



OFFICE OF BUDGET AND PLANNING

PLANNING AND THREE-YEAR BUDGET FORECAST MANUAL

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INTRODUCTION

Outline of the Manual

The *Planning and Three-year Budget Forecasting Manual* is a set of guidelines for use by deans, directors, and senior business administrators in the annual development of academic and administrative center plans and budget forecasts. The *Manual* reviews the major planning variables - enrollment, staffing and compensation, other income and direct expense categories, indirect costs, space management and capital improvements, and designated funds. Instructions for completing the three-year forecast are included as notes with most topics.

The following staff members in the Office of Budget and Planning are available to suggest strategies for organizing the unit's response and to answer questions about the process of budget planning or the contents of the forecast packages.

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Chronology of the Budget Cycle

Academic, auxiliary, and administrative planning are all important factors in building the overall budget. While each center has unique financial goals and constraints, the objective of budget planning is to bring all of the revenue and expense requests into one unified budget plan for presentation to the Board of Trustees.

For academic units, the Provost requests that deans develop strategies that focus on academic and business environmental changes, space needs, and development (fundraising) plans. The financial aspects of these elements come together in the annual budget process.

Auxiliary operations focus their attention on balancing revenues and expenses – providing the best service at a price that covers their direct costs and their share of university costs (Allocated Central Costs and Facilities-based Costs).

Administrative centers are funded indirectly by the revenue centers (academic and auxiliary). The planning charge for administrative centers continues to focus on the optimal use of resources. In past years, we have had several administrative directors participate in a series of meetings with academic deans to assess various aspects of centers' operations.

The Budget Steering Group is comprised of five academic deans and senior management of the university. This group meets on a regular basis to review a variety of issues that range from fringe benefit costs to pricing in housing and residence halls. These academic planning and administrative review sessions have assisted in the determination of major parameters for the FY11-12 budget - including undergraduate tuition, endowment income spending rates, undergraduate enrollment targets, and overall spending targets for administrative centers. The stage is now set for individual units to reassess priorities and to test the budget feasibility of programs within these parameters.

As in prior years, deans and directors will prepare a detailed three-year budget forecast, with a brief narrative explaining the academic or administrative impact of significant budget changes. ***Academic and Auxiliary budget planning packages are due in the Office of Budget and Planning (OBP) three days prior to a budget hearing or by Thursday, March 17, 2011, at the latest. Administrative Center budget forecasts and narratives are due no later than noon on Thursday, March 10, 2011.***

When forecast budgets have been submitted by all revenue and administrative centers, the budgets are collectively summed and balanced. The university-wide budget is compared to overall budget parameters, and adjustments if any, are made to individual center requests.

The results of this process become the basis for a balanced budget to be presented to the Finance Committee of the Board of Trustees for approval in early May. Deans and

directors are notified of their final budgets by mid-April, with an opportunity for further discussions as needed.

Once budgets are approved, staffs in each center are required to develop detailed, line item account budgets to be entered into the Budget Development System (BDS). This last stage in the cycle is coordinated by the Office of Financial Administration and Performance and is described in the *BDS Manual* (<http://www.usc.edu/dept/finserv>). **Table 2** gives a timeline of major stages in the FY11-12 budget and planning cycle.

"What's New" in the Budget

While this year's budget planning cycle generally follows the same timeline as last year, there are several important changes to the budget submission process:

1. The undergraduate tuition rate will increase by 4.4% over the FY11 rate.
2. The establishment of a merit pool for administrative centers will be limited to a maximum of 2.5%. Merit increases must be awarded on performance only; no across the board increases are acceptable. Academic centers are highly encouraged to follow this guideline. Academic centers not following this guideline should be prepared to share justifications during scheduled revenue and budget hearings.
3. The Facilities Improvement Fund rates for FY12 will increase to 3.0% for undergraduate tuition, and 3.75% for graduate, non-PhD and special session tuition. This rate is projected to remain the same for FY13 and FY14. The increase of slightly less than 0.1% will be used to fund capital improvements to enhance campus security.
4. The Participation Rate will increase to 7.5% of revenue in FY12. This rate is projected to increase to 8.2% for the FY13 and 8.8% for the FY14 planning years.
5. The Employee Benefits Rate will remain at the current 34% for all three planning years, FY12 through FY14. The Federal Employee Benefits Rate has been set at 31.6% for FY12. Although a rate for FY13 and FY14 has not been set, the same rate of 31.6% should be used for all three planning years.
6. The undergraduate financial aid rate will remain at 29.5% for FY12. For planning purposes it is anticipated that this rate will increase to 29.75% in FY13 and to 30.0% in FY14.
7. The credit card and non-collectible tuition rate will remain at 1.5% for FY12 and is expected to remain the same for the remaining two planning years. This fee covers our anticipated default experience, credit card processing fees and a share of collection costs.
8. The overhead recovery rate has been approved through FY16. The rate increases to 63% for FY12, 64% for FY13 and FY14, 64.5% FY15 and 65% for FY16. The CapRic rate will remain at 19.35% through the three year planning cycle.

9. The endowment pool payout will remain at \$25.42 per share in FY12. This payout represents 5.0% of the 12-quarter average market value per share. The rate is projected to remain the same for the balance of the three year planning cycle (\$25.42 per share).
10. Again this year, a summary of each school’s “Other Income and Transfers CE and CR” has been provided in the Program Specific documents section of TBO. This report provides the details for the historical actual figures and provides details of the year-to-date actual figures for the current fiscal year.
11. The Office of Academic Records and Registrar’s Fall and Spring Enrollment reports are again included as a TBO program specific document. These enrollment reports can be an important tool when planning your tuition income.
12. In preparing budgets, future cost rise factors should be taken into consideration according to the following table. Units forecasting activity in postage and technology connection charges must take the necessary steps to ensure that the forecast amounts reflected on TBO appropriately account for both volume and rate changes.

Table 1: Cost Rise Assumptions

	FY11-12	FY12-13	FY13-14
Postage	3.0%	3.0%	3.0%
Technology Connection Charge	0.0%	3.0%	3.0%

Budget Reminders

1. In FY05, the Office of Budget and Planning introduced its web-based budget system - The Budget Online (TBO). TBO is accessed on a secure server (<http://obpweb.usc.edu/tbo>), and is the primary vehicle to collect budget information. TBO is comprised of several *Schedules* designed to collect revenue, expense, and other related information in a more user-friendly manner. It is also designed to provide flexibility to customize schedules based on the varying needs of individual units. A set of new reports have been developed to display budget data and are now available online. TBO is also an online resource; memos, reports, and enclosures can be accessed by users online at any time. For system requirements, instructions, and additional information, please see Appendix B of the OBP Forecast Manual.
2. A revenue summary report has been created to aid academic units in preparing for their revenue meetings (an informal meeting to discuss and establish revenue forecasts prior to the budget hearing). This report provides information on all revenue sources, not just unrestricted revenues such as tuition, and is required to be completed prior to the revenue meetings. The Comprehensive Report is an all-inclusive report that presents a given unit’s all funds revenue and expense activity over a three-year forecast (or a one-year pro-forma) time horizon. The Comprehensive Report is the guiding document for each academic revenue center’s formal budget hearing with the Office of the Provost.

3. Beginning in FY04, a portion of the indirect cost recovery was credited to the Capital Plan (the central pool of funds that pays for the debt service for several research-related construction projects). This portion is known as the “CapRic” ratio. The CapRic ratio will remain at 19.35% for the three year planning cycle. All contract and grant accounts with function codes starting with 11xxx (on-campus research) are subject to the indirect cost recovery split. The Budget Online (TBO) will automatically adjust the recovery of indirect cost income for on-campus research to reflect this split. Please refer to Table 7 for historical rates.

An important note to administrative units: Changes in income may be proposed but can not be included in your budget until they are approved by OBP. As a reminder, an increase in income does not authorize an increase in expenditure. A decrease in income, however, must be matched by an equal (or greater) decrease in expense.

Table 2: Timetable for USC Budget and Planning Cycle

November 2010 January 2011	Fall Planning reviews. Provost's Office reviews each school's strategic plan and metrics of excellence. Deans summarize academic progress and future directions.
January and February, 2011	Budget parameters determined. Undergraduate tuition is reviewed, indirect cost rates are discussed, and administrative budget parameters are set.
February 9, 2011	Trustees Finance Committee meeting. The Trustees approve a range for the undergraduate tuition rate increase.
Week of February 14, 2011	Forecast packages distributed. Deans and directors receive planning memo, and business officers are given access to TBO (The Budget Online).
February 24 through March 4, 2011	Revenue meetings held. Deans and senior business officers meet with the appropriate provost liaison and budget office staff to discuss revenue forecasts.
March 7 through March 31, 2011	Budget hearings. Budget hearings scheduled as necessary with the appropriate Senior Vice President or Dean.
March 10, 2011 March 17, 2011	Administrative Center TBO budget submissions are due not later than noon, Thursday, March 10, 2011 Academic and Auxiliary TBO budget submissions are due in OBP at least three working days before the meeting or Thursday, March 17, 2011 at the latest;
April 1 through April 8, 2011	Budgets summed and balanced. Continued budget and planning discussions take place as issues and problems dictate. Planning parameters are reviewed and revised, if necessary, and returned to deans and directors for adjustments.
Week of April 4, 2011	Pro-forma budgets distributed. Final budgets for 2011-2012 delivered to each center.
April 13, 2011	Pro-forma budgets due. Budget planning pro-forma budget packages are due in the Office of Budget and Planning no later than Wednesday, April 13, 2011.
May 11, 2011	Trustees Finance Committee meeting. Summary budget is approved.
April through June, 2011	Detail budgets on BDS. Detail account budgets are entered on-line in the Budget Development System. BDS deadline for input is Wednesday, June 1, 2011.

Profile of The Budget Online (TBO)

The Budget Online (TBO) covers a three-year planning horizon. This system can be accessed through the worldwide web (<http://obpweb.usc.edu/tbo>). TBO is also designed to serve as an online resource. For instance, memos, reports, and enclosures can be accessed by users online at any time.

TBO is comprised of several *Schedules* designed to collect revenue, expense, and other related information. Individual units may have access to all or a portion of available schedules, based on their level of activity. A comprehensive list of available schedules follows:

REVENUE:

Current Unrestricted Tuition Units & Dollars Schedule: Use this schedule to enter tuition units. The dollar calculation for summer I and II tuition uses either the nominal or discounted rates, as applicable. Fall and spring calculations use discounted rates. Several years ago, we began to use a university-wide discount rate to calculate undergraduate tuition for both the fall and spring semesters. Discount rates for graduate tuition continue to be school-specific. For these rates, please refer to the Budget Parameters Display on TBO. Additional information on how tuition dollars are derived can also be found in Appendix B of this manual.

Current Unrestricted Other Income & Transfers Schedule: Sales & service, auxiliary enterprises, investment income, other, and miscellaneous income related to current unrestricted activity should be entered on this schedule. Please note that miscellaneous income (line 5) requires OBP approval prior to use.

Current Endowments & Gifts Income Schedule: Gift receipts to current funds, other funds (i.e. student loans, annuity & living trusts, etc.), and endowment principal, should be displayed on this schedule. As in prior years, endowment will continue to be estimated based on the number of shares held and/or purchased. TBO includes an added feature labeled “Shares Adjustments”. This section is intended for those units who wish to move currently held shares from one classification to another (i.e. from Designated – Scholarships & Fellowships, to Unrestricted Endowment). Before any such adjustments are entered on TBO, units are required to obtain approval from the University Comptroller’s Office.

Current Endowments Other Income & Transfers Schedule: Other income and transfers related to current endowments must be displayed on this schedule.

Current Gifts Other Income & Transfers Schedule: Other income and transfers related to current gifts must be displayed on this schedule.

EXPENSE:

Current Unrestricted Expenditures Schedule: Unrestricted direct expense (compensation and current expense) entries should be made here. Facilities-based indirect expense and Allocated Central Costs (ACC's) are also shown on this schedule (for applicable centers). Costs for future years will grow by the inflation factors shown. The final approved budget for your center will include indirect costs as shown on this schedule, including any adjustments to the facilities-based indirect costs between forecast and pro-forma due to space changes.

Current Unrestricted ID Income Itemization Schedule: This schedule is used to itemize detailed information about sources of interdepartmental income (ID Income). The purpose of this schedule is to ensure that the amount of interdepartmental income is matched with an expense item in the budget of the school or center identified as the source of the income.

Current Unrestricted Budget Request Itemization (Administrative Centers only): The Current Unrestricted Budget Request Itemization will be the primary document to guide programmatic discussions with senior administration to determine funding allocations. This schedule must include all funding requests for FY11-12.

Current Endowment Expenditures Schedule: Current endowment direct expense entries for compensation and current expenses are made on this schedule. Please note that TBO is programmed not to allow negative carry-forward balances at final submission.

Current Gifts Expenditures Schedule: Current gifts direct expense entries for compensation and current expenses are made on this schedule. Because centers have varying Recovery of Indirect Costs (RIC) rates for these accounts, look for the option in TBO to select an automatic 15% or to enter your own number. Line 40 on this schedule provides additional instructions. As in the prior schedule, TBO is programmed not to allow negative carry-forward balances at final submission.

Sponsored Projects Expenditures Schedule: Sponsored projects direct expense entries for compensation and current expenses are made on this schedule.

OTHER:

Headcount Schedule: This schedule identifies headcount and average merit increases for individual units. Centers with compensation expenditures are required to complete this page.

REPORTS:

Current Unrestricted Summary Display: This report is used to display – in summary form – major categories of current unrestricted budget. Academic revenue centers can also view their subvention information, as well as participation.

Budget Parameters Display: All budget parameters, with the exception of those outlined in the “What’s New” section of this manual, can be found on this report.

Revenue Meeting Report – PDF: This report is particular to academic revenue centers. Its primary purpose is to provide a uniform format for discussion at revenue meetings. For revenue centers, subvention, if any, is determined uniquely for each unit.

Comprehensive Report – PDF: A comprehensive report is available to all users in a Portable Document Format (PDF) with an option to print all or part of the report. This is also the report that will be distributed during budget hearings (for applicable centers).

Final Submission/Attach Narrative: Once you have finished entering your budget information on TBO, you must complete the process by attaching a narrative and “submitting” your budget. This is done via TBO; no hardcopy reports are to be sent to the Office of Budget & Planning. All units are required to submit a narrative – not to exceed three pages. Through the final submission process, TBO will perform a variety of basic checks and recommend corrections, if necessary. Once the budget is submitted, users will have viewing capabilities only.

Forecasting for Academic Revenue Centers

Budgetary discussions will continue to focus on academic and programmatic priorities.

REVENUE MEETINGS

Each school has been scheduled for a revenue meeting to discuss FY11 projections, and FY12 through FY14 revenue forecasts. While the focus of the initial meeting is revenue, it will also be an opportunity for the schools to preview with OBP, and the Vice President for Academic Planning and the priority plans developed for the FY12 forecast, and to answer any questions about the forecast model. In-depth discussion of academic priorities will take place at the subsequent budget hearings.

BUDGET HEARINGS

Each school has been scheduled for a budget hearing. The focus of the budget hearings will be academic and programmatic priorities and how they are quantified in the budget. In addition the Hospitals and Integrated Practice Plans will present their budgets to the Office of Budget and Planning as well as the Provost’s office. The focus of these meetings will to ensure their business plans are in alignment with the overall mission of the university. Priorities should be evident in the allocation of additional funding available to a school when comparing the FY11 projected to FY12 forecast expenditures.

ENROLLMENT PLANNING

Student enrollment is the primary source of unrestricted revenues for the university and for most schools, and deserves close attention in the budget process. The university is committed to continuing quality improvements in the undergraduate population and, at the same time, managing undergraduate enrollment within capacity constraints. Each school will receive new and transfer student targets in their forecast package. Targets are developed by the Provost's Office based on student quality considerations and academic plan goals. For Fall 2011, targets have been set for both new freshmen (2,655) and transfer students (1,345). For Spring 2012 the target for new freshmen is 200. Schools should use caution when forecasting tuition units for these students, since our experience in predicting yield for this cohort is still limited. Tuition units forecast should be developed with these targets in mind. Before the pro-forma round begins, total undergraduate tuition will be tested to ensure that the university undergraduate tuition forecast is reasonable. If adjustments are necessary, we will ask you to reflect them on The Budget Online (TBO) during the pro-forma round.

Additional student flow information can be obtained from the Office of Budget and Planning to assist you with your forecast. Please contact Jim Kalen (740-7293) if you need help with incorporating your freshmen and transfer targets into your undergraduate tuition forecast.

Tuition and Fees

The Current Unrestricted Tuition Units & Dollars Schedule is devoted to describing changes in tuition units, non-credit tuition, and fees. Volume changes in credit tuition are stated in terms of credit units. As in past years, you are asked to project a planned number of **tuition units** for undergraduate enrollment. Forecasts for new undergraduate

students must reflect the targets that have been set for each school. (see the *Three-Year Fall/Spring Enrollment Target* worksheets program specific document.)

For graduate enrollment, you are asked to report PhD tuition units separately from all other graduate units; that is, the CU Tuition Units & Dollars Schedule sections pertaining to Graduate Regular and Graduate Special Session categories should **not** include PhD tuition units. There is a separate section for estimating PhD tuition units taken in your school regardless of major. The revenue associated with these units, along with other central resources, will be used by Graduate Programs to allocate funding (Subvention-Graduate Programs) in support of academic priorities.

A further classification of tuition units into regular and special session enrollments is divided into summer II, fall, spring, and summer I terms. If appropriate, you are also asked to break out general education tuition units from other regular undergraduate units.

Beginning in FY02, undergraduate tuition was allocated to teaching units according to the average university-wide unit value for that semester. For fall 2010, the average unit value was \$1,222.76. For spring 2011, the average unit value was \$1,228.47. These rates have been increased by the FY12 tuition rate increase of 4.4% and are in TBO at \$1,276.56 and \$1,282.52 for Fall 2011 and Spring 2012 respectively. Changes in the average student load affect the average unit value. Anticipated changes in student load have been factored into the average unit values for future years.

The Budget Online (TBO) contains the budgeted tuition units for FY11. After actual tuition units for FY11 are projected on the CU Tuition Units & Dollars Schedule, they will be converted into tuition dollars and shown at the bottom of the screen. OBP staff can help you with current year projections.

To forecast undergraduate tuition income in future years, each school will be using the university-wide average per-unit values for fall and spring regular session income. Summer sessions are calculated with the nominal tuition rate.

Tuition budgets are calculated by multiplying the tuition units by the unit tuition rate listed in TBO on the Budget Parameters Display Report. Summer I and II units are distinguished in order to calculate tuition dollars using the correct tuition rate – Summer II units are charged at the prior year rate; Summer I units use the same rate as the current academic year.

Courses may be designated **special session** for several reasons. Historically, these are off-campus graduate classes. More recently, special session courses have been offered on-campus at times that differ significantly from the regular session calendar. The designation affects budgeting, fee bill assessment, and performance projections. New special session courses and changes in designation for existing courses must be approved during the budget cycle.

Special session tuition is calculated the same way as regular session on TBO, but using nominal rates. If your situation warrants a more refined calculation, contact the OBP

staff for assistance. Undergraduate and graduate special session units are estimated separately.

Professional programs such as Dentistry, Medicine, and Pharmacy charge a fixed tuition per semester or year; prior to FY06, these units typically forecasted tuition income in dollars based on the number of enrolled students. Beginning with FY06, programs with professional tuition were required to estimate related revenue in TBO by displaying units taught. This requirement extends to differential tuition.

Differential tuition is charged for selected regular session programs and courses in several schools. Schools charging a differential tuition rate are asked to enter the projected tuition units for these programs on the CU Tuition Units & Dollars Schedule. All rates for tuition computation can be found on the Budget Parameters Display. If your case is more complicated, contact OBP staff for assistance.

The **tuition rate** for undergraduates will increase by 4.4 percent in FY12, and is forecast to increase by 4.4 percent in FY13 and 4.4 percent in FY14. Graduate and professional programs may use a different tuition rate increase with prior approval of the Provost. In order to meet printing deadlines, requests for a different rate change should be submitted to the Office of Budget and Planning no later than **Friday, February 25, 2011**.

Non-credit tuition rates are set by each school to reflect its particular market, and should be entered on the CU Tuition Units & Dollars Schedule, Line 62.

Course fees are assumed to stay at current rates for the three-year forecast period. Fee income may still change if you expect more or fewer students in fee-bearing courses. Estimated income related to fees should be entered on the CU Tuition Units & Dollars Schedule, Line 63. New fees or increases in existing fees are discouraged but not proscribed. Any request for new fees or changes to existing fees should be submitted to the Vice Provost for Planning and Budget for review. As part of the background information supporting the school's request for a new/revised fee, please include a list of **all** current class fees charged by the school. Also include any extraordinary costs that justify a charge in excess of normal tuition, and the anticipated proceeds. To ensure that University publications on which students and families rely are accurate, requests received by January 15 and approved by January 31 will be effective in the next academic year. Please note that no fee increases will be allowed mid-year or once a fee has been published (in print or online). Refer to the memo regarding class fees from the Vice Provost for Planning and Budget included as a general document in TBO for further details.

The rate for **credit card fees and non-collectible tuition** will remain at 1.5%. This rate covers our current default experience, credit card processing fees, and a share of collection costs. This fee is automatically calculated in TBO.

The university directs a portion of undergraduate tuition revenues to fund need-based and merit-based **financial aid**. In FY11, the student aid pool collected 29.5 percent of undergraduate tuition. The rate will remain at 29.5 percent for the FY12 fiscal year and is anticipated to increase to 29.75 percent and 30.0 percent in fiscal years FY13 and FY14 respectively.

Facilities Improvement Fund

During the FY95 budget cycle, the university proposed a special tuition increase designed to fund (1) a \$10 million capital project to begin renovating the residence halls, and (2) annual maintenance budgets growing to \$5 million per year for residence halls, and \$11 million for the University Park and Health Sciences campuses. The trustees approved a two-step surcharge: an initial 5.9 percent tuition increase in FY96, including 1.9 percent for plant, a subsequent 4.9 percent increase in FY97, including a 1.4 percent plant surcharge, and growing at the rate of tuition increase thereafter. As originally planned, the facilities improvement fund (FIF) charge was applied to undergraduate tuition revenue, net of the 29.5 percent discount for financial aid. In FY97, a similar accommodation was instituted for graduate student aid, assuming an average graduate aid rate of 14.8 percent based on the prior year experience. Rather than reduce the total FIF recovery, the rates were adjusted to preserve the budget intended for the facilities improvement fund.

Here is a summary of the FIF factors in the initial two-year implementation period, adjusted for graduate aid in FY97. The rates were adjusted down in FY10 to soften the blow of the lowest tuition increase since the 1960's. In FY12 an additional amount slightly less than .1% has been added to the FIF rate to provide funding for the security initiative surrounding the UPC campus. The rates are anticipated to remain at this level for the current planning horizon (after adjusting the undergraduate rate for the financial aid discount).

Table 3: Facilities Improvement Fund Rates

For undergraduate tuition:

	Sum II	Fall	Spring	Sum I
FY96		1.223%	1.223%	1.223%
FY97	1.265%	2.206%	2.206%	2.206%
FY97 Adj.	2.374%	2.374%	2.374%	2.374%
FY98-FY07	2.374%	2.374%	2.375%	2.374%
FY08	2.660%	2.660%	2.660%	2.660%
FY09	2.950%	2.950%	2.950%	2.950%
FY10	2.87%	2.87%	2.87%	2.87%
FY11	2.95%	2.95%	2.95%	2.95%
FY12	3.00%	3.00%	3.00%	3.00%
FY13 est	3.00%	3.00%	3.00%	3.00%
FY14 est	3.00%	3.00%	3.00%	3.00%

For graduate, special session, and differential tuition:

	Sum II	Fall	Spring	Sum I
FY96		1.758%	1.758%	1.758%
FY97	1.794%	3.129%	3.129%	3.129%
FY97 Adj.	2.870%	2.870%	2.870%	2.870%
FY98-FY07	2.870%	2.870%	2.870%	2.870%
Fy08	3.27%	3.27%	3.27%	3.27%
FY09	3.67%	3.67%	3.67%	3.67%
FY10	3.55%	3.55%	3.55%	3.55%
FY11	3.67%	3.67%	3.67%	3.67%
FY12	3.75%	3.75%	3.75%	3.75%
FY13 est.	3.75%	3.75%	3.75%	3.75%
FY14 est.	3.75%	3.75%	3.75%	3.75%

STAFFING AND SALARY ADMINISTRATION PLAN

Because the quality and commitment of its faculty and staff are central to the university's operations, few budget decisions are more important than the staffing and salary administration plans of deans and directors. During the budget cycle, compensation budgets are developed that take into account both volume changes (including personnel promotions, additions, terminations, layoffs, and turnover savings) and raises (recognizing promotion, merit, and market parity problems). Each center will work out a staffing and salary program tailored to its own operating requirements and affordable within its own budget targets or balancing constraints. The compensation reports provided should assist in developing feasible staff and salary plans.

The university's goals for salary administration remain the same: to attract and retain qualified employees and to reward employees appropriately based on job performance. Personnel Services oversees the process by which schools and departments adhere to the salary guidelines set forth by the Senior Vice President for Administration. Although primary responsibility for salary decisions are held at the school or department level, all salary increases, exclusive of promotion or reclassification, which are in excess of 3.0 percent require approval. For the most current information, please refer to the Staff Compensation Administration Guidelines: <http://www.usc.edu/dept/personnel/comp/>.

The contributions of individual faculty and staff should be recognized and addressed in the budget. Funds for raises must be accommodated within budgets that meet target expenditure levels or balance to zero. Major staff reorganizations should address the impact on working relations with other units on campus, as well as the impact on service levels to faculty and students.

The following sections of the manual, as well as materials in the budget package, provide information to help evaluate and present compensation plans.

Compensation Profile Reports

A staffing and salary administration plan entails both volume and rate changes. For academic units, faculty turnover data are particularly important. Please provide a brief description of recent and anticipated changes in faculty appointments and assignments. The inventory should identify by individual, rank, and department, all additions to and departures from the tenure-track faculty.

Along with the planning of volume changes, you should evaluate the compensation profile of current personnel. For your information, the forecast package contains:

- Two six-year analyses of tenure-track faculty turnover.
- Faculty salary data summarized by rank and department.
- A three-year salary and raise history for each school's continuing instructional faculty, research faculty, and librarians.
- A two-year salary and raise history for continuing staff.
- Tables of median staff salaries at the university and in your unit – by exemption, and, grade level – for each of the three staff salary scales, cross-campus, health, and technology.
- A table of median staff salaries by job code in your unit and university-wide comparative data for selected job codes by gender.

As another aid to salary planning, Appendix C contains the FY10-11 employee compensation reports prepared annually by OBP.

TBO Note

The Budget Online (TBO) shows personnel volume changes in two places: as headcount changes for faculty and staff on the Headcount Schedule, and as dollar changes on various funds' expenditure schedules. The paragraphs below provide additional information on how to present your compensation plan using TBO.

The Headcount Schedule

The Headcount Schedule focuses on year-to-year changes in faculty and staff, showing the level of growth or reduction in personnel resources planned for the next three years. The schedule includes exempt and non-exempt staff, faculty, tenure-track, non-tenure-track (including part-time lectures), and graduate assistants. Student workers are not included; however, librarians on special contract status should be reported with the faculty. All positions should be included whether they are paid from designated or

unrestricted funds. This schedule also includes headcount and average merit increases which should be representative of dollars budgeted in that fiscal year.

Compensation in the Current Unrestricted Budget

Use the Current Unrestricted Expenditures Schedule to enter salaries for each category of compensation. Users can simply enter the total dollar amount needed for each category – with amounts reflecting both raises (cost rise) and volume increases. Compensation charged to designated accounts is forecast separately, and is entered on one of the following three schedules (discussed later in this section): Current Endowment Expenditures, Current Gifts Expenditures, or Sponsored Projects Expenditures.

In order to collect uniform compensation information from units university-wide, categories of compensation have been standardized across all funds. The following table outlines the object codes used in each category:

Table 4: Personnel Categories and Payroll Object Codes

Personnel/Payroll Category	Payroll Object Code
Full-Time Faculty	1120, 113
Part-Time Faculty	1126
Faculty Stipends/Early Retirement	112 (except 1120, 1129, 1126)
Faculty Sabbaticals	1129
Sr. Admin & Exempt Staff	110, 111, 118, 119
Non-Exempt Staff	12700
Other Compensation	Please refer to BDS Manual
Employee Benefits	13
Faculty Sabbaticals	11290 (05010=ID Income offset)
EB Expense/Staff Early Retirement	24
Graduate Assistant Stipends	Please refer to BDS Manual
Other Salary & Wages without EB	Please refer to BDS Manual

Here are notes for specific categories of compensation:

Faculty Sabbaticals. To the extent possible, your estimate of FY12 sabbatical costs should be based on specific information: the salaries of individual faculty who have requested sabbatical leave in the coming academic year. The amounts should relate to the sabbatical totals in the Headcount Schedule.

Based on overall availability of funds, schools may have to share sabbatical costs with the employee benefits pool. For the first round of budgets, the offsetting ID income will be set equal to proposed sabbatical salaries plus employee benefits. For all units, the allowance in the final budgets may be less if total sabbatical requests exceed the amount set aside in the employee benefits pool.

*Note that the Provost's Office reviews sabbatical requests for eligibility in accordance with university policy. **This Office does not authorize changes in sabbatical offset budgets.***

During the year, the actual ID income credit for sabbaticals is limited to the lesser of, (1) the sabbatical offset budget, or (2) actual sabbatical salaries (plus employee benefits). In all cases, the sabbaticals must be in accordance with the *Faculty Handbook* and approved by the Provost's Office.

Graduate Assistants. The Graduate School establishes the minimum stipend levels for graduate assistants. Each school forecasts its own expenditures in the appropriate expenditure schedule. Major changes in the number of graduate assistants should be approved by the Graduate School before they are included in your budget proposal.

Employee Benefits. The basic university employee benefits rate of 34.0 percent in FY11 will remain the same in FY12. Future rates will reflect current trends in both expenses and recoveries, however it is anticipated that the rate will remain at 34.0 percent FY13 and FY14.

The employee benefit rate for government accounts is now approved at 31.6 percent for FY12. Although a final rate has not been determined for FY13 and FY14 we are projecting that it will remain at the 31.6 percent rate for those planning years. Table 5 gives a history of these rates.

Table 5: Employee Benefit Rates

Fiscal Year	Non-Government	Government
1982-1983	21.00%	21.00%
1983-1984	23.00%	23.00%
1984-1985	27.00%	24.30%
1985-1986	27.50%	24.60%
1986-1987	28.50%	24.60%
1987-1988	28.50%	24.60%
1988-1989	28.50%	25.70%
1989-1990	29.80%	28.90%
1990-1991	29.80%	28.90%
1991-1992	29.80%	28.00%
1992-1993	31.00%	29.10%
1993-1994	32.00%	29.60%
1994-1995	32.00%	31.30%
1995-1996	32.50%	31.50%
1996-1997	32.50%	30.60%
1997-1998	32.50%	31.50%
1998-1999	32.50%	29.10%
1999-2000	32.00%	26.00%
2000-2001	32.00%	26.50%
2001-2002	32.50%	27.00%
2002-2003	33.00%	27.00%
2003-2004	33.75%	30.00%
2004-2005	34.00%	33.00%
2005-2006	32.00%	32.00%
2006-2007	31.50%	30.00%
2007-2008	32.00%	27.50%
2008-2009	32.75%	30.00%
2009-2010	34.00%	30.00%
2010-2011	34.00%	31.60%
2011-2012	34.00%	31.60%
2012-2013	34.00%*	31.60%*
2013-2014	34.00%*	31.60%*

* these rates are only estimates and are subject to change

S&W Not Subject to Employee Benefits. The federal work-study (FWS) contribution rates for FY11 were adjusted as of August 19, 2010 due to reduced federal funding and increased FWS earnings. The current institutional (departmental) FWS contribution rates are 40% for on-campus jobs, and 30% for approved off-campus community service jobs. Tentative federal funding allocations indicate reduced FY12 funding for FWS, and FWS earnings have continued to increase; therefore, it is anticipated that a further increase in the institutional share may be necessary for FY12 in order to continue to provide FWS awards to as many students as possible. Further information will be provided from the Office of Financial Aid after final funding levels have been established in early April. We are unable to project FY13 and FY14 contributions at this time.

Compensation in Designated Funds

Salaries and wages paid on designated accounts are forecast on one of the following three schedules: Current Endowment Expenditures, Current Gifts Expenditures, or Sponsored Projects Expenditures. The estimates you make for designated salary expense should incorporate both raises (cost rise) and volume adjustments.

As noted in Table 5, the current 31.6 percent employee benefits rate for sponsored projects will remain at 31.6 percent FY12. The employee benefit rate for all other designated funds follows the general university rate of 34.00 percent.

OTHER INCOME AND EXPENSES

Intercenter Bank

The intercenter bank has been eliminated. The accumulated balances for academic centers were transferred to each unit's provost reserve account in December 2006. No intercenter withdrawals or payments should be included in the forecast packages. Any deficits are expected to be covered through the use of departmentally designated funds.

Indirect Income

The participation rate is set at a level that provides funding for university priorities. For FY12, the participation rate will increase 7.5 percent. The participation rates shown in TBO's Budget Parameters Display will increase to 8.2 percent for the FY13 and to 8.8 percent for the FY14 planning years. In TBO, participation will be calculated based on revenue forecasts for FY12 through FY14. Participation is calculated based on actual revenues during the fiscal year; therefore, your actual participation charge in each fiscal year will vary from the budgeted amount.

Net indirect income is the sum of participation and subvention.

The participation tax is applied to the following types of income.

Table 6: Revenues Subject to Participation

Object Code	Revenue Type	Charged for Participation
01XXX	Tuition and fees	Yes
09600	Student aid rate	
095XX	Facilities improvement rate	
03XXX	Endowment income	
06XXX	Gifts	
	Recovery of indirect costs:	
0652X	Endowment	Yes
0653X	Gifts	Yes
0651X	Sponsored projects	Yes (net of CapRic)
02XXX	Sales and service income	Yes
00XXX	Auxiliaries income	
04XXX	Investment income	
08100	Other sources	Yes
09400	Indirect income	

Other Income: Sales & Services, Auxiliary Enterprises, Other Sources

Direct income not classified as tuition, endowment, gifts, or recovery of indirect costs, is itemized in the appropriate Other Income & Transfers Schedule (based on fund). Generally, academic centers call their other direct income "Sales and Services", auxiliaries use "Auxiliary Enterprises", and administrative centers use the "Other" classification. Units with these types of revenues would enter dollar amounts in one of the following schedules (based on fund): Current Unrestricted Other Income & Transfers, Current Endowments Other Income & Transfers, or Current Gifts Other Income & Transfers.

An important note to administrative units: Changes in income may be proposed but can not be included in your budget until they are approved by OBP. As a reminder, an increase in income does not authorize an increase in expenditure. A decrease in income, however, must be matched by an equal (or greater) decrease in expense.

Other Direct Expenses

The projected actual and forecast columns on any of the expenditures schedules are used to adjust the budget to show current year performance as well as future year forecasts. A few comments are offered about particular expense categories:

University Services—Other ("other" here means other than O & M or new space). This group is an aggregation of services purchased within the university, including Bookstore purchases, Town and Gown catering, and even internal charges within your unit. You should enter dollar amounts to reflect your own mix of university-purchased services.

There are four direct expenses that are driven by rate changes determined for you:

- **Postage** (object code 20120). The US Postal Service announced that although there will be no postage increase for the standard .44 first class mail, there will be a variety of other increases. For budget purposes, postage rates will increase 3.0% in FY12. Expected rate and volume increases should be offset by reductions in other M&S categories wherever possible. For planning purposes Postage rate increases of 3% are built into TBO for the FY13 and FY14 planning years. For more detailed price information please see: <http://www.usps.com>.
- **Telephone Usage** (object code 25100). As of FY08, this object code is used for all telephone use expenses not included in the Technology Connection Charge. Expenses in this category include cell phones, calling cards, aircards (for laptop computers), and international calls. You should only budget funds in the object code if you plan on purchasing these services from central information technology services. Purchases made directly with outside vendors (such as Verizon Wireless and Sprint) should be budgeted in the appropriate M&S object code. Please refer to the ITS website for the list of services included in this category.
- **Telephone Equipment** (object code 25200). As of FY08, this object code is used for all telephone equipment expenses not included in the Technology Connection Charge. Expenses in this category include desk sets, phone cords, and Ethernet cables. You should only budget funds in the object code if you plan on purchasing these services from central information technology services. Purchases made directly with outside vendors should be budgeted in the appropriate M&S object code. Please refer to the ITS website for the list of services included in this category.
- **Technology Connection Charge** (object code 25300). Prior to FY07, this object code was used for Network Access charges. As of FY08, this object code is used for all expenses included in the monthly Technology Connection Charge. Expenses in this category include dial tone, local and nationwide calling, and network connections. This charge will be billed based on a unit's total number of benefits-eligible employees plus TA's (Teaching Assistants) and RA's (Research Assistants) counted at 1/3. Non-benefits eligible employees (part-time faculty less than 50 percent time) and casual student workers are not included in the calculations. This charge will remain the same for FY12 and is expected to increase 3.0 percent in both FY13 and FY14.

ID Income (object code 05000) As part of the budget package submission, you are required to complete the ID Income Itemization Schedule. This is a schedule of activities for which ID income is collected, and the sources of that income (for example, sponsored projects or other on-campus units) are identified. The information is required in verifying that the budgets of both the paying center and the payee center are developed with the same expectations for service and cost. The itemization detail is required for FY12 only.

An important note to administrative units: Changes in ID Income may be proposed but can not be included in your budget until they are approved by OBP. As a reminder, an increase in ID Income does not authorize an increase in expenditure. A decrease in ID Income, however, must be matched by an equal (or greater) decrease in expense.

Student aid in the form of **Departmental Awards** (object code 16000), **TA Remission** (object code 16500), **Federal RA Remission** (object code 16600), and **Non-Federal RA Remission** (object code 16801) may be adjusted by a school-determined volume change or cost rise. You should keep in mind that a year-to-year increase that is less than the tuition increase means you will have fewer real dollars to spend. Schools are required to budget for continuing pre-doctoral merit award fellowships in FY12, as identified by the Graduate School. Budget amounts for new fellowship awards are at the discretion of the school, but must meet minimum compensation levels as determined by the Graduate School.

Effective with the Fall 2012 semester, the minimum stipend rates paid to graduate assistants (the term graduate assistants includes teaching assistants, research assistants and assistant lecturers) shall be as follows:

.50 time	\$ 20,000 for the academic year;
.33 time	\$ 13,200 for the academic year;
.25 time	\$ 10,000 for the academic year.

All graduate assistants at the .25 level or above shall be provided a health and dental care package as described in the Graduate School Dean's memo. This memo will be included as a General Document in TBO .

Academic units with undergraduate programs may have the opportunity to utilize balances in designated accounts (both gift and endowment income) for their contribution to the central undergraduate aid pool (*Undergraduate Aid "buy down"*). In many cases, account restrictions are general enough to allow support of all undergraduate majors within a school. If a school can fund their contribution to the central aid pool with designated resources, an equal amount will become available in their unrestricted budget for other expenditure categories. To request an aid buy down, please submit your proposal to OBP along with your budget package no later than **Thursday, March 17, 2011**.

INDIRECT COSTS

What Are Indirects?

Under responsibility center management, each revenue center is accountable for the full costs of its operation, including its share of the support and service functions provided by university administrative centers. These support costs are sometimes called “overhead” or “indirect” costs to emphasize that the revenue center does not directly manage the expenses. Examples of services funded through the allocation of indirects are building maintenance, library operations, payroll, and enrollment services.

Beginning in FY00, the indirect cost pools were divided into two groups: Allocated Central Costs (ACC’s), where all revenue centers contribute a proportional share; and facilities-based indirects where the direct connection between a center’s activity and facilities-based indirects can be made. For instance, the utilities indirect cost pool is allocated to buildings based on the previous year’s actual consumption of water, gas and electricity. An energy conservation program undertaken in a building can reduce utilities immediately, even though the impact on indirects is not felt until the following year.

In FY01, electrical and related systems costs transitioned to a direct charge. It was hoped that this change would provide revenue centers with more immediate budgetary feedback about the effects of their energy conservation decision. However, there was no evidence that direct billing has had any impact on behavior. The billing process is costly for both central administration and individual revenue centers. Therefore, these costs were moved back into the facilities-based indirects starting in FY07.

Allocated Central Costs (ACC's) are those costs that benefit the university overall and cannot be directly linked to any one revenue center. These costs (ACC's) will continue to be allocated to revenue centers as indirects.

In FY00, a baseline for each revenue center's share of allocated indirect costs was established. In each subsequent fiscal year, the centers' ACC's were set equal to the baseline plus a cost rise factor that equals the overall percent increase in the ACC pool.

The ACC's fund both the direct expenditures of administrative units plus the space costs for all administrative space. (Just like the revenue centers, administrative centers have space-related costs. These costs are "bundled" with the ACC pool before distribution to the revenue centers.)

Normalized Indirect Costs

A note on terminology. There are special names for the two major stages in the process of indirect cost allocation:

Normalized In the fall, the current budgets for the facilities-based and ACC pools are updated according to the latest changes in participating revenue centers, space allocations, and methodology changes.

Forecast In the forecast model, a revenue center's normalized share of each pool is adjusted for anticipated cost rises for future budget years.

Pro-Forma Rarely, OBP adjusts the April allocation when necessary for last minute changes in pools. These pro-forma amounts then become the budgeted indirect costs for the next year.

Normalized indirect costs differ from their current counterparts in several ways:

1. Costs in the pools may be added, subtracted, or redefined to include or exclude different services.
2. Revenue centers may be added or subtracted or changed.
3. The methodology for allocating pool costs to the participants may be changed. For example, in FY07, the costs associated with technology support in the common classrooms were added to the common classroom cost pool. These costs had previously been included in the ACC's.
4. July 1 administrative center budgets are used in place of pro-forma estimates.

Forecasting and Distributing Indirect Costs

Indirect costs are calculated on the basis of historical or current budget data, with future year charges varying by a simple inflation (or deflation) rate and any volume changes.

Space-related pools are assigned by the latest space survey data in the normalized distribution, and grow according to estimated inflation rates. If a center is planning to move into a new building, the related space costs are estimated and billed directly for the remainder of the fiscal year and will be added to the facilities-based indirects in future fiscal years. If a school changes its usage of existing buildings, the space-related indirect costs will be adjusted through the normalized distribution for the year in which the change occurs. To ensure early recognition of space changes, the Office of Budget and Planning should be notified as soon as possible of planned moves.

The forecast of each center's share of ACC is calculated by applying the appropriate inflation rate to the current year's normalized share.

The Budget Online (TBO) shows each revenue center's share of all the indirect cost pools as a function of the FY10 normalized base (see Budget Parameters Display report).

SPACE MANAGEMENT AND CAPITAL PLANNING

Space is costly. The accuracy of current and future space usage data is important for budget projections. Deans and directors are asked to review how well *current* space is serving the needs of curriculum, research, and other program activities and to describe any changes in future space occupancy.

In the past, centers occasionally made arrangements to lease space to one another. The current space management policy prohibits such arrangements and most leases have been discontinued. Any leases that are ongoing among centers should be discontinued. **Please contact Jim Kalen at (740-7293)** to determine the amount of usage based indirects adjustment that is required to eliminate the lease.

Centers with capital projects under consideration or in progress are asked to describe the planned use of new or renovated facilities and to estimate timing and cash flows for each project. Forecasts of gifts to plant may be entered in the Current Endowments & Gifts Income Schedule.

Appendix D contains additional information about capital projects:

- (1) A summary of the capital projects protocol,
- (2) A discussion of capital accounts and debt financing,
- (3) The Comptroller's Office memo on the FY12 borrowing rate, and
- (4) Forms to initiate and amend capital project accounts.

A center-specific debt service schedule is available on The Budget Online (TBO). Centers with approved loans are asked to review the schedule and make additions or changes as needed to reflect current progress on capital projects.

If you would like to discuss integrating capital plans into your forecast on TBO, or if you have questions about debt financing, **please call Jim Kalen (740-7293), or Luisa Uyeda (740-4214).**

New Space Costs

For new or remodeled space scheduled to come on-line in the current year, and in FY12, a projection of the marginal maintenance costs (O&M plus utilities) is provided in a separate schedule with the budget materials. The estimate is prepared by the Facilities Planning and Management Office, based on costs in similar facilities and pro-rated for the fraction of the year the new or renovated building is expected to be in use.

Because they are only estimates, new space costs are included as a direct cost (a line item in Current Expenditures Schedules) so that the center will have an opportunity to monitor expense as it is incurred. If actual costs are less than budgeted, the difference will be available for center use in other activities. If the estimate is too conservative and costs exceed budget, the center must absorb the difference from other expense object codes. So it is important for budget staff in the revenue center and in Facilities Management to agree on a maintenance projection that is as accurate as possible. Questions about the calculation or assumed project completion date can be raised with Nancy Chin (740-5062) or Kwok Ng (740-3178) in Facilities Management Services.

TBO Note

A center-specific schedule of existing debt service obligations is available on TBO. If the schedule agrees with your records, the year-to-year changes should be entered as Capital Financing in the appropriate Current Expenditures Schedule. If you have any questions in this regard, please call Jim Kalen (740-7293), or Luisa Uyeda (740-4214).

Proposals for debt financing of new capital projects (construction, facility renovation, and equipment) require strong justification and should be reflected in TBO as additions to Capital Financing obligations. Appendix D-2 illustrates how to calculate loan schedules. A conservative strategy is to over-estimate the obligation, but there is a risk to that approach. If the actual repayment is less, you may ask to re-budget the excess Capital Financing (object code 23XXX) to another category of expense, but approval will depend on performance projections for the center and the university.

Interest during construction should also be budgeted as Capital Financing (object code 23xxx), not as a Non-Mandatory Transfer.

DESIGNATED FUNDS

Academic centers are asked to summarize fundraising plans for all fund groups and to forecast expenditures in three major categories of designated funds—endowment income, gifts, and sponsored projects. These projections are entered in their respective income and expenditures schedules on The Budget Online (TBO). This information is then gathered and displayed in the Comprehensive Report (*available on TBO*) to show the school's annual consolidated budget.

Gift Receipts

The Current Endowments & Gifts Income Schedule includes a separate display for forecasting gift receipts to all types of fund groups:

Gifts to Current Funds

- Unrestricted
- Designated

Gifts to Other Funds

- Student Loan
- Annuity & Living Trusts
- Plant & Equipment

Gifts to Endowment Principal

- Pool: Unrestricted
- Pool: Designated – Scholarships & Fellowships
- Pool: Designated – Program with Overhead
- Pool: Designated – Program without Overhead
- Non-Pool Principal

TBO displays Gifts received in FY08-09 for reference. Although few schools have significant activity in student loans or annuity and living trusts, these fund groups are included for completeness. Gifts to plant are a more common fundraising goal, especially for schools contemplating major capital projects. Gift receipts for current funds and endowments are discussed in more detail below.

Current Fund Gifts

Current fund gifts may be either Unrestricted or Designated. Unrestricted gifts—generally contributions from support groups—provide direct support to the school's basic academic programs (operating budget). They are credited as income in the unrestricted budget. Other gifts are deposited to current Designated accounts and used for activities specifically designated by the donor.

To forecast unrestricted gift income from support group contributions, consider any changes in membership numbers, as well as proposed increases in individual or corporate membership fees. If appropriate, the school's development staff should be consulted to reflect their fundraising goals in both the unrestricted and designated gift receipts entries.

As designated gift funds are expensed, a 15.0 percent overhead charge may be assessed and credited to the school's unrestricted income. While the 15.0 percent overhead charge is a fair allocation of administrative expenses related to designated activities, a dean has the authorization to waive overhead on a specific designated account. Designated expenditures for scholarships and fellowships are exempt from the overhead levy.

TBO Note

TBO accommodates units that have an overhead charge other than 15.0 percent; a feature is included to allow users to select an automatic 15.0 percent calculation on expenditures entered, or to input a desired amount. (Line 40 on the Current Gifts Expenditures Schedule provides additional instructions).

Sponsored Projects

Sponsored projects expenditure activities can be forecast in detail in the Sponsored Projects Expenditures Schedule. The "sponsored projects" classification represents activity in all current designated fund accounts except endowment income (CE) and designated gift (CR) accounts. One other fund group, the agency (CA) accounts, are

excluded from the forecast altogether since, by definition, these funds are not under direct university control.¹ "Sponsored projects" therefore includes the following fund types:

CG	Current Government
CP	Current Private
CPF	Current Private Federal
CSL	Current State & Local
CSLF	Current State & Local Federal

It is a convention of fund accounting that Designated funds are counted as revenues only when they are spent. For sponsored project accounts, you will therefore be estimating expenditures rather than dollars awarded. Of course, the two estimates are related, and you may want to base your expenditure forecasts on the trend of proposal and award activity, lagged for the delay between award and expenditure.

The overhead on sponsored projects is an independent entry, reflecting your school's particular mix of sponsors and indirect cost recovery experience. Please note that the recovery of indirect costs shown in your unrestricted budget will be net of the amount credited to the Capital Plan. Beginning in FY04, the portion of the indirect cost recovery for building depreciation and interest expense was credited to the Capital Plan (the central pool of funds that pays for the debt service for several research-related construction projects). For FY05 and FY06, 11.5 points of the 62.5 rate (or 18.40%) was credited to the Capital Plan as CapRic (Capital Plan Recovery of Indirect Costs). The CapRic ratio remained at 12.0/63.0 (or 19.05%) from FY07 through FY10. In FY11 the CapRic ratio increased to 19.35% (12.0/62.0). Beginning in FY12 the CapRic ratio will be fixed at 19.35% for the three year planning cycle. All contract and grant accounts with function codes starting with 11xxx (on-campus research) are subject to the indirect cost recovery split. The Budget Online (TBO) will automatically adjust the recovery of indirect costs income for on-campus research to reflect this split.

For your information, **Table 7** shows the most recent pre-determined rates for overhead recovery on sponsored projects.

TBO Note

Indirect cost recovery is estimated at the bottom of the Sponsored Projects Expenditures Schedule. This amount, net of recovery that is earmarked for the Capital Plan (CapRic), will transfer to RIC-Contracts & Grants in your unrestricted budget (see TBO reports).

¹ An All Current Funds Summary (excepting agency activity) is available as part of the Comprehensive Report on The Budget Online (TBO). Centers with significant agency activity can contact OBP for the prior year's all funds report that includes agency funds.

Table 7: Indirect Cost Rates for Sponsored Projects

Fiscal Year	Research			Instruction/ Training		
	<u>On Campus</u>	<u>Off Campus</u>	<u>ISI/ CCT*</u>	<u>On Campus</u>	<u>Off Campus</u>	<u>CapRic</u>
1985-1986	66.0%	39.9%	39.9%	94.1%	60.0%	
1986-1987	66.0%	39.9%	39.0%	94.1	60.0%	
1987-1988	66.0%	39.9%	39.9%	94.1	60.0%	
1988-1989	65.0%	38.9%	38.9%	94.1%	60.0%	
1989-1990	63.0%	36.9%	36.9%	94.1%	60.0%	
1990-1991	60.5%	34.4%	34.4%	94.1%	60.0%	
1991-1992	60.5%	34.4%	34.4%	47.6%	38.7%	
1992-1993	62.5%	26.1%	21.0%	35.0%	26.1%	
1993-1994	63.0%	26.1%	21.0%	35.0%	26.1%	
1994-1995	63.5%	26.1%	21.0%	35.0%	26.1%	
1995-1996	64.5%	26.0%	22.1%	65.5%	26.0%	
1996-1997	64.5%	26.0%	22.1%	65.5%	26.0%	
1997-1998	65.0%	26.0%	23.7%	66.0%	26.0%	
1998-1999	64.0%	26.0%	24.2%	66.0%	26.0%	
1999-2000	63.5%	26.0%	24.2%	66.0%	26.0%	
2000-2001	63.5%	26.0%	24.2%	66.0%	26.0%	
2001-2002	62.5%	26.0%	24.2%	66.0%	26.0%	
2002-2003	62.5%	26.0%	26.0%	55.0%	26.0%	
2003-2004	62.0%	26.0%	26.0%	55.0%	26.0%	17.74%
2004-2005	62.5%	26.0%	26.0%	55.0%	26.0%	18.40%
2005-2006	62.5%	26.0%	26.0%	55.0%	26.0%	18.40%
2006-2007	63.0%	26.0%	26.0%	55.0%	26.0%	19.05%
2007-2008	63.0%	26.0%	26.0%	55.0%	26.0%	19.05%
2008-2009	63.0%	26.0%	26.0%	55.0%	26.0%	19.05%
2009-2010	63.0%	26.0%	26.0%	55.0%	26.0%	19.05%
2010-2011A	62.0%	26.0%	26.0%	55.0%	26.0%	19.35%
2011-2012A	63.0%	26.0%	26.0%	45.0%	26.0%	19.35%
2012-2013A	64.0%	26.00%	26.0%	45.0%	26.0%	19.35%
2013-2014A	64.0%	26.00%	26.0%	45.0%	26.0%	19.35%
2014-2015A	64.5%	26.00%	26.0%	45.0%	26.0%	19.35%
2015-2016A	65.0%	26.00%	26.0%	45.0%	26.0%	19.35%

* CCT Rates for FY2002-2003
and beyond

A Predetermined

Your entries for indirect cost recovery on sponsored projects will change as a function of both institutional rate change and any anticipated growth or decline in the volume of activity for your unit.

Endowments

The special feature of endowment funds is that principal amounts are held in perpetuity, and only the investment return is spendable.

As a rule, the university converts all endowment gifts into shares in the centrally managed endowment pool. (Conversion rates vary over time with the market value of the pool. At June 30, 2010, the market value of a pool share was \$482.61). Thereafter, shares participate in the investment performance of the university pool. See Appendix E for a history of pool performance and payout rates, as well as a comprehensive explanation of endowment funds and related financial issues.

Briefly, there are three ways to value endowment principal:

1. The dollar value of the original gift (called "book value"),
2. The number of endowment pool shares "purchased" at the time of the gift, plus any additional shares that accrue because annual income exceeds payout, and
3. The current market value (the total shares to date multiplied by the current per-share market value of the pool).

All three valuations are given in the Report of Endowment Principal and Share Balances that accompanies the forecast package for centers with endowment funds.

For endowments that are part of the endowment pool, the income earned in any year is a function of the time-weighted endowment shares in the principal account and the payout rate established by the university for that year. The payout for FY12 is \$25.42 per endowment pool share. Each pool share (including a share purchased with new gifts) earns \$25.42 if it is held for the full year, and proportionally less for fractions of the year.

The university's spending plan has been to keep annual spending within 4 to 6 percent of the 12-quarter average market value of a share. In FY93, a departure from that goal was approved by the Board of Trustees as a budget-balancing alternative to deeper expenditure cuts or higher tuition. The payout was set at \$12.82 per share (6 percent of the market value of a share at December 31, 1991) and remained at that relatively high level through FY96. In FY97, the payout increased by 1.8 percent to \$13.05 and by another 1.7 percent in FY98 to \$13.27.

Beginning in FY99, the payout target was adjusted to take into consideration above-average annual investment returns. The Board of Trustees approved a payout equal to a percent of the 12-quarter average market value. The following table shows the rates from FY99 forward:

Table 8: Endowment Pool Distribution Rates

Fiscal Year	Payout Per Share	% of Avg MV	% Incr over PY
1998-1999	\$14.22	5.0%	7.2%
1999-2000	\$15.91	5.0%	11.9%
2000-2001	\$19.47	5.5%	22.4%
2001-2002	\$22.31	5.3%	14.6%
2002-2003	\$22.88	5.0%	2.6%
2003-2004	\$22.88	4.9%	0.0%
2004-2005	\$22.88	5.2%	0.0%
2005-2006	\$23.57	5.4%	3.0%
2006-2007	\$24.28	5.1%	3.0%
2007-2008	\$25.42	4.8%	4.7%
2008-2009	\$25.42	4.3%	0.0%
2009-2010	\$25.42	4.2%	0.0%
2010-2011	\$25.42	4.5%	0.0%
2011-2012	\$25.42*	5.0%	0.0%
2012-2013	\$25.42*		0.0%
2013-2014	\$25.42*		0.0%

* estimated

TBO includes a projection of each center's FY11 and FY12 endowment income (where applicable).

In the Current Endowment Expenditures Schedule, centers are asked to estimate gifts to endowment in the current year and in the three forecast years. It is important for income calculations to distinguish gifts for different types of endowment:

Pool Unrestricted	Program, Scholarships & Fellowships, and O&M
Pool Designated	Program and O&M with overhead Program and O&M without overhead
Pool Designated	Scholarships & Fellowships
Non Pool Principal	Program, Scholarships & Fellowships, and O&M

A time-weighting factor – set initially at 0.50 – may be adjusted in one month (1/12th) increments. (i.e. .0863, .167, .25, ..., .833, .917 or 1.00) for the different types of endowment and years of the forecast. With these forecast entries, plus current and prior year-ending market value/share, TBO will estimate future shares and income in a variety of timings and manifestations.

TBO Note

Please review the schedules related to endowments and gifts carefully. The Current Endowments & Gifts Income Schedule has been designed to estimate income based on the number of shares held and/or purchased. It also includes a section for non-pooled investments in order to better approximate total endowment income. Continuing from last year is the partitioning of designated endowment funds to determine whether or not the income is assessed 15 percent for the recovery of indirect costs before the remaining 85 percent is distributed to a current endowment income account for expenditure in the subsequent year. No overhead is recovered from designated endowment funds whose income is designated for scholarships and fellowships.

Forecasting the activity in endowment funds requires only a few entries. The amount in the FY11 projected column represents the number of designated and unrestricted endowment end shares at December 31, 2010. Additional gifts to endowment principal expected for the remainder of the current fiscal year should be entered on the Current Endowments & Gifts Income Schedule. TBO will then estimate income based on the number of end shares and the time-weighting factor. To forecast activity for future years, estimate gifts to endowment, make any necessary adjustments in the time-weighting factor (at .0833 increments – you are now allowed to forecast gifts on a monthly basis) for new gifts. Related expenditure projections and forecasts should be entered on the Current Endowment Expenditures Schedule. TBO calculates the rest, and reflects any unrestricted income amounts (for program, scholarships and fellowships, O&M and for recovery of indirect costs) to the appropriate report. You will want to understand the assumptions for these calculations – they are described below and illustrated in Appendix E.

Gifts to endowment may be received throughout the year, but, on average, are assumed to participate in the pool for only half the year; that is, endowment income from new gifts is time-weighted by a factor of 0.50. The calculation assumes gifts will buy into the pool at the current year-end market value per share and will earn the full payout per share for six months during the year of receipt. It is further assumed that market value, after adjusting for the payout, will increase by 3.0 percent per year. The current endowment spending rule projects the payout per share to remain at \$25.42 per share for FY12. The payout per share is projected to remain flat in FY13 and FY14. You can achieve more conservative income calculations by reducing the time-weighting factor for new gifts. For example, a factor of 0.25 (3/12ths) says that new gifts earn income for three months of the first year; a factor of .75 (9/12ths) translates to nine months, and so forth. New in TBO last year, the time-weighting factors have been adjusted to allow for 12 monthly factors (i.e. .0863, .167, .25, ..., .833, .917 or 1.00).

Recall that, by university convention, designated endowment income is available for spending the fiscal year following the year in which it is earned. Unrestricted endowment income (including the 15 percent overhead on designated program endowments) is spendable in the year it is earned. Suppose you anticipate a gift in FY12 to establish a designated endowed scholarship; the income will not show up in your designated income account until the end of FY12, and would not be available to spend until FY13. If the gift had been to establish a designated endowed chair, you would see 15 percent overhead in FY12 (spendable in the year it is earned), but the remaining 85 percent would not be credited to the account until the end of the fiscal year.

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