UNIVERSITY OF MINNESOTA
Financial Overview
University of Minnesota Financial Fund Structure

**Non - Current Funds**
- 10% of Total
  - Plant Funds
  - Endowment & Similar Funds
  - Loan Funds

**Current Funds**
- 90% of Total
  - Sponsored Funds
    - [21% of current funds total]
    - Operations & Maintenance
      [State Funds & Other Misc. Revenue]
    - Tuition Attribution
    - University Fee
    - State Special Restricted
    - Indirect Cost Recovery
    - Central Reserves

  - Non-Sponsored Funds
    - [79% of current funds total]
    - Internal Service Org.
    - Other Unrestricted Income
      [Educational Sales & Services]
    - Auxiliaries
    - Other Restricted Income
      [Endowments, gifts, grants, contracts]
    - University Non-Hospital Patient Care

**Central Reserves**

*Note: Fund designation is determined by source of funds.*
FY 2006 Total Revenues: $2.4 Billion

- Educational Sales/Contract Activity: 11%
- Gifts: 4%
- Federal/State/Other Grants and Contracts: 26%
- Capital Grants/Gifts/Appropriations: 3%
- State Appropriation: 26%
- Auxiliary Enterprises: 11%
- Tuition and Fees: 19%
FY 2006 Total Revenues: $1.3 Billion

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

Funding source

- NIH: 45%
- NSF: 13%
- Dept. of Education: 10%
- Dept. of Defense: 8%
- All other federal: 7%
- State and Local Govt.: 3%
- Business and Industry: 3%
- Private: 3%

Campus/Collegiate Unit

- Medical School: 32%
- Other Health Sciences: 24%
- Institute of Technology: 17%
- Education & Human Development: 11%
- Ag, Food, Environmental Science: 9%
- Biological Sciences, College of: 5%
- CLA: 4%
- UMD: 3%
- All other colleges: 3%

Sponsored activity is concentrated, both in funding sources and in academic units.
FY 2006 Total Revenues: $1.1 Billion

- Educational Sales/Contract Activity: 11%
- Gifts: 4%
- Federal/State/Other Grants and Contracts: 26%
- State Appropriation: 26%
- Auxiliary Enterprises: 11%
- Tuition and Fees: 19%
- Capital Grants/Gifts/Appropriations: 3%
FY 2006 Revenues: $1.1 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
Change in Annual State General Fund Appropriations and Tuition
FY2000 to FY2007; FY 2008 – 2009 projected
($ in millions)

State General Fund Spending Annual Growth FY2000–2007 = 4.9%*
U of M State/Tuition Spending Annual Growth FY 2000–2007 = 4.3%

* State General Fund Spending from DOF History File
Where the Money Goes
State of Minnesota General Fund Budget / $15.8 Billion
Fiscal Year 2006-07

78% of State Budget
- K-12 Education
- Property Tax Aids & Credits
- Health & Human Services

K-12 Education: 41%
Health & Human Services: 27%
Property Tax Aids & Credits: 10%
Higher Education: 9%
Transportation: 2%
Environment / DNR / Ag: 2%
Criminal Justice: 5%
State Government: 2%
Debt & Other: 3%
State General Fund Appropriations for the U of M as a Percentage of Total State Spending

Enacted 06-07
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<thead>
<tr>
<th>Campus</th>
<th>State Appropriation</th>
<th>Tuition/U Fee</th>
<th>ICR</th>
<th>Gifts</th>
<th>Endowments</th>
<th>Fees/Sales</th>
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CUFS Account Structure
Fund-Area-Org

1043  -  452  -  1400, translated, means:

Indirect Cost Recovery funds in the department of American Indian Studies, used for faculty setups.
Budget Development Activities

- **Pre IMG “Infante” Phase**: 1992 ------ 1997
- **IMG “Install” Phase**: 1998 ------ 1999
- **IMG “IRS Tax” Or “Common Good” Phase**: 2000 ------ 2005
- **?**: 2006 ------ ???
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
  - Allocations to Support Units
  - Allocations to Academic Units
    - 50.5%
    - 49.5%
    - 100%
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. FY06 = 8.5% of Total Revenues (3.75% of sales/serv)

Centrally Distributed Revenues
Institutional Revenue Sharing
Fiscal Year 2005-06

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

**Part 1**
Calculate revenue yield @ 3.75% of “Sales & Services” Revenue*

* [Includes Central Support Units]

**FY06 Yield = $12.9 m**

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

**FY06 Yield = $86.1 m**

Enterprise Assessment (1.25% of salaries in specified funds) – FY06 Yield = $10.1 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
The Strategic Goals and Objectives of the University surround and direct the development of Policies, Priorities and Procedures, including a stable set of rules embedded within the Institutional Budget Model:
Working Principles

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.
Minnesota’s RCM Story - 2007 Forward

Earned Income-Full Cost

Earned Revenues
- Tuition
- ICR
- Fees
- Gifts
- Sales
- Etc.

Allocated Costs
- Utilities
- Facilities Ops
- Debt
- Leases
- Libraries
- Research
- Technology
- Student Serv.
- Classrooms
- Administration

Allocated State Appropriation

Academic Units
9 Cost Allocation Pools

• Facilities – Operations & Maintenance
  (ASF/Space Database/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)
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

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<th>Facilities O&amp;M</th>
<th>Debt &amp; Leases</th>
<th>Tech</th>
<th>Admn Serv</th>
<th>Libraries</th>
<th>Research</th>
<th>Student Serv</th>
<th>Gen. Purpose Classrooms</th>
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Important Points of Understanding in the New Cost Allocation Model

• The model itself is a set of stable revenue and cost attribution rules that assist in achieving (but don’t determine) the strategic goals of the institution

• A sound process for budget approval and rate development for “cost pool” units is key

• The process is dependent on strong leadership to approve cost pool budgets and to make strategic allocations of the state dollars

• The model will be implemented at an RRC level – not a departmental level

• Good performance measures and good data are essential for analysis

• Existing consultative groups will be essential to promote transparency & understanding of decisions

• Process will evolve over time – year one will largely be a conversion to the basic structure, with refinements toward goals in the future
### Proposed Budget Development Timeline (Central Perspective)

#### Support Unit Process In the Fall

<table>
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<th>Month</th>
<th>Activity</th>
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<tbody>
<tr>
<td>September</td>
<td>Instructions to Support Units</td>
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<tr>
<td>November</td>
<td>Meetings w/Support Units (<em>materials submitted 1 week prior</em>)</td>
</tr>
<tr>
<td>Early December</td>
<td>Summarize info &amp; prepare preliminary budget recommendations</td>
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<tr>
<td>Early January</td>
<td>Present materials to Sr. VPS &amp; President for Approval</td>
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<tr>
<td>Late January</td>
<td>Incorporate cost allocation rates into academic unit instructions</td>
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#### Academic Unit Process in the Winter/Spring

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<th>Month</th>
<th>Activity</th>
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<tr>
<td>Late January</td>
<td>Instructions to Academic Units</td>
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<tr>
<td>Late Feb. to early April</td>
<td>Meetings with Academic Units (<em>budget materials submitted 1 week prior</em>)</td>
</tr>
<tr>
<td>April</td>
<td>Build budget recommendations for academic units &amp; balance overall institutional budget</td>
</tr>
<tr>
<td>Early May or June</td>
<td>Present President’s recommended budget to the Board for Review</td>
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<tr>
<td>Early or Late June</td>
<td>Present President’s recommended budget to the Board for Approval</td>
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</table>
Board of Regents Policy directs the administration to develop a capital budget with a “6 year time horizon, updated annually”
Dec. 31, 2006
Total = $739.7 Million

Cost of Capital

- Total UM Interest: 4.22%
- State Issued IDB: 5.06%
- Grand Total: 4.29%

Debt Mix

- Fixed Rate Debt: 99%
- UM Issued Debt: 90%
- State Issued Bonds (IDB): 9%
- Variable Debt: 1%
- Variable Rate Debt: 1%
An analysis of student demand, market position and financial indicators places the University of Minnesota in the strong “Aa” category.
Summary of Outstanding Debt
Projected June 30 Balances
(in millions)
Summary of Annual Debt Service
Projected Fiscal Year Amounts
(in millions)
Theoretical Projected Debt Capacity
Based on Aa2 Medians
(in millions)

Average of ratios compared to debt committed = $561M maximum available capacity in 2012
## Current Value of Funds

### U of M Managed Funds:

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<td>Consolidated Endowment Fund (CEF)*</td>
<td>1,004.7</td>
<td>900.9</td>
<td>814.5</td>
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<tr>
<td>Long-Term Reserves (GIP)</td>
<td>32.0</td>
<td>31.6</td>
<td>33.0</td>
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<td>Short-Term Reserves (TIP)</td>
<td>581.7</td>
<td>656.7</td>
<td>592.9</td>
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<td>Invested Assets Related to Indebtedness</td>
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<td><strong>TOTAL</strong></td>
<td><strong>1,775.7</strong></td>
<td><strong>1,598.8</strong></td>
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### Other:

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*CEF Includes the Market Value for the Permanent University Fund (PUF) |

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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