

FY11 Budget Instructions

Support Units

Highlights/Changes for FY11

- No Separate Compact Document
- Revised Institutional Budget Framework (see pages 4-6)
- Salary Increase Assumption & 27 Pay Periods (see page 7)
- Insurance Premium “Holiday” (see page 8)
- FY10 Budget Implementation Response (see page 12)
- FY11 Reallocation Response (see page 12)

Materials Due: five working days prior to scheduled budget oversight meeting

September 3, 2009

(Distributed by University Budget and Finance)

<u>Contents</u>	<u>Page</u>
A. Compact/Budget Development Process for FY11	3
B. Support Units Included in these Instructions	3
C. FY11 Budget Parameters – Planning Assumptions	4
1. Context of the Biennial State Appropriation	4
2. Federal Stimulus Funding	6
3. Salary and Fringe Benefit Assumptions	6
4. Enterprise System Assessment	7
5. Property & Liability and Non-Profit Organization Liability Insurance	8
D. Submissions – Budget Information	9
1. Transfers Between Units	9
2. Budget Development Worksheets	10
3. O&M/State Special Compensation	11
4. Reallocations and Significant Financial Concerns	12
a. Implementation of the FY10 Budget	12
b. Reallocations for FY11	12
c. Funding Requests/Significant Financial Concerns	14
5. Internal Sales Rate Setting	14
E. Process	15
1. Meetings and Due Dates	15
2. Budget Recommendations and Cost Allocations	15
3. Balancing the Overall University Budget	16
Attachment – Cost Pool Descriptions	17

A. Compact/Budget Development Process for FY11

All units will be asked to submit budget materials (details following in this document), but there will not be a separate requirement to develop and submit a compact document for FY11.

B. Support Units Included in these Instructions

Units receiving these instructions are considered support units for purposes of the budget model. The budgets of these units represent cost pools within the system that are billed out to the academic units. The central support units are identified below, along with their assigned cost pool for allocation and budget contact for the FY11 budget development process. For reference, a brief description of the methodology used to allocate the respective costs to the academic units is included as an attachment to this document. Please note: some Resource Responsibility Centers (RRCs) contain both support and academic functions. If that is the case, then these instructions apply only to the support function portions (excluded portions are indicated below). In addition, some RRCs are split into more than one cost pool. If that is the case, the budget for FY11 should continue to be developed for the whole RRC – submittals of information should be done for the unit as a whole and not divided in any way to reflect cost pool assignments. Splitting the budget into different cost pools will occur only after the whole budget for the support unit is approved.

Support Unit Designations: Please feel free to contact your budget officer if you need any assistance in interpreting or responding to these instructions.

Unit	Budget Officer	Cost Pool Assignment
Audits (AUDIT)	Robin Dittmann	Admin Services
Auxiliary Services (Campus Mail Only)	Sue Niehoff	Admin Services
Board of Regents (RGNTS)	Robin Dittmann	Admin Services
Budget and Finance (UFIN)-excluding Leases	Julie Tonneson	Admin Services
Budget and Finance (UFIN) – Leases	Julie Tonneson	Leases
Capital Planning & Project Mgmt (CPPM)	Brian Swanson	Admin Services
Controller (CONTR)-excluding SFR	Julie Tonneson	Admin Services
Controller (CONTR)-SFR	Julie Tonneson	Research Admin
Equity & Diversity (EQDIV)	Sue Niehoff	Admin Services
Facilities Management (FM)-excluding: Utilities & BSAC	Brian Swanson	Facilities O&M
Facilities Management (FM)-BSAC	Brian Swanson	Admin Services
Facilities Management (FM)-Utilities	Brian Swanson	Utilities
General Counsel (OGC)	Robin Dittmann	Admin Services
Graduate School (GRAD)	Lincoln Kallsen	Student Services
Human Resources (OHR)	Sue Niehoff	Admin Services
Office of Information Tech. (OIT)	Carole Fleck	Technology
Office of International Programs (OIP) OIP Grant Program	Sue Niehoff	Admin Services Research Admin
President’s Office (PRESO)	Robin Dittmann Budget	Admin Services Cost Pool
Public Safety (PUBSF)	Sue Niehoff	Admin Services
Scholarly & Cultural Affairs – excluding: Concerts & Lectures Institute for Advanced Studies	Julie Tonneson	Admin Services

Unit	Officer	Assignment
Weisman Art Museum		
Sr. VP for Academic Affairs/Provost (AAPRV) Excluding: Inst. on the Environment	Robin Dittmann	Admin Services
Sr. VP for Health Sciences (HLSCI)	Julie Tonneson	Admin Services
Hlth Career Center (within HLSCI)	Julie Tonneson	Student Services
AHC Office of Research (within HLSCI)	Julie Tonneson	Research Admin
Classroom Mgmt (within HLSCI)	Julie Tonneson	Classrooms
Technology Support (within HLSCI)	Julie Tonneson	Technology
Sr. VP for System Academic Admin (SAAVP)	Robin Dittmann	Admin Services
Student Affairs* (STDAF) – excluding:	Lincoln Kallsen	Student Services
Rec. Sports		
Twin Cities Student Unions		
Student Legal Services		
Student Conflict Resolution		
Boynton		
Undergraduate Education (UEDUC) – excluding:	Lincoln Kallsen	Student Services
Academic Counseling & ROTC, Classrooms		
Undergraduate Education (UEDUC)-Classrooms	Lincoln Kallsen	Classrooms
University Debt (UDEBT)	Carole Fleck	Debt Service
University Hlth and Safety (UHLSF)	Sue Niehoff	Research Admin
University Libraries (LIBR)	Robin Dittmann	Libraries
University Relations (UREL)	Sue Niehoff	Admin Services
University Services (USERV)	Sue Niehoff	Admin Services
VP for Research (RSRCH) – excluding:	Robin Dittmann	Research Admin
Hormel Institute		
Minnesota Population Center		
Minnesota Supercomputer Institute		
University Press		

* Note: Student Affairs units excluded in the list above are technically part of the academic unit budget process in the winter/spring. However, to accommodate the student fee approval process, budget discussions for these units will take place in the fall along with the rest of Student Affairs. Final budgets for these excluded units will not be approved until the winter/spring process.

C. FY11 Budget Parameters – Planning Assumptions

1. Context of the Biennial State Appropriation: The table below outlines the outcome of the University of Minnesota’s 2010-2012 biennial budget appropriations. Appropriations from the Health Care Access fund, \$2.2 million per year, and the \$22.2 million annual appropriation to the Academic Health Center pursuant to Minnesota Statutes, section 297.10 (cigarette tax) have been excluded from the table.

University of Minnesota
Biennial Appropriations – 2009 Legislative Session Outcome
(\$ in Thousands)

	FY10	FY11	<u>Biennium</u>
Beginning Base Level Appropriation	\$702.6	\$702.6	\$1,405.2
Actual State Appropriation (session)	<u>\$623.4</u>	<u>\$677.3</u>	<u>\$1,300.7</u>
Change from Base	(\$79.2)	(\$25.3)	(\$104.5)
July 1, 2009 Governor’s Un-Allotment	\$0.0	(\$50.0)	(\$50.0)
Final Change from Base	(\$79.2)	(\$75.3)	(\$154.5)

As indicated above, the University’s biennial base level appropriation was reduced by \$104.5 million or approximately 7.4%. In addition to the \$79.2 million reduction in the FY10 appropriation, the University’s base of \$702.6 million (the starting point in the table) was \$2.6 million less than the prior year (FY09) due to a previous O&M reduction passed during the 2008 Legislative Session. As such, the total impact of legislative actions on the FY10 O&M appropriation amount to a reduction of \$81.8 million.

The FY11 state appropriation, while a decrease of \$75.3 million from the base funding level, actually represents an increase of \$3.9 million compared to the University’s actual appropriation for FY10.

Given that extremely modest increase in state appropriations, the University’s preliminary planning framework for FY11 includes components similar to what was implemented for FY10, with a couple of nuances. Specifically, at this point in the process, the FY11 framework for resources and allocation is as follows:

Resources

State Appropriation Increase	\$3,900,000	
Tuition Increase (7.5% rate increase)	\$46,900,000	⇐⇒ \$40.9m for institutional framework
Tuition Investment in Units	(\$6,000,000)	
Recurring Internal Reallocation (2%)	\$32,500,000	⇐⇒ \$20.4m for institutional framework
Reallocation Investment in Units	(\$12,200,000)	
Nonrecurring Reallocation	<u>\$13,700,000</u>	
Total	\$78,800,000	

Investments/Challenges-Institutional Framework

Compensation (2%)	\$22,000,000
Founders Tuition Program	\$4,000,000
Facility Operations	\$12,800,000
Contractual/Strategic Initiatives/Contingency	\$26,300,000
Nonrecurring Obligation (27 pay periods)	<u>\$13,700,000</u>
Total	\$78,800,000
Balance	\$0

The change in the state appropriation represents the increase enacted by the 2009 legislature, reduced by \$50,000,000 through the Governor's July un-allotment. The nonrecurring reallocation of \$13,700,000 represents the current estimate of the cost of a 27th pay period in FY11 for hourly employees (see section 3 on page 7 below for further details). There are two new variables included in the resource section of the framework, however, relating to the treatment of tuition and the recurring reallocation.

The assumption on a tuition rate increase remains at 7.5%, resulting in an estimated revenue increase of \$46,900,000. Previously, the entire revenue increase was assumed to support the investments and cost challenges within the institutional framework. It is recognized, however, that it would be beneficial for units to know at the beginning of the planning process that some of that tuition revenue will remain within their budgets, not to be offset by framework costs. Therefore, for budget planning purposes, \$6 million, roughly equivalent to a 1% increase in the tuition rate, will be included in the framework as a purposeful investment in those units. Additional information on this will be included with the academic unit budget instructions in the winter, but for this fall's process, implementation of this change has the impact of lowering the amount of revenue available to fund the investment pools and cost challenges identified above. \$40,900,000 is the net tuition revenue available within the institutional framework.

The second new variable within the framework is a similar treatment of the planned recurring reallocation. A 2% internal reallocation on the adjusted FY10 base represents \$32,500,000 in additional resources. However, the budget process this year will require units to plan for and submit strategies to implement .75% of that reallocation as a unit-level re-prioritization and investment back into the unit (see section D4 on page 12 for further details). As a result, the overall budget framework retains \$20,400,000 to support the investment pools and cost challenges identified above.

Little has changed on the investment side of the framework. The amounts identified above for compensation, Founders, and facility operations reflect our most recent estimates of cost, but each will be re-estimated in the coming weeks. The contractual/strategic investment pool remains within the framework, but a reference to a contingent investment pool was added to reflect the vulnerability the framework has related to higher estimated costs and/or a further reduction in the state appropriation. The non-recurring obligation for 27 pay periods matches the non-recurring reallocation mentioned above.

2. Federal Stimulus Funding: As a result of the enactment of the American Recovery and Reinvestment Act (ARRA) and the availability for State Fiscal Stabilization Funds, the University of Minnesota was appropriated \$89,323,000 by the 2009 Minnesota Legislature. These funds have been allocated consistent with the requirements and guidelines of the ARRA and the specific requirements enacted by the 2009 Minnesota Legislature. Each University unit receiving funding from this mechanism for FY10 has been notified.

The ARRA appropriations will be placed into newly created federal funds within the University in order to specifically track and report on their use. The University will be required to submit requests for reimbursement of expenditures to the State of Minnesota who will then transfer the federal funds to the University. The funds must be expended by September 30, 2011. The budget plan includes the expenditure of 56% or \$50.1 million of the federal stimulus funds for mitigation of tuition. The remaining 44% or \$39.2 million will be used on a one-time basis as a target pool of funds to: retain jobs of talented faculty and staff, reduce operating costs/enhance revenues, obtain long term productivity gains, and reshape and strengthen the University's long term financial future through investments with a high rate of return. At this point, \$27.6 million of the \$39.2m has been allocated, with the remaining \$11.6 million available for allocation to nonrecurring items in FY11. These funds are not reflected in the budget framework displayed above.

3. 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.

Consistent with plans outlined for the updated 2010-2011 budget framework, a general 2% salary increase, along with the associated fringe increases outlined below, should be assumed in developing overall cost estimates for compensation in FY11. This estimate represents a general planning parameter to be used at the unit level. A set of documents outlining the details of implementing the final salary plans for FY11 will be disseminated from Human Resources at a later date.

Projected fringe benefit rates for FY11 for use in budget planning are outlined below. Due to the federally required methodology for calculating fringe rates, which must reconcile to the annual audited financial statement, these rates will be updated between now and the end of October and will very likely increase. Proceed with the rates as indicated below until further communication is sent, but please understand that you may be asked to use updated fringe rates at some point while preparing your budget materials. Wherever you happen to be in the process, we will work with you to incorporate the changes. Any revisions to the rates will be communicated as soon as possible.

Projected 2010-11

Civil Service (and undergraduate students)	35.4%
Academic	33.3%
Graduate Assistant	23.7%

27 Pay Periods: The University currently establishes budgets on a “cash basis”. For payroll, this means that each fiscal year, total annual pay expense is identified by the number of actual paydays that occurs in that fiscal year, regardless of when the hours were worked. Generally, there are 26 biweekly paydays in a fiscal year. However, approximately every 11 years the University experiences an anomaly where there are 27 paydays in a fiscal year. This 27th payday results from the fact that the current pay calendar accommodates only 26 paydays per fiscal year, when, in fact, there are 26.09 paydays in a fiscal year (365.25/14).

This 27th pay period phenomenon would have occurred on June 30, 2010 (in the current fiscal year); however, due to the extreme budget shortfall for FY10, the decision was made to push the financial impact of the extra payday into FY11. The actual pay date is being shifted by one day from Wednesday, June 30, 2010 to Thursday, July 1, 2010. This means that every University employee will receive their June 30, 2010 paycheck on July 1, 2010. By moving this paycheck by one day, the extra payday is paid out and accounted for in FY11 rather than FY10.

Thus, in FY11, the University will incur a significant additional expense for the cost of this “extra” payday. Salaried employees will see only a change in how their bi-weekly rate is calculated for FY11. For salaried employees, bi-weekly pay will be calculated by dividing each individual’s fiscal year salary by 27 pay periods, rather than 26. As a result, for budgeting purposes there will be no change in the process of estimating annual costs for faculty and P&A employees. The expense will be the regular annual salary plus the associated fringe. However, hourly employees will not see a change in their bi-weekly pay as a result of this “extra” payday. For hourly employees, bi-weekly pay is based on actual hours worked multiplied by each individual’s hourly rate, so the extra paycheck is an accurate reflection of hours worked. This “extra” pay check results in a one-time expense for any unit with hourly employees. **For budgeting purposes, each department should add the cost of one additional biweekly paycheck for their hourly employees into their annual salary and fringe expenditure estimates.** A University-wide estimate, by RRC, of this additional FY11 cost for the hourly employee groups will be provided in a separate memo to be sent no later than mid-September.

4. Enterprise System Assessment: The Enterprise Assessment was established as a systematic method of assessing units a fee to pay for the development, implementation, maintenance and replacement of institutional

business systems. The Enterprise Assessment will continue until the EFS project deficit is cleared. We do not anticipate funding any new additional projects using this assessment. Current projections expect the assessment to continue through FY16.

The assessment is charged to individual fund-deptID-programs through the general ledger allocation process. This monthly process applies a set percentage, currently 1.25%, against certain salary expenditures in specific funds. A general ledger journal entry is then posted to the actual general ledger.

The following assumptions should be built into the FY11 budget plans at this time:

- Estimated assessment cost of 1.25% of projected FY11 salaries
- Account code used for budgeting the expected assessment is 820200 – Enterprise Assessment-Final Budget Only. (Actual charges will hit account code 820201).
- Assessment is on actual salary expenditures in the following funds, with a few individual chart string exceptions:
 - State Appropriation, Tuition, U Fee – fund 1000
 - Auxiliaries – fund 1100 - 1106
 - Other Unrestricted – funds 1020, 1023, 1025, 1026
 - Private Practice – fund 1030
 - Restricted State Specials – funds 1801 – 1807 (note this does not include LCCMR fund 1800)
- Assessment occurs near the end of an accounting period based on actual salary expenses in that period. Both debits and credits to salaries are included in the assessment calculation.

Salary expense used in the calculation will include the following account codes:

- 700101 – Salaries – Faculty
- 700201 - Salaries – Professional & Administrative
- 700301 - Salaries – Graduate Student
- 700302 – Salaries – Professional Student
- 700401 – Salaries – Undergrad Academic
- 700402 – Salaries – Undergrad Non-Academic
- 700501 – Salaries – Civil Service
- 700502 – Salaries – AFSCME
- 700503 – Salaries – Teamster/Law Enforce
- 700504 – Salaries - Trades

Questions regarding the Enterprise Assessment allocation process can be directed to the University Financial Helpline at (612) 624-1617 or finsys@umn.edu.

5. Property & Liability and Non-Profit Organization Liability Insurance:

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

The Office of Risk Management charges RRCs for University property and liability insurance premiums based on each RRC’s share of total University space. The Office of Risk Management will initiate a journal entry to complete the relevant transaction for FY11 some time in the first three months of the fiscal year.

Non-Profit Organization Liability (NPOL): The University purchases Non-Profit Liability Insurance centrally 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 over the 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 FY10. The Office of Risk Management will initiate a journal entry to complete the transaction for FY11 some time in the first three months of the fiscal year.

FY11 Partial Premium “Holiday”: For FY11, the University will provide a one-time waiver or “holiday” of those premiums associated with general liability and NPOL insurance. The premiums for these policies will be paid for with excess insurance reserves. Departments will be charged only for property insurance premiums and other non-RUMINCO premiums as in prior years. This should result in an expected savings to the RRCs receiving these instructions of just over \$180,000 compared to FY10 charges. Because the budget instructions are being prepared early in the year, the cost estimate for property insurance is based on the best information available today. For FY11 planning purposes, each unit should assume a 6% increase over the property insurance billed for FY10. The FY10 charge (including the RUMINCO premiums) and projected FY11 estimates (less RUMINCO premiums) are listed below by unit. Please note that for those RRCs with academic units, as well as support units, the entire charge is listed here, rather than splitting the estimate between the support and academic portions.

<u>RRC</u>	<u>FY10 Charge</u>	<u>FY11 Estimate</u>	<u>RRC</u>	<u>FY10 Charge</u>	<u>FY11 Estimate</u>
AAPRV	\$12,324	\$8,745	PRESO	\$9,687	\$7,691
AUDIT	1,596	674	PUBSF	10,924	6,171
CONTR	10,120	5,536	RGNTS	282	0
CPPM	4,947	2,845	RSRCH	28,257	20,012
EQDIV	8,471	4,704	SAAVP	8,315	5,152
FM	110,980	73,345	SCA	30,139	29,029
GRAD	6,794	3,346	STDAF	159,926	141,099
HLSCI	55,585	47,803	UEDUC	63,169	47,521
LIBR	206,355	187,821	UFIN	5,152	2,947
OGC	3,726	1,223	UHLSF	17,616	14,618
OHR	19,596	12,203	UREL	6,791	3,364
OIP	7,813	4,693	USERV	5,110	2,583
OIT	78,708	56,878			

D. Submissions – Budget Information

1. Transfers Between Units

If there should be a permanent transfer of base allocation between RRCs for FY11, please submit that information to your budget officer as soon as it is available. Do not wait for the final due date listed below in Section E. Please include the dollar amount to be transferred and the reason for the transfer. It would be most helpful if both RRCs involved in the transfer send in the same information as part of their individual budget

submissions. If this coordination is not done in advance, subsequent contacts will be made to ensure agreement on the adjustments.

2. Budget Development Worksheets

For the second year, budget development worksheets are available in PeopleSoft (PS) for entry of financial information. The budget review process will include an analysis of each unit's overall financial structure and health, and these worksheets are one tool used in that analysis. RRC managers have the option of completing the worksheet just at the RRC level, or asking their budget departments to complete the worksheet at the lower structural level, which then rolls up to the RRC level. The budget departments for worksheet purposes can be located in two places: on the RRC Status and Approval tab of the Budget Development Worksheet in PS (at the RRC level) or in PS on the Budget Tree. Follow this path in the Reporting Instance (not production) to find the relevant breakdown by RRC on the Budget Tree:

Tree Manager > Tree View > choose tree UM_DEPTID_BUDGET effective dated 7/1/09.

It is easiest to view this tree in the Tree Print Option.

Only one worksheet per RRC will be accepted by the Budget Office, so this optional functionality to enter at the lower level is provided just for those RRCs that would like their budgeting departments to submit a more specific level of financial planning information to them. The Budget Office will not review the worksheets from that lower structural level unless it is necessary for more in-depth analysis.

The worksheets operate the same way they did last year (with a few minor improvements), but for RRC managers new to the process, there is an on-line course available for Budget Development Worksheets at the training website: (www.umn.edu/ohr/est). You will find the course and links to enrollment under Financial System Courses.

The correct path to access the worksheets within PeopleSoft is: UM Budgeting > UM Budget Development Worksheet > UM RRC Manager **OR** UM Department Users > UM Budget Dev Worksheet.

The worksheets hold the following information for FY08 Actuals, FY09 Actuals and the FY10 Approved Budget (the format of the worksheets is the same for all units):

- Actual revenues and expenditures by summary categories – all non-sponsored funds (information on the specific account codes under each category can be found in the *reporting instance* > Tree Manager > Tree View. Choose the tree UM_ACCOUNT_REPTG and pick the effective date 7/1/09. Use the “tree print option” to view all.)
- 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 non-sponsored funds combined – and that figure represented as a percent of total expenditures
- Total sponsored expenditures

As in past years, there is also a column for projections through the end of FY10 (“Forecast”) to arrive at an updated estimate of carryforward into FY11 if that is warranted.

The final column (Budget 2011) is for projecting FY11 activity. The budget submittal should focus on completing the Forecast 2010 column and then completing the Budget 2011 column based on the planning parameters described earlier in this document. For both columns, please fill in each row using the best information available at this time. FY11 projections should only focus on current operations and plans carried forward and should not reflect new initiatives – *this should reflect the ongoing costs of current operations only, incorporating planned cost reductions related to implementing the FY10 budget reallocations where applicable*. Also, please note that projected increases entered in the various expenditure categories of the Budget 2011 column 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 operations. Decisions made on whether that level of activity is appropriate or desired will be made through the budget development process.

If a transfer of base allocation is submitted under section 1 above, the budget development worksheet should be completed assuming the transfer of activity is incorporated. In other words, if the allocation and corresponding expenditures associated with some activity is being transferred between RRCs for FY11, then the expense projections in the Budget 2011 column of the budget development worksheet should also reflect that transfer.

Please note: the “Prior Year Carryforward” row in each column does accurately report the carryforward held in PeopleSoft for that year – it will match what appears on UM Reports as the beginning balance for the year. The “Ending Balance” in each row is not pulled from PeopleSoft and is instead the result of a calculation on the page itself (Prior Year Carryforward plus Net Surplus(Deficit)). The Ending Balance of one year will often not match the carryforward of the subsequent year on this page. The reason for this is that some balance sheet transactions are not currently reflected on the budget development worksheet, but they are reflected in PeopleSoft and on UM Reports. We are working to add an adjusting line to the Budget Development Worksheet so that the ending balance will calculate correctly. For entry purposes, however, you are not asked to budget for or forecast those balance sheet transactions anyway. You can complete the Forecast 2010 and Budget 2011 columns for all the existing rows, and the worksheet will work as it is intended to work. We will be adding the correcting row for the Actual columns only so that the ending balance in those columns calculates correctly. Since you do not plan for the activity in the row being added, the ending balance will calculate correctly in the Forecast 2010 and Budget 2011 columns without the change.

The “Prior Year Carryforward” in the Actuals 2008 column is \$0 because the ending balance of FY07 is not stored in PeopleSoft. The FY08 Ending Balance does not impact the FY09 data – the “Prior Year Carryforward” in the Actuals 2009 column is accurate.

If there is information missing in these instructions necessary to complete the Budget 2011 column, please contact your budget officer for assistance. Please note – the central allocation line for FY11 should contain the exact same amount as appears in the Budget 2010 column. There should be no assumptions made about change in that value at this point in the process.

The completed Budget Development Worksheet does not have to be sent in with the rest of the budget materials. When it is submitted in the system, it will be considered complete. The Budget Office will review, download and format these sheets for distribution to the oversight meeting participants.

3. O&M/State Special Compensation – As part of the University’s overall budget development framework, comparing available resources with projected cost increases, an annual calculation of the projected increase in compensation costs is included for the O&M and State Special fund groups. That calculation is done centrally and provides useful information in trying to estimate the cost of compensation for each unit. To verify that the central methodology yields reliable results, please provide an answer to the following two questions:

“What is your calculated **increased** cost for salary and fringe for FY11 in O&M and State Special funds only – without factoring in the 27th pay period impact for hourly employees?”

“What is your calculated cost for salary and fringe for FY11 only in O&M and State Special funds due to the 27th pay period for hourly employees?”

The answer to these questions will be a portion of the increase reflected on your budget development worksheet in the lines for salary and fringe expenditures (representing the estimate for O&M and State Special funds only, rather than all nonsponsored funds combined). If you have questions on this, please contact your budget officer.

4. Reallocations and Significant Financial Concerns – Instead of a separate compact document, the process for FY11 will focus on three financial areas that will shape the immediate activities of units. Specifically, you will be asked to respond to questions in the following areas:

- Implementation of the FY10 Budget Reallocations
- Proposed Strategies for an FY11 Budget Reallocation
- Significant Financial Concerns That Should be Discussed

As you prepare these materials, please consider and address the following broad questions that should guide short-term and long-term planning:

What programs or services within your unit are excellent and have a comparative advantage, and should they be strengthened and/or expanded?

Which core programs or services within your unit should be maintained?

Which programs or services within your unit are less important or non-core and could potentially be reduced or eliminated?

Which programs or services within your unit are no longer successful and should be eliminated?

How can your activities be organized and processes be reformed to improve services provided to stakeholders and increase the productivity of your unit’s resources?

a. Implementation of the FY10 Budget – As part of the FY10 budget implementation, each unit at the University was asked to reallocate anywhere from 4%-8% of their FY09 base. In order to better understand the context for your FY11 budget, please submit your final implementation plan regarding the FY10 reallocation, including specific plans to transition from nonrecurring bridging funds to permanent cost reductions if applicable. Include an explanation of the actions taken to permanently adjust the funding base, the timeline involved and the projected outcomes of your actions.

b. Reallocations for FY11 – As indicated earlier in these instructions, the current financial plan for FY11 includes a total University internal reallocation of \$32,500,000. This equates to approximately 2.0% of the FY10 adjusted O&M/State Specials/Tuition allocation base (adjusted for the elimination of institutional financial aid programs, utilities, leases, etc.). A portion of this reallocation will be implemented within support units through planned productivity improvements or cost reductions.

As described earlier, the plan includes a reallocation of 1.25%, or a total of \$20.3 million across all units, to be used in balancing the institutional budget framework; and a reallocation of .75%, or a total of \$12.2 million, to be used within the units to internally re-prioritize activities and improve service, quality, efficiency etc. *The*

.75% portion of the reallocation is not required to balance the institutional budget framework. It is a strategy to implement changes in priorities or processes within the unit that will result in a more efficient and higher quality operation.

The proportional allocation of the two amounts by unit is as follows:

Unit	.75% Amount	1.25% Amount	Total
Audits	\$15,000	\$25,000	\$40,000
Auxiliary Services	4,000	7,000	11,000
Board of Regents	6,000	11,000	17,000
Capital Planning & Project Mgmt	11,000	19,000	30,000
Controller	75,000	125,000	200,000
Equity & Diversity	78,000	130,000	208,000*
Facilities Management	542,000	903,000	1,445,000
General Counsel	31,000	52,000	83,000
Graduate School	55,000	91,000	146,000
Human Resources	73,000	122,000	195,000
Information Technology	454,000	756,000	1,210,000
International Programs	33,000	55,000	88,000
Libraries	272,000	453,000	725,000
President’s Office	36,000	60,000	96,000*
Public Safety	72,000	120,000	192,000
Research VP	102,000	170,000	272,000
Scholarly & Cultural Affairs	4,000	7,000	11,000
Sr. VP Academic Affairs/Provost	97,000	162,000	259,000*
Sr. VP Health Sciences	86,000	143,000	229,000
Sr. VP System Academic Admin.	55,000	92,000	147,000*
Student Affairs	29,000	48,000	77,000
Undergraduate Education	206,000	343,000	549,000
University Finance VP	25,000	42,000	67,000
University Hlth & Safety	37,000	61,000	98,000
University Relations	63,000	105,000	168,000
University Services VP	45,000	74,000	119,000

* Denotes reallocation calculated for the RRC’s “academic” activities/funds and “support” activities/funds combined.

Each RRC receiving these instructions should develop and submit a proposal in two separate parts. First, prepare a response that builds on the reallocation planning for FY10 and will result in additional cost savings or increased revenues equal to the amount identified above in the **1.25% Amount** column. (If Vice Presidents wish to alter the specific target amounts for the units within their purview, while keeping the total the same, please contact the Budget Office.) The proposal should briefly outline the actions to be taken to reduce your recurring budget and the projected impact on the unit activities and service levels, identifying, where applicable, the connection to FY10 plans. Please keep in mind that the 1.25% portion will contribute to balancing the overall institutional budget framework, and therefore will support the costs in the framework related to the compensation increase, founders, facility costs, investment pool etc., whether they are within your unit or in another unit. These costs that are within your unit, therefore, will not have to be covered over and above the reallocation amount in your proposed strategy.

Second, prepare a response that separately addresses the **.75% Amount** in the table above. This response should focus on what would be implemented to achieve a reallocation of that amount to reinvest back within the unit in a higher priority activity or an action that will result in greater efficiencies or better service. This reallocation will not be directed toward those cost increases previously listed as within the institutional framework – it is not necessary to balance the institutional budget.

Proposals will be reviewed during the budget oversight meetings. Not all proposals will be accepted and implemented.

c. Funding Requests/Significant Financial Concerns – As in the last two years, funds available for new initiatives are extremely limited, so requests for new funding will be considered on an exception basis only. Requests must make a very compelling case and must be aligned with one of the following three standard categories:

- a) Items for which the University has some **legal/contractual/compliance/safety** obligation – please summarize the issue and required funding level in a short paragraph.
- b) Items for which **start-up funding was provided in FY10** with the expectation that additional funding would be required to maintain or advance the initiative – please summarize the projected outcomes, the funding level provided in FY10 and the future plans and cash flow needs of the initiative.
- c) Items representing an absolutely **essential and critical need** in either program funding or staffing requirements – please provide a full description of what the proposed funding will support, including projected outcomes, along with a justification for why it is necessary at this time.

Very few requests for additional resources should be submitted. Only the highest priority most critical needs will be considered.

5. Internal Sales Rate Setting – Units conducting internal sales activity must submit their rate proposals through the budget process. This section is intended to provide instruction for internal sales submittals from the RRCs listed on pages 3 and 4, so any unit without internal sales activity can disregard this section.

University policy ensures that goods and services sold to other University departments are being sold at rates that comply with Federal A-21 regulations and federal Cost Accounting Standards (CAS); and that they are sold at rates that fully cover, but do not exceed costs. If goods and services sold to other University departments do not fully cover costs, all subsidies must be 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.

Submittal of Internal Sales Information – Two Separate Procedures:

1) Internal Sales Office – Rate development information for the forthcoming year and annual management reviews of internal sales activity for the prior fiscal year must be submitted to the Internal Sales Office. Information submitted is used to review internal sales rates for compliance with federal accounting standards. The Controller’s Organization has grouped units conducting internal sales based on various “risk factors”. Each of these groups undergo various levels of review to ensure compliance with set policies. Rate information for the forthcoming fiscal year must be submitted to the Internal Sales Office regardless of expected annual revenue amounts. Refer to procedure “Reviewing Internal Sales Activity Annually” in the “Selling Goods and Services to University Departments” policy for the documentation due to the Internal Sales Office by September 30 of each year.

2) **Budget Office** - Rate information for the forthcoming fiscal year must be submitted to the Budget Office according to the instructions below. Submittal of rate information through the budget process does not eliminate the need for units to work with the Internal Sales Office in reviewing internal sales rates for compliance with federal accounting standards. The submittal of information to the Budget Office is intended to arrive at a decision on the appropriate level of individual rates, incorporating the correct planning parameters, and does not involve reviewing the rates relative to federal accounting standards.

Instructions for units conducting internal sales that meet or exceed \$300,000 in annual revenues: All rates for internal sales activity in this category should be developed using the procedures defined in University of Minnesota financial policy 3.2.1, Selling Goods & Services to University Departments. For FY11 budget development, units conducting internal sales at this level should submit a summary of their major rates for FY09, FY10 and proposed for FY11, 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 internal sales revenues. 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 units with less than \$300,000 in annual internal sales revenues: All rates for internal sales activity in this category should be developed using the procedures defined in University of Minnesota financial policy 3.2.1, Selling Goods & Services to University Departments. For purposes of FY11 budget development, units conducting internal sales at this level should submit rate information only for rates which are new for FY11 or for anticipated increases in a current rate that exceeds a 3% inflationary rate. In the submission, include:

- Rate for FY10
- Proposed rate for FY11
- 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 FY11 and growth over FY10 if applicable

E. Process

1. Meetings and Due Dates

Budget oversight meetings will occur with each unit between October 6 and November 4. The timeline has been set so as to meet deadlines necessary for completing the fall process prior to the end of the calendar year.

The meetings will focus on reviewing any significant issues surfacing from the materials submitted in response to these instructions. No supplemental presentation materials are necessary.

Submittal Due Date – Five working days prior to the scheduled meeting, please send all required materials in Section D to the relevant budget officer listed in section B.

2. Budget Recommendations and Cost Allocations

During November and early December, the Budget Office will be developing analysis, models, summaries and recommendations related to the budget for each unit involved in this fall’s process. Different scenarios for the

FY11 budget 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 at this time by the senior officers will then be communicated to each of the support units and converted into charges for the academic units by late December or very early 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. As mentioned previously, budgets for these units are being preliminarily approved by the administration before all information related to the University's overall revenue forecasts and investment plans is final. Tuition levels and expenditure plans cannot be finalized until spring and must then be built into the final budget recommendation presented to the Board of Regents in April and May. Recognizing "end-of-process" decisions may necessitate changes in the preliminary support unit budgets the overall process is as follows:

- ❖ Update forecasting items with current information (salary and fringe estimates, tuition estimates, etc.) as soon as possible to determine estimated available resources
- ❖ Preliminarily approve support unit budgets for FY11 by end of December
- ❖ Calculate FY11 cost allocations for academic units by end of December
- ❖ Approve academic unit budgets by late March 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

❖ Attachment – Cost Pool Descriptions

Cost Pool 1. Administrative Service Units - This cost pool is allocated to the academic units based on a proportionate share of total expenditures of the most recently closed fiscal year. The FY11 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of FY09 total expenditures. Some of the budgets for the units in this cost pool are allocated to Twin Cities academic units only and not to the coordinate campuses.

Cost Pool 2. Technology - 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 FY11 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of headcount from the fall of 2009. Some of the budgets for the units in this cost pool are allocated to Twin Cities academic units only and not to the coordinate campuses.

Cost Pool 3. Facilities Operations & Maintenance - 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 FY11 approved budget for this portion of Facilities Management will be allocated based on the academic units' proportionate share of ASF from fall 2009. This cost pool affects only Twin Cities academic units and not the coordinate campuses.

Cost Pool 4. Student Services - This cost pool is allocated to the academic units based on a proportionate share of the different categories of students from the fall of the previous year: either a) all students, all levels; b) undergraduate students only; or c) graduate students enrolled in the graduate school plus graduate school faculty. The FY11 approved budgets for units within this cost pool will be allocated based on the academic units' share of the relevant headcount from the fall of 2009. 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 Administration - This cost pool is allocated to academic units based on a proportionate share of the average of the last three years of total sponsored expenditures. The FY11 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of the average of FY07, FY08 and FY09 total sponsored expenditures. This cost pool will be allocated to Twin Cities academic units and Duluth.

Cost Pool 6. Library - This cost pool is allocated to academic units on the Twin Cities campus only based on a proportionate share of a weighted faculty and student headcount from the previous fall. The FY11 approved budget for University Libraries will be allocated to the academic units based on the weighted headcount from the fall of 2009. (Weighting scheme: lower division student = .5; upper division student = .75; professional student, graduate student and faculty = 1)

Cost Pool 7. Utilities - This cost pool is allocated to the academic units on the Twin Cities campus 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.

Cost Pool 8. Debt & Leases - This cost pool is 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 FY11 will be based on known costs for debt service and leased space, and that will be allocated to the appropriate academic units based on assignment in the space data base as of fall 2009 or known occupancy during FY11.

Cost Pool 9. General Purpose Classrooms - This cost pool is allocated to the academic units based on a proportionate share of total student registrations. The budget related to classroom management and the estimated actual costs for debt service/leases/utilities related to general purpose classroom space for FY11 will be allocated based on student course registrations from the fall of 2009. This cost pool affects only Twin Cities academic units and not the coordinate campuses.