

SUMMARY OF OBSERVATIONS
RE: GRA DISTRIBUTION FROM FINAL FY02 TO ORIGINAL BUDGET FY05

I. Background:

In terms of UMKC's budgeting for operations, the principal annual decision-making process involving prioritization of needs and goals is the distribution of the General Revenues (consisting of Student Fees, the State Appropriation and Recovery F & A). Accordingly, the Faculty Senate Budget Committee (the "Committee") has been reviewing information regarding UMKC's General Revenues Allocation ("GRA") across its various Units since the end of FY02, in order to determine what needs and goals have been most significantly supported by GRA increases over that period. It is hoped that this information will provide UMKC faculty with appropriate context for meaningful input on GRA decisions for FY06 and future years.

The Committee has assembled numerous schedules and reports relating to FY02-FY05 GRA decisions. We believe that the following three, each of which was prepared for the Committee by Vice Chancellor Larry Gates or his staff, are most useful for present purposes:

- Comparison of Original and Final GRA Distribution, FY02-FY05 ("Unit-by-Unit GRA Schedule")
- UMKC Designated Fees (per Original Budget for FY02-FY05) ("Designated Fees Schedule")
- Accounting of Changes in Ending General Revenue Allocation to Beginning Fiscal Year General Revenue Allocation Amounts ("GRA Increases Per Function Schedule")

The observations summarized below are based in large part on various aspects of these three Schedules (each of which is attached hereto).

II. Increase in the Total GRA From Final FY02 to Original Budget FY05:

- The Unit-By-Unit GRA Schedule on its face suggests that the increase in the Total General Revenues over the subject period was approximately \$20.8 million.¹ However, we must adjust that figure to take into account the fact that "Designated Fees"² are *included* in the figures for FY02 and FY03, but *excluded* from the figures for FY04 and FY05 on the Schedule.
- The Designated Fees Schedule shows that the Originally Budgeted Designated Fees for FY02 totaled approximately \$5.1 million. Assuming that the actual Designated Fees in FY02 were not materially different than the Original Budget for that year,³ that would mean that the Total General Revenues increase from Final FY02 to Original Budget FY05, excluding Designated Fees from each year, was approximately \$25.9 million.
- Of that \$25.9 million increase, approximately \$4.4 million represents an increase in Scholarships/Waivers (from approximately \$17.6 million at Final FY02 to \$22 million in the FY05 Original Budget), which is, in large part, not an increase in actual cash revenues.⁴ **Thus, the Committee believes that the pertinent increase in allocable GRA over the subject period (in terms of policy decisions re: cash resources) was approximately \$21.5 million.**

¹ \$176,169,956 total in Original Budget for FY05 less \$155,392,967 total of the Final GRA for FY02.

² Designated Fees are special revenues that have been assigned directly to certain generating Units; once so assigned, such revenues are not then part of the discretionary GRA decisions.

³ We are asking Vice Chancellor Gates for confirmation of the actual/final figures, and will update this Summary of Observations should those figures show this assumption to be materially incorrect.

⁴ Per information supplied by Vice Chancellor Gates, "Waivers" have represented approximately 82% of the Scholarship/Waivers for FY02; 79% for FY03, 78% for FY04 and 72% for FY05.

III. Units Receiving Largest *Direct* GRA Increases From Ending FY02 to Original Budget FY05:

Of the \$21.5 million increase in the Total General Revenues described in II above, per figures shown on the Unit-by-Unit GRA Schedule the most significant *direct* increases in GRA (in terms of absolute dollars) went to:⁵

• Campuswide Accounts (\$8,158,172-\$1,958,171)	\$6,200,001
• Provost (\$5,880,766-\$2,285,993)	3,594,773 ⁶
• Administration & Finance (\$17,913,328-\$14,553,252)	3,360,076
• Nursing (\$3,803,133-\$2,405,627)	1,397,506
• School of Dentistry (\$14,564,998-\$13,354,523)	1,210,475

Some related observations:

- The table above lists Units that had over an \$1,000,000 increase in their *direct* GRA,⁷ and accounts for approximately \$15.8 million of the \$21.5 million increase under review. Of the remaining \$5.7 million of such increase, it appears that approximately \$1.75 million went to all the Schools & Colleges (excluding Dentistry and Nursing) Combined, with the other approximately \$3.95 million spread across various Administrative and Support Units and "Transfers to Other Funds."
- As we understand that the "State Appropriation" and "Recovery F & A" components of UMKC's Total General Revenues have been relatively "flat" over the subject period, the \$21.5 million increase under study is essentially attributable to an increase in Student Fees revenue.
- Approximately \$10 million⁸ of the \$21.5 million GRA increase occurred in the first year of the period under study (i.e., from Final FY02 to Final FY03). Vice Chancellor Gates has indicated that some substantial portions of this increase involved reversal of disproportionate and "temporary" budget cuts experienced by certain Administrative Units in FY02. The Committee has requested more information in that regard, as at least some previous reports suggested that FY02 rate money cuts were intended to be "permanent."

⁵ The methodology here, using the Unit-by-Unit GRA Schedule, is simply subtracting a Unit's Final FY02 GRA from its FY05 GRA per the FY05 Original Budget. However, in the case of Information Services (which is presumed to include Instructional Computing), Dentistry and Nursing, because the FY05 figures exclude Designated Fees, the Final FY02 figure has been reduced by an estimate of such Units' respective amounts of Designated Fees (to permit an "apples to apples" comparison). For purposes of this discussion, we have based that estimate on the FY04 Designated Fees Schedule (see FN 3 above). By way of example, Dentistry's Final FY02 GRA is shown on the Unit-by-Unit Schedule at \$15,354,523, but, per our assumption, included \$2,000,000 of Designated Fees, which we have excluded in the table above (resulting in an assumption that Dentistry's pertinent Final FY02 GRA was \$13,354,523).

⁶ We note that the Provost's proposed FY06 GRA budget for Academic Affairs shows an approximately \$2.3 million cut in the Provost Office's GRA from FY05 to FY06.

⁷ A few other significant increases, computed in the same fashion, were Arts & Sciences--\$908,099; Vice Chancellor for Research--\$837,439; and Information Services--\$807,140.

⁸ Final FY03 Total GRA less budgeted Designated Fees was \$160,392,668 and for FY02 was \$150,285,962 (see FN 3 re: assumption that budgeted and actual Designated Fees were not materially different).

IV. Accounting for GRA Increase by Type of Expenditure:

The Committee recognized that identifying Unit-by-Unit increases in *direct* GRA over the subject period would not, of course, tell the whole story as to the needs and goals funded by such increases. The attached GRA Increases Per Function Schedule, which is quite helpful, was thus prepared by Vice Chancellor Gates and his staff to provide more detailed information on the targeted uses of the increases in GRA.

As the GRA Increases Per Function Schedule included some items that were not well known to Committee members, and as it is not presented on a Unit-by-Unit basis, Vice Chancellor Gates met with the Committee on February 25, 2005 to answer questions and provide additional information concerning the line items on that Schedule. This session generated some follow-up questions on which Vice Chancellor Gates is to provide supplemental information. For the time being, the Committee offers the following observations on the GRA Increases Per Function Schedule:

- The GRA Increases Per Function Schedule appears to track increases from Final GRA for one Year to Originally Budgeted for the following year. Thus, while it shows how amounts of anticipated GRA increase were targeted to be spent, a reconciliation to Final GRA for each year would be necessary to see if the GRA increase allocated to a given line item was actually realized.
- At the February 25 session, the Committee took notes on the Units to which various line items on the GRA Increases Per Function Schedule relate, but suggested to Vice Chancellor Gates that a presentation more precisely tying this Schedule to the Unit-by-Unit GRA Schedule would be helpful.

V. Relationship of GRA Allocations to Operating Fund Balances:

Over the same time period for which we studied trends in GRA, the aggregate amount of the Operating Fund Balances of the various UMKC Units grew substantially as well. The Unit leaders' reports on the anticipated uses of such balances were presented to the Faculty Senate last semester. As part of our follow-up on those reports, the Committee has addressed the following question to Vice Chancellor Gates:

- To what extent have the reports made last Fall by Unit leaders on the targeted uses of their Operating Fund Balances been analyzed to determine (i) the extent to which such balances accumulated because of planned reserving versus merely the result of Units being allocated more GRA than their actual operating expense needs; and (ii) whether, taking into account the resources and needs of all Units in the UMKC community, it would be equitable to transfer any portion(s) of such balances to other Units/needs?

The Committee requests that Faculty Senators direct any questions about the foregoing summary, suggestions for additional follow-up, etc., to Committee Chair Jim Durig. As we receive further material information from Vice Chancellor Gates on the items discussed herein, we will, of course, pass that along to the Senate.

Comparison of Original and Final GRA Distribution, FY02-FY05

Division	FY2002 Orig GRA	FY2002 Final GRA	FY2003 Orig GRA	FY2003 Final GRA	FY2004 Orig GRA	FY2004 Final GRA	FY2005 Orig GRA
Chancellor	\$ 540,679	\$ 785,577	\$ 770,778	\$ 770,778	\$ 1,397,718	\$ 1,397,718	\$ 1,407,088
Chancellors Office	540,679		770,778		720,842	720,842	907,088
Innovation Fund					677,074	677,074	500,000
Institutional Effectiveness	\$ 248,700	\$ 305,500	\$ 308,000	\$ 308,000	\$ 352,678	\$ 321,678	\$ 323,151
Student Affairs	\$ 5,868,258	\$ 6,310,167	\$ 6,268,348	\$ 6,423,348	\$ 6,091,937	\$ 6,091,937	\$ 6,310,347
Scholarships/Waivers	\$ 17,199,530	\$ 17,590,528	\$ 17,795,089	\$ 17,795,089	\$ 20,314,259	\$ 20,314,259	\$ 22,003,370
Communications	\$ 763,951	\$ 997,583	\$ 933,124	\$ 1,237,624	\$ 1,471,624	\$ 1,471,624	\$ 1,488,510
University Advancement	\$ 1,977,988	\$ 3,078,086	\$ 3,257,103	\$ 3,270,873	\$ 3,254,452	\$ 3,203,152	\$ 3,207,499
Administration & Finance	\$ 16,485,469	\$ 14,553,252	\$ 18,167,289	\$ 17,833,204	\$ 17,989,639	\$ 17,659,128	\$ 17,913,328
Vice Chancellor for Research	\$ 3,381,052	\$ 3,500,908	\$ 3,536,224	\$ 3,882,480	\$ 4,059,524	\$ 4,607,753	\$ 4,338,347
Academic Affairs	\$ 102,057,084	\$ 104,349,495	\$ 108,007,884	\$ 108,321,593	\$ 107,038,554	\$ 107,047,930	\$ 108,581,853
Vice Chancellor Acad Affrs	\$ 10,840,038	\$ 10,722,425	\$ 13,420,142	\$ 14,288,559	\$ 14,054,208	\$ 13,440,114	\$ 13,179,535
Provost	2,505,338	2,285,993	4,528,575	5,156,992	7,551,115	6,654,993	5,880,786
Information Services	6,622,840	6,786,881	7,035,278	7,285,278	4,659,804	4,941,832	5,424,021
Cultural Events	1,711,860	7,079,551	1,856,289	1,856,289	1,843,289	1,843,289	1,874,748
Colleges & Schools	\$ 91,217,028	\$ 93,627,070	\$ 94,587,542	\$ 94,023,034	\$ 92,984,346	\$ 93,607,818	\$ 95,402,318
College of Arts & Sciences	16,612,860	17,790,748	16,192,473	16,273,173	18,065,551	18,139,205	18,681,845
School of Biological Science	6,485,985	6,308,764	6,348,630	6,353,005	6,115,368	6,343,724	6,427,754
School of Business	5,579,518	5,298,384	5,903,187	5,524,944	5,190,675	5,355,709	5,430,233
SCE	4,769,323	5,177,811	5,074,134	5,184,294	4,885,843	5,031,945	5,280,619
Conservatory of Music	4,502,046	4,685,046	4,611,913	4,611,913	4,519,676	4,525,293	4,602,832
School of Dentistry	14,727,679	15,354,523	15,208,649	15,208,649	14,350,147	14,350,147	14,564,998
School of Education	5,012,393	5,617,398	5,397,086	4,997,086	4,978,615	4,978,615	4,913,349
Graduate Studies	1,738,048	1,668,528	1,715,928	1,715,928	1,715,928	1,715,928	1,811,275
School of Law	6,147,500	6,072,613	6,135,472	6,135,472	6,138,350	6,138,350	6,159,208
University Libraries	5,576,392	5,462,348	5,431,962	5,433,462	5,430,434	5,431,184	5,466,057
School of Medicine	12,975,142	13,056,920	12,757,915	12,757,915	12,784,496	12,784,496	13,099,703
School of Nursing	2,893,801	2,475,627	3,228,413	3,228,413	3,506,049	3,508,078	3,803,133
School of Pharmacy	4,699,552	4,657,372	4,581,800	4,588,800	5,303,214	5,305,144	5,362,312
Campuswide	\$ 14,783,197	\$ 1,958,171	\$ 8,480,882	\$ 3,930,420	\$ 6,755,511	\$ 4,847,289	\$ 8,158,172
Campuswide	10,294,601	2,971,146	5,219,576	3,048,097	4,738,378	2,830,158	7,280,715
Reserve	4,488,596	(1,012,974)	3,261,304	882,323	2,017,133	2,017,133	897,457
SUB-TOTAL OPERATING FUND:	\$ 163,305,888	\$ 153,429,247	\$ 167,524,499	\$ 163,773,387	\$ 166,725,894	\$ 166,962,464	\$ 173,731,665
Transfers to Other Funds:**	\$ 1,963,720	\$ 1,963,720	\$ 2,058,226	\$ 2,070,466	\$ 2,106,466	\$ 2,436,979	\$ 2,436,291
Athletics	1,963,720	1,963,720	2,058,226	2,070,466	2,070,466	2,070,466	2,071,778
Other Enterprise-like Operations					38,000	366,513	366,513
TOTAL GENERAL REVENUE ALLOCATION:	\$ 165,269,608	\$ 155,392,967	\$ 169,582,725	\$ 165,843,853	\$ 170,832,360	\$ 169,399,443	\$ 176,169,956

** Nonmandatory intrafund transfers from the operations fund to enterprise like funds. These transfers represent expense to the operation fund and revenue to the enterprise-like funds.

UMKC Designated Fees

<u>Division/Units</u>	<u>Original Budget FY 2002</u>	<u>Original Budget FY 2003</u>	<u>Original Budget FY 2004</u>	<u>Original Budget FY 2005</u>
Student Affairs	365,000	337,000	300,000	339,286
Instructional Computing	2,140,000	2,354,464	2,736,831	2,789,864
Cultural Events	15,000	13,000	13,000	0
College of Arts and Sciences	17,000	9,000	12,000	10,000
Computing and Engineering	320,005	290,328	330,000	472,400
Conservatory of Music	170,000	209,000	125,000	152,000
Dentistry	2,000,000	2,150,000	2,051,014	1,644,400
Law	10,000	18,393	18,000	11,000
Nursing	70,000	70,000	243,084	220,785
TOTAL Designated Fees	\$ 5,107,005	\$ 5,451,185	\$ 5,828,929	\$ 5,639,735

University of Missouri - Kansas City
Accounting of Changes in Ending General Revenue Allocation to Beginning Fiscal Year General Revenue Allocation Amounts

	FY 2003	FY 2004	FY 2005	TOTAL 03 to '05
REVENUES				
General Revenue Allocation Revenues				
Tuition and Student Fees	11,454,425	7,292,525	6,520,513	25,267,463
Less - Allocation of Supplemental Course Fees/Student Fees	0	(5,628,264)	0	(5,628,264)
F&A Recovery	(702,615)	(144,725)	250,000	(597,340)
State Appropriation	3,437,946	3,466,968	0	6,906,916
TOTAL NEW GRA REVENUES	\$ 14,189,758	\$ 4,988,504	\$ 6,770,513	\$ 25,948,775
EXPENDITURES				
Compensation Priorities	\$ 1,303,148	-	\$ 2,681,129	\$ 3,984,277
Salaries to Units/Divisions	0	0	2,133,719	2,133,719
Benefit Adjustments to Units/Divisions	1,303,148	0	547,410	1,850,558
Campus Facilities M&R Requirements	\$ 2,037,662	-	-	\$ 2,037,662
Student Affairs Enrollment Management	\$ 500,000	-	-	\$ 500,000
Student Affairs/Communications Branding/Imaging	\$ 300,000	\$ 100,000	-	\$ 400,000
Communications - New Positions - Web/Asst VC	-	\$ 134,000	-	\$ 134,000
Vibrant Learning & Campus Life Experience	\$ 100,000	-	\$ 250,000	\$ 350,000
Model Campus Living/Campus Life	50,000	0	0	50,000
Student Center Study/Design	50,000	0	0	50,000
Student Life	0	0	150,000	150,000
Campus Police and Security	0	0	100,000	100,000
Diversity in Action	\$ 120,000	\$ 25,000	-	\$ 145,000
New Academic Program Initiatives	\$ 3,536,324	\$ (862,432)	\$ 1,429,389	\$ 4,103,281
Provost Leverage Fund	1,000,000	0	0	1,000,000
Provost Reserve	200,000	0	0	200,000
Promotion & Tenure	96,750	125,000	120,000	341,750
New Dean Salaries	150,000	0	0	150,000
School of Nursing - Bachelor of Nursing Program	0	417,050	248,500	665,550
School of Computing and Engineering	0	250,000	0	250,000
Extension Cooperative	135,134	0	0	135,134
Life Science Initiatives	100,000	500,000	0	600,000
Diversity Hiring	0	0	100,000	100,000
A&S Life Science Initiative	0	70,000	0	70,000
Net Revenue Sharing	300,000	400,000	600,000	1,300,000
Center for the City	250,000	100,000	0	350,000
SEARCH	70,000	0	0	70,000
Ideal Learning Environment	250,000	0	0	250,000
Center for Learning	90,000	0	0	90,000
Belgen/VPAC	120,000	0	0	120,000
Center for Academic Development	55,000	0	0	55,000
Research - Added RIF	28,159	177,044	0	205,203
Instructional Computing	355,981	0	0	355,981
Prior Year Net Revenue Sharing	335,300	391,863	360,869	1,088,072
Professional School Revenues to Units	0	0	0	0
Law School	0	197,696	0	197,696
Medicine	0	0	0	0
Pharmacy	0	741,973	0	741,973
Dentistry	0	1,405,186	0	1,405,186
Allocation of Supplemental Fees to Units	0	(5,636,264)	0	(5,636,264)
Campuswide Costs/Initiatives	\$ 3,650,197	\$ 2,173,723	\$ 1,000,000	\$ 6,823,920
Utilities	2,046,651	716,956	400,000	3,163,607
Commencements	9,000	0	0	9,000
Insurance	185,000	0	200,000	385,000
Student Fee Write-offs	340,000	0	0	340,000
Mandatory Transfers	25,911	0	0	25,911
ASP/PeopleSoft	0	140,000	400,000	540,000
Chancellor's Innovation Fund	0	500,000	0	500,000
Reserves	1,043,635	816,767	0	1,860,402
Restoring Foundations, Compensation Plans, and Funding Premier Programs	\$ -	-	\$ 1,629,105	\$ 1,629,105
Scholarships	\$ 204,541	\$ 2,519,190	\$ 1,689,111	\$ 4,412,842
Net of Prior Year State Appropriation Withholding & Current Year Reallocations	\$ 2,446,675	\$ 899,023	\$ (1,908,221)	\$ 1,437,677
TOTAL - EXPENSES ALLOCATED TO NEW GRA	\$ 14,198,747	\$ 4,988,504	\$ 6,770,513	\$ 25,957,764

Executive Summary¹

A. Overview of Principal FY02 Budgeting Challenges:

The creation and subsequent modification of UMKC's FY02 Operating Budget were particularly challenging tasks for the following three principal reasons:

1. Constraints imposed by UM system-wide policies regarding certain expenditures and Fund Balance requirements.
2. Three separate instances of withholding of State Appropriations.
3. A UMKC campus-specific change in accounting to bring "on budget" on a Unit-by-Unit basis various Off-Budget Items and New Funding Commitments which were previously funded in a "centralized" manner.

B. Distinguishing Effects on Overall UMKC Budget from Allocations and Reallocations Across the Various UMKC Units

In reviewing the effects of addressing those three principal factors in FY02 budgeting, it is important to distinguish between net effects on (1) the money in/money out (and resulting Fund Balance) of the UMKC campus as a whole and (2) Unit by Unit budget consequences. The detailed explanations in the Policy Context 02 Explanation and Final 02 Withholding Supplement attached hereto describe the respective net effects of the three principal factors in each of those two areas. A "bottom-line" summary of those net effects is as follows:

¹ This "Executive Summary" has been prepared by the UMKC Faculty Senate Budget Committee, with input from Larry C. Gates, Vice Chancellor of Administration & Finance, as a summary of certain aspects of the two attached documents which were prepared by Vice Chancellor Gates--the first entitled "UM System Policy Context for the FY02 Operating Budget" (hereinafter, the "Policy Context 02 Explanation") and the second entitled "Final Withholding of State Appropriations for FY 2002" (hereinafter, the "Final 02 Withholding Supplement").

1. UMKC Campus-Wide Cash Position:

(a) System-Wide Policies

- After incorporating the UM system-wide policy changes (adopted in April, 2001) the original (July, 2001) UMKC Operating Budget showed an approximately \$6,250,000 excess of total “money out” (expenditures and net cash transfers) over total revenues, resulting in a corresponding reduction in the UMKC Fund Balance (from a beginning balance of \$13,400,000 to a projected ending balance of \$7,150,000).
- Moreover, since there is a UM system-wide requirement that each campus maintain a Fund Balance equal to 5% of recurring annual revenue (which worked out to approximately \$8,590,000 for UMKC), the ending Fund Balance in the original UMKC FY02 budget was \$1,440,000 short of the required balance, creating a need to “find” that \$1.44 million (as discussed further below).

(b) Reductions in State Appropriations

- A 5% system-wide withholding of State general revenue appropriations announced by Governor Holden in August, 2001 resulted in a \$3,473,247 reduction in UMKC’s FY02 State Appropriation. Consistent with UM system-wide directives, this resulted in reducing/deferring expenditures in three Campus-wide areas (mission enhancement, faculty shares program and plant maintenance/repair)
- A 2% system-wide withholding of State general revenue appropriations announced by Governor Holden in January, 2002 resulted in a \$1,647,184 reduction in UMKC’s FY02 State Appropriation.²
- In May, 2002, with approximately 6 weeks left in FY02, the State of Missouri allocated an additional \$41.2 million withholding to the UM System, reducing UMKC’s FY02 State Appropriation by an additional \$7.4 million. The steps taken to deal with this final State withholding are discussed separately in 1.(d) below.

² Against the January withholding, one significant item of good news was that in February, 2002 it was estimated that UMKC revenue from Student Fees would be approximately \$2,000,000 higher than contemplated in the original 02 budget. While cash is, of course, fungible, in the budget discussions which led to the March and April 2002 revisions of the UMKC FY02 Operating Budget, this increase in Student Fees revenue became viewed as covering the \$1,647,184 resulting from the January 2% state withholding and producing approximately \$352,184 of net revenue increase.

(c) Off-Budget Items and New Funding Commitments

While the expenditures itemized in the original (July 2001) UMKC FY02 Operating Budget did not explicitly include the so-called Off-Budget Items and New Funding Commitments, there was provision for an \$8,670,000 "Contingency Reserve" which, in effect, represented a significant amount of Rate Money coverage of such items.

- As FY2002 budgeting progressed, an aggregate amount of \$14,454,980 of these types of anticipated expenditures was originally identified (consisting of \$4,469,280 of Off-Budget Items and \$9,985,700 of New Funding Commitments). Subsequently, decisions were made by the Executive Cabinet and Cabinet to reduce/eliminate \$469,100 of such Off-Budget Items and \$1,006,900 of such New Funding Commitments.
- The resulting \$12,978,980 of these items (\$4,000,180 of Off-Budget Items and \$8,978,800 of New Funding Commitments) exceeded the \$8,760,000 Contingency Reserve by \$4,218,980, creating an additional shortfall in that amount (given the system-wide directive that the UMKC ending Fund Balance equal 5% of annual revenues).
- When added to the above-described \$1,440,000 shortfall in getting to the 5% ending Fund Balance, this meant that, as a whole, UMKC had to "find" \$5,658,980 of funding. The approximately \$352,000 excess of the estimated increase in Student Fee revenues over the January 2002 2% reduction in UMKC's State Appropriation took care of a small portion of that funding need.
- The various Units were then called upon to make cuts to account for the remaining approximately \$5.31 million. These cuts were apportioned among the various Units. Each major administrative division was allocated a proportionate share of the total required reallocation. Each academic unit in turn was allocated a proportionate share of the reallocation, which presented approximately 3.6% of their operating funds. As explained on page 5 of the attached Policy Context Explanation, these cuts/reallocations were effected with Rate Money where possible in FY02, and, in any event, were to be reflected entirely as Rate Money reallocations in FY03.

(d) Final 02 State Withholding (\$7,400,000)

- The attached Final 02 Withholding Supplement describes the management of the May 2002 final State withholding (\$7,400,000) through a combination of three types of sources.
- \$2,832,000 of the \$7.4 million was handled through borrowing from certain UMKC capital funds reserves/interest. This borrowing was projected to be repaid in FY03 principally through application of the anticipated proceeds of a "\$9 surcharge" on Student Fees.
- \$1,300,000 was funded through reduction of the Provost Contingency Reserve and the Vice Chancellor for Administration & Finance Contingency Reserve, with no obligation for repayment from future years' budgets.
- The remaining \$3,268,000 of the \$7.4 million was funded by Unit-by-Unit pro rata budget reductions (i.e., beyond the \$5.31 million of Unit budget cuts called for before the May 2002 final State withholding). The extent to which a Unit's share of this final \$3,268,000 affected its FY03 budget depends upon whether the Unit chose to satisfy its share of this obligation through "Cost Money" or "Rate Money"). Units satisfying this obligation on a rate basis experienced less of an impact on their recurring budget for FY03 as state appropriations were permanently cut by approximately 10%.

2. *Unit-by-Unit Effects:*

(a) System-Wide Policies

- The UM system-wide policy directives, particularly the 5% ending Fund Balance requirement, contributed to the need to spread the cost of the above-described shortfalls across the Units.
- The system-wide policies also imposed various priorities on expenditures and reductions in expenditures on particular Units as detailed on pages 1 and 2 of the attached Policy Context Explanation.

(b) Reductions in State Appropriations

- The first two state withholding actions (August 2001 and January 2002), by reducing UMKC's FY02 State Appropriation, contributed to the need to spread the cost of the above-described \$5.31 million shortfall across the Units.
- The May 2002 withholding resulted in an additional spreading of \$3,268,000 of FY02 budget reductions across the Units, as described in 1.(d) above.

(c) Off-Budget Items and New Funding Commitments

- During FY02 the decision was made by the Cabinet to modify prior accounting practices and bring into the Unit budgets their respective Off-Budget Items and New Funding Commitments to the extent such items represented expenditures being funded on a recurring basis. This change promotes policies of transparency and accountability in the UMKC's budgeting.
- The table on page 4 of the attached Policy Context Explanation shows the breakdown of the \$12,978,980 of items involved across the Units, substantially all of which (\$12,577,880) consists of allocations of Rate Money.
- The combination of the mandated 5% ending Fund Balance and other circumstances in effect made the Off-Budget Items and New Funding Commitments substantial contributors to the need to allocate \$5.31 million of budget cuts across the Units.

(d) Net Effects on Unit Budgets

- The net consequences on the per Unit budgets of the principal factors described above, OTHER THAN THE MAY 2002 STATE WITHHOLDING, are reflected in the table on page 6 of the attached Policy Context Explanation, comparing each Unit's August 2001 "Amended Recurring Budget" to its April 2002 "Adjusted Recurring Budget."
- The additional consequences on per Unit budgets of the \$7.4 million additional State withholding in May 2002 are reflected in their shares of the \$3,268,000 "Division Reductions" shown on the attached Final 02 Withholding Supplement.

UM System Policy Context for the FY02 Operating Budget

In April of 2001, the University's General Officers adopted a set of policies to guide the development of FY02 operating budgets of the UM campuses, Outreach Extension, and system administration. These policies addressed expenditure and fund balance requirements as follows:

- Salary & wage adjustment of 4%
- Benefit cost increase of 7.8%
- Expense and equipment increase of 3%
- Expenses for facility maintenance & repair equal to 1.5% of plant replacement value
- Maintenance of fund balance equal to 5% of annual revenues

Original Operating Budget for FY02

In response to system policies and other campus funding requirements, an executive level operating budget for FY02 was submitted to system administration in late April of 2001. To balance annual revenues and expenditures and meet all financial policies requirements the campus, at that time, reallocated \$3.62 million. The reallocations were distributed across major divisions as follows:

Chancellor	\$ 20,022
Academic Affairs	2,998,791
Student Affairs	166,366
University Advancement	82,381
Administration & Finance	<u>355,373</u>
Total	\$ 3,622,932

Excluded for reallocation were the following: mission enhancement, summer session, instructional computing, utilities, and scholarships.

On July 1, 2001, the campus' FY02 operating budget was completely booked into the University's financial system. At that point, the original operating budget for the campus included the following fund balances, revenues, and expenditures.

	(\$ Million)
Beginning Fund Balance	\$ 13.40
Revenues:	
Student Fees	75.21
State Appropriations	86.57
Other Revenue	<u>10.16</u>
Total Revenues	171.94
Expenditures	
Salaries & Wages	97.12
Benefits	17.28
Expenses & Equipment	63.71
Total Expenditures	<u>178.11</u>
Transfer (net)	.08
Total Expenditures & Transfers	<u>178.19</u>
Ending Fund Balance	\$ 7.15

The ending fund balance of \$7.15 million planned in the original operating budget amounted to 4.15% of annual revenues rather than the 5% required by policy. As of July 1, 2001, a \$1.44 million gap existed in the required ending fund balance.

Revenue Adjustments for FY02

State Appropriations

In August of 2001, the Governor announced a 5% withholding of state general revenue appropriations. UM system administration issued system wide policy actions to address the withholding. These actions included:

- Defer mission enhanced expenditures
- Defer faculty shares program
- Reduce funding for Research Board
- Balance of withholdings to come from campus initiatives

As a result of the August, 2001 withholding, UMKC's state appropriations were reduced by \$3,473,247. Expenditure reductions in response to system policy directives were as follows:

•Missions enhancement	\$ 2,473,500
•Faculty shares program	179,600
•Maintenance & repair of plant	<u>820,147</u>
Total	\$ 3,473,247

January 2002, the Governor announced an additional 2% withholding of state general revenue appropriations. The impact on UMKC's operating budget was \$1,647,184. The UM System administration requested each campus identify expenditure reductions to address the additional shortfall in available state funds. Actions taken at the campus included the following:

•VERIP cost savings	\$ 600,000
•Equipment expense reduction	430,210
•Campus reallocation	264,158
•Net revenue increase	<u>352,184</u>
Total	\$ 1,647,184

These budget adjustments were subsequently incorporated into the campus wide reallocations that occurred in March, 2002.

Student Fees

In February 2002, educational fee revenues were estimated to exceed budget by \$2.0 million.

Adjustments to Resource Allocations for FY02

Off-Budget Items (\$4,469,280)

•Historically the campus has had a number of programs and activities which have not been fully funded at the beginning of the fiscal year. These programs and activities are considered off-budget because actual expenses incurred were covered annually at the end of the fiscal year through various sources of cost-savings rather than being funded on a recurring basis. For FY02 the intent was to bring these programs and activities "on-budget" by providing recurring (rate) funding. Examples include:

- Educational Assistance (\$240,000)
- Curator Scholarships (\$301,500)
- Administrative System Project (PeopleSoft) (\$280,000)
- Special Campus Promotions (\$250,000)
- Intercollegiate Athletics (\$2,185,000)
- Recruitment/Search Expenses (\$350,000)
- Campus Association Dues (\$125,000)

New Funding Commitments (\$9,985,700)

•In the process of developing the FY02 budget, a number of funding commitments for recurring (rate) funds were made to various programs and activities. At the time the original budget was adopted in July, 2001, funds committed for these programs and activities had not been allocated to operating units. Examples included:

- VERIP funds for new faculty/staff hires (\$2,803,400)
- Dedicated fee revenues to academic programs and support services (\$2,559,000)
- Plant maintenance & repair, liability insurance, utilities (\$776,900)
- University advancement (\$1,078,000)
- Academic units and research support (\$1,003,800)
- Enrollment management revenue incentive (\$340,000)

Reduction to Off-Budget Items and New Funding Commitments (\$1,476,000)

•Review of the off-budget items and new funding commitments by the Executive Cabinet and Cabinet resulted in the reduction or elimination of selected items totaling \$1,476,000. This adjustment left the off-budget items at \$4,000,180 and new funding commitments at \$8,978,800, for a total \$12,978,980.

	<u>Off-Budget</u>	<u>New Funding Commitments</u>	<u>Total</u>
Administration & Finance	\$ 30,500	\$ 746,900	\$ 774,400
Student Affairs	92,500	60,000	152,500
University Advancement	50,000	0	50,000
Public Affairs	100,000	0	100,000
Chancellor	25,100	0	25,100
Athletics	171,000	0	171,000
Academic Affairs	0	200,000	200,000
Total	\$ 469,100	\$ 1,006,900	\$ 1,476,000

Distribution of Off-Budget Items and New Funding Commitments

•Allocation of funds for off-budget items and new funding commitments was distributed to operating units as shown below:

**Rate & Cost Increases for
Off-Budget Items & New Commitments**

	<u>Rate</u>	<u>Cost</u>	<u>Total</u>
Chancellor	\$ 275,380		\$ 275,380
Public Affairs	291,900		291,900
Athletics	2,075,720		2,075,720
Student Affairs	642,000	\$ 55,000	697,000
University Advancement	1,157,500		1,157,500
Administration & Finance	<u>472,000</u>	<u>7,000</u>	<u>9,000</u>
Subtotal	4,914,500	62,000	4,976,500
Academic Affairs			
Provost	1,001,400	12,500	1,013,900
Arts & Sciences	1,239,000		1,239,000
Business & Public Admin	328,000		328,000
Conservatory	276,000	116,600	392,600
Law	255,020	50,000	305,200
Biological Sciences	28,000		28,000
SICE	423,000		423,000
Dentistry	770,025	100,000	870,025
Education	150,000		150,000
Libraries	35,124		35,124
Medicine	396,000	60,000	456,000
Nursing	193,520		193,520
Pharmacy	56,978		56,978
Graduate Fac & Res	57,413		57,413
Summer Session	500,000		500,000
Continuing Education	704,800		704,800
Cultural Events	8,640		8,640
Information Services	<u>283,960</u>		<u>283,960</u>
Subtotal	6,691,880	339,100	7,045,980
Scholarships	271,500		271,500
Campuswide Accounts	<u>685,000</u>		<u>685,000</u>
Total	\$ 12,577,880	\$ 401,100	\$ 12,978,980

Reallocation

•In order to provide resources for off-budget items, new funding commitments, and the shortfall in year-end balance, a mid-year reallocation was necessary. The amount of the reallocation was determined as follows:

	(\$ Million)
Funding Requirements:	
Off Budget Items	\$ 4.00
New Funding Commitments	8.98
Fund Balance Shortfall	<u>1.44</u>
Total Funding Required	14.42
Sources of Funds:	
Contingency Reserve	8.76
Increase in Educational Fees	2.00
Less January 2002 Appropriations Withhold (2%)	(1.65)
Total Sources	<u>9.11</u>
Required Reallocation	\$ 5.31

•Reallocations for FY02 were to be made on a rate basis where possible, with the full recognition that units unable to make permanent reductions would be required to do so in developing their FY03 budgets. In addition, some units, in anticipation of state appropriation cuts in FY03, chose to make additional reallocations for FY02 to mitigate future year funding cuts. The distribution of the FY02 reallocations by operating units was as follows:

<u>Unit</u>	<u>Rate</u>	<u>Actual Reallocation</u>	<u>Cost</u>
Chancellor	\$ 33,647		
Public Affairs	65,004		
Athletics	79,000		
Student Affairs	215,091		
Univ Advancement	118,310		
Admin & Finance	619,928		
Provost			\$ 809,100*
Arts & Sciences			484,800
Bus & Pub Admin	162,100		
Conservatory			137,400
Law	193,600		
Biological Sciences	80,500		116,000
SICE	54,800		88,800
Dentistry			657,500
Education			120,000
Libraries			84,500
Medicine			400,400
Nursing	74,100		
Pharmacy			144,100
Grad Fac/Research			94,700
Continuing Education			3,600
Cultural Events			57,900
Information Services			184,800
Campuswide Accts	<u>430,210**</u>		
	\$ 2,126,290		<u>\$ 3,383,600</u>
Total		\$ 5,509,890	

*Includes \$600,000 VERIP cost savings

**Equipment Reserve

The net change to the recurring operating budget, after all additions and deductions were made, are shown below:

Change in Recurring Operating Budget FY02

	Amended Recurring Budget (August 2001)	Adjusted Recurring Budget (April 2002)	Net Change
Chancellor	\$ 659,266	\$ 900,999	\$ 241,733
Public Affairs	574,719	801,615	226,896
Athletics	-0-	1,996,720	1,996,720
Student Affairs	5,598,753	6,025,662	426,909
Univ Advancement	1,977,988	3,017,178	1,039,190
Admin & Finance	17,061,181	16,913,253	<u>(147,928)</u>
			3,783,520
Academic Affairs			
Provost	3,109,788	4,111,188	1,001,400
Arts & Sciences	16,061,055	17,300,055	1,239,000
Bus & Public Admin	5,236,660	5,402,560	165,900
Conservatory	4,411,174	4,687,174	276,000
Law	6,256,439	6,317,859	61,420
Biological Sciences	6,454,208	6,401,708	(52,500)
SICE	4,713,350	5,081,550	368,200
Dentistry	14,727,678	15,497,703	770,025
Education	4,671,168	4,821,168	150,000
Libraries	5,573,392	5,608,516	35,124
Medicine	12,975,142	13,371,142	396,000
Nursing	2,385,533	2,504,953	119,420
Pharmacy	4,699,552	4,756,530	56,978
Grad Fac/Research	3,119,098	3,176,511	57,413
Summer Session	1,551,112	2,051,112	500,000
Continuing Educ	114,168	818,968	704,800
Cultural Events	1,901,092	1,909,732	8,640
Information Services	6,095,428	6,379,388	<u>283,960</u>
			6,141,780
Scholarships & Waivers	16,175,000	16,446,500	271,500
Campus-wide Accounts	9,010,270	9,265,060	<u>254,790</u>
Total			\$10,451,590

**Final Withholding of State Appropriations
for FY2002**

May 2002 Withholding \$7,400,000

Source:

Unrestricted Capital Pool Interest	700,000
Unrestricted Plant Funds	900,000
Capital Equipment Funds	1,232,000
	2,832,000

Provost Contingency Reserve	650,000
Vice Chancellor for Administration & Finance Contingency Reserve	650,000

1,300,000

Division Reductions:

Chancellor	33,000
Intercollegiate Athletics	149,000
Student Affairs	40,000
Advancement	74,000
Administration & Finance	346,000
Provost	151,123
Cultural Events	40,229
Information Services	149,589
Library	131,168
Arts & Sciences	400,849
Biological Sciences	151,161
Business & Public Administration	117,164
Conservatory	90,000
Dentistry	368,092
Education	113,056
Graduate Faculties & Research	74,479
Law	144,647
Medicine	314,222
Nursing	58,741
Pharmacy	112,082
SICE	119,398

Campuswide (Insurance)	90,000
	3,268,000

TOTAL \$7,400,000