documents 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 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. Moreover, 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 along with the proposed budget for FY06. The planned FY07 investments and resources submitted at that time were as follows:

	<u>FY07 (over FY06)</u>	
Investments/Challenges		
Academic Investments	\$10,138,000	
Student Services/Support	7,000,000	
Libraries	1,500,000	
Competitive Compensation	6,000,000	
Compensation General	34,006,150	
Technology	1,950,000	
Facilities	9,228,000	
Miscellaneous	128,366	
Contingency	<u>4,000,000</u>	
Total Investments/Challenge	\$73,950,516	
Identified Resources		
New State Appropriation	\$23,388,000	31.4%
University Reallocations	15,450,000	20.8%
Student Tuition & UFee (6.5% increase)	31,020,355	41.7%

Other Institutional Revenues	<u>4,526,143</u>	06.1%
Total Identified Resources	\$74,384,498	
Balance	\$433,982	

Although some of the specific spending plans and assumptions for FY07 may be modified through the budget development process, the basic construct of the plan should 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 outlining the details of implementing the salary plan for FY07 will be disseminated at a later date.

Projected fringe benefit rates for FY07 for use in budget planning are outlined below. See figure 1 on page 22 for a breakdown of the components of the rates.

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

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.

Because the budget instructions are being prepared earlier in the year than has been done in the past, 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.

<u>RRC</u>	<u>FY06 Estimate</u>	<u>FY07 Estimate</u>	<u>RRC</u>	<u>FY06 Estimate</u>	<u>FY07 Estimate</u>
TAUD	\$1,130	1,198	THSM	16,465	17,453
TBFI	4,399	4,663	TINF	66,525	70,517
TCAP	16,209	17,182	TINS	5,944	6,301
TCLF	156,181	165,552	TLIB	205,996	218,356
TCTR	7,639	8,097	TPRO	5,747	6,092
TEVP	67,145	71,174	TREG	154	163
TFAC	80,791	85,639	TRES	2,313	2,452
TGCL	2,112	2,239	TSAF	8,079	8,564
TGRD	21,186	22,457	TSYA	22,136	23,464
THRS	16,948	17,965	TUSV	1,257	1,332
THSC	44,123	46,770			

G. Submissions – Compact Information

The information in this section should be prepared and submitted for the following RRCs (those with budgets that will be allocated to academic units through the new budget model as listed on pages 4-7):

- TAUD – Audits
- TCAP – Capital Planning & Project Management
- TCLF – Student Affairs (excluding Rec. Sports, Student Unions, USLS, Student Conflict Resolution, Boynton)
- TCTR – Controllers Organization
- TEVP – Sr. VP for Academic Affairs & Provost (excluding Academic Counseling, Weisman, ROTC)
- TFAC – Facilities Management
- TGCL – General Counsel
- TGRD – Graduate School
- THRS – Human Resources
- THSC – Sr. VP Health Sciences
- THSM – Health & Safety Management

TINF – Office of Information Technology
TINS – Institutional Relations
TLIB – University Libraries
TPRO – President’s Office
TREG – Board of Regents
TRES – VP for Research
TSAF – Public Safety
TSYA – System Administration (excluding CURA, CTS, CYF, ICGC)
TUSV – VP University Services

Due to the change in timeline for preparing compact information, and the short time-frame in which units have to work, modifications have been made to the process for this year. For those units that have completed compacts in the past, much of the basic information requested is the same as in prior years. However, the focus at this time is on the pieces of the compacts that can directly contribute to a better overall understanding of the units and how their priorities and initiatives fit within their overall resource and budget planning. For those units that prepare a compact annually, the information submitted now will be shaped into a final compact document over the next six months. The standard formatting and further refinement of the information will be coordinated by Al Sullivan’s Office and Robert Jones’ Office, and they will be contacting the impacted units for that subsequent part of the process. For purposes of this early submission, please just answer the questions as identified in this section, and follow the guidelines for length. There is no template.

Please understand that this is a transition year. The plan is to more fully develop a coordinated compact and budget process in subsequent years, so the specific requirements for information may change next fall.

The submission due date for each RRC is one week prior to the budget/compact meeting being set for November - see Section I-1 below. Information should be submitted to the budget contact identified on pages 4-7, who will then take responsibility to route some of the submissions to Al Sullivan or Robert Jones as appropriate for compact review and coordination.

1. Mission – Functional Descriptions

a) Please state the unit’s mission. List links to websites with more information where available. The suggested length for this response is one succinct paragraph.

b) In order to effectively communicate to the academic units what they are “paying for” in their new charges, please provide a brief description of the functions of the unit. These do not need to be detailed task level descriptions, but instead should provide a clear understanding of the primary responsibilities of the unit, services offered by the unit and the recognized names of departments or sections of the unit. The suggested length for this response is 2-3 paragraphs. This is an early step in building a set of information to be used in communication of approved budgets. In future years, information on benchmarking, service standards etc. will be incorporated into the process as appropriate.

2. Performance Measures

In September of 2005, the Metrics and Measurements Task Force began work as part of the overall Strategic Positioning effort. One piece of their charge involves developing appropriate key performance indicators and reporting mechanisms to support the compact process and ensure unit planning is aligned with strategic positioning. This task force is working to set up strategic and operational progress metrics; mission-related institutional and collegiate metrics; efficiency, effectiveness and constituent satisfaction metrics, and resource allocation metrics. Activities in many units at the University will be part of these measures when fully developed. The timeline for the task force should result in early versions of recommended measures being ready by sometime in December for use in the academic unit compact process. For the units included in these instructions, the results will likely impact performance measure reporting for this group next year.

In the mean time, each unit that tracks and gathers performance measures related to things such as service quality, rankings, satisfaction levels, productivity or financial efficiency, benchmarking etc. should submit those as part of this response. Information that assists in understanding the unit's work and overall performance would be useful. Any units that do not currently gather such data do not have to submit anything under this section.

When these instructions are drafted next year, the recommendations of the task force and any additional expected materials will be incorporated into the development of a strong set of meaningful performance data. Such data will not only support the compact goals and decisions, but it will help in analysis for overall budget approvals and communication related to the cost allocations given to academic units.

3. Strategic Goals

All units should identify their top priorities and strategic goals - no more than 3-5 - for the next eighteen months. Please number each goal, identify them as continuing from prior years or new for FY07 and for each one identify the following:

- What has been (if applicable) and is to be accomplished and by what date?
- What are the expected impacts of the goal related to resources, productivity and/or service levels?
- What are the specific initiatives and tactics necessary to achieve the goal?
- What additional resources are necessary to achieve the goal and what is the proposed financing plan? Please identify the specific components of the initiative requiring additional resources, by line-item, as part of this response (e.g., salary and fringe for x number of positions, and so forth).

There is no set format for this response this year. However, the suggested length should be no more than one descriptive sentence per goal plus 2-3 paragraphs of supporting material.

4. Diversity Assessment and Planning

All policy decisions, particularly decisions involving allocation of resources (financial, personnel, or physical), have a potential impact on equity for and among the University's multicultural communities. Please use this section to address these questions:

1. What plans do you have to increase the presence of underrepresented groups among your employees?
2. What actions will you take to assess and improve the climate for diversity in your unit?

The suggested length for this response is no more than one brief paragraph per question.

5. Space and Facilities Issues – This section is divided into two parts and ***requires a response only from units with facility-related items to advance:***

a) Initiative Impacts and Space Management

List the facility impacts of any programmatic initiatives described in section G-3 above. Also list other pressing space management issues. Please identify each item in the list in one brief sentence.

b) Major capital Investment Priorities

This section identifies and reconfirms the unit's highest priority facility needs for consideration in the six-year capital plan. A project will not be considered for inclusion in the six-year capital plan unless it is part of the unit's final compact. Planning and/or fundraising may not commence until the project is included in the six-year capital plan.

Provide a list in priority order of the major capital needs that might reasonably be addressed in the next six years. Such a list should rarely include more than two or three projects. Do not include HEAPR (Higher Education Asset Preservation and Renewal) requests. For each item, include a one-sentence description of the project or programmatic need, proposed funding source, and an order of magnitude cost projection (if available). In preparing this list, review the most recent six-year capital plan approved by the Board of Regents – identified as "President's 2005 Recommended Six-Year Capital Plan at (www.budget.umn.edu).

Major capital projects are defined as meeting one or more of the following criteria:

- Projects costing more than \$1 million
- Projects seeking state appropriations
- Projects requiring University-issued debt
- Projects seeking permission to fundraise from philanthropic organizations or individuals
- Projects with exterior visual or physical campus impact

Please identify each item in the list in one brief sentence.

H. Submissions – Additional Budget Information

6. All Funds Financial Page

Budget discussions this year will focus on each unit's overall financial structure and health. To that end, all-funds financial pages have been created for each unit (sent electronically to each RRC in the next few days). The pages hold the following information for FY05 Actuals and the FY06 Approved Budget:

- actual revenues and expenditures by summary categories – all funds combined (information on the specific revenue and object codes under each category sent along with the financial page)
- Net transfers in/out from other units – all funds 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 combined.

Additionally, there is a column for the revenue neutral transition to the new budget model in FY06. For support units, this column should look just like the FY06 approved budget column, with the additional recurring compact allocations added. The primary change for support units in the revenue neutral transition is that the source of their central allocation is no longer the state appropriation, but is instead the payments from the academic units. The format of these fiscal pages is the same for all units, and for the academic units, column C (revenue neutral FY06) holds many important changes.

The final column (column D) is for projecting FY07 activity. The budget submittal should focus on completing column D based on the planning parameters described earlier in this document and should only focus on current operations. Please fill in each row of column D using the best information available at this time. Although each unit will be asked to describe the impact of receiving no additional funds for compensation (section H8 below), complete the financial page by inserting the estimated costs of funding the salary plan at 3%, with associated fringe rates, as itemized above. Do not include in this column projections related to any new initiative requests – ***this should reflect the ongoing costs of current operations only***. Also, please note that projected increases entered in the various expenditure categories of column D does 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.

Units should also project their ending balance (all funds) for FY06 – which may differ from the approved budget column projection of ending balance – and enter that in the “Net Assets Beginning of the Year” row of column D.

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

7. Balance Description

As just described, the ending balance is included as part of the financial page. In order to fully understand the resources available to each unit, further information is needed on those balances. Please allocate the FY05 actual ending balance (Net assets at the end of the year – column A) and the FY06 projected ending balance (Net assets Beginning of the Year – column D) into categories as displayed in the table below (definitions follow):

	FY05 Ending Balance	FY06 Ending Balance
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.

8. Significant Financial Concerns

Some financial concerns and issues cannot appropriately be described as strategic priorities as identified in section G-3 above. 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.

At a minimum, each unit should submit as one of their issues a brief narrative response describing how the cost of compensation increases would be covered assuming no increased central allocation. As explained in section F of these instructions, the plan for FY07 communicated to the Board of Regents included a planned internal reallocation of \$15,450,000, in part to help cover the additional costs of a 3% salary increase plus associated fringe. No decision has yet been made on the distribution of that reallocation across all the units of the University, but just as last year, the preliminary planning assumption is that each unit will be responsible for their compensation cost increases by internally reallocating resources. Before finalizing support unit budgets, however, the President and Senior Vice Presidents would like to consider the impact of that decision. Therefore, in this submission, please be as specific as possible as to the impact on staffing levels, service levels and/or programmatic levels. Do not offer solutions to raise other revenues or pass tasks on to some other unit(s) to address the potential reductions, but instead, respond with the cost saving mechanisms that would be implemented and the negative impact on any capacity within current resources that would be realized. A brief explanation provided in one page or less will suffice.

9. ISO Rate Setting

Under the new budget model, ISO activities will be excluded from the cost allocation processes. ISO operations will not be included in budgets that are allocated out to academic units and will not be included in the academic unit bases used for cost allocation – total expenditures, ASF or headcounts. However, ISOs must still submit their rate proposals through the budget process, so this section is intended to provide instruction for that – for the RRCs listed on page 13 (beginning of section G). Any unit without ISO operations can disregard this section.

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

I. Process

1. Meetings and Due Dates

At this point, the plan is to hold one combined budget and compact meeting during the month of November with most, if not all, of the units receiving these instructions. The meetings are currently being scheduled, and they will include representation from the units involved; from the budget office, and from the Senior Vice Presidents' offices. The agenda for each of these meetings will be to walk through the items submitted under sections G and H above. No other formal presentation materials are necessary. Because time will be somewhat limited, efforts will be made to focus discussion on areas of primary importance and areas where clarification of materials would be beneficial.

Submittal Due Date – One week prior to the scheduled meeting, please send all required materials to the relevant budget contact listed in section B.

Please note: As mentioned earlier in these instructions, the materials submitted through this process in November will suffice as the preliminary draft compact submittal for those units that complete compacts. The relevant Sr. VP Offices will then work with those units to finalize the documents based on these early submittals. Next summer, after review of this year's process, a new timeline, with different expectations regarding the coordination of compact and budget information may be developed for implementation next fall.

2. Budget Recommendations and Cost Allocations

During the month of December, the Budget Office will be developing analysis, models, summaries and recommendations related to the all-funds budget for each unit involved in this fall's process. Different scenarios for the FY07 budgets will be modeled into the charging mechanism for academic units so the impact of those different scenarios can be understood. Ultimately, meetings will be held with the President and Senior Vice Presidents to review the analyses, summary materials and recommendations for each budget. Budget levels approved by the senior officers will then be communicated to each of the support units and converted into charges for the academic units by the end of January.

3. Balancing the Overall University Budget

This support unit portion of the budget development process conducted in the fall is only half of the University's overall budget picture. Budgets for these units are being approved by the administration before all information can be known related to the University's overall revenue forecasts and investment plans. A decision by the state to modify the planned appropriation for FY07 or unforeseen expenditure obligations surfacing in the spring must be built into the final budget recommendation presented to the Board of Regents in May. The plan under the new budget model to deal with "end-of-process" issues is as follows:

- ❖ Update forecasting items with current information by end of December (salary and fringe estimates, tuition estimates, etc.) to determine estimated available resources
- ❖ Approve support unit budgets for FY07 by end of January
- ❖ Set FY07 cost allocations for academic units by end of January

- ❖ Approve academic unit budgets by early April based on available resources, all-funds analyses and investment plans
- ❖ Adjust support unit budgets, 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

4. Assistance on the Budget

This is a new process, a new timeline 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.

Figure 1
Fringe Benefit Rates by Component

2004-05 Actual	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
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	--
	32.5	32.8	21.3
2005-06 Proposed	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.1	13.5	---
Group Life & Disability	---	.8	---
Workers Compensation	1.3	---	---
Unemployment	.7	.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	---
	34.9	33.0	19.5
2006-07 Projected	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
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	---
	36.5	33.7	26.1

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