FY18 Budget Instructions
Support Units

Items Due Five Working Days Prior to Oversight Meeting:

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- Budget Development Worksheets
- O&M/State Special Compensation Estimates

September 9, 2016

(Distributed by University Budget and Finance)

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A. Compact/Budget Development Process for FY18

All units will be asked to submit compact and budget materials as detailed in these instructions. The compact portion of the submission is outlined in section E, and the budget materials are outlined in sections F and G.

B. Support Units Included in these Instructions

Units receiving these instructions are considered support units for purposes of the budget model. The primary budgets of these units are funded through cost pools that are billed out to the academic units. The central support units are identified below, along with their assigned cost pool for allocation for the FY18 budget development process. For reference, a brief description of the methodology used to allocate the respective costs to the academic units is included as an attachment to this document. Please note: some Resource Responsibility Centers (RRCs) contain both support and academic activities. If that is the case, then these instructions apply only to the support portions (excluded portions are indicated below). In addition, some RRCs are split into more than one cost pool. If that is the case, submittals of information should be done for the RRC as a whole and not divided in any way to reflect cost pool assignments. Splitting the budget into different cost pools will occur only after the whole budget for the support unit is approved.

Support Unit Designations and cost pool assignment:

Unit	**Cost Pool Assignment**
Audits (AUDIT)	Support Services
Auxiliary Services (Campus Mail/UMarket Only)	Support Services
Board of Regents (RGNTS)	Support Services
Budget and Finance (UFIN)-excluding Leases	Support Services
Budget and Finance (UFIN) – Leases	Leases
Capital Planning & Project Mgmt (CPPM)	Support Services
Controller (CONTR)-excluding SFR	Support Services
Controller (CONTR)-SFR	Research Support
Equity & Diversity (EQDIV)-excluding DOVE	Support Services
Equity & Diversity (EQDIV)-DOVE	Student Services
Facilities Management (FM)-excluding: Utilities and BSAC	Facilities O&M
Facilities Management (FM)-BSAC	Support Services
Facilities Management (FM)-Utilities	Utilities
General Counsel (OGC)	Support Services
Graduate School (GRAD)-excluding aid	Support Services
Graduate School Aid	Student Services
Human Resources (OHR)	Support Services
Office of Information Tech. (OIT)	Technology
Global Programs & Strategy Alliance (GPSTR)- Excluding Interdisc. Ctr for Global Change	Support Services
GPSTR Grant Program	Research Support
President's Office (PRESD)	Support Services
Public Safety (PUBSF)	Support Services
Sr. VP for Academic Affairs/Provost (AAPRV) Excluding: Concerts & Lectures, Institute for Advanced Studies, Weisman Art Museum, CURA, Research & Community Engagement	Support Services

Unit	Cost Pool Assignment
Sr. VP for Health Sciences (HLSCI) excluding:	Support Services
Hlth Career Center (within HLSCI)	Student Services
AHC Office of Research (within HLSCI)	Research Support
Classroom Mgmt (within HLSCI)	Classrooms
Technology Support (within HLSCI)	Technology
Student Affairs* (STDAF) – excluding:	Student Services
Recreation & Wellness	
Twin Cities Student Unions	
Student Legal Services	
Student Conflict Resolution	
Boynton	
Undergraduate Education (UEDUC) – excluding:	Student Services
Academic Counseling & ROTC, Classrooms	
Undergraduate Education-Classrooms	Classrooms
University Debt (UDEBT)	Debt Service
University Hlth and Safety (UHLSF)	Research Support
University Libraries (LIBR)	Libraries
University Relations (UREL)	Support Services
University Services (USERV)	Support Services
VP for Research (RSRCH) – excluding:	Research Support
Hormel Institute	
Institute on the Environment	
Minnesota Population Center	
Minnesota Supercomputer Institute	
Center for Cognitive Sciences	
Center for Transportation Studies	
University Press	

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

<u>Budget Contact</u> – RRC Chief Financial Managers and Contacts (and anyone with budget related questions) should feel free to contact the staff person associated with the particular issue in question if known. In addition, regardless of the question or issue, anyone can contact the Budget Director, Julie Tonneson (612-626-9278 or tonne001@umn.edu), or Koryn Zewers (612-626-2361 or zewers@umn.edu), and they will either answer the question or direct it to the staff member with the most expertise on the issue.

C. Context of the Biennial Budget Request to the State

As the state's only land grant and research institution, the University of Minnesota has a responsibility to better the lives of Minnesotans through education, research, and public engagement. As one of the state's most important economic and intellectual assets, and one of the nation's top research institutions, the University is a venue of singular impact where human talent, ideas and innovations, and discoveries and services converge to advance Minnesota's economy and quality of life. These imperatives have guided the development of biennial budget request for FY18 and FY19.

Specifically, the University is requesting that the state provide an increase in the University's appropriation for the following FY18-FY19 initiatives, each of which directly supports achievement of University performance measures and Progress Card goals:

- $8.5 million in FY18 and an incremental $5 million in FY19 for a Student Success Initiative to improve retention, graduation rates, access to high-demand STEM fields and admissions pipelines for underrepresented students

- $8.5 million in FY18 and an incremental $15 million in FY19 for the Minnesota Discovery, Research, and InnoVation Economy (MnDRIVE) funding program – proposing four new research initiatives: Improving Cancer Care Statewide, Eliminate Disparities, Clean and Abundant Water, and Big Data to Drive Our Economy

- $22.6 million in FY18 and an incremental $23 million in FY19 for core mission support; funding which, in combination with continued reallocation and a modest growth in other revenues, will allow the University to address needs related to competitive compensation for employees, classrooms and equipment, compliance requirements, research and technology infrastructure, and the operation and maintenance of core facilities

In addition, the request includes two items related to past legislative sessions:

- $6 million in FY18 and an additional $2 million in FY19 to restore UCare funding that used to support core clinical training, education and research in the Department of Family Medicine and Community Health and the Mobile Dental Clinic (originally requested in 2016 legislative session)

- $2 million in FY18 and an additional $3 million in FY19 to fund the expanded operations of the new Bell Museum and Planetarium, including K-12 classrooms and gallery space

Approval of the incremental $82.6 million requested for the first three FY18 and FY19 initiatives would result in a 9.8% increase in the University's biennial state appropriation base (FY18 + FY19 over FY17 base carried forward). Approval of the full incremental $95.6 million request would result in a 11.4% increase in the University's biennial state appropriation base.

D. FY18 Budget Parameters – Planning Assumptions

1. **Budget Framework for FY18:** The full planning framework for the FY18 annual budget is still in development. Work sessions and committee meetings of the Board of Regents are again focusing on elements contained in the overall framework, so final decisions will be made as those discussions continue through the fall. In the meantime, assumptions to use for the resource and cost variables necessary to move forward with the support unit budget process are outlined below.

2. **Planning for Reallocations:** At this point, there is agreement about the need to move forward with a reallocation similar to last fiscal year. This is an all-funds exercise, but for purposes of the framework funds, targets have been calculated for units around a goal of reallocating $12.5 million. This calculation results in an amount approximately equal to.68% of the FY17 adjusted O&M/State Specials/Tuition allocation base included in the approved budget (adjusted for the elimination of institutional financial aid programs, utilities, leases, etc.). A portion of this target will be implemented within support units through

planned productivity improvements or cost reductions (see section F-2 below for further guidelines on how to approach this reallocation). The final reallocation you are asked to implement for FY18 may not equal the target below.

For purposes of budget planning and the responses requested in these instructions, the proportional allocation of the reduction amounts by support unit is as follows:

Unit	**Amount Support**	**Amount Academic**
Audits	$14,000	
Auxiliary Services*	18,000	1,000
Board of Regents	6,000	
Capital Planning & Project Mgmt	12,000	
Controller	78,000	
Equity & Diversity*	81,000	8,000
Facilities Management	528,000	
General Counsel	40,000	
Global Programs/Strategy Alliance*	33,000	4,000
Graduate School*	33,000	3,000
Human Resources	49,000	
Information Technology	455,000	
Libraries	268,000	
President's Office*	42,000	3,000
Public Safety	63,000	
Research VP*	162,000	140,000
Sr. VP Academic Affairs/Provost*	58,000	89,000
Sr. VP Health Sciences	84,000	
Student Affairs*	28,000	16,000
Undergraduate Education*	229,000	31,000
University Finance VP	44,000	
University Hlth & Safety	45,000	
University Relations	26,000	
University Services VP	40,000	

*** Denotes units with a "Support" allocation and an "Academic" allocation, with two corresponding reallocations targets calculated. The amount in the first "Amount Support" column represents the proportional reduction for the RRC's "support" activities only – the portion of the budget being discussed this fall. The additional figure in the "Amount Academic" column (associated with the portion of the unit discussed in the winter/spring part of the process) is information provided so these units may plan for the allocation of the reduction between the two segments that best meets**

their needs. They could choose to implement the total of both columns in the support portion of their budget or vice versa.

3. Salary and Fringe Benefit Assumptions: Information in this document related to compensation matters has been prepared for budget planning 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.

At this point, we are evaluating options for a general salary increase, so we are asking you to develop an estimate of what each 1% increase in salaries will cost you for FY18. Regardless of any changes in salaries, there will be a cost related to the change in projected fringe rates, displayed below. See section G-3 of this document for further details on building this cost estimate, which will represent a general planning parameter to be used at the unit level.

The projected fringe benefit rates are estimates based on initial analysis of FY16 actual costs and salary bases and the recoveries/payments into the pool during FY16. The actual fringe rates used for FY18 may differ from what is indicated below because the federally required methodology for calculating fringe rates, which must reconcile to the annual audited financial statement, may necessitate the modification of these rates between now and the end of October. Please understand that you may be asked to use updated fringe rates at some point while preparing your budget materials. Wherever you happen to be in the process, we will work with you to incorporate the changes. Any revisions to the rates will be communicated as soon as possible. In almost all categories, the fringe rates for FY18 are higher than those for FY17. This is largely due to the one-time impact of a legal settlement related to benefits costs creating an over-recovery in FY15 and thus "artificially" low fringe rates in FY17. Fringe rates are now moving back to pre-FY17 levels as predicted.

	Actual 2016-17	Projected 2017-18
Academic/Police	31.8%	33.8%
Non-Academic	26.1%	27.9%
Partial Benefits (Trades, Temp Casual, Residents/Fellows	8.1%	8.0%
Student Professional with GA Health	16.9%	17.5%
Student Professional with UPlan Health	20.1%	22.4%
Undergrads/Professionals in Training	0.0%	0.0%

A set of documents outlining the details of implementing the final salary plans for FY18 will be distributed from Human Resources at a later date.

4. Enterprise Assessment:

The Enterprise Assessment is a systematic method of assessing units a fee to pay for the development, implementation, maintenance and replacement of institutional business systems. The assessment collected currently covers the costs of the Enterprise System Upgrade Project over a reasonable timeframe plus additional enterprise systems requirements.

The assessment is charged to individual fund-deptID-programs through the general ledger allocation process. This monthly process charges 1.75% against certain salary expenditures in specific funds. A general ledger journal entry is then posted to the actual general ledger.

The following assumptions should be built into the FY18 budget plans at this time:

- Assessment rate of 1.75% of projected FY18 salaries (can assume no growth over FY17 or to be more conservative a growth rate at the average of the last several years)

- Expected assessment should be budgeted in account code 820200 – Enterprise Assessment-Final Budget Only. (Actual charges will hit account code 820201)
- Assessment is on actual salary expenditures in the following funds:
  - State Appropriations and Tuition – fund 1000
  - Auxiliaries – funds 1100-1106, 1152, 1153
  - Other Unrestricted – funds 1020, 1023, 1024, 1025, 1026
  - Private Practice – fund 1030
  - Restricted State Specials – funds 1801-1807
- Assessment occurs near the end of an accounting period based on actual salary expenses in that period. Both debits and credits to salaries are included in the assessment calculation.

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

700101	Salaries – Faculty Regular	700222	Salaries – P&A Admin Fed Benefits
700102	Salaries – Faculty Adjunct/Clin	700311	Salaries – Grad Asst/9535
700103	Salaries – Faculty Contract	700321	Salaries – Residents/Fellow
700104	Salaries – Faculty Temp/UMD-NonReg	700401	Salaries – Professional in Training
700105	Salaries – Faculty Visiting	700402	Salaries – Undergraduate Student
700121	Salaries – Faculty Fed Benefits	700501	Salaries – Civil Service
700201	Salaries – Academic Professional	700511	Salaries – AFSCME
700202	Salaries – Academic Administrative	700512	Salaries – Teamsters
700203	Salaries – Police	700521	Salaries – Trades
700211	Salaries – Post Doc	700531	Salaries – Temp/Casual
700221	Salaries – P&A Prof Fed Benefits		

Note: The following salary accounts are NOT included:

- Workstudy: 700351, 700451, 700452, 700551, 700552
- 27th Pay Date Accrual: 700801

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

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

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

The Office of Risk Management charges RRCs for University property and liability insurance premiums based on each RRC's share of total University space. The premium expenditure should be budgeted by each RRC as account code 720313. The Office of Risk Management will initiate a journal entry to complete the transaction for FY18 sometime in the first three months of the fiscal year.

Non-Profit Organization Liability (NPOL): The University purchases Non-Profit Liability Insurance centrally for all its employees, officials and authorized volunteers. Non-profit liability insurance has primarily focused on the cost of employment disputes, including claims of sexual harassment, unlawful discrimination and various constitutional violations. Employment related litigation has increased over the years, as has the volatility of damage awards.

The Office of Risk Management charges 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 FY17. The premium expenditure should be budgeted by each RRC as account code 720313. The Office of Risk Management will initiate a journal entry to complete the transaction for FY18 sometime in the first three months of the fiscal year.

For FY18, each unit should assume a 0.3% increase in the amounts billed for FY17. The FY17 actual/FY18 projected charges are listed below by unit. For support units with some academic functions/units, the full estimate for the RRC is provided below.

RRC	FY17	FY18 Charge	RRC	FY17	FY18 Charge
AAPRV	$72,428	$72,646	OIT	$103,123	$103,432
AUDIT	2,760	2,768	PRESD	15,314	15,360
CONTR	16,063	16,112	PUBSF	14,818	14,863
CPPM	6,082	6,100	RGNTS	577	579
EQDIV	15,802	15,850	RSRCH	57,770	57,944
FM	167,460	167,962	STDAF	267,368	268,171
GPSTR	15,851	15,899	UEDUC	113,928	114,269
GRAD	4,800	4,814	UFIN	12,951	12,990
HLSCI	113,255	113,594	UHLSF	26,355	26,434
LIBR	264,273	265,066	UREL	24,050	24,122
OGC	5,249	5,265	USERV	9,622	9,651
OHR	25,555	25,632			

E. Submissions – Compact Materials

For review at the annual oversight meetings and to guide future decision making, all support units are asked to submit a brief narrative summary of the following:

1) A description of your unit's top three priorities for the next 1-3 years, and explain how theses link with your unit's goals or strategic plan and with the TC campus strategic plan or a system campus strategic plan.
2) An explanation of issues or problems, if any, in moving forward with your plans under #1.

F. Submissions – Budget Planning

1) Funding Requests/Significant Financial Concerns:

The budget framework for FY18 will have limited funding available for unit investments, so requests will be considered on an exception basis only. Requests, even those related to issues of health and safety, must make a very compelling case.

There will be no funding increases for expansion or enhancement of existing activities. Instead, any unit proposing to expand activities or begin something new, must identify additional reallocations (beyond the targets given in these instructions) to fund those increased costs – identify what you will no longer do in order to take on additional or different activities.

Please summarize any issues and requested funding in a short paragraph. Clearly indicate in the request if all or a portion of the funding would be required nonrecurring vs. recurring. **If you submit requests for more than one item, please clearly indicate the priority order of your requests.** Only the highest priority and most compelling proposals will be considered. Please note, requests should not be related to a general salary increase or fringe benefit costs changes.

Any requests for information technology investments should align with the University's continued commitment to Operational Excellence and the reduction of administrative costs. Units are strongly encouraged to leverage shared-or commodity-services, rather than duplicate them. Support units' technology activities should be focused on unique, differential IT services and on transitioning commodity/enterprise/central services. Units should also be actively working to ensure compliance with the security standards supporting the University's Information Security Risk Management policy.

Information Technology (IT) purchases that exceed $500,000 (in purchase, implementation, and other costs committed on behalf of the institution) needs sign-off by the Vice President for Information Technology and Chief Information Officer's Office (email: vpcio-admin@umn.edu). It is best to engage this office early in the development/determination of the potential solution to ensure that alignment, interoperability, and integration with existing University systems and technologies is considered – and for guidance/assistance in the competitive purchasing process.

2) O&M Reallocations for FY18:

Each RRC receiving these instructions should develop and submit a proposal to address budget adjustments in the amounts identified above in section D-2. The proposal should briefly outline the actions to be taken to reduce your recurring O&M budget and the projected impact on unit activities and service levels. In an environment that continues to be dominated by limited increases in state support and a concern for the financial burden that tuition places on students and families, the University will be forced to grow other discretionary sources of revenue where possible and plan for the elimination of activities that are often valuable, but represent a lower priority, are less relevant or are not necessary as part of the services and programs we offer. As part of this exercise, please clearly describe any activities or services you are proposing to eliminate.

In support of the President's Operational Excellence Initiative, and in accordance with his commitment to find $15 million in administrative cost savings each year for six years, the reallocations for FY18 should be focused as much as possible on reductions to administrative operations and costs. The Cost Definition and Benchmarking analysis for FY16 will not be completed until later this fall, and won't be available to help determine your reallocation plans at this point. However, referring back to that analysis for FY14 and FY15 (sent to you the last two years as part of these budget instructions) may prove useful as you think through options.

The expectation for your reallocation plans is that you will implement reductions, to the extent possible, that would result in a decrease in the spending categories considered Mission Support & Facilities and Leadership and Oversight. For many support units, 100% of the expenditures will be in these two categories, so by default, the corresponding reallocation plans will comply with the expectation to reduce administrative costs. **For other units, where there is a mix of expenditures within all three categories, if your reallocation proposals impact the Direct Mission Delivery portion of the budget, you should provide rationale for this decision and indicate why the decision was made to move beyond Mission Support & Facilities or Leadership & Oversight.** Providing the rationale or broader reallocation plan in your response will be critical in understanding your proposal. Please note – maintaining the University's commitment to student financial aid remains a top priority. *Therefore, all types of financial aid for students (scholarships, fellowships, block grants) whether for undergraduate, graduate or professional* *students, must remain protected. For the cost definitions and benchmarking exercise, student aid expenditures were set aside and not included in any of the three spending categories. They are not in the reallocation base, not in the spending categories, and should not be cut.*

Please keep in mind that the reductions will contribute to balancing the overall institutional budget framework, and therefore in the end will support costs in the final framework related to compensation increases, facilities and any investments, whether they are within your unit or in another unit. These cost increases that are within your unit, therefore, will not have to be covered over and above the reduction amounts identified above and addressed in your proposed strategy.

Proposals will be reviewed during the budget oversight meetings. Not all proposals will be accepted and implemented. Instead, the responses will provide a menu of actions to discuss during the budget meetings and in the weeks following. Keep in mind that any decisions made at the conclusion of the fall process are preliminary in nature and may be modified later in the spring as more information is available related to academic unit budget needs, tuition estimates and so forth.

To summarize, there are three goals for reallocation within the budget:
1) to help balance the budget and cover cost increases in the budget framework for FY18 (in O&M)
2) to help balance the budget and cover cost increases in activities funded by other non-sponsored funds
3) to reduce administrative costs $90 million over six years

Some of the actions taken in implementing #1 and #2 above will fulfill #3 as well. The goal remaining as part of the President's "$90 million" promise, is to achieve at least $17.5 million of administrative reallocation over the next two years between actions taken in items #1 and #2 above – in the framework funds (O&M/Tuition) plus actions taken in the other non-sponsored funds groups (defined as all current funds, EXCLUDING O&M, State Specials, ISO and Sponsored). If more administrative reductions are planned for the other non-sponsored funds (in implementing #2), that could ultimately reduce the amount of administrative reallocation required in the framework funds (in implementing #1 above).

3) Reallocations in Other Nonsponsored Funds for FY18:

To address #2 and #3 just above in the previous section, and consistent with the total targeted reductions for other non-sponsored funds the last two years (roughly $6 million annually), each unit is being given a target for FY18 to reduce costs in the other-non-sponsored funds as well. The savings targets in this category have been calculated using a subset of information from the Cost Definition and Benchmarking analysis. For each unit, University Budget and Finance calculated the average expenditures (in the other non-sponsored funds) in the categories of Mission Support & Facilities and Leadership and Oversight for the last three years for which the analysis was completed (FY13 – FY15). The target for FY18 is then calculated as each unit's proportionate share of a $6 million goal, based on their proportionate share of the total average spending from that time frame:

Unit	A Average Expenditures in Mission Support & Facilities and Leadership & Oversight FY13 – FY15	B Reallocation Target for FY18 (A/$540m * $6m)
Controller	$1,588,074	$18,000
Equity & Diversity	722,358	8,000
Exec. VP for Acad Affairs	1,966,522	22,000
Facilities Management	11,430,457	127,000
Global Programs/Strategy Alliance	21,402,005	238,000
Graduate School	931,304	10,000
Libraries	12,507,275	139,000
Office of the Board of Regents	106,035	1,000
Office of Human Resources	7,347,187	82,000
President's Office	692,289	8,000
Public Safety	671,219	7,000
Student Affairs*	47,007,981	522,000
Undergraduate Education	6,172,472	69,000
University Finance	5,143,366	57,000
University Health & Safety	2,208,827	25,000
University Relations	1,840,995	20,000
VP for Health Sciences	188,311	2,000
VP for Research	25,888,842	288,000

(*Special note for Student Affairs – the target is calculated on all the other nonsponsored funds, including the use of Student Services fee revenue. As in past years, reallocation guidelines planned for the fee committee should be discussed with the Budget Office.)

Each RRC receiving these instructions should develop and submit proposals to address budget adjustments in the amounts identified above (column B). The proposals should briefly outline the actions to be taken to reduce your recurring expenditures and the projected impact on unit activities and service levels. In the past, this process raised some issues around which expenditures should legitimately be factored in to the calculation of targets, particularly related to expenditures that are simply pass-through and do not represent managed activity that can be reduced. Undoubtedly this is the case for FY18 as well but units should still respond to the full target above, including any special circumstances in the response that relate to those unique circumstances. A decision will be made to adjust the targets where appropriate after the responses are received.

Because the targets above were developed using expenditures in only the Mission Support & Facilities and Leadership & Oversight categories, the associated reallocation plans should be focused solely on activities in these categories (no mission or student aid related expenditures should be impacted). **When you propose an expenditure reduction to address this target, the funds freed up from that action will remain in your unit**, but then can be applied to known cost increases, such as those for compensation or inflation, or new investment. It is understood that "new" spending may continue to be in the defined categories of Mission Support & Facilities or Leadership & Oversight, but it is hoped that this exercise will result in a reprioritization of functions, moving investment from low priority to higher priority or new activities, and that in some cases it will reduce the need for increased revenues to pay for cost increases. Reallocation will keep pressure off the need to increase fees on students in areas where such fees are the source for operating revenues, or it will help offset declines or sluggish increases in resources such as sales or royalty income. If the other non-sponsored revenues are growing and therefore no reallocation is necessary to balance that particular budget, it still may be beneficial or strategic to re-prioritize activities and reallocate for programmatic reasons. If this is the case, those decisions to reduce some costs to fund others can still be reported as in response to these targets.

4) Reallocations Implemented FY17:

Based on the initial responses received from each support unit on plans to implement the FY17 reallocations (the O&M target and the other nonsponsored funds target) we created a preliminary list of administrative reductions that totaled $2.5 million. Now we need your help in two ways:

a) Please provide a description of what you actually implemented in the way of recurring cost reductions for FY17 as part of the reallocation exercise related to the FY17 O&M/State Special budget and as part of the reallocation exercise related to the other nonsponsored funds. We need to make sure the list we have been working with is accurate and that you actually did what you said you would do. We need to know if your original plans and the actual implementation differ. Please provide the following details for each recurring reallocation implemented in FY17:
   - Detailed description of what was implemented
   - Amount of reallocation
   - Expenditure category (Mission, Mission Support & Facilities and/or Leadership & Oversight)
   - Categorization of the reduction as personnel or non-personnel expenses
   - The number of positions and position titles related to any position eliminations.

b) Please provide a list of cost reduction actions you are implementing in FY17 in addition to what was required as part of your reallocation target discussed during budget development (in addition to (a) above). As mentioned above, we identified $2.5 million in administrative cuts from your original responses, but between academic and support units, we need to have a list that totals at least $15 million. Therefore, **regardless of funding source**, if you have to this point implemented additional cost reductions in FY17, we would like that full list and description of actions so we can take credit for all the difficult decisions and strategic choices made to continue or enhance current levels of service. Again, be as specific as possible so we are able to determine what actions were reductions to those two administrative categories of spending.

G. Submissions – Detailed Budget Materials

1. Permanent Transfer of Allocation Between Units

If there should be a permanent transfer of base allocation between RRCs for FY18, please submit that information to Julie Tonneson as soon as it is available. Do not wait for the final due date listed below in Section H-1. 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 development worksheets are available in PeopleSoft (PS) for entry of financial information. The budget review process will include an analysis of each unit's overall financial structure and health, and these worksheets are one tool used in that analysis. RRC managers have the option of completing the worksheet just at the RRC level, or asking their budget departments to complete the worksheet at the lower structural level

(ZDeptID), which then rolls up to the RRC level. The budget departments for worksheet purposes can be located in two places: on the RRC Status and Approval tab of the Budget Development Worksheet in PS (at the RRC level) or in PS on the Budget Tree. Follow this path in the **Reporting Instance** (not production) to find the relevant breakdown by RRC on the Budget Tree:

> Tree Manager > Tree View > choose tree UM_DEPTID_BUDGET effective dated 7/1/2016.
>
> It is easiest to view this tree in the "Print Format" Option.

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

The worksheets operate the same way they have in the past, but for RRC managers new to the process, there is an on-line course available for Budget Development Worksheets. To access the training, navigate to ULearn (http://humanresources.umn.edu/working-u/ulearn) and sign in. Use the search feature in the upper right-hand corner to search for "Budget Development Worksheet." (Contact OHR.umn.edu if you run into any problems accessing the course. Additional resources include two job aids available in the Budget Entry/Budget Journals section of the Controller's Office Training website (http://finsys.umn.edu/training/index.html): Budget Development Worksheet – Dept. User Job Aid, and Budget Development Worksheet – RRC Manager Job Aid.

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

The worksheets are populated with FY15 Actuals, FY16 Actuals, the FY17 Approved Budget and FY17 Year to Date Actuals. Each column includes the following information:

- Actual revenues and expenditures by summary categories – all non-sponsored funds (information on the specific account codes under each category can be found in the *reporting instance* > Tree Manager > Tree Viewer. Choose the tree UM_ACCOUNT_REPTG and pick the effective date 7/1/2016. Use the "Print Format" option to view all.)
- Net transfers in/out from other units – all funds combined
- Actual central allocation
- (Decrease)/Increase in net assets overall – defined as Revenues less Expenditures plus Net Transfers plus Central Allocation
- Net assets at the beginning of the year (Prior Year Carryforward) and net assets at the end of the year (Ending Balance) – all non-sponsored funds combined – and that figure represented as a percent of total expenditures
- Total sponsored expenditures

As in past years, there is also a column for projections through the end of FY17 ("Forecast") to arrive at an updated estimate of carryforward into FY18 if that is warranted.

The final column (Budget 2018) is for projecting FY18 activity. The budget submittal should focus on completing the Forecast 2017 column and then completing the Budget 2018 column based on the planning parameters described in this document. For both columns, please fill in each row using the best information available at this time. **FY18 projections should only focus on current operations and plans carried forward and should not reflect new initiatives – *this should reflect the ongoing costs of current operations only.*** Also, please note that projected increases entered in the various expenditure categories of the Budget 2018 column do not guarantee approval of that expenditure level or increased allocations. The purpose of this part of the exercise is to best represent the costs of ongoing operations. Decisions made on whether that level of activity is appropriate or desired will be made through the budget development process.

If a transfer of base allocation is submitted under section G-1 above, the budget development worksheet should be completed assuming the transfer of activity is incorporated. In other words, if the allocation and corresponding expenditures associated with some activity is being transferred between RRCs for FY18, then the expense projections in the Budget 2018 column of the budget development worksheet should also reflect that transfer. In addition, planned reorganizations that result in DeptIDs moving from one RRC to another, or from one budget department to another should be reflected in the planning for FY18: revenues and expenditures for DeptIDs that are being reassigned should be included in the RRC to which they will be assigned in FY18.

Please note To ensure that the ending balance and the carryforward information at the bottom of each "actuals" column reconciles correctly to the balances in PeopleSoft and on UM Reports, a number of rows at the bottom of the worksheet reflect balance sheet transactions. For entry purposes, however, you are not asked to budget for or forecast those balance sheet transactions. You can complete the Forecast 2017 and Budget 2018 columns for all the other rows, and the sheet will work as intended. Since you do not plan for the activity in the added rows, the ending balance will calculate correctly in the Forecast 2017 and Budget 2018 columns without entering in those rows.

<u>Salaries</u> – Because we are still evaluating options on budgeting for salary increases in FY18, at this point carry your estimate of the current year salaries (FY17) into the Budget 2018 column with no changes. Later in the process we will then be able to factor in the impact of different salary increases.

<u>Fringe</u> – At this point, the fringe benefit expense in the Budget 2018 column should reflect the estimated fringe cost with the updated rates (as detailed on page x) applied to the salaries as you've estimated them for FY17. The increase will then represent the costs we know will happen regardless of what salary changes are implemented. Later in the process, when we factor in the impact of different salary increases, we can also adjust for the associated fringe expense.

If there is information missing in these instructions necessary to complete the Budget 2018 column, please contact Julie Tonneson for assistance. **Please note – the central allocation line for FY18 should contain the exact same amount as appears in the Budget 2017 column with one exception – it can be adjusted for planned permanent transfers between units (see section G-1 above).**

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

<u>3. O&M/State Special Compensation</u> – As part of the University's overall budget development framework, comparing available resources with projected cost increases, an annual calculation of the projected increase in compensation costs is included for the O&M and State Special fund groups. That calculation is done centrally and provides useful information in trying to estimate the cost of compensation for each unit. This year, we have calculated what the fringe cost will increase with no change in salaries, and then an estimate of the additional cost for each 1% increase in salaries. To verify that the central methodology yields reliable results, please calculate your estimate as follows (for O&M and State Special funds combined and then for all other non-sponsored funds):

A. Settle on your current estimates for FY17 salaries and FY17 fringe (separately)

B. Apply the updated fringe rates for FY18 to your current estimate of FY17 salaries to get an estimated FY18 fringe expense (Note – this is what should go in the budget development worksheet Budget 2018 column)
C. Compare the FY18 estimated fringe cost from (B) to your estimated fringe cost for FY17 – keep note of that change
D. Apply a 1% increase in salaries to your current estimate of FY17 salaries
E. Apply the updated fringe rates for FY18 to the salaries that have been inflated by 1% (result of step D)
F. Compare the sum of (D) + (E) to (B) – keep note of the change

What you calculated in step (C) above is the answer to "what does the fringe rate increase cost with no change in salaries".
What you calculated in step (F) above is the answer to "what is the <u>additional</u> cost for each 1% increase in salaries".
Example:

		Salary	Fringe	Sum
Step A	FY17 Academic	$100,000	$31,800	
Step B	FY18 Academic	$100,000	$33,800	$133,800
Step C	Difference to A	$0	$2,000	$2,000
Steps D and E	FY18 Academic with 1%	$101,000	$34,138	$135,138
Step F	Difference to B	$1,000	$338	$1,338

Then, as part of your budget submission, please provide in total – not by employee group - the results of steps A through F above for the <u>**O&M/State Special funds only**</u> so we can verify the reliability of our centrally calculated estimates.

4. <u>ISOs - University Budget & Finance Review</u> – Prior to the FY17 budget cycle, units submitted information on internal sales/recharge center rate changes as part of their budget materials. Beginning with the FY17 cycle, however, University Budget and Finance changed its review process, so it currently focuses on recharge centers receiving subsidies, those with deficits exceeding $150,000 and variances greater than 15 percent, and those with balances in the Plant Fund exceeding $100,000. Recharge centers meeting these criteria have a higher likelihood of having a material, negative impact on their larger RRC's budget.

University Budget and Finance reviewed FY16 recharge center subsidies, deficits, and balances in the Plant Fund to establish a list of recharge centers that have a greater risk of having a negative impact on their larger RRC budgets. As a follow up to this analysis, the Internal Sales Office within the Controller's Organization was consulted to determine whether or not additional information and discussions should occur. Based on this analysis, the following information is being requested from specific units:

<u>Subsidies for Recharge Centers – Direct and Indirect</u>
Units directly subsidize their recharge centers through Account 600308 as well as indirectly by paying cost pool charges or for equipment.

Subsidies are provided to the recharge centers from the RRCs for various reasons. Recharge centers may utilize subsidies when they are in the start-up phase, allow for expanded use of specialized equipment, lower rates for specific services, or in other circumstances. Subsidies may also be required to cover cost pool charges associated with recharge centers, specifically when a recharge center has not been designated as a Specialized Service Center. At the same time, long-term subsidization of the recharge centers has an impact on the RRCs' broader budgets. To gain a common understanding of why specific recharge centers required subsidies in FY16, the units noted below providing direct subsidies, and any RRC that self-identifies as providing indirect subsidies, should respond to the following:

- For each recharge center that was subsidized in FY16, describe why a subsidy was needed and if subsidies are built into the recharge center's rates.
- Discuss whether or not rates could be increased to decrease or eliminate the subsidy. In addition, please comment on the consequences of increasing rates.

The following units provided direct subsidies to their recharge centers in FY16 and should respond to questions in this section:

- University Health and Safety (DeptID 10310); and
- Health Sciences (DeptIDs 11151, 11153 & 12022).

<u>Recharge Centers with Deficits Exceeding $150,000 and Variances Greater Than 15 Percent</u>
The following units had recharge centers with deficits exceeding $150,000 coupled with variances greater than 15 percent at FY16 close and should respond to questions in this section:

- Facilities Management (DeptID 12172); and
- University Budget and Finance (DeptID 10173).

Based on natural variances in recharge center budgets, deficits are inevitable. However, a high deficit can lead to the need for a subsidy of a material amount by the larger RRC, specifically if the variance exceeds 15 percent; these recharge centers are more likely to have a negative impact on the larger RRC's budget. Please respond to the following questions for any recharge center with a deficit exceeding $150,000 coupled with a variance greater than 15 percent:

- Describe the cause of the deficit and how the recharge center is mitigating the underlying issue.
- Discuss whether or not the recharge center has used subsidies to reduce a deficit in the past, and if so, the fiscal year and amount of the subsidy.

<u>Plant Fund Balance with Deficit Greater Than $100,000</u>
The Plant Fund is a useful tool for capital purchases and paying the cost of capital purchases over time. The University Budget and Finance reviewed recharge centers' Plant Fund balances with the Internal Sales Office and does not need further details from any RRC at this time; the Internal Sales Office continues to work with the recharge centers to ensure depreciation entries are processed and included in the recharge center rates.

H. Process

<u>1. Meetings and Due Dates</u>

Budget oversight meetings will occur with each unit between October 28 and November 13. The timeline has been set so as to meet deadlines necessary for completing the fall process prior to the end of the calendar year.

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

Submittal Due Date – Five working days prior to the scheduled meeting, please send all required materials in Sections E, F and G to Jessie Strader in the Budget Office (jstrader@umn.edu).

2. Budget Recommendations and Cost Allocations

During November and early December, the Budget Office will be developing analysis, models, summaries and recommendations related to the budget for each unit involved in this fall's process. Different scenarios for the FY18 budget will be modeled into the charging mechanism for academic units so the impact of those different scenarios can be understood. Ultimately, meetings will be held with the President to review the analyses, summary materials and recommendations for each budget. Budget levels approved at this time by the senior officers will then be communicated to each of the support units and converted into charges for the academic units by late December or very early January.

3. Balancing the Overall University Budget

This support unit portion of the budget development process conducted in the fall is only half of the University's overall budget picture. Budgets for these units are being preliminarily approved by the administration before all information related to the University's overall revenue forecasts and investment plans is final. Tuition revenues and expenditure plans cannot be finalized until spring and must then be built into the final budget recommendation presented to the Board of Regents in June. Recognizing "end-of-process" decisions may necessitate changes in the preliminary support unit budgets, the overall process is as follows:

- ❖ Update forecasting items with current information (salary and fringe estimates, tuition estimates, etc.) as soon as possible
- ❖ Preliminarily approve support unit budgets for FY18 by end of December
- ❖ Calculate FY18 cost allocations for academic units by end of December
- ❖ Approve academic unit budgets by end of 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

❖ Attachment – Cost Pool Descriptions

Cost Pool 1. Support 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 FY18 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of FY16 total expenditures. The cost of budgets for some of the units in this cost pool are allocated to Twin Cities academic units only and not to the system 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 FY18 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of headcount from the fall of 2016. The cost of budgets for some of the units in this cost pool are allocated to Twin Cities academic units only and not to the system 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 FY18 approved budget for this portion of Facilities Management will be allocated based on the academic units' proportionate share of ASF from fall 2016. This cost pool affects only Twin Cities academic units and not the system campuses.

Cost Pool 4. Student Services - This cost pool is allocated to the academic units based on a proportionate share of the headcounts of different categories of students from the fall (or fall and spring in the case of graduate students) of the previous year: either a) all students, all levels (full and part time); b) undergraduate students only (full and part time); c) undergraduate students only (full time only), or d) graduate students. Part time students are weighted at 50% in all cases. The FY18 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 2016 (plus spring of 2016 for graduate students). Category (a) will be allocated to the Twin Cities academic units and the system campuses; categories (b) and (c) will be allocated to only Twin Cities academic units; and category (d) 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 FY18 approved budgets for units within this cost pool will be allocated based on the academic units' proportionate share of the average of FY14, FY15 and FY16 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 and Rochester campuses only based on a proportionate share of a weighted faculty and student headcount from the previous fall. The FY18 approved budget for University Libraries will be allocated to the academic units based on the weighted headcount from the fall of 2016. (Weighting scheme: lower division student = .5; upper division student = .75; professional student, graduate student and faculty = 1) Part time students are weighted at 50% in all cases.

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 FY18 will be based on known costs for debt service and leased space, and that will be allocated to the appropriate academic units based on assignment in the space data base as of fall 2016 or known occupancy during FY18.

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 FY18 will be allocated based on student course registrations from the fall of 2016. This cost pool affects only Twin Cities academic units and not the system campuses.