University of Minnesota Duluth
Budgets and Processes
November 2016 Update
Where the Money Comes From
State of Minnesota General Fund Budget / $41.9 Billion
FY2015-17 Biennium
(in millions of $)

- Individual Income Tax: $22,067, 53%
- Sales Tax: $10,940, 26%
- Corporate Income Tax: $2,576, 6%
- Statewide Property & Estate/Gift Tax: $2,002, 5%
- Sin Taxes: $1,470, 3%
- Other Taxes: $1,748, 4%
- Non-Tax Revenues: $1,150, 3%

Non-Tax Revenues are from the Lottery, Tobacco Settlements, state department fees, & Investment income

85% of State General Fund Revenue
- Individual Income Tax
- Sales Tax
- Corporate Income Tax
Where the Money Goes
State of Minnesota General Fund Budget / $41.8 Billion
FY2015 – 17 Biennium (In Millions of $)

- K-12 Education
- Property Tax Aids & Credits
- Health & Human Services
- Higher Education
- State Gov’t & Veterans
- Other
- Debt

$79% of State Budget
- K-12 Education
- Property Tax Aids & Credits
- Health & Human Services

Source: MN Management & Budget
General Fund – Fund Balance Analysis
End of 2015 Legislative Session
Trends in UM Tuition & State Funds*
2001 to 2016
(in Millions of $)

*Includes Cigarette Tax and MnCare – excludes nonrecurring project appropriations
# Comparisons of Tuition and Fees

## Public Big Ten Universities and UMD

### Academic Year 2015-16

<table>
<thead>
<tr>
<th>University</th>
<th>Undergraduate</th>
<th>Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Resident</td>
<td>Non-Resident</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Rank</td>
</tr>
<tr>
<td>Pennsylvania State University</td>
<td>$17,514</td>
<td>1</td>
</tr>
<tr>
<td>University of Illinois at Urbana - Champaign</td>
<td>$15,626</td>
<td>2</td>
</tr>
<tr>
<td>Rutgers University</td>
<td>$14,131</td>
<td>3</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>$13,856</td>
<td>4</td>
</tr>
<tr>
<td>University of Minnesota - Twin Cities</td>
<td>$13,790</td>
<td>5</td>
</tr>
<tr>
<td>Michigan State University</td>
<td>$13,560</td>
<td>6</td>
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<tr>
<td>University of Wisconsin - Madison</td>
<td>$10,416</td>
<td>7</td>
</tr>
<tr>
<td>Indiana University</td>
<td>$10,388</td>
<td>8</td>
</tr>
<tr>
<td>The Ohio State University</td>
<td>$10,037</td>
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</tr>
<tr>
<td>Purdue University</td>
<td>$10,002</td>
<td>10</td>
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<tr>
<td>University of Maryland</td>
<td>$9,996</td>
<td>11</td>
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<tr>
<td>University of Nebraska</td>
<td>$8,279</td>
<td>12</td>
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<tr>
<td>University of Iowa</td>
<td>$8,104</td>
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</tr>
<tr>
<td>University of Minnesota Duluth</td>
<td>$13,082</td>
<td>7</td>
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</tbody>
</table>
There has been a dramatic and permanent reset of the University's revenues
State Support vs. All Other Revenues
**What is UMD’s Annual Operating Budget?**

**Fiscal Year 2016-17**

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Non-Sponsored Budget &amp; Mandatory Transfers</td>
<td>$253,000,000</td>
</tr>
<tr>
<td>Sponsored Funds Estimate (direct)</td>
<td>$16,700,000</td>
</tr>
<tr>
<td>Total Operating Budget</td>
<td>$269,700,000</td>
</tr>
</tbody>
</table>
UMD Revenue Sources
All Non-Sponsored Funds FY17: $250 Million

- Tuition: $110,131,191
- State Appropriation: $41,765,343
- State Special: $2,452,946
- Course Fees, SSF, Study Abroad Fees: $15,270,184
- Indirect Cost Reimbursement: $2,268,518
- Auxiliary Revenue: $38,062,621
- Gifts and Endowments: $9,487,186
- Financial Aid: $21,680,634
- Other Income: $9,231,942
Current Non-Sponsored Funds
Fiscal Year 2017 Expenditures / $253 Million
By Function

- Student Aid: $36,181,225 (14%)
- Instruction: $69,223,359 (27%)
- Research: $16,322,875 (7%)
- Institutional Support: $33,276,547 (13%)
- Academic Support: $27,230,342 (11%)
- Auxiliary Enterprises: $34,107,637 (14%)
- Student Svcs: $15,850,555 (6%)
- Central Utilities: $5,000,000 (2%)
- O&M Plant: $15,433,227 (6%)
- Central Utilities: $5,000,000 (2%)
Current Non-Sponsored Funds
Fiscal Year 2017 Expenditures / $253 Million
By Object of Expenditure

- Student Assistance, $36,757,537, 14.6%
- Utilities, $7,478,806, 3.0%
- Repairs & Maintenance, $8,809,568, 3.5%
- Supplies & Services, $24,463,054, 9.7%
- Fringe Benefits, $33,179,750, 13.1%
- Cost Pool, $16,916,608, 6.7%
- Materials for Resale, $10,199,440, 4.0%
- Salaries, $107,613,592, 42.6%

Materials for Resale Resale used for UMD Stores
State Revenue vs Tuition Revenue
UM System and UMD
Ten Year Trend (in millions of $
Source: UM Office of Finance & Budget (10/4/16)
Enrollment increased by over 2,200 students from 2001 to 2011

From FY02 to FY12 the UMD’s O&M Budget increased by $59 million

Enrollment decreased by 955 students from FY12 to FY16

From FY12 to FY16 UMD’s O&M Revenue increased by $11 million but the Expenditure budget increased by $15 million
Enrollment Change by College/School
Fall 2001 - Fall 2016
Source: UM Office of Institutional Research
Fall Semester Enrollment by College/School
2001 - 2016
Source: UM Office of Institutional Research
UMD Budget Plan to Eliminate the Structural Imbalance and Sequestered Deficit

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<tbody>
<tr>
<td><strong>Structural Imbalance</strong></td>
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<tr>
<td><strong>Recurring Revenues</strong></td>
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<tr>
<td>Budgeted Tuition&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$110,131,191</td>
<td>$110,500,000</td>
<td>$110,750,000</td>
<td>$111,000,000</td>
<td>$111,250,000</td>
<td>$111,500,000</td>
<td>$111,750,000</td>
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<tr>
<td><strong>Recurring Revenue Budget</strong></td>
<td>$151,896,534</td>
<td>$152,265,343</td>
<td>$152,515,343</td>
<td>$152,765,343</td>
<td>$153,015,343</td>
<td>$153,265,343</td>
<td>$153,515,343</td>
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<tr>
<td><strong>Recurring Expenditures</strong></td>
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</tr>
<tr>
<td>Campus Expenditure Budgets&lt;sup&gt;2&lt;/sup&gt;</td>
<td>$158,051,040</td>
<td>$158,051,040</td>
<td>$155,751,040</td>
<td>$153,876,040</td>
<td>$152,376,040</td>
<td>$152,376,040</td>
<td>$152,376,040</td>
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<tr>
<td>Recurring Campus Budget Reduction&lt;sup&gt;3&lt;/sup&gt;</td>
<td>(2,300,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Less Required Savings&lt;sup&gt;4&lt;/sup&gt;</td>
<td>(1,175,000)</td>
<td>(1,175,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Required Savings made recurring</td>
<td>(1,175,000)</td>
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<tr>
<td>UM Central Reserve Allocation</td>
<td>(1,000,000)</td>
<td>(1,000,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Debts/Leases Cost Pool Reduction&lt;sup&gt;5&lt;/sup&gt;</td>
<td>(700,000)</td>
<td></td>
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</tr>
<tr>
<td>Recurring Reduction for Tuition loss</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(1,500,000)</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Net Expenditure Budget</strong></td>
<td>$155,876,040</td>
<td>$153,576,040</td>
<td>$153,876,040</td>
<td>$152,376,040</td>
<td>$152,376,040</td>
<td>$152,376,040</td>
<td>$152,376,040</td>
</tr>
<tr>
<td><strong>Annual Recurring Balance/Deficit</strong></td>
<td>($3,979,506)</td>
<td>($1,310,697)</td>
<td>($1,360,697)</td>
<td>$389,303</td>
<td>$639,303</td>
<td>$889,303</td>
<td>$1,139,303</td>
</tr>
</tbody>
</table>

(Structural Imbalance)

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<tbody>
<tr>
<td><strong>Sequestered Deficit</strong></td>
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</tr>
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<td>(1,310,697)</td>
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<td>389,303</td>
<td>639,303</td>
<td>889,303</td>
<td>1,139,303</td>
</tr>
<tr>
<td>Transfer from UMD Fund Balances</td>
<td>3,500,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>1,500,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Projected Sequestered Deficit</strong></td>
<td>($7,696,230)</td>
<td>($7,006,927)</td>
<td>($6,367,624)</td>
<td>($4,478,321)</td>
<td>($2,839,018)</td>
<td>($949,715)</td>
<td>$1,189,588</td>
</tr>
</tbody>
</table>

1 - Assumes no tuition rate increases and only a very modest growth in enrollment and tuition receipts
2 - Assumes any expenditures cost increases for salaries, benefits, and other areas will be funded by additional tuition receipts or state appropriations.
3 - Initial reduction of $2.3 million will be from academic restructuring, program prioritization, and administrative system and process changes.
4 - Required Savings allocation will be converted to recurring budget reductions in 2018-19; subsequent year recurring reductions as needed.
5 - UMD's debt is being refinanced to extend repayment to 2038 resulting in a recurring reduction in the budgeted Cost Pool expense.
Indirect Cost Recovery (ICR)
(Old name—now Facilities & Administrative Reimbursement)

Note - 52% rate in effect on proposals through 2017; 53% starting 2018 and 54% starting 2019

* Although the University can document administrative costs of 31.52% for fiscal year 2014, federal guidelines prohibit charging more than 26% for these activities to federal awards.
Two Operating Budget Processes

- Biennial Budget Request to the State
  - submitted every two years – FY 2017-19
  - prepared by UM Budget & Finance
    > UMD invited to submit STEM request
  - President sends to Regents, Governor, and state legislature

- Annual Budget “Compact”
  - submitted by UMD to President – FY 2017-18
  - projects revenues and expenditures
  - President recommends to Regents
  - Final action by Regents
Timeline – Biennial Budget Request

- **Budget Instructions**: Received – Internal Planning Process Begins
- **Biennial Budget Proposal Drafted for Board Review**
- **BB Proposal for Board Approval & Submitted to The State**
- **Governor’s Higher Ed Recommendations**
- **Legislative Session & Testimony**
- **Appropriation Finalized FY18-FY19**
- **Into Annual Budget to The Board**

U of M Biennial Budget Request - $47.6M/$48.0M

- **Student Success** - Improve retention, graduation rates, access to high-demand STEM fields and admissions pipeline for underrepresented students - $8.5M/$5.0M

- **MnDRIVE** — Fuel research initiatives to address Grand Challenges and advance Medical Discovery Teams - $8.5M/$15.0M

- **Core Mission** — Support academic and operational excellence, and keep the lid on tuition for Minnesota residents - $22.6M/$23.0M

- **Health Training Restoration** — Fill funding gap for critical health training and services statewide following loss of UCare support - $6.0M/$2.0M

- **Bell Museum** — Expand program reach and realize intended vision for Minnesota’s new and innovative museum on St. Paul campus - $2.0M/$3.0M
In the 8 biennia with a base increase, on average, we have received 69% of the amount requested (ranging from 42.6% this biennium to 87.8% in 2006-2007), and the average enacted increase over those 8 biennia has been 9.8%.
Annual Compact Request

• Tuition & Fees Rate and Revenue adjustments
• Compensation adjustments - Salary & Fringes
• Investment Opportunities
  – Academic priorities
  – Infrastructure & Operating
• Significant Financial Concerns
• However, UM System has said new requests must be self-funded!
University of Minnesota
President’s Administrative Cost Reductions
And Cost Definitions & Benchmarking Analysis

Cost Benchmarking Categories

Mission
Mission Support & Facilities
Leadership & Oversight

$15m Per Year
$90m over 6 Years
Can Impact:

Non-Personnel
Personnel

Over 50% of actions taken to reduce expense in first two years results in salary savings in these two categories
UMD’S ADMINISTRATIVE COST REDUCTIONS

• Non-direct mission personnel reductions accomplished by:
  • Involuntary layoffs and positions reduced in term or percentage of appointment
  • Unfilled positions abolished
  • Voluntary layoff/non-renewals where the positions were abolished or replaced at a lower classification/pay
  • Organizational Restructuring and shared services to reduce staffing needs
• Moving staff from recurring O&M funds to non-recurring funds such as revenues from service charges or fees
• Shifting some programs from O&M funds to the collegiate fees or other non-recurring funds
• Eliminating several programs (e.g. Masters in Advocacy and Political Leadership, Voyageurs, String Quartet, Ovation Series, Annual Fall Weber Concert, Global Engagement Scholars, ITSS – Tech Camp.)
• Recurring reductions to non-personnel lines (SE&E, Graduate Commencement ceremony, fee offsets, DTA funding model)
University of Minnesota Cost Pool
How it impacts UMD
University Cost Pool Development

- University Budget Allocation process based on Responsibility Center Management (RCM) which is used by many universities throughout the country to attribute revenues and assign costs to major operating units within an institution.

- University implementation of RCM uses what are called Resource Responsibility Centers (RRC) of which UMD is one of 48; each Twin Cities college and major support unit and the other system campuses are also RRCs.

- Process allocates Systemwide support costs to RRCs so each RRC budget reflects direct costs of Programs and Services and full costs based on allocation of the system “Cost Pool”

- Cost Pool changes are intended to be “revenue neutral” so if a cost pool cost increases the funds are allocated in Compact. If a Cost Pool area decrease, funds are withdrawn from the UMD budget
Full Revenue and Cost Allocations
THE “BUDGET MODEL”

Earned Revenues
- Tuition
- ICR
- Fees
- Gifts
- Sales
- Other

Allocated State Appropriation

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

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

- **Facilities Operations and Maintenance**
  - (Allocation to RRCs based on Assigned space)
  - Covered: Custodial, Waste, Landcare, R&R, Maintenance, BSAC
  - FY17: $84.9m

- **Utilities**
  - (Allocation to RRCs based on Actual use)
  - Covered: Steam, Gas, Electricity, Chilled Water
  - FY17: $57.0m

- **Debt & Leases**
  - (Allocation to RRCs based on Actual debt service)
  - Covered: Actual cost of Debt Service and Leases by Building
  - FY17: $40.6m

- **Information Technology**
  - (Allocation to RRCs based on Employee & Student headcounts)
  - Covered: Internet, E-mail, Voice Serv, File Storage, PeopleSoft, etc.
  - FY17: $68.6m

- **Support Service Units**
  - (Allocation to RRCs based on pro-rata Total expenditures)
  - Covered: HR, Controller, U Relations, Gen Cnsl, Pub Safety, etc.
  - FY17: $109.9m

- **Libraries**
  - (Allocation to RRCs based on weighted student & faculty headcount)
  - Covered: Twin Cities Libraries, excluding the Law Library
  - FY17: $43.5m

- **Student Services**
  - (Allocation to RRCs based on pro-rata Student headcount)
  - Covered: Student Finance, Honors, Aid, Admissions, Grad Sch., etc.
  - FY17: $84.7m

- **General Purpose Classrooms**
  - (Allocation to RRCs based on pro-rata student registrations)
  - Covered: Office of Classroom Management
  - FY17: $10.2m

- **Research**
  - (3 year rolling average of sponsored expenditures)
  - Covered: OVPR, Sponsored Financial Reporting, U Hlth&Safety
  - FY17: $36.5m
Support Service Units

Part A: System-Wide Units that are “in” this cost pool

<table>
<thead>
<tr>
<th>Audits</th>
<th>Public Safety (excluding Police)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Regents</td>
<td>Sr. VP Academic Affairs/Provost</td>
</tr>
<tr>
<td>Budget and Finance</td>
<td>(Sr. VP Office only)</td>
</tr>
<tr>
<td>Capital Planning/Project Management</td>
<td>VP Health Sciences</td>
</tr>
<tr>
<td>Controller’s Office (excluding SFR)</td>
<td>Human Resources</td>
</tr>
<tr>
<td>General Counsel</td>
<td>President’s Office</td>
</tr>
<tr>
<td>University Relations</td>
<td>Graduate School</td>
</tr>
<tr>
<td>University Services (20% of VP office)</td>
<td></td>
</tr>
</tbody>
</table>

Costs to be allocated based on proportionate share of system-wide total expenditures.
UMD has 8% of total system-wide expenditures from most recent fiscal year end, so UMD will pay 8% of total approved budget for these units.

Part B: Twin Cities Campus Only Units that are “in” this cost pool:

<table>
<thead>
<tr>
<th>Campus Mail</th>
<th>University Services (80% of VP office)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Department</td>
<td>Alumni Relations (TC)</td>
</tr>
<tr>
<td>U Market/Logistics</td>
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</tbody>
</table>

Costs to be allocated based on proportionate share of Twin Cities Campus total expenditures.
If college A has 14% of total Twin Cities campus expenditures from most recent fiscal year end, then college A will pay 14% of total approved budget for these units.
<table>
<thead>
<tr>
<th>Cost Pool Allocations to UMD</th>
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<tbody>
<tr>
<td>FY 2016-17</td>
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<tr>
<td></td>
<td>Cost Pool</td>
<td>UMD</td>
<td>%</td>
</tr>
<tr>
<td><strong>Information Technology</strong></td>
<td>$68,600,000</td>
<td>$4,886,081</td>
<td>7.1%</td>
</tr>
<tr>
<td>(Centrally Allocated/Unweighted Headcount/Tiered) – UMD shares in 51% of TC Costs</td>
<td></td>
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<tr>
<td><strong>Student Services</strong></td>
<td>82,900,000</td>
<td>2,567,940</td>
<td>3.1%</td>
</tr>
<tr>
<td>(3 “buckets” Primarily Student Headcounts/Aid Programs included) – UMD shares in 89% of Student Finance Administration, Registrar, and Graduate Student Aid administration but not undergraduate aid or student services (i.e. Vice Provost, Admissions, Advising, Student Affairs)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Debt &amp; Leases</strong></td>
<td>40,600,000</td>
<td>1,392,453</td>
<td>3.4%</td>
</tr>
<tr>
<td>(Occupancy/General Purpose Classrooms) - actual debt service for UMD capital projects</td>
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<tr>
<td><strong>Research</strong></td>
<td>36,500,000</td>
<td>912,443</td>
<td>2.5%</td>
</tr>
<tr>
<td>(Sponsored Services/3 Yr. Rolling Avg. Sponsored Expenditures)</td>
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<td></td>
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<tr>
<td><strong>Support Service Units</strong></td>
<td>89,400,000</td>
<td>7,157,691</td>
<td>8.0%</td>
</tr>
<tr>
<td>(Total Expenditures/Tiered) – UMD does NOT share in costs of TC Campus Mail, Police department, U Market/Logistics, Alumni Relations, and 80% of University Services (VP Office)</td>
<td></td>
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<tr>
<td><strong>Total Cost Pool Allocation</strong></td>
<td>$318,000,000</td>
<td>$16,916,608</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
Total Cost Pool Charges = totals for all cost pools (support service units, technology, research, libraries, student services, Student aid, classrooms, facilities, debt, leases, warehouses and utilities) prior to the double step down methodology.
**Undergrad aid separated into a unique pool in FY12- for consistency purposes it is included with student services here across all years.**
Capital Budget Process
Board of Regents Policy directs the administration to develop a capital budget with a “6 year time horizon, updated annually”

6-Year Capital Improvement Plan

**Part One**
Capital Improvement *Budget*
Year 1
(Board approves annually)

**Part Two**
Capital Improvement *Plan*
Years 2 - 6
(Board approves annually)
Capital Process Overview

Six-Year Capital Plan - directs prioritized and realistic capital planning & fundraising efforts

- Identification of eligible projects through compact process
- Approved by the Board in February.
- Includes all proposed projects for the upcoming 3 bienniums
- Identifies projects that will be submitted to the legislature for funding, as well as large projects involving University debt or unit revenues
- Inclusion allows projects to proceed with predesign – but not authorized to proceed beyond schematic design

Annual Capital Budget – all planned capital expenditures for the following fiscal year

- Instructions in Feb. – RRCs submit list of eligible projects in March
- Approved by the Board in June
- Includes projects estimated to cost more than $500,000
- Projects must have a completed and approved predesign study through CPPM
- Projects must have funding “in hand” or have an approved finance agreement
- Projects must be ready to proceed into design and construction

http://www.policy.umn.edu/Policies/Finance/Budget/FUNDINGPROJECTS.html
Types of Capital Projects

• New facilities or major additions/renovations
  – Academic and general administrative use
    • funded by the state
    • may require match from institution (e.g. one-third)
    • Large projects may require issuance of bonds
    • Fund raising often required for UMD’s share of cost
  – Auxiliary-type use - funded by auxiliary funds
    • Funding source may be fund balance or issuance of bonds
    • Debt service obligation could be secured by increase is student fees or other charges for services (e.g. housing rent, dining plans, etc.)

• Other Repairs and Renovations
  – Higher Education Asset Preservation and Renovation (HEAPR)
  – Repairs and Replacements (R&R)
2016 Capital Budget Request
No Bonding Bill – Projects delayed

• UMD - Chemistry & Materials Sciences – $40.8 M
  – $27.2M from state and $13.6M from UMD

• Systemwide - Academic & Student Experience Investments
  – $24M $16M from state and $8.0M from University $4M for AB Anderson
FY 17 Capital Funding Report

• Facilities Management
  – General Repair & Replacement - $3.0M
  – Securian Math Lab - $900K
  – Malosky Stadium Track Replacement - $700K

• Auxiliary Services – self support funding
  – General Repair & Replacement - $3.2M
  – Housing-High Voltage Line - $4.7M
Higher Education Asset Preservation and Renovation (HEAPR)

• Maximize the effectiveness and extend the life of the University of Minnesota's 29 million square feet of infrastructure. The University allocates HEAPR funding systemwide using a formula based on total campus square footage and facility condition (UMD is 8.8%).

• Projects fall into four categories:
  (1) health, safety, and accessibility
  (2) building systems
  (3) utility infrastructure
  (4) energy efficiency

• UM System Request to Legislature is $100 million
UMD’s 2016 HEAPR Project Requests
No Bonding Bill passed so will be delayed until FY18 or FY19

- Sports & Health Center (HVAC) - $6.5M
- NRRI Coleraine Facility Water line - $0.7M
- Building/Mechanical Systems - $1.6 M
  - Tweed Museum of Art
  - Cina Hall
  - Kirby
QUESTIONS?