

**MEMORANDUM**

TO: Academic, Experiment Station Unit Directors, Extension Directors, and Research Unit Heads

FROM: Jeffrey Ratje, Assistant Dean, Finance and Administration

cc. EC members

DATE: July 24, 2014

RE: ERE Distribution in CALS

**Background**

In preparation for Responsibility Centered Management (RCM) budgeting, and beginning July 1, 2013, the University changed the way that state-funded Employee Related Expense (ERE) funds would be distributed and managed from a centralized to a decentralized model. Each college and VP level unit (i.e. Responsibility Center Unit; RCU) was allocated a pool of permanent and temporary ERE funds with the obligation to appropriately manage, plan ahead, and avoid deficits. It has taken months of work to ensure the College receives all of the budgeted funds we were allocated, and additional time to determine the appropriate structure within the College to manage the funds.

Academic HODS were consulted and 70% requested the College continue to manage the ERE funds for one more year until RCM budgets begin in FY16. At that time, they requested we reassess. I take seriously and share the concern that unit heads have with regards to managing these funds, and want to ease all parties into this new responsibility. At the same time, we must develop awareness, comfort, transparency, and literacy with these funds. Not only is this consistent with the dean's requirement for improved financial management and business functioning but it will avoid a College-wide budget reduction due to ERE deficits propagated by one or a small number of units. I am concerned that the status quo of the College managing all ERE loses a year of building a foundation of understanding, leaving us at the same decision point next year.

**Distributed ERE Model**

After considerable deliberations, and strongly weighing the input of the unit heads, my staff and I have developed a model where the College can provide management oversight but still develop awareness, comfort, transparency, and literacy in the unit business offices. This model took effect July 1, 2014.

Each unit has been assigned a new state account in its respective research department number (attached diagram). Separate accounts have also been created for each Extension unit. These

accounts will be the ERE budget clearing accounts for the units' state funded personnel expenditures. Consistent with CALS two master budgets, Instruction/Research expenses flow to one ERE pool, and Cooperative Extension expenses flow to another.

The College's central finance administration will oversee and monitor these accounts in FY15, but as the accounts are at the unit level, the account and budget will be visible on unit financial reports and analyses. Not all units have Cooperative Extension funds or departments, so not all units will receive CES ERE budgets.

Thanks to the heroic efforts of Donna-Rae Marquez and Madge Mock, supported by your business officers and central administration, all 54 new ERE pool accounts were created and more than 500 individual transactions were routed and processed to link these new pooled accounts to your state accounts.

### **Budget and Expenditure Transactions**

State ERE budget will be drawn down from the ERE budget clearing account to the state account where the salaries and ERE were spent. This is the same mechanistic process that was in use in the past. The only difference is that each state Instruction and Research account will be "remapped" to draw down funds from the new account. Cooperative Extension accounts will work in a similar fashion. Budget amounts are being finalized.

Projected and actual ERE budget surpluses or deficits will be visible in the budget clearing accounts once the budgets are allocated.

### **Budget Allocation**

The initial budget load will only be temporary funds, and will be based on each unit's July 1, 2014 permanent personal services budget by employee type, multiplied by the FY15 ERE rates. Pooled employee types like wages have been assigned the temporary classified staff (11.2%). FY15 approved hires, P&T, and MME changes funded by the College are being factored into the initial budget load. The budget allocations and transfers will be initiated by CALS Administrative Services.

Permanent funds will be loaded as we get closer to full unit management of ERE.

### **Related Budget Allocation Issues:**

- So long as the College manages and oversees the ERE pools, units will not be allowed to spend ERE savings. Short term use of ERE can cause a long term detriment if ERE rates increase.
- Units are encouraged to utilize savings strategies so that the College can reinvest savings back into units in the future, or cover increases to ERE rates. Suggested strategies can be found on the attached ERE Management document.
- College ERE conservation and management practices will continue, such as allocating budget to ERE pools when moving budget from operations to salary budget lines.
- ERE funds will be treated similar to personnel funds: CALS will pull ERE funding back to the College pool upon a retirement or resignation of a faculty member. Those funds will be reallocated based on the College-approved hiring plan (salary plus ERE).

### **Roles and Responsibilities**

While the College manages ERE, Administrative Services will monitor spending and encumbrances for each unit pool. Projected deficits will require action from the applicable unit and the development of a strategy to stay out of deficit. Communication will be provided as early as possible and units will need to take action to stay out of deficit.

Unit business officers will continue to be responsible for salary and ERE transactions as they are now, such as budget changes, salary distributions, and expense transfers. Units should begin to familiarize themselves with ERE costs and the employee makeup of their units. Unit leadership and business officers should explore and employ management strategies to appropriately minimize their ERE liability. Additional resources, training, and Analytics reports are being developed and will be shared to support units in this new role.

As with any new responsibility, there are likely to be hiccups and concerns that arise. I ask for your patience and support of this process as we work towards a new equilibrium.