The President’s FY22 budget, which included allocations as communicated to the campus in mid-May, was approved by the Board of Regents on June 29. The purpose of this memorandum is to remind you of the framework and context of the approved budget and to document the individual allocation decisions for your campus, including any further direction.

The FY22 Budget Framework, outlining the incremental changes in resources and expenditures in the Operations and Maintenance fund (including tuition) and the State Specials, provides context for many of the budget decisions. The details of that framework are as follows:

Incremental Resources:
- Increased State Appropriations: $15,500,000
- Tuition Revenue: $13,600,000
- Unit Reallocations: $49,600,000
- One-Time Unit Balances to Bridge: $200,000
- Unit Revenue Increases: $9,600,000
- Total Incremental Resources: $88,500,000

Incremental Expenditures:
- Compensation and Benefits: $18,700,000
- Institutionally Managed Student Financial Aid: $100,000
- Core Operations and Services: $29,400,000
- Student Serv. Instructional and Financial Support: $100,000
- MPACT 2025 & Program Enhancement and Compliance: $32,200,000
- Facilities and Technology Infrastructure: $7,200,000
- Total Incremental Expenditures: $87,700,000
- Balance: $800,000

Consistent with the process in recent years, a number of factors specific to your campus were considered in arriving at the final allocations: revenues, expenditures and balances for the last several years and projected for next year; tuition proposals and estimates; your projected cost increases for O&M/State Specials funded compensation; the change in your cost pool charges for FY22; your submitted reallocation plans per the budget instructions, and any significant financial issues you raised during the process. As you are aware, following the compact/budget meetings, these factors were reviewed and discussed for each academic unit by the “budget committee”, made up of Provost Croson, Sr. Vice President Frans, Vice Presidents Tolar and Cramer (prior to his departure), and Associate Vice President Tonneson. Collectively they developed recommended budget plans for each unit under the constraint of arriving at a balanced budget for the University. In an iterative process, I reviewed the recommendations and ultimately approved the decisions outlined below for inclusion in the FY22 Operating Budget presented to and approved by the Board of Regents.

To better understand the decisions that were made and any corresponding guidance or expectations related to those decisions, please review the following table and bullet points. The table contains the same information communicated to the campus in May. It identifies the total change in all recurring “framework” resources against the total change in all recognized costs that were considered during the decision-making process. The bullets following the table provide further explanation of the numbers and, where appropriate, detail further direction or understandings related to those particular items. The revenue and cost allocation tables you received in May for budget entry purposes have not changed and are thus not repeated in this memo.

**FY22 Incremental Budget Changes from FY21 – Decision Summary**

**University of Minnesota Duluth**

<table>
<thead>
<tr>
<th>Recurring Resource Changes:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY22 New Tuition/Surcharge Revenue</td>
<td>$2,100,565</td>
</tr>
<tr>
<td>Internal Reallocation</td>
<td>4,164,178</td>
</tr>
<tr>
<td>O&amp;M Allocation</td>
<td>364,978</td>
</tr>
<tr>
<td><strong>Total Change in Recognized Resources</strong></td>
<td><strong>$6,629,721</strong></td>
</tr>
</tbody>
</table>

The Total Resource Changes above are to be used for:

| Compensation Increase – O&M/State Specials           | $1,806,000     |
| Change in Cost Pool Charges                          | (489,416)      |
| FY21 Tuition Below Budget                             | 4,936,099      |
| Stanton Adjustment                                    | 52,038         |
| Surcharge Initiatives                                 | 325,000        |
| **Total Change in Recognized Costs**                 | **$6,629,721** |

- The projected change in tuition for FY22 over the updated FY21 tuition revenue estimate is $2,100,565 based on implementation of the approved tuition surcharge for the Swenson College of Science and Engineering, the agreed upon tuition rate increases for resident and nonresident students, and your estimated enrollment. Note that this follows a projected shortfall in FY21 revenue of $4,936,099 which is identified in the table above as needing to be addressed in FY22 (represents ongoing costs planned in FY21 that need to be covered by incremental new resources).

Should there be any positive tuition variances during FY22, please do not spend that variance without approval of the provost and/or the Budget Office and do not use that revenue to take the place of
planned reallocations. If possible, any positive variance in tuition should be applied to increased recurring costs in FY23 and/or a tuition revenue reserve within the campus, which we will discuss next spring. We understand that sometimes unexpected tuition revenue gains from enrollment increases come with additional costs and will take that into consideration.

- Your total expected reallocation in O&M for FY22 is $4,164,178 (2.6% of the base). As you are aware, each unit was asked to respond to a target range for recurring expenditure reductions of 3-9%. After reassessing what was necessary to build the President’s recommended budget, most units (including you) received an expected reallocation below or on the lower end of that range. Based on the plan you submitted, we understand you will achieve this reallocation through a variety of actions including the elimination of positions and salary savings from other personnel changes, reduced spending for course access, reduced general operation expenditures, and a shift of existing O&M expenditures to available other revenues. This coming winter we will ask you to verify implementation of these plans and describe any other reallocations you put into place for FY22.

- On a recurring basis, your O&M allocation is being increased $364,978. This is the sum change from three separate decisions:
  - an increase of $66,410 related to a technical change in the calculation of the pools (this is a budget neutral adjustment to accommodate the transfer of two activities between units and the resulting movement of base allocations into or between cost pools);
  - an increase of $52,038 for the required “Stanton” police compensation adjustment; and
  - an increase of $246,530 to help address a portion of the framework cost increases related to compensation and the tuition shortfall.

- The budget for FY22 includes a general 1.5% across the board salary increase. In addition, budget balancing decisions were made assuming fringe rates equal to those in FY21. As a reminder, the fringe rates will actually be lower in FY22, leading to savings in all funds supporting payroll expenses: one time savings to be used or set aside in FY22 (some retained in the units and some returned to central) and recurring savings that will automatically be applied to increased fringe costs in FY23. We have essentially “pre-paid” for these recurring cost increases for next year, so we won’t have to find those resources again. We will discuss how this plan impacts the FY23 budget framework in the materials and meetings focused on next year’s budget. Corresponding to these decisions, your assumed cost related to O&M and State Special funded salaries and fringe benefits (incremental $1,806,000) should be fully funded through the tuition and reallocations identified in the table above.

- The total change in your cost pools from FY21 to FY22 is a decrease of $489,416. This outcome is due to a $555,826 decrease resulting from a combination of investments and reallocations for the cost pool units, changes in projected utility costs, and changes in your proportionate share of the statistics used to distribute the cost pool charges; and a $66,410 increase from a budget neutral change in the structure of the cost pools.

- As the tuition surcharge was approved to enhance services and programming (including scholarships) in the Swenson College of Science and Engineering, the table above recognizes that commitment: the revenue is reflected in the tuition line, and the full use of that revenue is reflected below as a targeted “use”. In that way, the increased surcharge revenue is not assigned to other framework costs.
• Finally, as we discussed during your FY22 budget/compact meeting, we will work together to reassess your structural imbalance coming out of the pandemic. With actions taken in recent years, the imbalance was expected to be completely eliminated, and we greatly appreciate the hard work that went into making that happen. It is difficult to know at this point, however, if the challenges of the last year have led to a renewed imbalance or if your recurring budget moving through FY22 and into FY23 will be structurally balanced. It will also be important to understand how enrollment is shaping up to impact campus finances over the next several years. We will touch base on these issues during the FY23 budget development process.

Looking ahead to next year, we want to remind you that our efforts to continually improve services and gain efficiencies will continue through the Positioned for Excellence, Alignment and Knowledge (PEAK) initiative. A roadmap for how this initiative could move forward and the potential for real change across the units in how we deliver services will be presented to the Board in October. We will continue to consult with you on the opportunities and challenges this initiative will bring. In addition, the minimal increase in our state appropriation for FY23, combined with the continued attention to curb the growth in resident tuition rates, the desire to move forward with strategic investments and meaningful pay increases for our employees and the ever increasing nature of core operating costs means that we must be prepared to combine any modest revenue growth with continued internal reallocation, perhaps outside of PEAK. Please keep this environment in mind as your plans move into the fall and we consult with you on development of the budget framework for next year.

If you have questions about the content of this memorandum, please do not hesitate to contact any member of the “budget committee”. Your thoughtful responses throughout the budget development process are greatly appreciated.