

# UNIVERSITY OF MINNESOTA

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*Office of the Senior Vice President  
for Finance and Operations*

301 Morrill Hall  
100 Church Street S.E.  
Minneapolis, MN 55455

June 11, 2021

The Honorable Connie Bernardy, *Chair*  
Higher Education Finance and Policy Committee  
563 Rev. Dr. Martin Luther King Jr. Blvd.  
St Paul, Minnesota 55155

The Honorable Marion O'Neill, *Republican Lead*  
Higher Education Finance and Policy Committee  
281 Rev. Dr. Martin Luther King Jr. Blvd.  
St Paul, Minnesota 55155

The Honorable David J. Tomassoni, *Chair*  
Higher Education Finance and Policy Committee  
328 Capitol  
St. Paul, Minnesota 55155

The Honorable Gregory Clausen, *Ranking Min. Lead*  
Higher Education Finance and Policy Committee  
2233 Minnesota Senate Bldg.  
St. Paul, Minnesota 55155

Dear Chairs Bernardy and Tomassoni and Ranking Members O'Neill and Clausen,

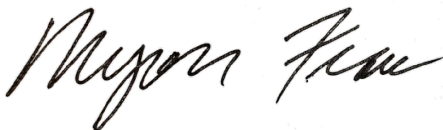
2019 Minnesota Laws, Chapter 64, Article 2, Section 44 requests the University of Minnesota to submit a report that defines, categorizes, accounts, and manages its administrative costs to the legislative committees with jurisdiction over higher education:

*The Board of Trustees of the Minnesota State Colleges and Universities shall provide a report to the chairs and ranking minority members of the legislative committees with jurisdiction over higher education by July 1, 2021, detailing how the Minnesota State Colleges and Universities define, categorize, and account for administrative costs. The report must further identify measures taken to use innovation and cost efficiencies to lower administrative costs. The Board of Regents of the University of Minnesota is requested to provide a similar report by July 1, 2021.*

Pursuant to this requirement, the University of Minnesota respectfully submits the report that provides a summary of how the University defines its administrative expenses while effectively benchmarking and monitoring these activities across the University of Minnesota system.

If there are any questions with the attached report, please contact me at [frans@umn.edu](mailto:frans@umn.edu).

Sincerely,



Myron Frans  
Senior Vice President for Finance and Operations  
University of Minnesota

## University of Minnesota

### Administrative Cost Report

Pursuant to 2019 Minnesota Laws, Chapter 64, Article 2, Section 44

Per the requirements in Minnesota Statute 3.197, the cost to prepare this report was approximately \$500

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### Defining & Categorizing Administrative Costs:

In Fiscal Year (FY) 2012, the University of Minnesota began a comprehensive review of its operational costs to develop a shared understanding of University spending, improve abilities to set benchmarks, and monitor spending changes over time. Named the Cost Definition and Benchmarking Analysis, this annual expense examination was established to:

- Develop a shared understanding of University spending.
- Promote a broader dialogue of the University's cost structure.
- Identify gaps in processes, data, and information.
- Improve the University's ability to set its own spending benchmarks; and
- Establish a repeatable methodology to monitor changes and patterns in spending over time.

Prior to this Cost Definition and Benchmarking analysis, there was no shared definition of administrative versus non-administrative costs. Through a consultative process involving institutional stakeholders, the unique analysis was shaped to define and separate mission/student aid related costs from support functions and basic infrastructure, thereby encompassing all University spending in three main categories:

1. Direct Mission Delivery - The expenses of the 'doers' of the University mission.
2. Mission Support & Facilities - The expenses to support the delivery of mission activities.
3. Leadership & Oversight - The expenses for the leadership, direction, control, and management of the mission

With these three categories, it was decided the latter two (Mission Support and Leadership & Oversight) would be the basis for how the University would define administrative costs in communicating to external parties as well as classifying administrative expenses in the University's annual budget development process. This is the broadest interpretation of administrative expenses possible within the categorization of expenditures. Annual expenses in all three categories occur in both academic and support units and are supported by multiple sources.

The intent of the Benchmarking analysis is to categorize expenditures that relate to regular and ongoing University operations supported by annual revenues. As a result, it excludes non-current and agency funds, internal service organization (ISO) funds, and other cross-unit charges except facility project transfers.

However, different types of costs are distributed among the spending categories in different ways. *Personnel* costs are distributed based on a University defined job code. Each individual job code has been reviewed and assigned to one of the three spending categories based on the definitions of those categories and a reasonable judgement of the function represented by the job code description. *Non-personnel* expenditures are distributed based on a combination of function designation (e.g., research, instruction, etc.) and account code definition (e.g., consulting, supplies, etc.). Examples expenditure types in each spending category include:

- 1) Direct Mission Delivery - The "doers" of the University mission

*Personnel*: tenured and tenure-track professors, adjunct instructors, lecturers, clinical professors, extension educators, health science professionals, scientists and laboratory technicians, students in teaching assistant, research assistant or fellowship roles  
*Non-personnel*: all non-personnel expenses with instruction, research, or public service function codes in the general ledger (excludes facility related activity: utilities, rents, leases, and repairs & maintenance).

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### 2) Mission Support & Facilities – “Support” the delivery of the University mission

*Personnel (non-supervisory):* audit/finance/HR/info tech/legal, clerical support, advisors, librarians, curators, childcare workers, coaches, coordinators, analysts, building and grounds workers, skilled trades, engineers, safety technicians, environmental health and safety workers, police, temporary and casual workers. *Non-personnel:* prorated share of supplies and services, etc. in non-mission functions; equipment purchases in non-mission functions, all consulting in non-mission functions, facilities costs (utilities, rents, leases, repairs& maintenance, transfers for facility projects, debt).

### 3) Leadership & Oversight: The leadership, direction, control, and management of the mission

*Personnel:* executive leadership – president, vice presidents, chancellors, provost, vice provosts; academic leadership – deans, associate deans, department chairs; directors – program, department, campus and system-wide; supervisor and managerial titles across the organization. *Non-Personnel:* prorated share of supplies and services, non-capital equipment, etc. in non-mission functions.

### Accounting for Administrative Costs:

Below is a summary of the University Cost Definition and Benchmarking Analysis, also known internally as Administrative Cost Benchmarking, from FY’s 2018 to 2020.

### Expense Summary for Administrative Cost Benchmarking Summary of Results - FY18-FY20

(\$\$ in Thousands)

	A		B		C		D		E
	Mission	% of Total (E)	Student Aid	% of Total (E)	Mission Support & Facilities	% of Total (E)	Leadership & Oversight	% of Total (E)	Total
<b>1 Personnel</b>									
3 FY20	1,338,010	56.99%		0.00%	717,209	30.55%	292,485	12.46%	2,347,704
4 FY19	1,289,298	57.12%		0.00%	691,516	30.64%	276,394	12.24%	2,257,208
5 FY18	1,243,324	57.00%		0.00%	671,327	30.78%	266,428	12.22%	2,181,079
<b>6 Non-Personnel</b>									
7 FY20	457,519	32.01%	326,948	22.88%	595,329	41.65%	49,423	3.46%	1,429,219
8 FY19	471,955	32.47%	312,106	21.47%	619,945	42.66%	49,346	3.40%	1,453,352
9 FY18	459,560	32.37%	302,425	21.31%	610,681	43.02%	46,825	3.30%	1,419,491
<b>10 Total</b>									
11 FY20	1,795,529	47.5%	326,948	8.7%	1,312,538	34.8%	341,908	9.1%	3,776,923
12 FY19	1,761,253	47.5%	312,106	8.4%	1,311,461	35.3%	325,740	8.8%	3,710,560
13 FY18	1,702,884	47.29%	302,425	8.40%	1,282,009	35.61%	313,253	8.70%	3,600,570

\* Excludes expenditures for Enterprise Systems Upgrade Project (RRC: Enterprise Resource Planning), real estate acquisitions, non-current and agency funds, cross-unit charges (except facilities projects), and ISO Funds.

\*\* Includes interfund transfers to support facility-related projects and the University's contribution to debt activities from direct cash or gifts (not including HEAPR or capital appropriations).

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From this summary, total University expenses increased 1.8% from FY 2019 (\$3.7 billion) to FY 2020 (\$3.8 billion). In FY 2020, the largest expense categories remained Direct Mission and Student Aid expenses, or 56.2% of annual costs for the year. The two categories that comprise the broadest definition of administrative expenses within the University showcased relatively small changes from prior years: 1) Mission Support & Facilities at 34.8% (FY 2019: 35.3%), and Leadership & Oversight at 9.1% (FY 2019: 8.8%). Finally, personnel expenditures comprised a slightly larger portion of total expenditures in FY 2020 at 62.2% (FY 2019: 60.8%), primarily due to increased personnel spending contrasted with reduced non-personnel spending.

Compensation in the fourth quarter of FY20 was impacted by COVID-19, but the related personnel actions had little definable impact on the Cost Definition and Benchmark analysis at the system level. Some units saw modest reductions in personnel spending due to either the University-wide hiring freeze or voluntary pay reductions taken by senior leaders. Other units increased personnel expenditures due to the essential employee augmentations.

In addition to reporting Cost Benchmarking results to the University of Minnesota Board of Regents, the University reports administrative costs through Minnesota Statute 135A.031 Subdivision 7 Report (a)(11)(vii) which requires both the University of Minnesota and Minnesota State Colleges & Universities system to include administrative expense information as part of its overall biennial reporting requirement to the Minnesota Department of Management & Budget. To best align administrative definitions with the Minnesota State system, the University only uses the Leadership & Oversight category (in pink columns above) to define administrative reporting costs each biennium. These costs represent compensation plus associated operating expenditures for all supervisory positions throughout the institution, as well as executive and managerial leadership. This category of expenditures has remained relatively stable as a percent of total expenditures the last three fiscal years.

### **Cost Efficiencies & Innovations to Lower Administrative Costs:**

The University has, and will continue to, assess all operations for potential service and efficiency improvements. Through a process of expected continuous improvement and best-practice goals, activities are continuously being evaluated and restructured.

### Annual Budget Reallocations

Each year, the University's overall budget process includes an in-depth internal evaluation of all resources, especially Operations and Maintenance (O&M) tuition and state appropriation budgets, in funding priorities consistent with the mission and strategic goals of the University. Internally called *reallocations*, most units are required to repurpose a percentage of current year O&M resources to pay for a portion of known current year cost increases related to compensation, facilities, programmatic expansions, and strategic initiatives. Reallocations are considered one resource available to balance the annual budget efficiently.

During FY's 2014 - 2019, then University President Eric Kaler committed to find \$90 million in administrative cost savings, particularly in the Mission Support and Leadership & Oversight expense categories. This dedicated pledge to reduce administrative costs, which was exceeded in FY 2019 at \$91.3 million, was upheld by current President Joan Gabel as a key performance measure in the University Performance Progress Card, located here: <https://oir.umn.edu/planning-metrics/progress-card>.

### External Reviews and Performance Goals on Administrative Costs:

In 2013, the University conducted the Administrative Services Benchmarking and Diagnostic Survey (ASBDS), which used industry, third-party, and custom survey data to evaluate institutional efficiency and effectiveness.

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That project focused on four functions: finance, procurement, human resources, and information technology. Since then, the University has continued to seek relevant comparisons to evaluate performance. In 2020, the Huron Consulting group presented a multi-year evaluation of higher education administrative cost definition and benchmarking while assessing the University's operational efficiencies with available data. The analysis concluded, in part, the University compared favorably to peers related to the proportion of the workforce focused on mission activity and was within the range of average on other metrics.

The current University strategic plan, MPact 2025, embarks on a broad analysis of support functions across the institution with the intent of modernizing structures and processes, improving services, increasing efficiency, and generating recurring budget savings. Specifically, the Positioned for Excellence, Alignment and Knowledge (PEAK) Initiative is a systemwide effort that will identify opportunities across non-academic functions to increase efficiency or gain capacity, which in turn will help steer our teaching, research, and outreach mission into the future. Huron Consulting and KPMG will develop efficiency recommendations in consultation with the University leaders and governance groups, with the project's beginning assessment process set to end July 2021.