Annual Operating Budget Development Process

Presentation to the University Senate

April 3, 2014
Budget Planning & Development

PART 1
Biennial Budget Development

PART 2
Fiscal Year 2014
President’s Recommended Operating Budget Plan
(Approved June 2013)

PART 3
Fiscal Year 2015
President’s Recommended Operating Budget Plan

PART 4
Long Range Financial Planning
Timeline - Full Budget Development Cycle

- **July 2014** - **August – September**: Support Unit Budget Instructions based On FY17 Framework
- **October-December**: Support Unit Budget & Compact Meetings; Preliminary Allocations; Cost Pool Calculations
- **January-February**: Academic Unit Budget Instructions Based on FY16 Framework
- **March-May**: Academic Unit Budget & Compact Meetings; President Balances the FY16 Budget; Board Review & Approves The FY16 Budget
- **June 2015**

- **July 2015**
- **August – September**: Support Unit Budget Instructions based On FY17 Framework
- **October-December**: Support Unit Budget & Compact Meetings; Preliminary Allocations; Cost Pool Calculations
- **January-February**: Academic Unit Budget Instructions Based on FY17 Framework
- **March-May**: Academic Unit Budget & Compact Meetings; President Balances the FY17 Budget; Board Review & Approves The FY17 Budget
- **June 2016**
University of Minnesota Revenue Sources
All Funds FY14: $3.6 Billion

Tuition ($842.1m) 24%
State Support ($601.2m) 16%
Sponsored ($600.0m) 16%
Nonsponsored Grants & Contracts ($289.0m) 8%
Sales, Fees & Misc. ($341.9m) 9%
ISO ($225.3m) 6%
ICR ($139.3m) 4%
Auxiliary Ops ($325.6m) 9%
Gifts & Endow. Income ($176.9m) 5%
All Other ($102.4m) 3%

Note: Internal Sales Organizations (ISO) funds, which are eliminated on the financial statements as duplicative revenue, are included in this view of total revenues because they are a significant budgetary activity, managed like other funds.
Budget Development Process
Defining the Budget Framework & Balancing the Budget

Part 1: Available Resources

Part 2: Costs & Investments

Part 3: Balancing the Budget

Biennial & Annual Operating Budget “Framework” & “Long-Range Financial Plan”

Budget Model [Revenue & Cost Attribution]

Annual Resource Allocation

“Central” Decision Process
Budget Dev. Timeline
(Annual Budget Process - Central Perspective)

Support Unit Process In the Fall

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity Description</th>
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<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>
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Academic Unit Process in the Winter/Spring

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity Description</th>
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<tbody>
<tr>
<td>January</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</td>
<td>Build budget recommendations for academic units &amp; balance overall institutional budget</td>
</tr>
<tr>
<td>Early May</td>
<td>Present President’s recommended budget to the Board for Review</td>
</tr>
<tr>
<td>Early June</td>
<td>Present President’s recommended budget to the Board for Approval</td>
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</tbody>
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(Last two items are often early and late June due to legislative timing)
## Annual Budget Process

<table>
<thead>
<tr>
<th>The Players:</th>
<th></th>
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<tbody>
<tr>
<td><strong>President</strong></td>
<td>Sets broad goals, strategies, principles; Directs and delegates the overall process; Receives and acts on recommendations from Budget Committee and Delivers Final Recommended Budget to the Board</td>
</tr>
<tr>
<td><strong>Budget Committee</strong></td>
<td>Manages the overall budget development process; Interfaces with each unit of the University; Develops recommendations to the President on unit allocations and budget balancing tactics</td>
</tr>
<tr>
<td><strong>Chancellors, Deans, VPs</strong></td>
<td>Provide input into broad goals and strategies; Develop unit level goals and strategies; Respond to compact/budget instructions; Request funding from Central; Implement final decisions</td>
</tr>
<tr>
<td><strong>Departments</strong></td>
<td>Respond to RRC level direction regarding development of departmental goals and strategies; Request funding from RRC; Respond to internal budget instructions; Implement final decisions</td>
</tr>
<tr>
<td><strong>Board of Regents</strong></td>
<td>Reviews and approves Annual Budget submitted by the President</td>
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## University of Minnesota Resource Responsibility Centers

<table>
<thead>
<tr>
<th><strong>Academic Units – Twin Cities</strong></th>
<th><strong>Support Units</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Health Center Shared</td>
<td>Athletics*</td>
</tr>
<tr>
<td>Agricultural Experiment Station</td>
<td>Audits</td>
</tr>
<tr>
<td>Carlson School of Management</td>
<td>Audits</td>
</tr>
<tr>
<td>College of Food, Ag. &amp; Nat. Resource Sciences</td>
<td>Audits</td>
</tr>
<tr>
<td>College of Continuing Ed</td>
<td>Audits</td>
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<tr>
<td>College of Design</td>
<td>Audits</td>
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<tr>
<td>College of Biological Sciences</td>
<td>Audits</td>
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<tr>
<td>College of Education &amp; Human Development</td>
<td>Audits</td>
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<tr>
<td>College of Liberal Arts</td>
<td>Audits</td>
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<tr>
<td>College of Pharmacy</td>
<td>Audits</td>
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<tr>
<td>College of Science and Engineering</td>
<td>Audits</td>
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<tr>
<td>College of Veterinary Medicine</td>
<td>Audits</td>
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<tr>
<td>Law School</td>
<td>Audits</td>
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<tr>
<td>Humphrey Institute of Public Affairs</td>
<td>Audits</td>
</tr>
<tr>
<td>Medical School</td>
<td>Audits</td>
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<tr>
<td>School of Dentistry</td>
<td>Audits</td>
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<tr>
<td>School of Nursing</td>
<td>Audits</td>
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<tr>
<td>School of Public Health</td>
<td>Audits</td>
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<tr>
<td>University of Minnesota Extension Service</td>
<td>Audits</td>
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</tbody>
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<table>
<thead>
<tr>
<th><strong>System Campuses</strong></th>
<th><strong>Support Units</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crookston</td>
<td></td>
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<tr>
<td>Duluth</td>
<td></td>
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<tr>
<td>Morris</td>
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<tr>
<td>Rochester</td>
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*All or portions of these treated as “academic” in the budget model*
FY15 Budget Framework
Updated October, 2013

Incremental Resources:
- Tuition (grad/prof/nonres undergrad) $4,500,000
- Appropriation – Tuition Relief/MnDRIVE 14,300,000
- Internal University Resources (recurring) 24,900,000
  Total $43,700,000

Incremental Expenditures:
- Compensation $15,400,000
- Normal Bills & Investment Pool 26,800,000
  Total $42,200,000

Balance $1,500,000

Assumptions:
- Tuition = FY14 growth pattern excluding enrollment & surcharge (3% grad; nonresident and professional mixed; 0% resident undergraduate)
- Internal U Resources = internal reallocations – target of 1.5% of O&M/St. Special base (includes appropriation and tuition)
- Compensation = 2.5% recurring salary increase plus fringe rate decrease
Full Revenue and Cost Allocations
THE “BUDGET MODEL”

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

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

Allocated State Appropriation

In combination with the “Budget Framework” and the “Decision Making Process” = full Budget Development
9 Primary Cost Allocation Pools

- **Facilities – Operations & Maintenance**
  (ASF/Space Data Base/Twin Cities/Standard Service Levels)
  - Custodial, Waste, Landcare, R&R, Maintenance, BSAC
  - FY14: $79.5m

- **Utilities - (Consumption by Bldng/Metered/Monthly Bill)**
  - Steam, Gas, Electricity, Chilled Water
  - FY14: $58.2m

- **Debt/Leases - (Occupancy/General Purpose Classrooms)**
  - Actual cost of Debt Service and Leases by Building
  - FY14: $36.7m

- **Information Technology**
  (Centrally Allocated/Unweighted Headcount/Tiered)
  - Internet, E-mail, Voice Serv, File Storage, PeopleSoft, etc.
  - FY14: $66.3m

- **Support Service Units - (Total Expenditures/Tiered)**
  - HR, Controller, U Relations, Gen Cnsl, Pub Safety, etc.
  - FY14: $102.7m

- **Research**
  (Sponsored Services/3 Yr. Rolling Avg. Sponsored Exp.)
  - OVPR, Sponsored Financial Reprtng, University Hlth&Safety
  - FY14: $28.7m

- **Libraries - (Weighted Student & Faculty Headcount)**
  - Twin Cities Libraries, excluding the Law Library
  - FY14: $42.6m

- **Student Services**
  (4 “buckets”/Student Headcounts/Aid Programs Included)
  - Student Finance, Honors, Admissions, Grad Ed, Promise., etc.
  - FY14: $85.5m

- **General Purpose Classrooms**
  (Student Course Registrations)
  - Office of Classroom Management
  - FY14: $9.8m
Change in Cost Pool Charges by Major Pool FY07 – FY14

**Undergrad aid separated into a unique pool in FY12-for consistency purposes it is included with student services here across all years.**
Fall Budget Process – Support Units

- Monitor Financial Activities
- Review Funding Requests/Reallocation Plans/Significant Issues
- Make Preliminary Reallocation and Allocation Decisions

**Part 1**
Budget Committee Meets with Each Unit

**Compensation (salaries fringe costs)**

**Academic Priorities (examples)**
- Financial Aid – Merit or Need
- Library Acquisitions

**Infrastructure/Related Costs (examples)**
- Increase in R&R/Utilities
- 3 additional police officers
- Library Subscription Costs

**Part 2**
Resources & Tools – Budget Committee Recommendations to President

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 3**
Incorporate Decisions Into Calculation Of the Cost Pools

- Approved allocation increases add to the cost pools charges to academic units
- Approved reallocations or reductions decrease the cost pool charges to academic units

**Part 4**
Consultation and President’s Decisions

- Meet with the President’s Operational Excellence Committee to review recommendations on support units’ budgets
- President makes final decisions for incorporation into the academic unit budget process

Move to Academic Process
Winter/Spring Budget Process – Academic Units

Part 1
Budget Committee Meets with Each Unit

Compensation (salaries & fringe costs)

Academic Priorities/Compact Process (examples)
- Targeted Faculty Hires
- Enhanced Advising Services

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

Part 2
Resources & Tools – Budget Committee Recommendations to President

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

Part 3
Balance the Budget Based on Recommendations

- Make final decisions on allocations and reallocations by unit, incorporating tuition and other revenue changes per budget framework
- Ensure sum of all unit level decisions coincides with the overall budget framework so budget is balanced

Part 4
Consultation and President’s Decisions

- Meet with the President’s Operational Excellence Committee, TC Deans, Chancellors, faculty etc. to review recommendations and final impacts
- President makes final decisions for incorporation into the budget recommended to the Board of Regents
Contacts for Budget and Financial Information

Budget Office Web Site: [www.budget.umn.edu](http://www.budget.umn.edu)

Budget Office Phone #: 612-626-4517

Controller’s Web Site: [www.controller.umn.edu](http://www.controller.umn.edu)

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

Office of Institutional Research Web Site: [www.oir.umn.edu](http://www.oir.umn.edu)