Fiscal Year 2007-08 Operating Budget

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

Current Non-Sponsored Expenditures & Mandatory Transfers $2,518,030,319

Current Sponsored Expenditures $534,000,000

Total Current Fund Operating Budget $3,052,030,319

All-Funds Budget Structure

Sponsored Funds $534 Million

Local Unit Generated Revenues $1.053 Billion

Centrally Allocated & Attributed $1.465 Billion

Non-Sponsored Funds $2.5 Billion

$258 Million Auxiliary Operations

$795 Million Clinical Income
Restricted Income
Grants & Contracts
Business & Industry
Sales & Services
Fees
Endowment Income

State O & M/Other Misc.
State Specials
Tuition
University Fee
Indirect Cost Recovery
Central Reserves
University of Minnesota Revenue Sources
All Funds FY 2007

- Educational Sales/Contract Activity: 11%
- Gifts: 4%
- Capital Grants/Gifts/Appropriations: 3%
- Tuition and Fees: 19%
- State Appropriation: 26%
- Auxiliary Enterprises: 11%
- Federal/State/Other Grants and Contracts: 26%

TC Colleges & Coordinate Campuses
Total FY07 Budgeted Non-Sponsored Revenues

- Medical School: $300,000,000
- Carlson: $100,000,000
- Dentistry: $50,000,000
- Extension: $275,500,000
Current Non-Sponsored Funds
Fiscal Year 2007-08 Expenditures / $2.5 Billion

By Object of Expenditure

- Salaries & Fringe: 61%
- Supplies & Services: 9%
- Utilities: 7%
- Equipment & Capital Assets: 3%
- Consultants/Purchased Personnel: 3%
- Student Aid: 6%
- All Other: 12%

By Function

- Academic Support & Student Services: 21%
- Instruction: 34%
- Research: 11%
- Public Service: 5%
- Institutional Support: 12%
- Op. & Maint. of Plant: 15%
- All Other: 7%
- All Sponsored: 29%
- All Non-Sponsored: 71%

University of Minnesota: Sample Chart of Accounts

Academic & Support Units
RRC’s
50 Total

Area [Department]
800+ Total

396 Non-sponsored Funds
218 Sponsored Funds
814 Different Funds

Non-Sponsored Fund
1003

Non-Sponsored Fund
1198

Non-Sponsored Fund
XXXX

Sponsored Fund
XXXX

Org. (Organization)
2001

Salaries
Fringes
Supplies/Services
Equipment
Utilities

Unit of Budgeting
30,332 current nonsponsored orgs
9,946 sponsored orgs
40,278 Different orgs
University of Minnesota Revenue Sources
All Funds FY2007

- Tuition and Fees: 19%
- State Appropriation: 26%
- Federal/State/Other Grants and Contracts: 26%
- Auxiliary Enterprises: 11%
- Educational Sales/Contract Activity: 11%
- Gifts: 4%
- Capital Grants/Gifts/Appropriations: 3%
FY 2007–08 O&M and Tuition Revenues: $1.2 billion

Why Are These Revenues So Important?

- 70% of total spending on instruction
- 77% of total spending on student services
- 72% of total spending on faculty compensation
- 93% of the total budget of CLA
- 78% of the total budget of IT
- 75% of the total budget of CFANS

State appropriation and tuition revenue mix: Changes in the last decade

1997-98: 71% State Allocation, 29% Tuition and Fees
2007-08: 56% State Allocation, 44% Tuition and Fees
Where the Money Goes
State of Minnesota General Fund Budget / $15.8 Billion
Fiscal Year 2007-08

41% K-12 Education
9% Higher Education
1% Transportation
9% Property Tax Aids & Credits
28% Health & Human Services

83% of State Budget
• K-12 Education
• Health & Human Services
• Property Tax Aids and Credits
• Public Safety

Budget Development Activities

Pre IMG "Infante" Phase
1992 — 1997

IMG "Install" Phase
1998 — 1999
2000 — 2005
2006 — ???

New Financial System
“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

**Current Model**

- State Appropriations
- Indirect Cost Recovery
- Tuition Revenue
  
  - Central Funds
  
  - Allocations to Support Units
  - Allocations to Academic Units
  
  - 50.5%
  - 49.5%
  - 100%
Budget Development Activities

- Pre IMG “Infante” Phase: 1992 — 1997
- IMG “Install” Phase: 1998 — 1999
- 2006 — ???

New Financial System

Reforming Resource Allocation
Why Institutional Revenue Sharing?

The challenge of funding institutional common goods and academic priorities

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

Centrally Distributed Revenues
Institutional Revenue Sharing
Fiscal Year 2005-06 Approved Budget

Academic Institutional Revenue Sharing =
Total Revenues \times 8.5\%

Part 1
Calculate revenue yield @ 3.75% of "Sales & Services" Revenue*
* [Includes Central Support Units]

Part 2
Subtract "3.75% Sales & Services" Assessment from 8.5% IRS and collect remaining assessment from collegiate/campus units

FY06 Yield = $12.9 m
FY06 Yield = $86.1 m

Why Build Upon the IMG Model?
IMG Largely A Success - However

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

NEED LESS
- Internal Assessment
- Base + / - Methodology
Utilities, Debt, Leases, Custodial Operations, Technology, Libraries, Student Services, Classrooms, Research Support, Admin. Units

Indirect Costs

Direct Costs

Collegiate Units & Campuses

What does it really cost to operate an academic unit?

Budget Development Activities

Pre IMG
“Infante” Phase
1992 ——1997

IMG
“Install” Phase
1998 ——1999

IMG
“Shared Responsibility” Or “Common Good” Phase
2000 —— 2005

“Earned Income & Full Cost Model”
2006 —— ???

New Financial System
Working Principles – Internal Budget Model

1) Mission and Goals – Model should encourage behaviors that support the University’s mission and goal to be one of the top three public research Universities in the world and the actions and strategies necessary to achieve that goal. Specific attention should be given to supporting efforts at crossing disciplinary and collegiate boundaries in working toward that goal.

2) Transparency – Model should make budget decisions related to subsidies, investments, reallocations, etc., transparent and acknowledge that no units are “tubs-on-their-own-bottoms”.

3) Efficiency/Cost Control – Model should optimize the use of the University’s physical, financial and technological resources; encourage excellence, service and continuous improvement; and provide clear incentives for member of the University community to control costs.

4) Revenue Enhancement – Model should provide incentives where appropriate to enhance revenues.

5) Simplicity – Model should be as simple as possible to understand and administer.

6) Predictability – Model should result in predictable rules, consistent application of policies and clear outcomes.

7) Adaptability – Model should be responsive to external “shocks”.

8) Central Investment – Model should support the ability of the President to “steer the ship” through reallocations and central investments.

9) Information Rich – Model should foster an all-funds discussion using detailed information related to true costs and service levels and provide good information to support fact-based decision making at all levels of the University.

10) Implementation – Model should be as easy to implement as possible.

11) Risk – The model should place the management of financial risk at the level of the institution that can best control the contributing factors and act to address them.

Earned Income/Full Cost Model

State Special Allocations
$ as required by law

Tuition
100% @ 75/25

U of M Fee
100% @ 75/25

ICR
100%

All Other Unit Earned Revenues
No Change

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

Cost Allocation Payments

Academic Units
(UC Colleges & Selected TC Units)

Coordinate Campuses*

Self Supporting Units**

*Model will require slight modification for coordinate campuses

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

Cost Allocation Charges

Academic Investment Priorities

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
Adjustments
Weighted student & faculty headcount
3yr. Sponsored Expend.
Headcount
Student Headcount
Expenditures
Course Reg.

Source of Revenue for Academic Strategic Investments
‘Off the Top’ – State Appropriations
Minnesota’s Budget Development Story

Earned Income-Full Cost

<table>
<thead>
<tr>
<th>Earned Revenues</th>
<th>Allocated Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>Utilities</td>
</tr>
<tr>
<td>ICR</td>
<td>Facilities Ops</td>
</tr>
<tr>
<td>Fees</td>
<td>Debt &amp; Leases</td>
</tr>
<tr>
<td>Gifts</td>
<td>Libraries</td>
</tr>
<tr>
<td>Sales</td>
<td>Research</td>
</tr>
<tr>
<td>Etc.</td>
<td>Technology</td>
</tr>
</tbody>
</table>

Allocated State Appropriation

Academic Units

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
Facilities Operations & Maintenance
Cost Allocations

Charges Allocated by ASF
- Building Services
  - Custodial
  - Waste
  - Recycling
- Maintenance
- Landcare/Grounds
- R&R

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”.

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 Serv</th>
<th>Admn Serv</th>
<th>Libraries</th>
<th>Research</th>
<th>Student Serv</th>
<th>Gen. Purpose Classrooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption Based Cost Allocation</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Cost-Driven Based Cost Allocation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Common Good Based Cost Allocation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
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)
<table>
<thead>
<tr>
<th>Column A</th>
<th>2005-2006 Budget Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Total Earned Operating Revenues (sum line 5 to 10)</td>
</tr>
<tr>
<td>5</td>
<td>Tuition                     $102,752,417</td>
</tr>
<tr>
<td>6</td>
<td>University Fee              $5,661,223</td>
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<tr>
<td>7</td>
<td>Student Fees                $2,670,037</td>
</tr>
<tr>
<td>8</td>
<td>Indirect Cost Recovery      $19,363,150</td>
</tr>
<tr>
<td>9</td>
<td>State Specials              $1,387,000</td>
</tr>
<tr>
<td>10</td>
<td>All Other Income            $15,786,333</td>
</tr>
<tr>
<td>11</td>
<td>Total Budgeted Direct Expenditures (sum lines 12 to 14)</td>
</tr>
<tr>
<td>12</td>
<td>Salaries                    $75,434,030</td>
</tr>
<tr>
<td>13</td>
<td>Fringe                      $27,000,375</td>
</tr>
<tr>
<td>14</td>
<td>All Other                   $25,877,642</td>
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<tr>
<td>15</td>
<td>Indirect Expenditures (sum lines 16 to 25)</td>
</tr>
<tr>
<td>16</td>
<td>Utilities                   $7,032,411</td>
</tr>
<tr>
<td>17</td>
<td>Facility Operations &amp; Maintenance $11,032,609</td>
</tr>
<tr>
<td>18</td>
<td>Debt                        $330,903</td>
</tr>
<tr>
<td>19</td>
<td>Leases                      $569,479</td>
</tr>
<tr>
<td>20</td>
<td>Libraries                   $5,862,838</td>
</tr>
<tr>
<td>21</td>
<td>VP Research                 $2,785,593</td>
</tr>
<tr>
<td>22</td>
<td>Information Technology      $5,982,693</td>
</tr>
<tr>
<td>23</td>
<td>Student Services            $9,340,304</td>
</tr>
<tr>
<td>24</td>
<td>Classrooms                  $1,669,368</td>
</tr>
<tr>
<td>25</td>
<td>Administrative Service Units $9,218,091</td>
</tr>
<tr>
<td>26</td>
<td>Total Direct &amp; Indirect (sum lines 11 + 15) $181,416,336</td>
</tr>
<tr>
<td>27</td>
<td>Net Operating Profit(Loss) Position (line 4 minus line 26) $78,663,919</td>
</tr>
<tr>
<td>28</td>
<td>Nonoperating Revenues(Expenses) (sum lines 29 + 30) $67,538,435</td>
</tr>
<tr>
<td>29</td>
<td>Operations &amp; Maintenance Allocation $75,206,241</td>
</tr>
<tr>
<td>30</td>
<td>Net Increase(Decrease) (sum lines 27 + 28) $11,125,646</td>
</tr>
<tr>
<td>31</td>
<td>Net Assets                  $53,616,666</td>
</tr>
<tr>
<td>32</td>
<td>Beginning of the Year       $42,491,182</td>
</tr>
</tbody>
</table>

Notes on Allocation of the State Subsidy

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

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

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 & Reporting Web Site: www.irr.umn.edu
UNIVERSITY OF MINNESOTA
Financial Overview