

FY08 Budget Instructions Academic Units

January 2007

Materials Due: five working days prior to scheduled compact/budget meeting

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A. Budget/Compact Process for FY08

To foster more complete compact conversations and strengthen an all-funds approach to supporting initiatives and achieving goals, the compact process is again being aligned with the budget discussions for FY08. The compact instructions have been distributed as a separate document, but the content, submission deadlines and process have been coordinated with these budget instructions to result in one priority setting and resource planning process with central administration.

The institutional budget model is described as an “Earned Income/Full Cost” model. In essence, revenues go directly to the units that generate them, and in turn, all costs (including infrastructure and central administrative costs) are allocated to those revenue generating units. The state appropriation and some miscellaneous institutional fees are the only revenues recorded first as “central” revenue and then allocated out to the academic units through the annual budget process. The “costs” of central support **that were previously funded through a central allocation** are billed out to academic and business units (on a variety of bases identified later in these instructions) and the payment of those bills funds the operations of the support units. There is no change in this basic structure of the model for FY08.

Level of Implementation

For purposes of budget development, the “unit” designation used in these instructions remains the Resource Responsibility Center (RRC). Although some aspects of the new model require calculations at an area level (identified below), by and large the model will continue to rely on RRC level decision making. If a Dean wishes to systematically or formulaically allocate costs down to a department level, he or she will first need approval from the Senior Vice Presidents. Each RRC remains the organizational level of the University to be held accountable for the financial management of the units within it, so there is no expectation that a unique knowledge and skill base in financial management be developed in all departments in response to this budget model. As communicated last year, there will likely be cases within many RRCs where it is appropriate, however, to incorporate a full-costing methodology to some activities. This could indeed be desirable and should be pursued, so understanding each academic unit’s plans in this area will be valuable and as a result will be included as an agenda item for the compact/budget meetings.

B. Academic Units Included in these Instructions

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

- 1) receive earned revenues directly
- 2) receive as allocations 100% of the state appropriation
- 3) receive charges annually for the costs represented by central support unit budgets

| <u>Unit</u> | <u>Budget Office Contact for FY08</u> |
|------------------------|---------------------------------------|
| Crookston Campus | Carole Fleck |
| Duluth Campus | Carole Fleck |
| Morris Campus | Carole Fleck |
| Rochester | Carole Fleck |
| Ag. Experiment Station | Julie Tonneson |
| Athletics | Brian Swanson |
| Auxiliary Services | Sue Niehoff |
| Biological Sciences | Julie Tonneson |
| Continuing Education | Carole Fleck |
| Design | Lincoln Kallsen |

| <u>Unit</u> | <u>Budget Office Contact for FY08</u> |
|-------------------------------|---------------------------------------|
| Education & Human Dev | Lincoln Kallsen |
| Liberal Arts | Julie Tonneson |
| Ag., Food & Environmental Sc. | Lincoln Kallsen |
| Carlson School of Mgmt | Robin Dittmann |
| Dentistry | Sue Niehoff |
| Duluth School of Medicine | Sue Niehoff |
| MN Extension Service | Julie Tonneson |
| Humphrey Institute | Robin Dittmann |
| Institute of Technology | Julie Tonneson |
| Law School | Robin Dittmann |
| Medical School | Sue Niehoff |
| Nursing | Sue Niehoff |
| Pharmacy | Sue Niehoff |
| Public Health | Sue Niehoff |
| Veterinary Medicine | Sue Niehoff |
| TEVP | |
| 284 – Academic Counseling | Robin Dittmann |
| 285 – Weisman | Robin Dittmann |
| 293 – Air Force ROTC | Robin Dittmann |
| 294 – Army ROTC | Robin Dittmann |
| 295 – Navy ROTC | Robin Dittmann |
| TGRD | |
| 291 - University Press | Robin Dittmann |
| TSYA | |
| 292 – CURA | Robin Dittmann |
| 539 – Ctr. Transp. Studies | Robin Dittmann |
| 787 – Children, Yth, Families | Robin Dittmann |
| 852 – Ctr. For Global Change | Robin Dittmann |
| TAUX | |
| 311 – Concerts & Lectures | Sue Niehoff |
| TRES | |
| 343 – Hormel Inst. | Robin Dittmann |
| TCLF | |
| 686-91 – Boynton | Lincoln Kallsen |
| 695 – Rec Sports | Lincoln Kallsen |
| 699/701 – TC Student Unions | Lincoln Kallsen |
| 702 – Student Legal Serv. | Lincoln Kallsen |
| 914 – Student Conflict Res. | Lincoln Kallsen |
| TAHS | |
| 652 – Cancer Center | Sue Niehoff |
| 811 – CUHCC | Sue Niehoff |
| 812 – Office of Education | Sue Niehoff |
| 845 – RAR | Sue Niehoff |
| 846 – MMCT | Sue Niehoff |
| 847 – Bioethics | Sue Niehoff |
| 875 – Ctr. For Drug Design | Sue Niehoff |
| 881 – Spirituality & Healing | Sue Niehoff |
| 883 – Genomics | Sue Niehoff |

| <u>Unit</u> | <u>Budget Office Contact for FY08</u> |
|-----------------------------|---------------------------------------|
| 889 – Infectious Diseases | Sue Niehoff |
| 893 – Bioinformatics | Sue Niehoff |
| 900 – Interprofessional Ed. | Sue Niehoff |
| 904 – AHC Mayo | Sue Niehoff |
| 910 – Post Harvest Food | Sue Niehoff |
| 911 – Obesity Prevention | Sue Niehoff |
| 915 – Clinical Research | Sue Niehoff |
| 918 – Allied Health Center | Sue Niehoff |
| 922 – Allied Health – OT | Sue Niehoff |
| 923 – Allied Health – MT | Sue Niehoff |

C. Changes in the Process for FY08

Implementation of the new budget model for FY07 was complicated and confusing on many levels. A significant number of changes in calculations, methodologies, processes and communications were all implemented at the same time. Considering the magnitude of change, the transition went very well. The basic construct of the new model was sound. Implementation was initiated, however, with the understanding that year one was a transition year; that there would continue to be improvements and fixes made to the model in the near future to refine the technicalities and address concerns and problems.

To that end, the Budget Advisory Group was formed to review and analyze issues with the model – issues dealing with the technical calculations of the model: methodologies, definitions, process questions, etc. The Budget Advisory Group is chaired by Frank Cerra and Richard Pfitzenreuter and includes membership from across the University. The issues brought to the Budget Advisory Group are coordinated through the Budget Office and will be scheduled according to priority. The role of the Budget Advisory Group is not to make decisions but instead to be a review body for issues brought forward. They will make recommendations to the Senior Vice Presidents and the President on how to proceed with a particular issue.

1. Definition of Technology Headcount - One issue discussed by the group relates to the definition of headcount for the technology infrastructure cost pools and a change has been recommended and approved. A question was raised regarding what was included in the “other” category of headcount for the technology charge. The general definition of “other” included people who have internet IDs but aren’t in PeopleSoft at all, and after analyzing the data, it was determined that the majority of these cases were labeled “testing” and most were in the counts for the Office of Information Technology (OIT).

The approved recommendation was to change the definition of headcount for the technology statistic to exclude “other” headcount in the data base – essentially representing internet accounts but not necessarily actual people. The headcount remaining in the calculations will then be actual people (paid and unpaid) that are records in PeopleSoft HR and PeopleSoft Student. Of the resulting reduction in headcount used for the FY07 budget of 9,835, the majority (8,512) was subtracted from the OIT headcount, leaving a reduction of 1,323 in all other units. The financial impact of this change is shown in the table below. Had this revised definition been used when setting the FY07 budgets, the impact on costs and allocations would have been as identified in the table below. Therefore, as we set the FY08 budgets, an adjustment equal to the identified impacts will be made to allocations to reflect the permanent shift in costs due to this change in definition (positive entries in column C will result in increased allocations in those amounts, and negative entries will result in decreased allocations in those amounts).

| RRC | A Actual FY07 Charges (all pools) | B FY07 Charges After Tech. Hdct Change | C Cost Impact of Headcount Change (B-A) |
|-----------------|---|--|---|
| CXXX | \$2,810,949 | 2,813,206 | 2,257 |
| DMED | 1,152,868 | 1,152,676 | (192) |
| DXXX | 15,286,721 | 15,300,175 | 13,454 |
| MXXX | 3,103,728 | 3,093,929 | (9,799) |
| RXXX | 408,465 | 408,664 | 199 |
| TAES | 2,210,919 | 2,210,708 | (211) |
| TAHS | 9,641,960 | 9,604,208 | (37,752) |
| TALA | 7,672,046 | 7,683,610 | 11,564 |
| TATH | 4,615,500 | 4,611,074 | (4,426) |
| TAUX | 4,636,261 | 4,590,601 | (45,660) |
| TCBS | 18,650,056 | 18,663,077 | 13,021 |
| TCED | 28,913,525 | 28,951,445 | 37,920 |
| TCHE | 719,416 | 718,921 | (495) |
| TCLA | 74,083,591 | 74,203,953 | 120,362 |
| TCLF (academic) | 5,400,883 | 5,403,557 | 2,674 |
| TCOA | 29,816,372 | 29,784,758 | (31,614) |
| TCSM | 16,037,387 | 16,076,540 | 39,153 |
| TDEN | 8,762,165 | 8,767,498 | 5,333 |
| TEVP (academic) | 1,570,114 | 1,568,516 | (1,598) |
| TEXT | 3,452,925 | 3,452,510 | (415) |
| TGRD (academic) | 222,001 | 243,162 | 21,161 |
| THHH | 3,847,705 | 3,847,105 | (600) |
| TIOT | 56,819,106 | 56,803,553 | (15,553) |
| TLAW | 4,925,564 | 4,925,335 | (229) |
| TMED | 61,514,753 | 61,326,013 | (188,740) |
| TNUR | 4,711,852 | 4,720,186 | 8,334 |
| TPHR | 6,011,665 | 6,022,458 | 10,793 |
| TPUB | 14,656,404 | 14,647,080 | (9,324) |
| TRES (academic) | 341,181 | 383,945 | 42,764 |
| TSYA (academic) | 835,657 | 828,832 | (6,825) |
| TUCL | 13,339,274 | 13,369,004 | 29,730 |
| TVET | 11,004,236 | 10,998,950 | (5,286) |
| Total | 417,175,249 | 417,175,249 | 0 |

This adjustment to the FY07 allocation of costs will appear in the FY08 allocation letter

2. Endowment Funds – Beginning with the FY08 compact/budget cycle, the all-funds analysis of unit budgets will include a review of endowment funds in the University of Minnesota Foundation. Each unit with endowment funds will receive a separate e-mail from the Foundation prior to the scheduled compact/budget meeting. That message will include an attached report with information related to the unit’s endowment balances. Units do not have to submit any information related to this report, it is just provided for information and will be reviewed in the budget discussions along with all other unit resources.

D. FY08 Budget Parameters – Planning Assumptions

1. Context of the Biennial Request: FY08 once again represents the first year of a biennium for state budgeting purposes. The Board of Regents approved the biennial budget proposal at its November 2006 meeting, and the University submitted a request to the state for an appropriation increase for FY08 and FY09. The proposal and request focused on tying the University’s priorities exhibited in Strategic Positioning to the interests of the state. The basic components of the request are as follows:

| | <u>FY08</u> | <u>FY09</u> <i>(Incremental over FY08)</i> |
|---|---------------------|---|
| <u>Sustaining Quality & Competitiveness</u> | | |
| General Compensation | 34,900,000 | 34,700,000 |
| Advancing Education | 12,400,000 | 14,000,000 |
| Technology/Related Infrastructure | 3,500,000 | 3,600,000 |
| Facilities Operations | 16,200,000 | 15,300,000 |
| <u>Creating Minnesota’s Future</u> | | |
| Competitive Compensation | 9,800,000 | 8,900,000 |
| Hlth Workforce & Clinical Sciences | 8,800,000 | 10,300,000 |
| Science & Engineering | 4,100,000 | 7,400,000 |
| Environment, Ag Systems, Renewable Energy | 3,100,000 | 5,300,000 |
| Total Investment Plan | \$92,800,000 | \$99,500,000 |
| Requested State Appropriation | 58,900,000 | 64,500,000 |
| Proposed Tuition Increase | 22,400,000 | 23,500,000 |
| Proposed University Reallocation | 11,500,000 | 11,500,000 |
| Total Resource Plan | \$92,800,000 | \$99,500,000 |

As the budget process progresses, it is important to understand that the University does not know what its FY08 appropriation will be. That has two different implications for the two parts of the budget process:

1) First, for development of the support unit budgets and corresponding cost pool charges, decisions were made to include increases in the pools only to the extent that items were considered essential and would be approved regardless of the change in appropriation. Initiatives brought forward by support units that are also included as a part of the biennial budget proposal were not folded into the cost pool charges at this time. If the state provides funding for graduate fellowships or library collections, for example, then those costs will be added to the pools in May, and the corresponding state appropriation will be available to allocate to the academic units to pay for those unanticipated increased costs. Every effort will be made to avoid cost pool increases in May unless there is a corresponding increase in revenue to pay for those added costs.

The major exception to this principle was in the treatment of compensation. The cost of general compensation increases is included as an initiative in the biennial request. However, because providing general compensation increases to employees is a major University priority, rather than waiting until May for the final appropriation before adding the costs of support unit compensation into the cost pools, those costs have been added in at this point. If the state increases the University’s appropriation for FY08, some of those increased funds may be available to fund compensation, in which case a portion of the

appropriation will be available to allocate to the academic units to help pay for the cost pool increases for FY08 that are reflected with these instructions.

2) Second, the academic compact/budget process will proceed without final knowledge of appropriation levels. The schedule is designed to arrive at preliminary allocation decisions on academic unit budgets in May. The University will estimate the state appropriation based on the Governor’s recommendation and legislative interests, but should the final appropriation be significantly different from those estimates, preliminary allocations for all units may need to be adjusted before the University’s final budget is approved by the Board in June.

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 following general salary increases should be assumed for FY08:

| | |
|---|-------|
| Non-faculty academic employees | 3.25% |
| Civil Service/Bargaining Unit Employees | 3.25% |
| Faculty | 3.25% |

A set of documents from Human Resources, outlining the details of implementing the salary plans for the different employee groups for FY07, will be disseminated in the near future.

Projected fringe benefit rates for FY08 for use in budget planning are outlined below. As has been explained in recent meetings, these rates have changed from what was used in development of the support unit budgets this last fall. See Figure 1 on page 9 for a listing of the rates by component.

| | <u>Projected 2007-08</u> |
|--|--------------------------|
| Civil Service (and undergraduate students) | 32.70% |
| Academic | 31.62% |
| Graduate Assistant | |
| Health | 12.14% |
| FICA | 6.78% |
| Tuition | \$12.39/hour |

Figure 1
2007-08
Fringe Benefit Rates by Component

| 2005-06 Actual | CIVIL SERVICE | ACADEMIC | GRADUATE ASSISTANT |
|--|--------------------------|-----------------|-------------------------------|
| Retirement | 4.1 | 13.5 | --- |
| Group Life & Disability | --- | .8 | --- |
| Workers Compensation | 1.3 | --- | --- |
| Unemployment | .8 | .4 | --- |
| Social Security | 5.9 | 5.3 | 6.1 |
| Medicare | 1.4 | 1.5 | 1.4 |
| Tuition | 1.5 | .5 | ** |
| Health Insurance | 18.9 | 10.6 | 12 |
| Vacation | 1.1 | .4 | --- |
| | 35.0 | 33.0 | 19.5 |
| 2006-07 Actual (as revised 11/06) | CIVIL SERVICE | ACADEMIC | GRADUATE ASSISTANT |
| Retirement | 4.4 | 13.3 | -- |
| Group Life & Disability | -- | .7 | -- |
| Workers Compensation | 1.3 | -- | -- |
| Unemployment | .1 | .1 | -- |
| Social Security | 5.8 | 4.8 | 5.5 |
| Medicare | 1.4 | 1.3 | 1.3 |
| Tuition | 1.5 | .2 | ** |
| Health Insurance | 20.5 | 11.5 | 15.0 |
| Vacation | 1.1 | .5 | -- |
| | 36.1 | 32.4 | 21.8 |
| 2007-08 Proposed | CIVIL SERVICE | ACADEMIC | GRADUATE ASSISTANT |
| Retirement | 4.07 | 13.6 | --- |
| Group Life & Disability | --- | .38 | --- |
| Workers Compensation | .4 | --- | --- |
| Unemployment | .01 | .01 | --- |
| Social Security | 6.09 | 5.36 | 5.41 |
| Medicare | 1.48 | 1.58 | 1.37 |
| Tuition | 1.38 | .34 | ** |
| Health Insurance | 18.93 | 9.81 | 12.14 |
| Vacation | .34 | .54 | --- |
| | 32.70 | 31.62 | 18.92 |

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

Budgeting for Graduate Student Remission Charges:

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

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

Charges to Employers

1. The fringe benefit charge for tuition is a flat hourly rate that is set to recover the tuition benefit which the graduate assistant earns. To recover next year’s projected \$5,370 semester benefit (graduate school tuition plus the University fee) for 390 hours of work requires a tuition fringe rate of \$12.39 per hour. Because tuition rates have not yet been approved by the Board of Regents, the rate of \$12.39 is preliminary and reflects our best estimate at the time these instructions were written. This hourly rate will be charged to employers for every hour of work, even if the student works less than 12.5% or more than 50% time. Anticipated charges for graduate student tuition remission should be budgeted in object code 7102.

2. The graduate assistant health insurance benefits program will continue with similar benefits for graduate assistants and their enrolled dependents; the student will again pay 5% of the plan premium. The plan administrator will again be Blue Cross Blue Shield of Minnesota. The health fringe rate for FY07 will be 13.5% of salary.

Ph.D. Candidates

1. Once a Ph.D. student has passed the preliminary oral exam and completed 24 doctoral thesis credits he/she is eligible for employment in one of three job classes at a significantly lower tuition fringe cost. The student would receive the value of one credit of tuition. This benefit would be prorated for those appointed less than 50% time, as noted above. The employer would pay a corresponding hourly fringe rate estimated at \$1.99.

Summer

1. The full benefit for 260 hours of graduate assistant employment during the 13 week summer period will equal the previous year’s semester value. Students who work fewer than 260 hours will receive prorated benefits (except for summer session teaching assistants; see below.) Students may use this benefit for any mix of registrations during summer session terms. Employers will pay the same \$12.39 hourly fringe rate on these job classes.

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

3. Summer session teaching assistants pose a unique problem because their entire salary (as with summer session faculty) is paid (at a higher hourly rate) in the 200 hours of a five-week term. To provide the same tuition benefit that a comparable graduate assistant would earn for teaching a course during fall, winter or spring quarters, requires charging a higher hourly fringe rate (\$29.29 for 2007-08) on those recorded 200 hours of teaching during the summer session. They end up with the same total pay and benefits as in other semesters and summer session departments will pay the same total fringe charge.

Professional Program Assistantships

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

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

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

Figure 2

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

Fiscal Year 2007-08

| | Tuition | Health | Social Security Medicare | Total % Fringe |
|---|---------|--------|-----------------------------|-------------------|
| Summer Only | | | | |
| 9571 Summer Quarter TA | \$0.00 | 12.14% | 6.78% | 18.92% |
| 9572 Summer Quarter RA | \$0.00 | 12.14% | 6.78% | 18.92% |
| 9573 Summer Quarter AF | \$0.00 | 12.14% | 6.78% | 18.92% |
| 9574 Summer Quarter TA w/ T. Ben | \$29.29 | 12.14% | 6.78% | 18.92% |
| 9575 Summer Session TA w/o T. Ben | \$0.00 | 12.14% | 6.78% | 18.92% |
| Academic Year and Summer Quarter | | | | |
| 9511 Teaching Assistant (TA) | \$12.39 | 12.14% | 6.78% | 18.92% |
| 9515 Graduate Instructor | \$12.39 | 12.14% | 6.78% | 18.92% |
| 9517 Ph.D. Cand. Graduate Instructor | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9518 Advanced Masters TA | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9519 Ph.D. Cand. w/24 thesis cred. TA | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9521 Research Assistant (RA) | \$12.39 | 12.14% | 6.78% | 18.92% |
| 9526 Graduate Research Project Asst. | \$12.39 | 12.14% | 6.78% | 18.92% |
| 9527 Ph.D. Cand. Grad Research Asst. | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9528 Advanced Masters RA | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9529 Ph.D. Cand. w/24 thesis cred. RA | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9531 Administrative Fellow (AF) | \$12.39 | 12.14% | 6.78% | 18.92% |
| 9532 Advanced Masters AF | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9533 Ph.D. Cand. w/36 thesis cred. AF | \$1.99 | 12.14% | 6.78% | 18.92% |
| 9535 Professional Program Asst. | \$0.00 | 12.14% | 6.78% | 18.92% |
| 9538 Legal Project Assistant w/T. Ben | \$24.09 | 0.00% | 6.78% | 6.78% |
| 9539 Legal Project Assistant w/o T. Ben | \$0.00 | 0.00% | 6.78% | 6.78% |
| 9553 Dental Fellow | \$12.39 | 0.00% | 6.78% | 6.78% |
| 9554 Med Fellow, Graduate Program | \$6.20 | 0.00% | 6.78% | 6.78% |
| 9559 Med Resident, Graduate Program | \$6.20 | 0.00% | 6.78% | 6.78% |

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

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

Social Security and Medicare components are 5.41% for FICA and 1.37% for Medicare (6.78% total)

3. Enterprise System Assessment - The Enterprise Assessment was established as a systematic method of assessing units for the purpose of paying for the development, implementation, maintenance and replacement of institutional business systems. Under the new budget model, the Enterprise Assessment will continue until the projects currently and previously funded through this mechanism are paid off. We do not anticipate funding any new additional projects with this payment method. Current projections expect the assessment to continue through FY13.

The assessment rate for FY08, as well as the current methodology, will remain the same as the rate and methodology used in FY07. The following assumptions should be built into the FY08 plans at this time:

- Estimated assessment cost of **1.25%** of projected FY08 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 2007.

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 2007.

The estimates of cost for these insurance items are based on the best information available today. For FY08 planning purposes, each unit should assume a 5% increase in the amounts billed for FY07. The FY07 charge and the projected FY08 estimates are listed below by unit. These estimates have been prepared at an RRC level only – not at a departmental level.

| | <u>FY07 Charge</u> | <u>FY08 Estimate</u> |
|--------------------------|---------------------------|-----------------------------|
| Crookston | \$108,316 | \$113,732 |
| Duluth Medicine | 22,431 | 23,553 |
| Duluth | 544,202 | 571,412 |
| Morris | 171,516 | 180,092 |
| Rochester | 704 | 739 |
| Ag. Experiment Station | 32,023 | 33,624 |
| AHC-Shared | 96,085 | 100,889 |
| Athletics | 206,469 | 216,792 |
| Auxiliary Services | 655,282 | 688,046 |
| Biological Sciences | 90,921 | 95,467 |
| Continuing Ed. | 32,170 | 33,779 |
| Design | 42,045 | 44,147 |
| Ed. & Human Dev. | 129,949 | 136,447 |
| Human Ecology | 6,499 | 6,824 |
| Liberal Arts | 271,458 | 285,031 |
| Ag., Food, Env. Sciences | 337,156 | 354,014 |

| | <u>FY07 Charge</u> | <u>FY08 Estimate</u> |
|---------------------|---------------------------|-----------------------------|
| Carlson School | 58,791 | 61,731 |
| Dentistry | 66,584 | 39,913 |
| Extension Service | 22,824 | 23,965 |
| Humphrey Inst. | 18,479 | 19,403 |
| Inst. Of Technology | 374,473 | 393,197 |
| Law School | 62,737 | 65,874 |
| Medical School | 345,231 | 362,493 |
| Nursing | 13,719 | 14,405 |
| Pharmacy | 30,930 | 32,477 |
| Public Health | 60,367 | 63,385 |
| Veterinary Medicine | 99,448 | 104,420 |

5. Utility Rates

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

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

Below is a short summary of these utilities, their cost components, how FM develops and tracks both cost and utilization of these utilities, and a summary of the rates themselves.

1. Rates Allocated based on consumption to all RRCs

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

- a. Utility rate
- b. Utility consumption

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

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

To assist in budgeting for these utility costs, the projection of costs for FY08 for each unit is included on the budget development worksheet. In addition, a schedule with this information and with projections of

utility consumption for each building and RRC (with area detail) will be made available on the Budget Office web site in the next week or so (you will get e-mail notification of the posting of data). A projection of consumption is also available to non-supported customers such as academic enterprises, independent organizations, and institutional supported departments upon request. Requests can be made to Laura Schiburr at x59514.

| | <u>FY2006-07</u> <u>Current Rate</u> | <u>FY2007-08</u> <u>Estimated Rate</u> |
|----------------------------------|---|---|
| Steam – 1,000 lbs of steam (Mlb) | \$19.81 | \$20.74 |

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

| | | |
|----------------------------------|---------|---------|
| Electric – Kilowatt Hours (Kwhr) | \$.0793 | \$.0784 |
|----------------------------------|---------|---------|

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

| | | |
|-----|-------------|----------------|
| Gas | \$1.206 CCF | \$12.00 Dkthrm |
|-----|-------------|----------------|

The University rate is set for the year and is budgeted based upon average cost. It includes the costs of purchased gas, administration, and energy conservation. The purchased gas is a commercial/industrial firm gas provided by CenterPoint Energy or Xcel. This gas charge only applies to buildings not on the campus steam system.

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

The cost for the remaining utilities (water and chilled water/central air conditioning), will be included in the Facilities Management O&M (Operations and Maintenance) cost pool and spread on the cost/asf charge (see Appendix A for a description of the Facilities O&M cost pool) for FY08. If your RRC is not included in the O&M cost pool, you will continue to be directly billed for all FM services and these additional utilities.

| | <u>FY2006-07</u> <u>Current Rate</u> | <u>FY2007-08</u> <u>Estimated Rate</u> |
|---------------|---|---|
| Chilled Water | \$1.19 (ASF) | \$0.26 ton/hour |

Chilled water, used for cooling the buildings, includes electric, steam and water costs used to generate the chilled water. Costs also include maintenance, capital renewal, energy administration and energy conservation. The cost is measured in tons of cooling hours. This is a new metered measure. The former cost was based on an allocation of estimated chilled water costs to gross square feet of space.

Energy Management has completed installing meters to measure the inputs and outputs for chilled water. Originally, we expected that FY08 chilled water costs would also be directly billed based upon metering consumption and be pulled out of the Facilities O&M cost pool. However, as of the budget due dates, we do not have enough experience to accurately forecast usage, as not all meters were installed to measure chilled water activity last summer. During FY07, Facilities Management will continue to test and

evaluate the meters and cost allocation procedures, but will keep chilled water costs in the Facilities O&M pool. It is anticipated that these costs will be billed directly beginning in FY09.

| | <u>FY2006-07</u> <u>Current Rate</u> | <u>FY2007-08</u> <u>Estimated Rate</u> |
|--|---|---|
| Water/Sewer – Hundred Cubic Feet (CCF) | | |
| Minneapolis | \$7.36 | \$7.06 |
| St. Paul | \$3.31 | \$3.84 |

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

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

6. Tuition and University Fee Estimates

There are no tuition and university fee estimates included with these instructions. Instead, updated estimates for FY07 and preliminary estimates for FY08 will be distributed in early Feb., along with the corresponding instructions related to submitting unit proposed estimates. This portion of the budget instructions is delayed because basing the estimates on 10th day spring information will provide a more accurate estimate for FY08.

7. ICR Estimates

There are no ICR estimates included with these instructions. Instead, updated estimates for FY07 and preliminary estimates for FY08 will be distributed in early Feb., along with the corresponding instructions related to submitting unit proposed estimates. This portion of the budget instructions is delayed because current year actual postings were not available at the time of these instructions.

8. Cost Pool Allocations

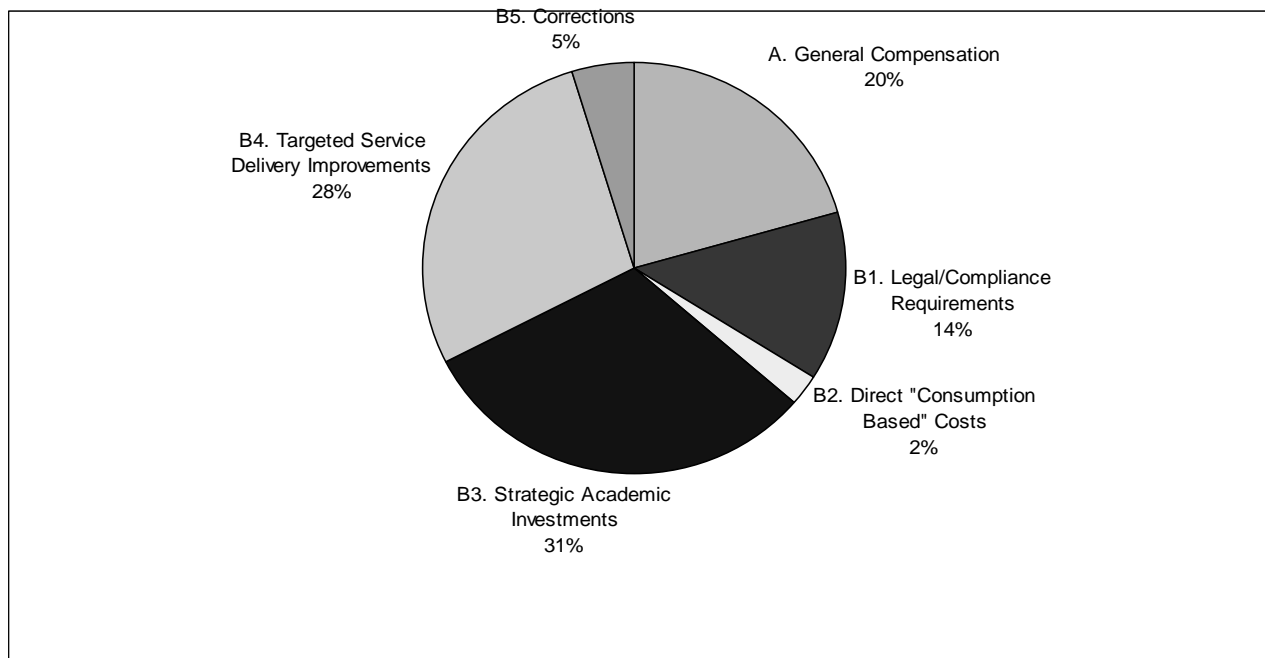
Decisions made on the support unit budget items increased the cost pool allocations for FY08. The specific impacts on each academic unit will be entered into the budget development worksheets, so units can see the difference in what each of the costs were for FY07 and what they will be for FY08. In aggregate, however, the changes in cost pool totals (after the distributional impacts of the double-step-down model) are as follows:

| <u>Cost Pool</u> | <u>FY07 Total</u> | <u>FY08 Total</u> | <u>\$ Change</u> | <u>% Change</u> |
|------------------------------------|-------------------|-------------------|------------------|-----------------|
| Admin. Service Units Systemwide | \$75,728,946 | \$80,184,033 | \$4,455,087 | 5.88% |
| Technology Systemwide | 30,479,433 | 31,095,255 | 615,822 | 2.02% |
| Facilities O&M | 65,565,172 | 68,086,103 | 2,520,931 | 3.84% |
| Admin. Service Units Twin Cities | 10,041,184 | 10,055,384 | 14,200 | 0.14% |
| Technology Twin Cities | 23,256,954 | 23,974,931 | 717,977 | 3.09% |
| Student Services (All) Systemwide | 10,870,104 | 11,581,953 | 711,849 | 6.55% |
| Student Services (All) Twin Cities | 2,334,780 | 2,288,896 | (45,884) | -1.97% |
| Research | 18,959,397 | 24,972,814 | 6,013,418 | 31.72%* |
| Library | 46,867,149 | 48,213,870 | 1,346,721 | 2.87% |
| Student Services Undergraduate | 35,997,683 | 36,219,215 | 221,532 | 0.62% |

| <u>Cost Pool</u> (continued from above) | <u>FY07 Total</u> | <u>FY08 Total</u> | <u>\$ Change</u> | <u>% Change</u> |
|---|-------------------|-------------------|------------------|-----------------|
| Student Services Graduate | 19,876,530 | 20,907,551 | 1,031,021 | 5.19% |
| General Purpose Classrooms | <u>11,399,321</u> | <u>11,392,356</u> | <u>(6,965)</u> | -0.06% |
| Subtotal (non-consumption pools) | \$351,376,654 | \$368,972,360 | \$17,595,707 | 5.01% |
| Utilities (direct to academic units) | 44,908,995 | 44,756,271 | (152,724) | -0.34% |
| Debt (direct to academic units) | 16,810,284 | 22,833,227 | 6,022,943 | 35.83% |
| Leases (direct to academic units) | 3,593,563 | 5,081,515 | 1,487,952 | 41.41% |
| Warehouses (direct to academic units) | <u>485,756</u> | <u>299,232</u> | <u>(186,527)</u> | -38.40% |
| Totals | \$417,175,252 | \$441,942,605 | \$24,767,353 | 5.94% |

* Note – this large variance in the Research cost pool is explained by a correction in the model. The RRC University Health and Safety has been moved beginning in FY08 from the Administrative Service Units pool to the Research pool because approximately 70% of their activities relate directly to sponsored research requirements. The specific dollar amounts involved in this transfer will be included in the detailed descriptions of cost pool changes to be posted on the Budget Office web site in the next week or so.

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



As the chart indicates, a significant amount of investment in the academic priorities of the institution is implemented through the support unit budget development process. 31% of the increase in the non-consumption based cost pool allocations represents “Strategic Academic Investments”. The complete list of items by cost pool will be posted to the Budget Office web site, but examples of the major investments included here are Enhanced Library Collections, Advancing Graduate Faculty Scholarship, the Marketing Campaign, Professional Scholarship Matches and so forth. Under the new budget model, these types of

University priorities will continue to be funded through the cost pool methodology. When the budget for next fiscal year is finalized for Board review, all investments (whether included in the cost pools or direct funded in the colleges and campuses) will be summarized and explained together.

E. Submissions – Budget Information (supplemental to draft compacts)

Items 1 – 7 in this section should be submitted to the relevant Budget Office contact five working days prior to the scheduled compact/budget meeting.

1. Revenue Estimates – Tuition/University Fee/ICR

The separate mailing related to tuition, University Fee and ICR estimates will include the relevant Figures to submit for that purpose.

2. Transfers Between Units

If there should be a permanent transfer of base allocation between RRCs for FY08, please submit that information to your budget officer as soon as it is available. Do not wait for the final due date mentioned above. 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 submissions. If this coordination is not done in advance, subsequent contacts will be made to ensure agreement on the adjustments.

3. Budget Development Worksheet

Budget discussions again this year will focus on each unit's overall financial structure and health. To that end, all-funds budget development worksheets have been created for each unit (sent electronically to each RRC in the next two weeks). The worksheets hold the following information for FY05 and FY06 Actuals and the FY07 Approved Budget (the format of the worksheets is the same for all units):

- Actual revenues and expenditures by summary categories – all funds combined (information on the specific revenue and object codes under each category will be sent along with the worksheet)
- 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, and that figure represented as a percent of total expenditures
- Total sponsored expenditures by fiscal year where relevant

This year, in place of the column for the revenue neutral transition to the new model used last year, there is a column to project to the end of FY07 to arrive at an updated estimate of carryforward into FY08.

The final column (column E) is for creating a projection of FY08 activity. The budget submittal should focus on completing column D and then completing column E based on the planning parameters described earlier in this document. Estimates for cost pool allocations have been entered in each sheet by the Budget Office. Estimates for tuition, the University Fee and ICR will need to be added by the RRCs after that information is distributed. As in past years, units have the opportunity to review these estimates and make justified changes to them for budgeting purposes. The process for submitting these revenue estimates will be distributed in the supplemental instructions in early February.

For both columns D and E please fill in each row using the best information available at this time. Just as last year, FY08 projections should only focus on current operations carried forward and should not reflect new initiatives, such as those submitted as compact requests, or changes in scope of operations,— **this column should reflect the ongoing costs of current operations only.** Also, please note that projected increases entered in the various expenditures categories of column E do not guarantee approval of that expenditure level or increased allocations. The purpose of this part of the exercise is to best represent the costs of ongoing current operations. Decisions made on whether that level of activity is appropriate or desired will be made through the budget development process.

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

Some units may have received post-budget transfers of recurring dollars in FY07. Those adjustments have been identified on the budget development worksheet of the effected units for reference and will be identified in the final allocation letters for FY08.

If a transfer of base allocation is submitted under #2 above, the budget development worksheet should be completed assuming the transfer of activity is incorporated. In other words, if the allocation, and thus expenses, associated with some activity is transferred between RRCs for FY08, then the expense projections in column E of the budget development worksheet should reflect that transfer.

Finally, please submit a detailing of the amount of compensation increase (salary and fringe) being estimated for FY08 for O&M and State Specials only. Because a portion of the University's biennial budget request was for compensation increases in these funds, it is important to track these projections separately from all other funds.

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

4. Balance Description

As just described, the ending balance is included as part of the budget development worksheet. In order to fully understand the resources available to each unit, further information is needed on those balances. Please break the FY06 actual ending balance (Net assets at the end of the year – column B) and the FY07 projected ending balance (Net assets Beginning of the Year – column D) into two categories – 1) ISO and restricted funds and 2) unrestricted funds. Then for each of those two categories, please allocate the balances into categories as displayed in the table below (definitions follow). The totals of columns A and C should equal the ending balance of column B on the budget development worksheet, and the totals of columns B and D should equal the ending balance of column D on the budget development worksheet.

| | A FY06 Ending Balance- ISO/Restricted | B FY07 Ending Balance – ISO/Restricted | C FY06 Ending Balance- Unrestricted Funds | D FY07 Ending Balance- Unrestricted Funds |
|---------------------------------------|--|---|---|---|
| Debt & Internal Loans | | | | |
| Inventory | | | | |
| Facilities | | | | |
| Equipment | | | | |
| Revenue Contingencies | | | | |
| Programmatic Reserves | | | | |
| Faculty/Chair/Professorship Accts. | | | | |
| Employment Related Pay Outs | | | | |
| Emergencies | | | | |
| Cash Flow | | | | |
| Other | | | | |
| Total | | | | |

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

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

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

Equipment – Funds reserved for equipment purchases.

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

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

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

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

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

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

Other – To be explained by unit.

5. Significant Financial Concerns

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

6. ISO Rate Setting

Under the new budget model, ISOs must continue to submit their rate proposals through the budget process, so this section is intended to provide instruction for that. Any unit without ISO operations can disregard this section. Please note: no ISO funds can be used to pay the cost allocation charges. Therefore, rate development for ISOs should **not** factor in cost increases associated with the new charges. This rule must apply in order to eliminate the potential for “double-charging” sponsored research grants for overhead operations – once through the ICR rate and once through the cost allocation charges.

University of Minnesota financial policy 3.2.1, Selling Goods & Services to University Departments, ensures that goods and services sold to other University departments are being sold at rates that comply with Federal A-21 regulations and federal Cost Accounting Standards (CAS); and that they are sold at rates that fully cover, but do not exceed costs unless subsidies are documented in the rate development. The intent of the policy is to accumulate all allowable and allocable costs within an identified, segregated set of accounts; to recognize subsidies of the operation, to provide a feasible means of operating a business within federal guidelines, and to establish rates based on total costs.

The Controller's Organization has grouped ISOs based on various “risk factors”. Each of these groups undergo various rates of review to insure compliance with set policies. Preparation and submittal of rate information through the budget process does not eliminate the need for units to work with Accounting Services in reviewing ISO rates for compliance with federal accounting standards. The submittal of information to the Budget Office as part of budget development is intended to arrive at the appropriate level of individual rates, and does not involve reviewing the rates relative to federal accounting standards.

Instructions for ISOs that meet or exceed \$300,000 in annual revenues: All rates for ISO activity in this category should be developed using the same methodology that was used for FY07. For FY08 budget development, these ISOs should submit a summary of their major rates for FY06, FY07 and proposed for FY08, 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 FY07. For purposes of FY08 budget development, these ISOs should submit rate information only for rates which are new for FY08 or for anticipated increases in a current rate that exceeds a 3% inflationary rate. In the submission, include:

- Rate for FY07
- Proposed rate for FY08
- 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 FY08 and growth over FY07 if applicable

7. Course and College Fees

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

The Fee Request and Approval system will be available for entry of FY08 fee information beginning February 20. All fee entry should be completed by April 10. This system will be used to capture all student fee information and will help ensure that units receive the fee revenues approved in the annual budget process. The fees owned by each college and approved for FY07 have been rolled over in the system to FY08 as pending fees. They are ready to be approved as is, or they can be edited or deleted.

The following data is necessary for fee setup:

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

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

After fees are submitted, the relevant budget officer in the Office of Budget and Finance will receive an e-mail message indicating that a proposal is awaiting action. After approval is given, the RRC manager will be able to go online and see the results. A report listing the final fee approvals will be generated for review by the Board of Regents. It is this final list of fees that will be entered into PeopleSoft for FY08 implementation.

Please keep in mind, proposals for new course fees must meet the parameters established in Regents Policy – course fees must be designed to recover specific costs. They can be assessed for the purposes of

paying for transportation related expenses associated with field trips, paying for expendable materials utilized in instruction, or addressing cost demand for services such as music lessons or access to very specialized equipment. The appropriate rationale for a proposed new fee will need to be entered into the web request system in order for your request to be considered.

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

8. Student Service Fee Waivers

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

As a result, the Office of Student Affairs is again requesting Twin Cities colleges to apply for waiver status for all academic programs that wish to allow such waivers in 2007-08. If a waiver is granted, none of the students enrolled in the program in question will be charged student service fees. Though this is a financial benefit for students, it will make these students ineligible for access to student fee supported benefits or services such as the recreation centers, Boynton Health Service, and other student fee supported campus services. Students in these programs have the option of paying the student service fee, or they may purchase the Boynton Health Service extended coverage but are not eligible to enroll in the Student Health Benefit Plan provided by the University (i.e., they are not eligible to purchase student hospitalization insurance). Please take this into consideration as you apply for program waiver status. Academic programs on the Crookston, Duluth and Morris campuses should consult their student affairs offices for policies specific to their campuses.

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

Per the work group recommendations, approved waiver exemptions will be reviewed every three years. Programs on the list below were reviewed last year, and therefore do not have to reapply this year. Programs currently receiving program waivers are listed at the end of this section. Please contact Jill Merriam at 625-2515 or jmerriam@umn.edu with any questions you may have.

Criteria for granting student service fee waivers to programs:

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

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

Each college that has a program or programs that wish to apply for a program waiver should provide the following information as part of this budget submission:

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

Programs currently approved for fee waivers

Education and Human Development

Office of Professional Development and Outreach
Educational Admin Ed.D cohorts
Leadership Academy

Carlson School of Management

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

Continuing Education - Masters of Liberal Studies

Institute of Technology

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

Human Ecology - Masters of Social Work – Rochester and Moorhead programs

COAFES - Cooperative program with SWSU

Medical School - Rural Physicians Associates Program

F. Process

1. Budget Compact Meetings and Due Dates

The combined compact and budget meetings have been scheduled from early March to early April. The meetings will include key people from each unit, the relevant Senior Vice President's Office, and the Budget Office. The agenda for each of these meetings will be distributed in advance, but will essentially include discussion of the issues included in the draft compact documents and the budget submittals. No other formal budget presentation materials are necessary.

Submittal Due Date – Five working days prior to the scheduled meeting, please send budget submittals (items E1 – E7 detailed above) to the relevant budget contact.

2. Budget Recommendations

At the conclusion of the compact/budget meetings, the Senior Vice Presidents will make recommendations to the President on the approval of specific initiative requests and the level of O&M allocation for each unit. These recommendations will take into consideration the proposals and funding levels necessary to make the unit successful and the necessity of presenting a balanced budget to the Board of Regents. The budget for the University must be balanced by the end of May in order to meet presentation deadlines for the June Board of Regents meeting.

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

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

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

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

3. Cost Allocations

The FY08 cost allocations for each unit are detailed in the unit-specific budget development worksheets that will be distributed within the next week or so. Additionally, the spreadsheets used to calculate the cost allocations and the related summary of charges by college, along with the detailed FY08 line-item increases added to each cost pool, will be available on the Budget Office web site in the very near future. An e-mail announcement of that posting will be sent out as soon as those documents are available for viewing.

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

4. Balancing the Overall University Budget

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

- The Biennial Budget Proposal was submitted to the state detailing requested appropriations for FY08 and FY09;
- Support unit budget instructions were distributed in September;

- Compact/budget meetings were held with each of the support units in November and early December;
- Forecasting items (salary and fringe, revenue estimates etc.) have been updated to support the overall context for making decisions within the University's budget framework;
- Preliminary support unit budgets for FY08 have been recommended to the President and he has given approval to proceed based on those recommendations;
- Cost allocations have been calculated for FY08 based on the approval of support unit budgets

The remaining components of budget development for FY08 will include:

- Compact/Budget meetings with each of the academic units between early March and early April;
- Development of academic budget recommendations to the President based on the available information regarding resources, all-funds analyses and investment plans of each unit – to be completed by early May;
- Final appropriation approved by the Legislature in late May;
- Adjustment of support unit budgets, cost allocations and planned academic unit budgets near the end of the process only to incorporate initiatives funded by the state – otherwise, hold to approved budgets and cost allocations and deal with moderate to low impact variances through the use of central reserves or through adjustments to budgets and rates the following year;
- Delivery of the President's recommended operating budget for FY08 to the Board of Regents for review and approval in June.

5. Assistance on the Budget

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

APPENDIX A
Cost Pool Descriptions

There are nine primary cost pools in the new budget model. A brief description of each cost pool and the basis for allocating the corresponding costs is described below. In addition, the detailed FY08 model that calculates the distribution of costs for each pool (the “double step-down” model) contains the specific unit-level statistics on which each cost pool is allocated and will soon be posted to the Budget Office web site for reference.

1. Administrative Service Units

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

System-wide

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

Twin Cities Only

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

This cost pool is allocated to the academic units based on their proportionate share of total expenditures (all funds) of the most recently closed fiscal year. The combined total of the FY08 approved budgets for the units listed above will be allocated based on the academic units’ proportionate share of FY06 total expenditures. Total expenditures was chosen as the base simply to represent the most reasonable way to spread a shared cost across all units. There is no recognized link between the amount of spending in a unit and that unit’s “use” of the services of a particular office within this pool.

Note – University Health and Safety was a part of this cost pool for FY07. Based on an analysis of the functions and activities of this office, for FY08 it has been moved to the Research Administration cost pool.

2) Technology

This cost pool includes the portion of the Office of Information Technology's (OIT) budget that previously was funded through central allocation and a small portion of the technology functions of the Office of the Senior Vice President for Health Sciences. The portions of OIT's budget that have been managed as an Internal Service Organization (ISO) will continue to operate that way. In other words, units across the University are currently billed separately for telephone service, and that will continue. The cost allocation charge implemented through the budget model will fund such things as the Data Network, Email, UMCal, File Storage, Peoplesoft, E-Research, Helpdesk, Digital Media Center, Security and so forth.

As with the Administrative Service Unit Pool, much of the budget within this cost pool supports institution-wide oversight, policy or programmatic activities, but some areas within OIT primarily provide services only to the Twin Cities campus, so this cost pool also incorporates a two-tiered methodology – spreading some of the budget across all campuses and some only to units on the Twin Cities campus. For example, the data network is primarily a twin cities campus activity, while the Peoplesoft systems and security policy and procedures are system-wide activities. For FY08, approximately 57% of OIT's approved budget has been allocated on a system-wide basis and the remaining 43% has been allocated only to the Twin Cities campus. Again, on the "double step-down" model, the statistics and cost allocations for this pool are split into two separate columns – one for System-wide and one for Twin Cities only.

This cost pool is allocated to the academic units based on a proportionate share of total employee and student headcount from the fall of the prior year (see definition change description on page 5 of these instructions). The FY08 approved centrally allocated budget for these technology functions is spread based on the academic units' proportionate share of total headcount from the fall of 2006. Total headcount was chosen as the basis for this cost allocation because it was believed to be the best proxy for "use" of technology service across the institution. Whether any particular employee actually uses their x.500 account is not measured. Instead, the provision of the opportunity for use and the recognition that all students' and employees' records are maintained within the computer systems and networks of the University were the basis for the decision. It is a relatively stable, predictable and simple basis on which to allocate costs. The detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

3) Facilities Operations & Maintenance

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

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

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

The costs within this cost pool are based upon an agreed upon set of service levels for the Twin Cities campus. These service levels and the associated costs have been (and will continue to be on an annual basis) reviewed and approved through the budget process. Details of these service levels are now available to download from the FM website (<http://www.uservices.umn.edu/fm.html>). In addition, a new customer advisory group is being formed to meet monthly to work on facility related service delivery and service needs. Additional services beyond those funded within this cost pool are available by FM at their identified rates.

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

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

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

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

4) Student Services

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

- a. Category 1 – Services to All Students (regardless of type or level).* This category includes the budgets for Student Finance Administration (primarily Peoplesoft system administration) and the Registrar. Due to the nature of some of these activities, this cost pool also incorporates a two-tiered methodology – spreading some of the budgets across all campuses and some only to units on the Twin Cities campus. Approximately 80-85% of the budgets for these two units (excluding classroom activities) is distributed system-wide, and the remaining 15-20% is distributed just to the Twin cities units. On the "double step-down" model, the statistics and cost allocations for this pool are split into two separate columns – one for System-wide and one for Twin Cities only.

The basis for distribution of this cost pool is total student headcount from a point in time during fall semester of the previous year. The FY08 approved budgets for these two units is allocated based on the academic units' proportionate share of the total student headcount from the fall of 2006. The detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

- b. Category 2 – Services to Twin Cities Undergraduate Students.** This category includes the budgets (previously funded by central allocations) for:

- Admissions Office and Scholarships
- Orientation & First Year Programs
- Health Career Center
- Student Affairs (excluding activities funded through student fees)
- Student Finance – Financial Aid

The combined budgets for these activities are distributed only to units on the Twin Cities campus. The basis for distribution of this cost pool is total undergraduate student headcount from a point in time during fall semester of the previous year. The FY08 approved budgets for these units and activities is allocated based on the academic units’ proportionate share of the total undergraduate student headcount from the fall of 2006. The detailed query results that led to the headcount statistics for this pool on the “double step-down” model will be available for reference on the Budget Office web site.

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

The basis for distribution of this cost pool is total headcount of students enrolled in the Graduate School and total headcount of Graduate School faculty – again from a point in time during fall semester of the previous year. The FY08 approved budgets for the Graduate School and UROP (excluding the University Press) are allocated based on the academic units’ proportionate share of the total headcount of students enrolled in the graduate school and total headcount of graduate school faculty from the fall of 2006. Again, the detailed query results that led to the headcount statistics for this pool on the “double step-down” model will be available for reference on the Budget Office web site.

5) Research Administration

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

This cost pool is allocated to academic units based on their proportionate share of the average of the last three years of total sponsored expenditures. The three-year rolling average is used in this formula to recognize the relative variability in this revenue source for some units, which will serve to lessen large swings in the costs distributed by unit. The total of the FY08 approved budgets for the units identified above will be allocated based on the academic units’ proportionate share of the average of FY04, FY05 and FY06 total sponsored expenditures.

6) Library

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

| | |
|---------------------------------------|-----|
| Lower division undergraduate students | .5 |
| Upper division undergraduate students | .75 |

| | |
|------------------------------------|-----|
| Professional and graduate students | 1.0 |
| Faculty (broadly defined) | 1.0 |

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

The FY08 approved budget for the University Libraries is allocated to the academic units based on the weighted headcount from the fall of 2006. The detailed query results that led to the headcount statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

7) Utilities

This cost pool represents the actual costs for the following utilities: steam, electricity and gas. A more complete description of this cost pool is included within the instructions, Section D-5 on page 15. Some units will continue to need the utility rates to plan for their budgets, so that information was included in the instructions as planning parameters.

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

8) Debt & Leases

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

9) General Purpose Classrooms

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

This cost pool is allocated to the academic units based on their proportionate share of total course registrations in the fall of the prior year. The approved budget for these activities for FY08 is allocated based on total course registrations from the fall of 2006. The detailed query results that led to the course registration statistics for this pool on the "double step-down" model will be available for reference on the Budget Office web site.

APPENDIX B
Treatment of Space in the Budget Model

Space Information as it relates to Cost Pools:

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

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

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

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

In a memo sent on October 5, 2006 to RRC managers from the Budget Office and the Office of Space Management, each RRC was asked to verify the CUFS area to which each room on the Twin Cities campus is assigned. This memo summarized how and where the University maintains the allocation of space:

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

With this notice RRCs were given the opportunity to update the information within the SPACE database. In the future, early each fall, the Budget Office in collaboration with the Office of Space Management will send a listing of rooms assigned to each RRC by building. RRC Managers should review this information and send back corrections if needed. (There will be a link on the Budget Office website for an example of this form.) After the SPACE system is updated, a snap-shot will be taken and that information will be used to calculate the building cost allocation for the following fiscal year. (For FY '08, the snap shot was taken on 12/5/06.) Changes to space allocation after that point and throughout the fiscal year will not be utilized to change any cost allocation throughout the year, but will be part of calculating the allocation of costs for the next fiscal year.

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

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

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

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

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

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

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

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

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

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

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