### Fiscal Year 2009-10 Operating Budget

What is the amount of the University’s annual budget?

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Non-Sponsored Expenditures &amp; Mandatory Transfers</td>
<td>$2,418,275,274</td>
</tr>
<tr>
<td>Current Sponsored Expenditures</td>
<td>$518,175,000</td>
</tr>
<tr>
<td>Total Current Fund Operating Budget</td>
<td>$2,936,450,274</td>
</tr>
</tbody>
</table>
All-Funds Budget Structure

Sponsored Funds
$518 Million

Non-Sponsored Funds
$2.4 Billion

Local Unit Generated Revenues
$.95 Billion

$290 Million
Auxiliary Operations

$660 Million
Clinical Income
Restricted Income
Grants & Contracts
Business & Industry
Sales & Services
Fees
Endowment Income

Centrally Allocated & Attributed
$1.45 Billion

State O & M/Other Misc.

State Specials

Tuition

University Fee

Indirect Cost Recovery

Central Reserves
Where the Money Goes
State of Minnesota General Fund Budget / $34.58 Billion
2010-11 Biennium

- K-12 Education 39.9%
- Property Tax Aids & Credits 9.0%
- Health & Human Services 28.1%
- Public Safety 5.4%
- Higher Education 9.1%
- All Other 8.5%

77% of State Budget
- K-12 Education
- Property Tax Aids & Credits
- Health & Human Services
Two Budget Processes:

• Biennial Budget Request to the State
  - completed every two years

• Annual Budget Process
  - conducted every year
University of Minnesota Biennial Appropriation History 1996-97 to 2010-11
Trends in Tuition & State Funds
1997 to 2011

State $ Tuition $
Budget Development Activities

<table>
<thead>
<tr>
<th>Pre IMG “Infante” Phase</th>
<th>IMG “Install” Phase</th>
<th>IMG “Shared Responsibility” Or “Common Good” Phase</th>
<th>“Earned Income &amp; Full Cost Model” Phase</th>
</tr>
</thead>
</table>
“Why” Move to RCM?

• Grow out of Budget Problems – State and National Changes
• Improve Transparency Surrounding Decisions
• Improve Accountability and Management of Resources
• Clarify Maze of Cross-Subsidies
• More Clearly Link Performance to Rewards

Incentives for Managed Growth (IMG)
Reforming Resource Allocation Models for Revenue Distribution

**Previous Model**
- State Appropriations
- Indirect Cost Recovery
- Tuition Revenue

**Central Funds**

- Allocations to Academic & Support Units

**IMG Model**
- State Appropriations
- Indirect Cost Recovery
- Tuition Revenue

**Central Funds**

- 50.5% Allocations to Support Units
- 49.5% Allocations to Academic Units

100%
Model Changes Since Inception of IMG

1. We created and abandoned a facilities charge - $5 per square foot

2. We created the Internal Revenue Sharing program to fund institutional common goods and academic priorities (FY06 estimated yield = $99.5 million)

3. We created the University Fee to fund central student support services and other central investment needs (FY06 estimated yield = $41.3 million on TC campus and $11 million on coordinate campuses)
Reforming Resource Allocation

Why Institutional Revenue Sharing?

The challenge of funding institutional common goods and academic priorities

IRS – recognition that all units should share in providing resources for meeting institutional needs & budgetary responsibilities.

Centrally Distributed Revenues

Local Unit Generated Revenues

Academic Institutional Revenue Sharing = Total Revenues × 8.5% (FY06)
Our RCM Story – 1998-2006

- Most Revenues Already Attributed
- Not “Every Unit a Tub on Its Own Bottom”
- No Allocation of Costs
- Continued Reliance on Strong State Appropriation
- State Appropriation Can be Redirected
- Implemented in Financial/Student Systems
Lessons Learned from IMG

• Incentives to Grow Revenue Worked (tuition & ICR)
• Communication of Budget Decisions Did Change – Allocations + Revenues
• Incentives to Manage Resources Effectively Worked (Scheduling, Curriculum)
• Academic Program/Course Approval Process Different than Budget Process
• Organizational Level Does Matter – College vs. Department
• Internal Assessments – Necessary without cost allocations
• Distributed Risk with Distributed Management – Balance OK
• Interdisciplinary Activities Require Constant Vigilance
• Collegiate Revenue/Program Plans Need Monitoring (e.g. scholarship vs. waivers)
Why Build Upon the IMG Model?

IMG Largely A Success - However

NEED MORE
- Transparency
- Simplicity/Fewer Levers
- All-Funds/All Costs Analysis
- Accountability – Units & Leadership

NEED LESS
- Internal Assessment
- Base + / - Methodology
The Strategic Goals and Objectives of the University surround and direct the development of Policies, Priorities and Procedures, including a stable set of rules embedded within the Institutional Budget Model:

**Institutional Budget Model**

Attribution rules for revenues and expenditures that assist in achieving (but don’t determine) the strategic goals and objectives and don’t change as policies, priorities, and procedures change in response to the strategic goals and objectives.

**Policies/Procedures/Priorities**

Compacts, Academic Investments, Capital Investments, Tuition and Fees

**Strategic Goals and Objectives**
Working Principles

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 at 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 member 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.
Earned Income/Full Cost Model

State Special Allocations $ as required by law

Tuition 100% @ 75/25

U of M Fee 100% @ 75/25

ICR 100%

All Other Unit Earned Revenues No Change

Academic Units
(TC Colleges & Selected TC Units)

Coordinate Campuses*

Self Supporting Units**

*Model will require slight modification for coordinate campuses

**Note: Self supporting units will be charged for some components

Cost Allocation Payments

Cost Allocation Charges

Attributed Costs
- Utilities
- Custodial/Operations
- Debt & Leases
- Libraries
- Research Admin.
- Inform. Technology
- Student Services
- Central Admin. Units
- Gen. Purpose Classrooms
- Course Reg.

Bases for Attribution
- Actual Consumption
- Assignable Sq. Ft.
- Actual Costs w/adjustments
- Weighted student & faculty headcount
- 3 yr. Sponsored Expend.
- Headcount
- Student Headcount
- Expenditures

Source of Revenues for Academic Strategic Investments
‘Off the Top’ – State Appropriations

President's Central Allocation
State O & M Subsidy, including Compact Investments, and other Institution-Wide Fees

Funding of Central Services
Rate Setting for Central Services

Academic Investment Priorities
### University of Minnesota
#### Academic Units

| College of Food, Ag. & Nat. Resource Sciences | College of Continuing Ed |
| College of Design | Academic Health Center Shared |
| College of Biological Sciences | School of Dentistry |
| College of Education & Human Development | Medical School |
| College of Liberal Arts | School of Nursing |
| Law School | College of Pharmacy |
| Carlson School of Management | School of Public Health |
| Humphrey Institute of Public Affairs | College of Veterinary Medicine |
| Institute of Technology | |
| University of Minnesota Extension Service | |
| Agricultural Experiment Station | |

### Campuses
- Crookston
- Duluth
- Morris
- Rochester
# University of Minnesota Support Units

<table>
<thead>
<tr>
<th>Board of Regents</th>
<th>Sr VP System Academic Admin.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>President’s Office</td>
<td>Athletics*</td>
</tr>
<tr>
<td>General Counsel</td>
<td>VP for Research*</td>
</tr>
<tr>
<td>Audits</td>
<td>Sr. VP Academic Affairs/Provost*</td>
</tr>
<tr>
<td>University Finance</td>
<td>Graduate School*</td>
</tr>
<tr>
<td>Controller</td>
<td>Information Technology</td>
</tr>
<tr>
<td>University Services</td>
<td>Student Affairs</td>
</tr>
<tr>
<td>Facilities Management</td>
<td>University Libraries</td>
</tr>
<tr>
<td>Capital Planning/Project Mgmt</td>
<td>Sr. VP Health Sciences</td>
</tr>
<tr>
<td>University Health &amp; Safety</td>
<td>Equity and Diversity</td>
</tr>
<tr>
<td>Public Safety</td>
<td>Office of Internat’l Programs</td>
</tr>
<tr>
<td>Auxiliary Services*</td>
<td>Undergraduate Education*</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Scholarly &amp; Cultural Affairs*</td>
</tr>
<tr>
<td>University Relations</td>
<td></td>
</tr>
</tbody>
</table>

*All or portions of these units treated as “academic” in budget model
Bases for Cost Allocation:

Discussions on cost allocation have resulted in three different types:

1) **Consumption Based Allocation** – cost allocated based on actual measurement of use
   - *creates direct incentive toward desirable behavior*

2) **Cost Driver Based Allocation** – cost allocated based on relative share of identified cost driver variable
   - *variable acts as a “proxy” for use – no measurement of actual use*
   - *no direct incentive toward any behavior – provides better management information*

3) **Common Good Based Allocation** – cost allocated based on a variable accepted as reasonable measure of participation in the University community
   - *no direct or primary connection to incentives – just a reasonable way to fairly allocate a shared cost*
## Summary of Cost Allocation Recommendations

X = Primary “type” assignment

<table>
<thead>
<tr>
<th></th>
<th>Utilities</th>
<th>Facilities O&amp;M</th>
<th>Debt &amp; Leases</th>
<th>Tech</th>
<th>Admn Serv</th>
<th>Libraries</th>
<th>Research</th>
<th>Student Serv</th>
<th>Gen. Purpose Classrooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption Based Cost Allocation</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost-Driven Based Cost Allocation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Common Good Based Cost Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
Facilities Operations & Maintenance
Cost Allocations:

Charges Allocated by ASF
• Building Services
  – Custodial
  – Waste
  – Recycling
• Maintenance
• Landcare/Grounds
• Repair & Replacement

Charges Allocated by Consumption
• Energy Management
  – Steam
  – Chilled Water
  – Electricity
  – Water/Sewer

Charges Allocated as part of System-wide Administrative Cost Pool: BSAC

Charges Allocated based on Time & Materials: Services beyond ‘Basic Services Standard’
  (This standard to be agreed to annually within the annual budget and compact processes.) Working assumption-units “opt-in” to services unless there is a confirmed business case to “opt-out”.

25
Core Technologies Allocated in the Model

<table>
<thead>
<tr>
<th>Communications</th>
<th>Productivity Applications</th>
<th>Business Applications</th>
<th>Student, Faculty Staff Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Network</td>
<td>Operating System</td>
<td>PeopleSoft</td>
<td>Helpdesk (1-HELP)</td>
</tr>
<tr>
<td>Voice</td>
<td>MS Office</td>
<td>WebCT</td>
<td>Training</td>
</tr>
<tr>
<td></td>
<td>File Systems</td>
<td>Imaging</td>
<td>Digital Media Ctr</td>
</tr>
<tr>
<td></td>
<td>Web Collaboration</td>
<td>Library Automation</td>
<td>Computer Labs</td>
</tr>
<tr>
<td></td>
<td>Email</td>
<td>E-Research</td>
<td>Security</td>
</tr>
<tr>
<td></td>
<td>Calendar (UMCal)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Portfolio</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>File Storage</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Web Content Mgmt</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Headcount Allocation Methodology:

- Annual snapshot-in-time – lagged one year (fall 2009 used for FY11 budget):
  - Student – Fall Headcount (10th day of term)
  - Staff/Faculty – Fall (9th pay period)
- Per Head Rate
- Allocate by RRC
- Single annual bill / statement to each RRC
- Two tiers – one for all campuses and a second for Twin Cities only
Administrative Service Units

Part A: System-Wide Units that are “in” this cost pool

<table>
<thead>
<tr>
<th>Audits</th>
<th>Public Safety (excluding Police)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Regents</td>
<td>Sr. VP Academic Affairs/Provost</td>
</tr>
<tr>
<td>Budget and Finance (excluding Bursar)</td>
<td>(Sr. VP Office only)</td>
</tr>
<tr>
<td>Capital Planning/Project Management</td>
<td>Sr. VP Health Sciences</td>
</tr>
<tr>
<td>Controller’s Office (excluding SFR)</td>
<td>Sr. VP System Admin (excluding centers)</td>
</tr>
<tr>
<td>General Counsel</td>
<td>University Relations</td>
</tr>
<tr>
<td>Human Resources</td>
<td>VP University Services (VP area only)</td>
</tr>
<tr>
<td>President’s Office</td>
<td></td>
</tr>
<tr>
<td>BSAC</td>
<td></td>
</tr>
</tbody>
</table>

Costs to be allocated based on proportionate share of system-wide total expenditures.

If college/campus A has 14% of total system-wide expenditures from most recent fiscal year end, then college/campus A will pay 14% of total approved budget for these units.

Part B: Twin Cities Campus Only Units that are “in” this cost pool:

<table>
<thead>
<tr>
<th>Bursar</th>
<th>Alumni Assoc w/i University Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Department</td>
<td>Campus Mail</td>
</tr>
<tr>
<td>University Services – Finance, HR and IS</td>
<td></td>
</tr>
</tbody>
</table>

Costs to be allocated based on proportionate share of Twin Cities Campus total expenditures.

If college B has 14% of total Twin Cities campus expenditures from most recent fiscal year end, then college/campus B will pay 14% of total approved budget for these units.
Principal and Interest on Debt & Lease Payments

Units will be responsible for all debt/lease costs of buildings based on occupancy.

Actual Direct Cost by Building with shared responsibility for ‘General Purpose Classroom Space’

- 1/3 state debt requirement for University share of project assessed directly to occupants of facility.

- Calculate debt for centrally scheduled classroom space separately and add that cost to the Classrooms Cost Pool (spread on course registrations).

- Principles for the appropriate use of classroom space will be disseminated as part of implementation.
Research Administration
Allocation Methodology – Sponsored Research Expenditures

Research Services – Costs in this Pool

- Office – Vice President for Research
- Sponsored Projects Administration
- Patents & Technology Marketing
- Sponsored Financial Reporting
- AHC - Office of Research
- University Health & Safety

- Same rate applied to all units to cover all research support services
- Rate calculated as a fixed percentage of *Sponsored Research Expenditures*
- Uses a three year rolling average of research expenditures to minimize impact of annual fluctuations for academic units

(If approved budget for units above = 3% of last three years rolling average total sponsored research expenditures, then each unit will pay 3% of their 3-year rolling average total sponsored research expenditures.)
University Libraries
Allocation Methodology – Weighted Headcount

Twin Cities Campus Only

Costs Allocated based on RRC Proportional Share of:

- lower division student headcount weight = 2 (10th day)
- upper division student headcount weight = 3 (10th day)
- professional student headcount weight = 4 (10th day)
- graduate student headcount weight = 4 (10th day)
- faculty headcount (broad definition) weight = 4 (9th pay prd)

Headcount lagged one year

Future Planned Analysis – Revisit weighting scheme to determine validity

To meet accreditation standards, the Law Library will remain separately budgeted within the Law School. The Law School will be charged only on the basis of their faculty headcount - students will be left out of the denominator for the calculation of their charge.
Student Services
Cost Allocation Methodology – Headcounts

A

Allocated on Total Enrollment – all Students

Student Finance Administration
Registrar

*Tiered formula for TC only and coordinate campuses

Financial aid and investment pools:

B

Allocated on Undergraduate Enrollment – TC

Vice Provost
Admissions
Orientation – 1st Yr Programs
Honors/UROP
Prehlth Advising
Student Affairs

Grad. School Fellowships
Grad. School Student Investments

C

Allocated on Graduate Enrollment & Faculty

Graduate School Operations
General Purpose Classrooms Cost Allocation

Methodology – Student Course Registrations

<table>
<thead>
<tr>
<th>Costs included</th>
<th>Office of Classroom Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AHC Office of Classroom Management</td>
</tr>
<tr>
<td></td>
<td>Debt Service on Classroom Space</td>
</tr>
<tr>
<td></td>
<td>Utilities on Classroom Space</td>
</tr>
</tbody>
</table>

| Methodology                                          | Allocate combined costs of items above to Twin Cities campus academic units only based on their proportionate share of total student course registrations |

| Future                                               | Potentially refine model to build in specific incentives for improved management of classroom space |
Notes on Allocation of the State Subsidy

- Annual decision by the President
- Strategic decision each year used to implement University priorities: leadership to be held accountable for addressing priorities through the budget
- Allocations made in support of unit level performance agreements, based on programmatic outcomes and financial management – decisions supported through unit level analysis
- Budget process, information and formatting will all be consistent across units to support decision making
- Total annual allocations cannot exceed the available state resources
- Allocation decisions cannot force a unit into a deficit for the year, but can force discussions about alternate levers in revenues and cost allocation categories.
FY10 Budget Dev. Timeline
(Annual Budget Process - Central Perspective)

Support Unit Process In the Fall

- **Early September**: Instructions to Support Units
- **Oct.-Early November**: Meetings w/Support Units (*materials submitted 1 week prior*)
- **Late November**: Summarize info & prepare preliminary budget recommendations
- **Late Nov.-Early Dec.**: Present materials to President for Approval
- **Late December**: Incorporate cost allocation rates into academic unit instructions

Academic Unit Process in the Winter/Spring

- **Late December**: Instructions to Academic Units
- **Mid Feb.-Late March**: Meetings with Academic Units (*budget materials submitted 1 week prior*)
- **April and May**: Build budget recommendations for academic units & balance overall institutional budget
- **Early June**: Present President’s recommended budget to the Board for Review
- **Late June**: Present President’s recommended budget to the Board for Approval
Part 1
Budget Decisions for Service Units

Compensation
• Salary Plan
• Fringe Benefit Costs

Strategic Academic Priorities (examples)
• Financial Aid – Merit or Need
• Library Acquisitions

Infrastructure/Related Costs (examples)
• Increase in R&R
• 3 additional police officers
• Environmental compliance position
• Utilities

Resources & Tools – Budget Decisions
A. Internal Reallocations – budget item funded without new impact on cost pool
B. Additional Unit Earned Revenues
C. Approved Budget Items Added to Cost Pool

Part 2
Budget Decisions for Academic Units

Compensation
• Salary Plan
• Fringe Benefit Costs

Strategic Academic Priorities (examples)
• Targeted Faculty Hires
• Enhanced Advising Services

Infrastructure/Related Costs (examples)
• Office Equipment Replacement
• Lab remodeling

• Impact of Cost Pools

Resources & Tools – Budget Decisions
A. Increased State Appropriation
B. State Appropriation Reallocated between Academic Units
C. Additional Unit Earned Revenues
  • Tuition, ICR, Gifts, etc.
D. Unit Internal Reallocations

All Funds Budget
## Sample - All Funds Budget Review

<table>
<thead>
<tr>
<th>Revenues Generated by the Unit</th>
<th>Revenues Generated by the Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Tuition</td>
<td>$11,000,000</td>
</tr>
<tr>
<td>ICR</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Fees/Sales</td>
<td>$500,000</td>
</tr>
<tr>
<td>Other</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Total Earned Revenues</td>
<td>$14,800,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures by Object Code</th>
<th>Expenditures by Object Code</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$10,500,000</td>
</tr>
<tr>
<td>Fringe</td>
<td>$3,700,000</td>
</tr>
<tr>
<td>Supplies/Serv./Misc</td>
<td>$1,600,000</td>
</tr>
<tr>
<td>Other</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$17,000,000</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Budget Decision</th>
<th>Budget Decision</th>
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</thead>
<tbody>
<tr>
<td><strong>Net Transfers</strong></td>
<td>$1,000,000</td>
</tr>
<tr>
<td>O&amp;M: State Support</td>
<td>$?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Decrease)/Increase in Net Assets</th>
<th>(Decrease)/Increase in Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Decrease)/Increase in Net Assets</strong></td>
<td>$(1,200,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets Beginning of Yr. (Carryforward)</th>
<th>Net Assets Beginning of Yr. (Carryforward)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets Beginning of Yr. (Carryforward)</strong></td>
<td>$5,500,000</td>
</tr>
<tr>
<td>Net Assets End of Yr.</td>
<td>$4,300,000</td>
</tr>
</tbody>
</table>
U of MN Characteristics that May Make RCM Easier

- Relatively Large Unrestricted State Appropriation
- Autonomy from the State
- Ability to Carry Forward Balances at Year End
- Leadership that Strongly Supports Distributed Management and Accountability
- Strong Financial Personnel in Each Academic Unit
- Data Systems to Support Analysis and Methodology
Continuing Issues

- Fostering & Management of Interdisciplinary Activity Requires Constant Vigilance
- Collaboration Processes for the Development of Support Unit Priorities/Services Need to be Improved
- Communication of Final Decisions on Budgets Needs to be More Robust
- The Principle of “Predictability in Budgeting” Needs Further Attention for the Academic Units
- Continuing analysis of incentives/disincentives created by the model
- Other? (NO REST FOR THE WEARY)
Contacts for Budget and Financial Information

Budget Office Web Site:  www.budget.umn.edu

Budget Office Phone #:  612-626-4517

Controller’s Org Phone #:  612-624-0874

Institutional Research Web Site:  www.irr.umn.edu