

FY08 Budget Instructions Support Units

September 13, 2006
(distributed by Office of Budget and Finance)

<u>Contents</u>	<u>Page</u>
A. Compact/Budget Development Process for FY08	3
B. Support Units Included in these Instructions	3
C. Changes in the Support Unit Budget Process for FY08	6
D. FY08 Budget Parameters – Planning Assumptions	6
1. Context of the Biennial Request	6
2. Salary and Fringe Benefit Assumptions	7
3. Enterprise System Assessment	7
4. Property & Liability and non-Profit Organization Liability Insurance	8
E. Submissions – Compact Information	9
F. Submissions – Budget Information	9
1. Transfers Between Units	9
2. Budget Development Worksheets	10
3. Balance Description	11
4. Significant Financial Concerns	12
5. ISO Rate Setting	12
G. Process	13
1. Meetings and Due Dates	13
2. Budget Recommendations and Cost Allocations	14
3. Balancing the Overall University Budget	14
4. Assistance on the Budget	14
Figure 1 – Fringe Rates by Component	15

A. Compact/Budget Development Process for FY08

FY08 represents the second year of budget development under the revised institutional budget model. For the FY07 process, support units were not asked to develop a complete compact document due to the timing and implementation of changes related to the budget model. For FY08, however, most support units are being included in that broader process and have been given compact instructions along with these budget instructions (see separate document titled “FY08 Compact Instructions-Administrative and Service Units”). Some of the sections included in last year’s budget instructions have been moved to the compact instructions, focusing this document on budget and financial issues. The instructions have been aligned, however, so that units will go through only one priority setting and resource planning process each year with central administration.

Please note: not all Resource Responsibility Centers (RRCs) are required to prepare a compact document. Please review the compact instructions for information on which units are to participate. All RRCs, however, will be asked to submit budget information and will participate in a budget oversight meeting – in some cases that meeting will be tied to a required compact document, and in some cases it will not.

B. Support Units Included in these Instructions

Units receiving these instructions in September are considered support units for purposes of the new model. The budgets of these units (that prior to FY07 were funded through a central allocation of state funds) represent cost pools within the new system that are billed out to the academic units. The central support units are identified below, along with their assigned cost pool for allocation and budget contact for the FY08 budget development process. For reference, a brief description of the methodology used to allocate the respective costs to the academic units is included below for each cost pool. Please note, some RRCs are split into more than one cost pool. If that is the case, though, the budget for FY08 should continue to be developed for the whole RRC – submittals of information should be done for the unit as a whole. Splitting the budget into different cost pools will occur only after the whole budget for the unit is approved.

Cost Pool 1. Administrative Service Units - This cost pool is allocated to the academic units based on a proportionate share of total expenditures of the most recently closed fiscal year. The FY08 approved budgets for units within this cost pool will be allocated based on the academic units’ proportionate share of FY06 total expenditures. Some of the budgets for the units in this cost pool are allocated to Twin Cities academic units only and not to the coordinate campuses.

Cost Pool 2. Technology - This cost pool is allocated to the academic units based on a proportionate share of total employee and student headcount from the fall of the prior year. The FY08 approved budgets for units within this cost pool will be allocated based on the academic units’ proportionate share of headcount from the fall of 2006. Some of the budgets for the units in this cost pool are allocated to Twin Cities academic units only and not to the coordinate campuses.

Cost Pool 3. Facilities Operations & Maintenance - This cost pool is allocated to the academic units based on a proportionate share of total assignable square feet (ASF) from the fall of the prior year. The FY08 approved budget for this portion of TFAC will be allocated based on the academic units’ proportionate share of ASF from November 2006. This cost pool affects only Twin Cities academic units and not the coordinate campuses.

Cost Pool 4. Student Services - This cost pool is allocated to the academic units based on a proportionate share of the different categories of students from the fall of the previous year: either a) all students, all levels; b) undergraduate students only; or c) graduate students enrolled in the graduate school plus

graduate school faculty. The FY08 approved budgets for units within this cost pool will be allocated based on the academic units' share of the relevant headcount from the fall of 2006. Category (a) will be allocated to the Twin Cities academic units and the coordinate campuses; category (b) will be allocated to only Twin Cities academic units; and category (c) will be allocated to only Twin Cities academic units and Duluth.

Cost Pool 5. Research Administration - This cost pool is allocated to academic units based on a proportionate share of the average of the last three years of total sponsored expenditures. The FY08 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of the average of FY04, FY05 and FY06 total sponsored expenditures. This cost pool will be allocated to Twin Cities academic units and Duluth.

Cost Pool 6. Library - This cost pool is allocated to academic units on the Twin Cities campus only based on a proportionate share of a weighted faculty and student headcount from the previous fall. The FY08 approved budget for University Libraries will be allocated to the academic units based on the weighted headcount from the fall of 2006. (Weighting scheme: lower division student = .5; upper division student = .75; professional student, graduate student and faculty = 1)

Cost Pool 7. Utilities - This cost pool is allocated to the academic units on the Twin Cities campus based on their actual consumption of the utilities involved. Buildings on the Twin Cities campus are metered for use, so the cost for each building can be calculated and then spread across the units within the building based on their proportionate share of ASF.

Cost Pool 8. Debt & Leases - This cost pool is allocated to the academic units based on the actual occupancy of space for which the University pays debt service or lease costs. The budget for these items for FY08 will be based on known costs for debt service and leased space, and that will be allocated to the appropriate academic units based on occupancy during FY08.

Cost Pool 9. General Purpose Classrooms - This cost pool is allocated to the academic units based on a proportionate share of total student registrations. The budget related to classroom management and the estimated actual costs for debt service/leases/utilities related to general purpose classroom space for FY08 will be allocated based on student course registrations from the fall of 2006.

Support Unit Designations: Listed below is each support unit to which these instructions apply, along with the unit's assigned cost allocation pool and budget officer for the FY08 budget development process.

Unit	Budget Officer	Cost Pool Assignment
Board of Regents (TREG)	Robin Dittmann	Admin Services
President' Office (TPRO)	Robin Dittmann	Admin Services
General Counsel (TGCL)	Robin Dittmann	Admin Services
Audits (TAUD)	Robin Dittmann	Admin Services
Budget & Finance (TBFI) – excluding Leases	Robin Dittmann	Admin Services
Budget & Finance (TBFI) – Leases (excluding gen. purpose classrooms)	Julie Tonneson	Debt/Leases
Controller (TCTR) – excluding SFR	Robin Dittmann	Admin Services
Controller (TCTR) – SFR (area 800)	Robin Dittmann	Research Admin.
VP for University Services (TUSV)	Julie Tonneson	Admin Services
Capital Planning & Project Management (TCAP)	Brian Swanson	Admin Services
University Health & Safety (THSM)	Julie Tonneson	Admin Services
Public Safety (TSAF)	Julie Tonneson	Admin Services

Budget Instructions for FY08 – Support Units

Human Resources (THRS)	Julie Tonneson	Admin Services
University Relations (TINS)	Julie Tonneson	Admin Services
Auxiliary Services-Campus Mail Only	Julie Tonneson	Admin Services
Sr. VP-System Administration (TSYA) – excluding: Children, Youth & Family CURA Ctr. For Transportation Studies Ctr. For Global Change	Robin Dittmann	Admin Services
VP for Equity/Diversity (new RRC)	Robin Dittmann	Admin Services
Office of International Programs (new RRC)	Robin Dittmann	Admin Services
Sr. VP for Academic Affairs/Provost (TEVP) Excluding: Academic Counseling ROTC Weisman Art Museum Admissions Scholarships Admissions Office Student Finance Administration Orientation & First Year Programs Registrar Student Finance-Student Aid	Robin Dittmann	Admin Services
Sr. VP for Academic Affairs/Provost (TEVP) Admissions Scholarships (area 885) Admissions Office (area 706) Student Finance Administration (area 710) Orientation & First Year Programs (area 884) Registrar (area 709) Student Finance-Student Aid Classroom Management	Lincoln Kallsen	Student Services
Sr. VP for Health Sciences (THSC) Health Career Center (within THSC) AHC Office of Research (within THSC) Classroom Mgmt (within THSC)	Lincoln Kallsen Julie Tonneson Lincoln Kallsen Robin Dittmann	GP Classrooms Admin Services Student Services Research Admin.
Office of Information Technology (TINF) Classroom Mgmt (within THSC)	Lincoln Kallsen	GP Classrooms
Office of Information Technology (TINF) Facilities Management (TFAC) excluding: Utilities and BSAC	Carole Fleck Brian Swanson	Technology Facilities O&M
Facilities Management (TFAC) Bldg Systems Automation Ctr. Utilities	Julie Tonneson Julie Tonneson	Admin Services Utilities
Student Affairs (TCLF) – excluding: Rec. Sports Twin Cities Student Unions Student Legal Services Student Conflict Resolution Boynton	Lincoln Kallsen	Student Services
Graduate School (TGRD)	Robin Dittmann	Student Services
VP for Research (TRES)-excluding Hormel	Robin Dittmann	Research Admin.
University Libraries (TLIB)	Robin Dittmann	Libraries
TDBT	Carole Fleck	Debt/Leases

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

C. Changes in the Support Unit Budget 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 Pfutzenreuter 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.

As mentioned in last year's budget instructions, the new budget model places a stronger emphasis on building a reasonable justification or rationale for approved funding levels for support units. During implementation of the new budget model for academic units last year, the opportunity to better understand the costs being applied to their budgets was one of the primary points of discussion and concern raised by the academic units. This concern was brought to the Budget Advisory Group and is being addressed for FY08 budget development through a recommended addition to support unit budget and compact development: a new collaborative process around the budgets and compacts related to five of the cost pool categories. The principle "owners" of the five cost categories involved – facilities O&M/utilities, student services, libraries, research administration, and technology – have been asked to develop collaborative processes with relevant stake holders and customers to gain input related to the major priorities and service or program levels of the cost category units. It is hoped that this process evolves over time to provide helpful, constructive input to the service and program providers and a better understanding of the cost pressures and operational issues on the part of the customers. In year one, the time frame for input has been seriously constricted, but again this should be viewed as a transition toward a more meaningful process going forward. The Budget Advisory Group is now working on how this process improvement can be applied to the administrative service units cost pool, but due to timing, the recommended process change will likely not be implemented until next year.

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 University is developing a request to the state for an appropriation increase for FY08 and FY09. The context for that request was presented to the Board of Regents at their September Board meeting, focusing on tying the University's priorities exhibited in Strategic Positioning to the

interests of the state. It is too early in the process to provide information about the specific dollars being requested or the initiatives being developed for inclusion in the request. That information will be made public as it is prepared for Board of Regents consideration.

For budgeting purposes, however, it is important to understand that because FY08 is the first year in the upcoming biennium, the University does not know what its state appropriation is for the year. Approvals of support unit budgets in the fall, to build the academic unit cost allocation estimates, should be considered somewhat contingent on the final outcome of the state process. The University will estimate the state appropriation based on a combination of prior base funding levels and requested new dollars, but should the final appropriation be significantly different from those estimates, the support unit budgets may need to be adjusted before the University’s final budget is approved in June. The Budget Office will keep the units informed about the legislative process and any changes in assumptions.

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 outlining the details of implementing the salary plan for FY08 will be disseminated at a later date.

Projected fringe benefit rates for FY08 for use in budget planning are outlined below. See figure z on page z for a breakdown of the components of the rates.

	<u>Projected 2007-08</u>
Civil Service (and undergraduate students)	38.9%
Academic	32.4%
Graduate Assistant	
Health	17.3%
FICA	4.9%
Tuition	unknown

3. Enterprise System Assessment - The Enterprise Assessment was established as a systematic method of assessing units for the purpose of paying for the development, implementation, maintenance and replacement of institutional business systems. Under the new budget model, the Enterprise Assessment will continue until the projects currently and previously funded through this mechanism are paid off. 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 over the years, as has the volatility of damage awards.

As done previously, the Office of Risk Management will continue to charge RRCs for a portion of the university Non-Profit Organization Liability insurance premiums based on each RRC’s share of the total current, non-sponsored salaries in fiscal year accounts during 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.

Because the budget instructions are being prepared early in the year, 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.

<u>RRC</u>	<u>FY07 Charge</u>	<u>FY08 Estimate</u>	<u>RRC</u>	<u>FY07 Charge</u>	<u>FY08 Estimate</u>
TAUD	\$1,207	1,267	THSM	15,746	16,534
TBFI	4,466	4,689	TINF	67,684	71,068
TCAP	13,587	14,266	TINS	6,567	6,895
TCLF	148,045	155,448	TLIB	189,847	199,339
TCTR	8,758	9,196	TPRO	5,779	6,068
TEVP	66,844	70,186	TREG	236	248
TFAC	89,301	93,766	TRES	17,601	18,481
TGCL	2,674	2,808	TSAF	9,068	9,521
TGRD	6,364	6,682	TSYA	24,453	25,676
THRS	17,657	18,540	TUSV	2,743	2,880
THSC	42,713	44,848			

E. Submissions – Compact Information

Please see separate compact instructions. The following support RRCs are not being asked by central administration to prepare and submit a compact document. The relevant vice president may have requested such information for an internal process, however, and if so, will communicate instructions separately:

TCAP	TREG
TFAC	TSAF
THSM	TUSV
TPRO	

F. Submissions – Budget Information

1. 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 listed below in section G. Please include the dollar amount to be transferred and the reason for the transfer. It would be most helpful if both RRCs involved in the transfer send in the same information as part of their

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

2. Budget Development Worksheets

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 few days). The pages 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 sent along with the financial page)
- Net transfers in/out from other units – all funds combined
- Actual central allocation
- (Decrease)/Increase in net assets overall - defined as Revenues less Expenditures plus Net Transfers plus Central Allocation
- Net assets at the beginning of the year (carryforward) and net assets at the end of the year (ending balance) – all funds combined – 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 projecting 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. For both columns, 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 or changes in scope of operations – ***this should reflect the ongoing costs of current operations only***. Also, please note that projected increases entered in the various expenditure categories of column E does not guarantee approval of that expenditure level or increased allocations. The purpose of this part of the exercise is to best represent the costs of ongoing current operations. Decisions made on whether that level of activity is appropriate or desired will be made through the budget development process.

Some units received post-budget transfers of recurring dollars in FY07. Those adjustments have been identified on the fiscal page 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 section 1 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.

If there is information missing in these instructions necessary to complete column E, please contact your budget officer for assistance. Please note – the central allocation line for FY08 is intentionally left blank at this point and will not be filled in until final decisions are made on the budgets for each unit.

3. Balance Description

As just described, the ending balance is included as part of the fiscal page. In order to fully understand the resources available to each unit, further information is needed on those balances. Please break the FY06 actual ending balance (Net assets at the end of the year – column B) and the FY07 projected ending balance (Net assets at the end 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 in the table below should equal the ending balance of column B on the fiscal page, and the totals of columns B and D should equal the ending balance of column D on the fiscal page.

	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.

4. Significant Financial Concerns

Some financial concerns and issues cannot appropriately be described as strategic priorities identified in compact submissions. 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 paragraph per issue.

At a minimum, each unit must submit a brief narrative response describing how a reallocation of 1% (against the FY07 O&M central allocation) would be implemented in the unit. No decision has been made yet on the required level of total reallocation necessary to meet the expense obligations and investment goals for FY08, but as in the past, such internal reallocations are a possibility, even with a potential increase in state appropriations. Internal reallocation has been and will be a planned part of developing the biennial budget request. Before finalizing support unit budgets, the President and Senior Vice Presidents would like to consider the impact of a potential reallocation at the 1% level. Please be as specific as possible as to the impact on staffing levels, service levels and/or programmatic levels. Do not offer solutions to raise other revenues or pass tasks on to some other unit(s) to address the potential reductions, but instead, respond with the cost saving mechanisms that would be implemented and the negative impact on any capacity within available resources that would be realized. A brief explanation provided in one page or less will suffice.

As a **second step** to the 1% reallocation response, if there are opportunities within the unit to raise additional revenues, please also include a description of what those opportunities might be. Again, a brief explanation describing the revenue type and estimated amount of additional funds to be raised will suffice.

5. ISO Rate Setting

Under the new budget model, ISO activities will be excluded from the cost allocation processes. ISO operations will not be included in budgets that are allocated out to academic units and will not be included in the academic unit bases used for cost allocation – total expenditures, ASF or headcounts. However, ISOs must still submit their rate proposals through the budget process, so this section is intended to provide instruction for that – for the RRCs listed on pages 4 and 5. Any unit without ISO operations can disregard this section.

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

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

Instructions for ISOs that meet or exceed \$300,000 in annual revenues: All rates for ISO activity in this category should be developed using the same methodology that was used for 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

G. Process

1. Meetings and Due Dates

The plan is to hold one combined budget and compact meeting between October 30 and December 8 with most of the units receiving these instructions. For those units not required to prepare a compact document, the meeting will focus on the budget submissions, in the context of the unit’s overall plans and priorities. The meetings are currently being scheduled, and they will include representation from the units involved; from the budget office, and from the Senior Vice Presidents’ offices. The agenda for each of these meetings will be to walk through the items submitted under sections E and F above. No other formal presentation materials are necessary. Because time will be somewhat limited, efforts will be made to focus discussion on areas of primary importance and areas where clarification of materials would be beneficial.

Submittal Due Date – Ten working days prior to the scheduled meeting, please send all required materials in sections E and F to the relevant budget contact listed in section B and, if submitting a compact as well, to the relevant Sr. VP staff as indicated in the compact instructions.

2. Budget Recommendations and Cost Allocations

During the month of December, the Budget Office will be developing analysis, models, summaries and recommendations related to the all-funds budget for each unit involved in this fall's process. Different scenarios for the FY08 budgets will be modeled into the charging mechanism for academic units so the impact of those different scenarios can be understood. Ultimately, meetings will be held with the President and Senior Vice Presidents to review the analyses, summary materials and recommendations for each budget. Budget levels approved at this time by the senior officers will then be communicated to each of the support units and converted into charges for the academic units by the end of January.

3. Balancing the Overall University Budget

This support unit portion of the budget development process conducted in the fall is only half of the University's overall budget picture. As mentioned previously, budgets for these units are being approved by the administration before all information can be known related to the University's overall revenue forecasts and investment plans. A decision by the state to appropriate something significantly different than estimated, or unforeseen expenditure obligations surfacing in the spring must be built into the final budget recommendation presented to the Board of Regents in June. As implemented last year, the plan to deal with "end-of-process" issues is as follows:

- ❖ Update forecasting items with current information by end of December (salary and fringe estimates, tuition estimates, etc.) to determine estimated available resources
- ❖ Approve support unit budgets for FY08 by end of January
- ❖ Set FY08 cost allocations for academic units by end of January
- ❖ Approve academic unit budgets by late April based on available resources, all-funds analyses and investment plans
- ❖ Adjust support unit budgets, cost allocations and planned academic unit budgets near the end of the process only when a significant unforeseen impact to the budget occurs – otherwise, hold to approved budgets and cost allocations and deal with moderate to low impact variances through the use of central reserves or through adjustments to budgets and rates the following year

4. Assistance on the Budget

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

Figure 1
Fringe Benefit Rates by Component

2006-07 Actual	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.4	13.5	--
Group Life & Disability	--	0.6	--
Workers Compensation	1.3	--	--
Unemployment	0.1	0.1	--
Social Security	5.8	5.1	5.8
Medicare	1.4	1.5	1.4
Tuition	1.5	0.5	**
Health Insurance	20.5	10.8	13.5
Vacation	1.1	.7	--
	<hr/>	<hr/>	<hr/>
	36.1	32.8	20.7
2007-08 Proposed	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.5	12.3	---
Group Life & Disability	---	0.5	---
Workers Compensation	1.0	---	---
Unemployment	0.2	0.2	---
Social Security	6.2	5.1	4.0
Medicare	1.4	1.4	0.9
Tuition	2.2	0.6	**
Health Insurance	22.5	11.6	17.3
Vacation	0.9	0.7	---
	<hr/>	<hr/>	<hr/>
	38.9	32.4	22.2
2008-09 Projected	CIVIL SERVICE	ACADEMIC	GRADUATE ASSISTANT
Retirement	4.5	12.1	---
Group Life & Disability	---	0.5	---
Workers Compensation	0.9	--	---
Unemployment	0.2	0.2	---
Social Security	6.1	5.0	3.8
Medicare	1.4	1.4	0.9
Tuition	3.0	0.8	**
Health Insurance	23.1	11.9	16.4
Vacation	0.8	0.7	---
	<hr/>	<hr/>	<hr/>
	40.0	32.6	21.1

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