SCFP SUBCOMMITTEE ON TWIN CITIES FACILITIES AND SUPPORT SERVICES (STCFSS)
MINUTES OF MEETING
OCTOBER 18, 2005

[In these minutes: Approval of September 20, 2005 Minutes, Set Agendas for Future Meetings, 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: Gary Jahn as proxy for Calvin Alexander, chair, Elizabeth Anderson, Carrie Meyer, Peggy Johnson, Laurie Scheich, Steve Spehn, Lorelee Wederstrom, Gary A. Davis, Gordon Girtz, Lyndel King, Howard Towle, George Wilcox, Jennifer Hannaford, Rochell Heiden

REGRETS: Calvin Alexander, Steve Fitzgerald, Denny Olsen, Brian Horgan, Patrice Morrow

GUEST(S): Budget Director Julie Tonneson

I). Professor Jahn, as proxy for Professor Alexander, called the meeting to order, and welcomed a new student member, Rochell Heiden.

II). Members unanimously approved the September 20, 2005 minutes.

III). Professor Jahn read aloud the list of ideas that were raised as possible agenda items at the September 20th meeting. He requested members prioritize these items or bring new items forward for consideration.

- Invite Brian Swanson to provide the committee with an update on the proposed Gopher stadium. Issues of concern include, but are not limited to, parking, water mitigation, etc. – November or December.
- Facilities Management reorganization update – March 2006.
- Invite Vice President Kathy OÕBrien to the committeeÕs November meeting to provide the committee with a strategic planning update.
- Invite AHC Precinct Plan Chair Terry Bock, and/or Co-Chair Ann Forsyth to share information on what is being proposed relative to updating the AHCÕs precinct plan.
- Receive an update on the WBOB facilities failure. Learn what contingency plans were successful in mitigating damage, and which may need to be revisited.
- Receive information about the UniversityÕs public art programÕs master plan (http://www.weisman.umn.edu/public/public.html). Committee member, Lyndel

King, agreed to provide members with information about this program at the committeeÕs February 21, 2006 meeting.

IV). New budget model: Professor Jahn welcomed Budget Director Julie Tonneson to the meeting. To supplement her presentation, Ms. Tonneson distributed a handout, *Internal Budget Model – Status Report & Discussion*.

Ms. Tonneson began my providing background information to the committee. She 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, Ms. Tonneson turned memberÕs attention 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 the intent that IMG, with its cross-subsidies across the institution, would make for transparency in terms of how funds were allocated. She noted that a major change under IMG was that ICR (Indirect Cost Recovery) funds were split between central administration and academic units/support units, and all of tuition revenue was given to academic units. Prior to this, all monies (state appropriations, ICR funds, and tuition revenue) were collected centrally and then distributed out to academic and support units. The IMG model helped many academic units better understand their revenue flows, and to make informed decisions based on this information.

Within a relatively short period of time the IMG model needed to be modified to create an internal revenue sharing plan (IRS tax) to pay for the UniversityÕs ever-increasing infrastructure expenses e.g. facilities, information technology, etc., previously paid for by central administration. Central administration was forced to impose the IRS tax because state appropriations were continuing to decline and because it had given the tuition revenue to the academic units.

Ms. Tonneson reported that the IRS tax has grown considerably over the years, and currently brings in almost $100 million annually. Currently, academic units are taxed at a rate of 8.5% of their total revenue. Many units view the tax as a Òblack holeÓ, and do not understand how this money is being spent by central administration.

Ms. Tonneson went on to note another modification to IMG, which was created under President Yudof, the University Fee. 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.

Given the modifications to IMG since its inception:

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

IMG, over the years, has become extremely complex with many variables that make it difficult to predict decision outcomes. This was a major motivating factor for a change to the budget model.

Early on in discussions of a new budget model, it was apparent that a clear understanding of what this undertaking meant needed to be conveyed. Many people were under the impression that the new budget model would influence the UniversityÕs strategic positioning priorities. In reality, the budget model is a set of rules and guidelines for distributing revenues and costs based on the UniversityÕs priorities. The budget model cannot and will not determine the UniversityÕs priorities.

Professor Jahn asked about the difficulty of rolling out a new budget model at the same time decisions involving priority allocations are occurring. Ms. Tonneson stated that the determination of a budget model does not depend on the UniversityÕs priorities. The budget model has been designed to accommodate whatever priorities the institution deems important. Ms. Tonneson suggested that the budget model be viewed as a budget development model, or a way to develop a budget.

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. Another operating assumption of this model is that units must Òopt inÓ when it comes to paying the assessed charges of the various cost pools. A unit cannot simply decide not to pay a charge. A request to Òopt outÓ of an assessed charge requires presidential approval.

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. Ms. Tonneson stated that under this model all University revenues except the State O&M Appropriation will go to the units that generate these revenues. The State O&M Appropriation will be allocated annually by the President to the academic units based on an all-funds review of their budget. Costs will also be allocated out to academic units. At the point of implementation of the new budget model, conversions will take place on a revenue-neutral basis.

Ms. Tonneson highlighted important points for understanding the new cost allocation model:

- 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 a collegiate level, and not a departmental level.
- Existing consultative groups will promote transparency and understanding of budgetary decisions.
- The process will evolve over time. The first year will be a conversion year, and there will be refinements toward goals in the future.

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

These cost pools can be classified into 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 billed 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 based on occupancy. General purpose classroom space in buildings will not be charged to 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 type of allocation methodology is based on weights developed thirty years ago, and 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. The Law Library will 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 classroom space and utilities on classroom space will be allocated out based on an academic units proportionate share of total student course registrations.

In closing, Ms. Tonneson communicated the proposed budget development timeline.

MemberÕs comments/questions included:

- What kind of control will a college have if it believes its space is either too hot or too cold? Ms. Tonneson acknowledged that buildings across the campus vary greatly, and there may be cases where building occupants will not have direct control. Under the new model, however, the college will understand what utilities cost. In some areas, where it is possible, there may be an incentive to change behavior in order to improve efficiency and better utilize University resources.
- With energy costs rising, academic units are viewing the implementation of the new budget model as yet another way to squeeze more money out of departments. Ms. Tonneson noted that R&R expenses were consciously put the operations portion of the Facilities Management budget so they can be managed on a campus-wide basis. She acknowledged the need by the administration to establish a process to receive input from colleges regarding their needs and priorities relative to the budget process. She added that the administration believes that prioritization should be done on a campus-wide basis and not building by building.
- Will units be billed monthly for debt charges? No, units will be billed semiannually.
- Was any consideration given to categorizing the Libraries an academic unit or common good? Ms. Tonneson noted that there was a discussion about whether the Libraries should be treated as a common good, and funded Òoff-the-topÓ of the state appropriation. A conscious decision was made not to pursue this option. The working group came to the conclusion that there were benefits in allocating the LibrariesÕ costs out to units so that they could understand how much the Libraries actually cost. Treating the Libraries like an academic unit was not given consideration because it does not generate tuition revenue.

- When will budget decisions be made for support units versus academic units? Ms. Tonneson noted that support unit budgets will be set in late fall and academic unit budgets will be set in late winter/early spring. A member stated that this schedule poses a problem for the Libraries (a support unit) who strives to partner/collaborate with the academic units. Ms. Tonneson recognized this may be an issue, and stated it would be addressed.
- How will the success or failure of this model be measured? According to Ms. Tonneson, there are no specific sensors for measuring the success or failure of the model. Instead, over time, impediments to making budgetary decisions would be realized, thus identifying a problem with the system.
- Have scenarios been run on how the new budget model will impact various units? Yes, scenarios have been run, however, the part of the equation that cannot be modeled is the academic leadershipÕs decision on how much state money will be put into a particular unitÕs budget.

In light of time, Professor Jahn thanked Ms. Tonneson for her presentation on the new budget model.

V). Hearing no further business, Professor Jahn adjourned the meeting.

Renee Dempsey
University Senate