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

Current Non-Sponsored Expenditures & Mandatory Transfers: $2,418,275,274
Current Sponsored Expenditures: $518,175,000

Total Current Fund Operating Budget: $2,936,450,274

- 5 campuses
- 16 colleges and 30 other major units on TC campus
All-Funds Budget Structure

Sponsored Funds $518 Million

Non-Sponsored Funds $2.4 Billion

Local Unit Generated Revenues $.95 Billion

$290 Million Auxiliary Operations

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

Centrally Allocated & Attributed $1.45 Billion

State O & M/Other Misc.

State Specials

Tuition

University Fee

Indirect Cost Recovery

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

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

K-12 Education 39.9%
Property Tax Aids 9.0%
Public Safety 5.4%
Higher Education 9.1%
All Other 8.5%
Health & Human Services 28.1%
Trends in Tuition & State Funds
1997 to 2011

- State $ (black line)
- Tuition $ (blue line)

New Paradigm

estimated
“Why” Move to RCM?

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

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

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

Central Funds

Allocations to Academic & Support Units

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

Central Funds

50.5%

49.5%

Allocations to Support Units

Allocations to Academic Units

100%
Model Changes Since Inception of IMG

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

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

3. We created the University Fee to fund central student support services and other central investment needs (FY06 estimated yield = $41.3 million on TC campus and $11 million on coordinate campuses)
Our RCM Story – 1998-2006

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

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

IMG Largely A Success - However

NEED MORE
- Transparency
- Simplicity/Fewer Levers
- All-Funds/All Costs Analysis
- Accountability – Units & Leadership
- Fuller Understanding of Finances-units

NEED LESS
- Internal Assessment
- Base + / - Methodology
Earned Income/Full Cost Model

- **State Special Allocations**: $ as required by law
- **Tuition**: 100% @ 75/25
- **U of M Fee**: 100% @ 75/25
- **ICR**: 100%
- **All Other Unit Earned Revenues**: No Change

**Academic Units** (TC Colleges & Selected TC Units)
- **Coordinate Campuses***
- **Self Supporting Units** **

*Model will require slight modification for coordinate campuses

**Cost Allocation Payments**

**Cost Allocation Charges**

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

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

**Funding of Central Services**
- Rate Setting for Central Services

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

**President’s Central Allocation**
- State O & M Subsidy, including Compact Investments, and other Institution-Wide Fees
### University of Minnesota
#### Academic Units

<table>
<thead>
<tr>
<th>College of Food, Ag. &amp; Nat. Resource Sciences</th>
<th>College of Continuing Ed</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Design</td>
<td>Academic Health Center Shared</td>
</tr>
<tr>
<td>College of Biological Sciences</td>
<td>School of Dentistry</td>
</tr>
<tr>
<td>College of Education &amp; Human Development</td>
<td>Medical School</td>
</tr>
<tr>
<td>College of Liberal Arts</td>
<td>School of Nursing</td>
</tr>
<tr>
<td>Law School</td>
<td>College of Pharmacy</td>
</tr>
<tr>
<td>Carlson School of Management</td>
<td>School of Public Health</td>
</tr>
<tr>
<td>Humphrey Institute of Public Affairs</td>
<td>College of Veterinary Medicine</td>
</tr>
<tr>
<td>Institute of Technology</td>
<td></td>
</tr>
<tr>
<td>University of Minnesota Extension Service</td>
<td>Campuses</td>
</tr>
<tr>
<td>Agricultural Experiment Station</td>
<td>Crookston</td>
</tr>
<tr>
<td></td>
<td>Duluth</td>
</tr>
<tr>
<td></td>
<td>Morris</td>
</tr>
<tr>
<td></td>
<td>Rochester</td>
</tr>
</tbody>
</table>
# University of Minnesota Support Units

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

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

Discussions on cost allocation have resulted in three different types:

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

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

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

X = Primary “type” assignment

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

- **Facilities – Operations & Maintenance**  
  (ASF/Space Data Base/Twin Cities/Standard Service Levels)
- **Utilities** - (Consumption by Building/Buildings Metered/Monthly Bill)
- **Debt & Leases** - (Occupancy/General Purpose Classrooms)
- **Office of Information Technology**  
  (Centrally Allocated/Unweighted Headcount/Tiered)
- **Administrative Service Units** - (Total Expenditures/Tiered)
- **Research**  
  (Sponsored Services/3 Yr. Rolling Avg. Sponsored Expenditures)
- **Libraries** - (Weighted Student & Faculty Headcount/Law Library Nuance)
- **Student Services**  
  (3 “buckets”/Primarily Student Headcounts/Aid Programs Included)
- **General Purpose Classrooms**  
  (Student Course Registrations/Future Incentive Refinements)
FY10 Budget Dev. Timeline
(Annual Budget Process - Central Perspective)

Support Unit Process In the Fall

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Activity Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early September</td>
<td>Instructions to Support Units</td>
</tr>
<tr>
<td>Oct.-Early November</td>
<td>Meetings w/Support Units <em>(materials submitted 1 week prior)</em></td>
</tr>
<tr>
<td>Late November</td>
<td>Summarize info &amp; prepare preliminary budget recommendations</td>
</tr>
<tr>
<td>Late Nov.-Early Dec.</td>
<td>Present materials to President for Approval</td>
</tr>
<tr>
<td>Late December</td>
<td>Incorporate cost allocation rates into academic unit instructions</td>
</tr>
</tbody>
</table>

Academic Unit Process in the Winter/Spring

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Activity Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late December</td>
<td>Instructions to Academic Units</td>
</tr>
<tr>
<td>Mid Feb.-Late March</td>
<td>Meetings with Academic Units <em>(budget materials submitted 1 week prior)</em></td>
</tr>
<tr>
<td>April and May</td>
<td>Build budget recommendations for academic units &amp; balance overall institutional budget</td>
</tr>
<tr>
<td>Early June</td>
<td>Present President’s recommended budget to the Board for Review</td>
</tr>
<tr>
<td>Late June</td>
<td>Present President’s recommended budget to the Board for Approval</td>
</tr>
</tbody>
</table>
Part 1
Budget Decisions for Service Units

Compensation
• Salary Plan
• Fringe Benefit Costs

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

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

Resources & Tools – Budget Decisions

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

Part 2
Budget Decisions for Academic Units

Compensation
• Salary Plan
• Fringe Benefit Costs

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

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

Impact of Cost Pools

Resources & Tools – Budget Decisions

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

All Funds Budget
## Sample - All Funds Budget Review

### Current Revenues

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$11,000,000</td>
</tr>
<tr>
<td>ICR</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Fees/Sales</td>
<td>$500,000</td>
</tr>
<tr>
<td>Other</td>
<td>$1,800,000</td>
</tr>
<tr>
<td><strong>Total Earned Revenues</strong></td>
<td><strong>$14,800,000</strong></td>
</tr>
</tbody>
</table>

### Expenditures

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

### Net Transfers

<table>
<thead>
<tr>
<th>Net Transfers</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$1,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

### O&M: State Support

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$?</strong></td>
<td></td>
</tr>
</tbody>
</table>

### (Decrease)/Increase in Net Assets

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

### Net Assets

<table>
<thead>
<tr>
<th>Net Assets Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning of Yr. (carryforward)</strong></td>
<td><strong>$5,500,000</strong></td>
</tr>
<tr>
<td><strong>End of Yr.</strong></td>
<td><strong>$4,300,000</strong></td>
</tr>
</tbody>
</table>

- **Revenues generated by the unit**
- **Expenditures by object code**
- **Budget decision – how much allocation should be provided**
U of MN Characteristics that May Make RCM Easier

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

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

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

Budget Office Phone #:  612-626-4517

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

Institutional Research Web Site:  www.irr.umn.edu
Back Up Slides

• Only for more detail on cost pools if people want it.
Facilities Operations & Maintenance
Cost Allocations:

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

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

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

Charges Allocated based on Time & Materials: Services beyond ‘Basic Services Standard’

(This standard to be agreed to annually within the annual budget and compact processes.) Working assumption-units “opt-in” to services unless there is a confirmed business case to “opt-out”.

27
**Core Technologies Allocated in the Model**

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

**Headcount Allocation Methodology:**

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

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

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

Costs to be allocated based on proportionate share of system-wide total expenditures. If college/campus A has 14% of total system-wide expenditures from most recent fiscal year end, then college/campus A will pay 14% of total approved budget for these units.

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

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

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

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

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

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

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

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

Research Services – Costs in this Pool

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

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

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

Twin Cities Campus Only

Costs Allocated based on RRC Proportional Share of:

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

Headcount lagged one year

Future Planned Analysis – Revisit weighting scheme to determine validity

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

Allocated on Total Enrollment – all Students
Student Finance Administration
Registrar
*Tiered formula for TC only and coordinate campuses

Allocated on Undergraduate Enrollment – TC
Vice Provost
Admissions
Orientation – 1st Yr Programs
Honors/UROP
Prehlth Advising
Student Affairs

Allocated on Graduate Enrollment & Faculty
Graduate School Operations

Financial aid and investment pools:
Admissions Scholarships Student Finance Student Aid
Grad. School Fellowships Grad. School Student Investments
## General Purpose Classrooms Cost Allocation Methodology – Student Course Registrations

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

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

| Future                                               | Potentially refine model to build in specific incentives for improved management of classroom space |