CLASSROOM ADVISORY SUBCOMMITTEE
MINUTES OF MEETING
OCTOBER 17, 2005

[In these minutes: The New Budget Model]

[These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate; none of the comments, conclusions or actions reported in these minutes represent the views of, nor are they binding on, the Senate, the Administration or the Board of Regents.]

PRESENT: John S. Anderson, chair, Andre Prahl, Caroline Rosen, Steve Fitzgerald, Bernard Gulachek, Roberta Juarez, Steve Spehn, Ken Heller, Vaidyanathan Raghavan

REGRETS: Michaeleen Fox, Denise Guerin, Jay Hatch, Jean King, James Perry

ABSENT: Jeffrey Lindgren, Roger Miller

GUEST(S): Vice President and CFO Richard Pfutzenreuter and Budget Director Julie Tonneson

I). Professor Anderson called the meeting to order, and requested that those present introduce themselves.

II). Members unanimously approved the September 19, 2005 minutes.

III). Professor Anderson welcomed todayÕs guests, Vice President and CFO Richard Pfutzenreuter and Budget Director Julie Tonneson, who were invited to provide the committee with information on the UniversityÕs new budget model. To supplement this presentation, a handout, *Internal Budget Model – Status Report & Discussion*, was distributed.

Vice President Pfutzenreuter began my providing background information to the committee. He noted the various budget models the University has used dating back to the early 1990Õs:

- Pre IMG (Incentives for Managed Growth) - 1992 - 1997; also coined the ÒInfanteÓ phased by CFO Pfutzenreuter. A lot of deal making and lack of transparency in terms of how budgetary decisions were made characterized this model.
- IMG - 1998 – 1999.
- IMG IRS Tax (also known as the Common Goods phase) – 2000 – 2005.

Next, memberÕs attention was turned to page 4 of the handout where the principles used to guide the University through the IMG implementation were outlined. These principles were a recognition by the University that incentives needed to be built into the system in order to grow revenues. It was also the intent that IMG clarify cross-subsidies, and allow for greater transparency in terms of how funds were allocated across the campus. It was noted that under the old IMG model, all monies (state appropriations, ICR - Indirect Cost Recovery - funds, and tuition revenue) were collected centrally and then distributed out to academic and support units. Under the current IMG model, all tuition is attributed to academic units while ICR funds are split between central administration and academic units/support units. It was clear from the onset that this change to the funding attribution model would create funding problems for central administration.

As a result, within a relatively short period of time, the IMG model was modified to include an Internal Revenue Sharing Plan, also known as the IRS tax. While this tax has generated a significant amount of money for the University, it was still not enough to meet all its financial needs. Therefore, the University Fee was created. This fee is a per credit charge (up to 10 credits), which students pay. This revenue, instead of going to the colleges, goes to central administration, and is spent, in conjunction with state appropriations, to pay for basic infrastructure overhead expenses.

Vice President Pfutzenreuter summarized the modifications, which have been made to the IMG model since its implementation at the University:

- Creation and later abandonment of a $5/square foot facilities charge.
- Creation of the IRS tax to fund institutional common goods and academic priorities.
- Creation of the University Fee to fund central student support services and other central investment needs.

He added that a major factor influencing the UniversityÕs decision to develop a new budget model is the onerous 8.5% IRS tax.

Vice President Pfutzenreuter emphasized that the new budget model is not being developed to address the UniversityÕs strategic positioning efforts. Rather the new budget model is a set of rules and guidelines for attributing revenues and expenditures based on the UniversityÕs priorities. The budget model cannot and will not determine the UniversityÕs priorities.

Several working principles were created during the development of the new budget model, one of the most important principles being ÒtransparencyÓ. There was a strong belief throughout the University community that budget decisions related to subsidies, investments, reallocations, etc. needed to be transparent. ÒSimplicityÓ was another important working principle around which the budget model was developed.

The new budget model has been named Earned Income/Full Cost Model. Members were referred to page 10 of their handout to see a diagram of this model. Vice President Pfutzenreuter made these salient points concerning the new model:

- Tuition attribution, 100% to the academic units, will remain the same as under the current model.
- The University Fee will be treated as tuition, and attributed out to the academic units.
- The ICR will be attributed 100% to the academic/support units.

- Other unit earned revenues will be treated the same as they are now.
- There will no longer be an IRS tax.
- The President will maintain control over the State subsidy (block grant).
- On the cost side of the equation, nine cost pools have been created that represent the money currently allocated to central units e.g. Facilities Management, Libraries, Research, General Purpose Classrooms, etc. These cost pools will be attributed out to academic units.
- When this model is implemented, all unitsÕ budgets will be reset so that they are revenue-neutral at the point of conversion.

Before turning the presentation over to Ms. Tonneson, Vice President Pfutzenreuter emphasized that for this initiative to be successful strong leadership is required. It will be incumbent on the University community to understand the rules and guidelines of the model going forward. Also, central administration will be forced to take a strong leadership role to redirect resources based on University priorities.

Ms. Tonneson stated that within the new model there are nine cost allocation pools:
1. Facilities – Operations and Maintenance
2. Utilities
3. Debt and leases
4. Office of Information Technology
5. Administrative Service Units
6. Research
7. Libraries
8. Student Services
9. General Purpose Classrooms

Each of these cost pools can be classified into one of these three categories:
1. Consumption Based Allocation – cost allocated based on actual measurement of use. This allocation type creates a direct incentive toward desirable behavior.
2. Cost Driver Based Allocation – cost allocated based on relative share of identified cost driver variable. The variable acts as a ÒproxyÓ for use; there is no measurement of actual use, and no direct incentive toward any behavior.
3. Common Good Based Allocation – cost allocated based on a variable accepted as a reasonable measure of participation in the University community. This allocation type has no direct or primary connection to incentives, instead it is simply a reasonable way to fairly allocate a shared cost.

Next, Ms. Tonneson described how charges will be allocated for each of the cost pools:
- Facilities Management – Utilities will be charged based on actual consumption, and maintenance and operations costs will be assessed based on total assignable square footage.
- Information Technology – Core technology charges will be assessed based on a headcount allocation methodology.
- Administrative Service Units – System-wide unitsÕ costs will be allocated based on a proportionate share of system-wide total expenditures. Twin Cities campus

only unitsÕ costs will be allocated based on a proportionate share of the Twin Cities total expenditures.
- Debt and leases – Units will be responsible for all debt/lease costs of buildings they occupy. General-purpose classroom space in buildings will not be charged to academic units in a building. This was intentionally done to encourage departments to turn over some of its departmental classroom space to the Office of Classroom Management.
- Research – The recommended methodology to pay for research services is to use sponsored research expenditures based on a three-year rolling lag. The use of a three-year rolling average of research expenditures is intended to minimize the impact of annual fluctuations for academic units.
- University Libraries – These costs will be allocated based on a weighted headcount (student and faculty). This weighting scheme is based on a study conducted thirty years ago, which is still used today as part of the instructional cost study. The University plans to implement the new budget model using this methodology, but will revisit the weighting scheme to determine its validity. Ms. Tonneson noted an exception, which is the Law Library. For accreditation purposes, the Law Library needs to be budgeted separately within the Law School and will be charged only on the basis of their faculty headcount.
- Student Services – The proposed cost allocation for Student Services is based on a tiered student headcount methodology.
- General Purpose Classrooms – debt service on general-purpose classroom space and utilities will be allocated out based on an academic units proportionate share of total student course registrations. Student course registrations are not restricted to general-purpose classroom registrations, but all course registrations. A conscious decision was made to not create a disincentive by only counting general-purpose classroom space.

Only two investment pools will be funded using the ÒOff-The-TopÓ model, the Compact Pool and the Pools within the Senior Vice President Offices for discretionary investment. These two pools will be funded off the top of the state appropriation, and allocated out as a cost to units. Ms. Tonneson also noted that allocation of the state subsidy to the academic units will be done on an annual basis by the president.

In closing, Ms. Tonneson communicated the proposed budget development timeline. She stated that it is good year to start this process because the University is in its second year of the biennium, and it knows what it will receive from the state in terms of the state appropriation.

MembersÕ comments/questions:
- Several institutions have facilities charges, why shouldnÕt the University continue to have a facilities charge? Facilities charges will be reinstituted under the new budget model.
- Without a working principle addressing the issue of competitiveness, a budget would be doomed to failure.

- Older buildings likely have higher utility costs, with this said, who under this model will be responsible for paying for buildings to be remodeled? It was noted that this is not true. In reality, new/remodeled buildings are more expensive to maintain that older buildings with drafty windows.
- A problem associated with a revenue-neutral conversion is that inefficiencies are born into the system. Vice President Pfutzenreuter noted that under the new model, central administration will be aware of unit inefficiencies, and can decide if these inefficiencies are a priority for the institution or not. He added that to truly uncover inefficiencies, this model would need to be drilled down to the department level. This model was specifically not be drilled down to the departmental level, and to do so requires special permission.
- How will utility charges be allocated in situations where utility costs are driven up as a result of students going in and out of a building? The cost will be assigned to the building, and divided up amongst its occupants (one occupant being General Purpose Classrooms). At the revenue neutral conversion point, this inefficiency will be built into the equation and these building occupants will receive a higher base of state support to cover this cost relative to other buildings.
- Would a college be penalized if it has students who are taking a reduced number of credits e.g. students with disabilities? No, stated Ms. Tonneson because the new model is not concerned about credits, but instead course registrations.
- How are instructional laboratories dealt with under this model? If these laboratories are not classified as general-purpose classrooms, the college would pay for them.
- Are breakout rooms associated with classrooms considered general-purpose? Mr. Fitzgerald stated it depends on how the space is coded in the system.
- Someone needs to be concerned about teaching labs. Certain colleges have a large number of labs, which are very expensive to operate. Technically this type of space should be considered a common good. How will the costs and revenues associated with labs be handled under the new model? According to Ms. Tonneson, revenues will be realized through tuition and state appropriations, and the costs will be based on square footage and utility charges. Additionally, the college will pay for its equipment charges. After much discussion around this issue, Vice President Pftuzenreuter stated that as this model evolves there might be a need to create a general-purpose lab category for handling this type of space.
- Are course registrations figures going to be based on actual or projected numbers? Actual numbers will be used. For example, course registrations figures for fall 2005 would be used to calculate the 2007 budgets.
- Is there any incentive under this model for upgrading, maintaining and increasing modern classroom space? Vice President Pfutzenreuter hopes that with the new budget model being transparent in terms of costs, it will engage the University community in discussions around why costs are increasing or why costs are not increasing.
- Each time a building is renovated there is a reduction in the amount of classroom space it contains. Under the new budget model, will there be an incentive to add classroom space? It was noted that ultimately programs that will occupy a building decide how they want the building space allocated. In many instances

conscious choices have been made to have large offices over additional classroom space. Vice President Pfutzenreuter believes there are incentives within the new model that will incent building occupants to request classroom space over office space.

- Will there be an increase in the amount of recordkeeping that will be associated with this new budget model? The Office of Budget and Finance is concerned about this, especially given the UniversityÕs strong inclination to reconcile all accounts down to the penny. Departments should NOT be staffing up for the implementation of this budget model.
- Will central administration be billing colleges on a monthly basis? No, billing will be done on an annual basis at the college level with the exception of utilities, which will be billed on a monthly basis.
- It was noted that the Carlson School of Management (CSOM) is in the process of building a new building. To the dismay of CSOM, the number of classrooms in this new building had to be reduced to make space for another department. Another member added that oftentimes when space negotiations are taking place, there is no one at the table to defend classroom space.

Professor Anderson thanked todayÕs guests for their presentation.

IV). Hearing no further business, Professor Anderson adjourned the meeting.

Renee Dempsey
University Senate