June 14, 2007

TO: Vice Presidents, Associate and Assistant Vice Presidents, Associate and Assistant Provosts, Deans, Directors, and Department Heads

FROM: D. Bruce Edwards
Associate Vice President for Finance

SUBJECT: Preparation of Texas A&M University Operating Budget for FY 2008

The Texas A&M University operating budget for FY 2008 is due to the System in early July to facilitate Board of Regents approval in August. In meeting this deadline, the process and guidelines adapted from the System’s budget instructions as outlined below, must be followed.

**KEY CHANGES FOR THE FY 2008 BUDGET**

- At the request of the Division of Finance and the Athletic Department, for their accounts ONLY - The budget category of Operations & Maintenance has been split into more detailed categories (To view the new categories, you may go to [http://finance.tamu.edu/budget/forms/FY2008/FY2008-Form908-DOF-Ath.xls](http://finance.tamu.edu/budget/forms/FY2008/FY2008-Form908-DOF-Ath.xls)). Note that these more detailed categories will be made available to other units in the future upon request.

- Graduate Assistants – Lecturer (GAL’s) salaries will now be budgeted with Graduate Assistants – Teaching (GAT’s) salaries

- Accrued Compensable Absences Payable (ACAP) tax will be included in the benefits category. This tax is similar to UCI and WCI (For further clarification of ACAP, please refer to the budget website at [http://finance.tamu.edu/budget/guidelines/FY2008guide.asp](http://finance.tamu.edu/budget/guidelines/FY2008guide.asp)).

BUDGET PROCESS

Budget preparation will once again be in two phases. As in recent years, Phase I will represent the lump sum format budget which will be submitted to the Board of Regents for approval. Individual salary recommendations will not be addressed in the first phase. The primary lump sum categories are Faculty Salaries, Non-Faculty Salaries, Longevity Pay, Wages, Fringe Benefits, Utilities, Scholarships and Fellowships, Capital Equipment (8xxx) and Operations and Maintenance.

Phase I budget preparation will be entered into the FAMIS accounting system using the lump sum items listed above. Form 908 may be utilized to record lump sum budgets (available on the web at http://budget.tamu.edu). Account administrators should enter lump sum recommendations, prepare income estimates (for local fund accounts), and obtain appropriate approvals. All entries must be complete by 5 p.m. on Monday, June 25, 2007. One signed copy of Form 908 with Vice President or designee approval should be returned to the Office of Budgeting and Analytical Services (OBAS), MS 1183.

Note that while individual salary recommendations are not required in Phase I, detailed salary information contained in BPP Form 901 will be available as a reference tool and may be picked up on the 3rd floor of Rudder Tower on or after June 14th.

Phase II of budget preparation will begin approximately July 16, 2007. All salary increases (equity adjustments, faculty promotions, merit increases, etc.) should be entered on-line into the BPP Prep Budget in Phase II. Departments requiring data entry assistance must submit completed and signed forms to the Office of Budgeting and Analytical Services, MS 1183, by July 27, 2007. Departments entering data electronically must submit signed forms by August 7, 2007. Upon request, an updated Form 901 listing actual salary detail may be obtained to assist with completion of Form 900. Please contact the Budget Office by August 7, 2007 if you would like to receive an updated Form 901.

Account administrators should verify salary recommendations submitted in the BPP Prep Budget and on Forms 900. Lump sum totals will be adjusted automatically by FAMIS in order to remain within Board approved budget allocations (Operations & Maintenance expenditures will be adjusted up or down if other budget categories do not match what was submitted in Phase I). More detailed information about the final budget adjustment process will be provided when related forms are distributed in July.

All departments must ensure budgeted expenditures do not exceed estimated funds available. In self-supporting activities, total funds budgeted shall not exceed realistic departmental estimates of income and balances brought forward. Caution should be used in budgeting balances brought forward as these budgets must be sustainable in future years.

Unencumbered Educational and General (E&G) and Designated Tuition balances will be automatically carried forward to FY 2008. These amounts are in addition to allocations provided by each Vice President and should not be re-budgeted.
GUIDELINES

The following guidelines must be followed to ensure that budgeted expenditures remain within funds available:

SALARIES
Budgeted salaries should be entered as Salaries Non-Faculty or Salaries Faculty, as appropriate. In developing these amounts, the applicable appointments should be split between accounts and/or fund groups, based on effort. This will ensure consistency with actual results, and thus, compliance with federally required cost allocations in computing the Texas A&M University indirect cost rate. As indicated previously, Phase I consists of lump sump salary budgets, while Phase II will include individual salary increases.

1. **Mandatory Increase for Employees at or below $33,520 annualized salary**
   Recognizing the impact of unusual increases in out-of-pocket benefit costs and parking fees, budgeted full-time (100% effort) employees making $33,520 or less annually, as of 8/31/2007, will receive a mandated $420/year increase to their base pay. Budgeted part-time employees whose annualized 100% effort salary is $33,520 or less will receive a $210/year increase to base pay. Note that the IRS 15% tax bracket for a single person claiming zero dependents was used as the basis for determining the employees who will receive this mandatory increase. During the budget process, the University will provide allocations to cover this amount for Educational & General, Designated Tuition, and Enhancement Fee Funds only. These employees are also eligible to receive a merit increase as defined in #2, below. For Phase I, budget this increase in Unallocated Salaries. In Phase II, this increase will be made automatically by the BPP System for affected employees; no action will be required from the department.

2. **Merit Increases**
   A merit increase is defined as an increase in salary for work performed that meets or exceeds the basic expectations of the job, but is not associated with a promotion or a change in job title resulting from a demonstrable, substantive change in job duties. **Performance must be documented by a current year, formal performance evaluation that has been conducted in accordance with University policy.** Recommended individual increases exceeding ten percent (10%) require approval of the appropriate Vice President. *A merit increase may be awarded if an employee has been employed for the six months immediately preceding the effective date of the merit salary increase, and six months have elapsed since the employee’s last merit salary increase or lump sum merit payment (See University Rule 31.01.01.M7, Employee Compensation Administration for further information). A merit salary increase may include the combination of a merit raise and a one-time merit payment with the same effective date.*

   a. **Faculty Merit Increases**
      For FY 2008, merit increases for faculty should not exceed an aggregate average of 3% for each college (excluding promotion, one-time merit and equity increases) of the Budgeted Faculty positions that are eligible for merit raises, as defined above. Exceptions to this rule will require prior written approval of the Executive Vice President and Provost. In order to support these increases, 3% of the FY 2007 faculty salary budget (Educational & General, Designated Tuition, and Enhancement Fee funds only) has been allocated to each unit. For Phase I purposes, these funds should be budgeted in the Unallocated Merit Faculty category.
b. **Staff Merit Increases**  
For FY 2008, merit increases for staff should not exceed an aggregate average of 3% for each college or division (excluding promotions, one-time merit, equity or pay plan adjustments) of the Budgeted Non-Faculty positions that are eligible for merit raises as defined above. Exceptions to this rule will require prior written approval of the President. In order to assist in funding these increases, 3% of the FY 2007 non-faculty salary budget (Educational & General, Designated Tuition, and Enhancement Fee funds only) has been allocated to each unit. For Phase I purposes, these funds should be budgeted in the *Unallocated Merit – Non-Faculty* category.

3. **Special Allocation**  
For some employees, adjustments may be appropriate to address equity and retention issues or internal salary relationships (compression). In order to support these needs, an allocation of 1% of the FY 2007 Faculty and Non-Faculty salary budgets (Education & General, Designated Tuition, and Enhancement Fee Funds only) has been made to each Vice President and Dean. Any remaining needs should be covered from existing funds available to the Division/College. These adjustments should be budgeted at the Vice President/Dean level in the appropriate *Unallocated Salaries* category for Phase I purposes and should be entered as equity adjustments in BPP during Phase II. Each organizational unit must be able to account and report to the Office of Budgeting and Analytical Services for the increase type — equity, retention, compression — despite a single data entry code of “equity adjustment.” These adjustments must have Vice President (or equivalent) approval in advance, must be sustainable in future years, and should be made effective no earlier than September 1, 2007.

4. **Faculty Promotions**  
Funds have been provided for salary increases for promotions in faculty rank based on 5% of the current 9-month salary of the individuals being promoted. Colleges may supplement these funds from internal sources. In Phase I, these funds should be budgeted in *Unallocated Salaries - Faculty*.

5. **Classified Pay Plan**  
Please refer to the Employee Services website at:  
http://employees.tamu.edu/documents/positions/pdf/FY08PayPlanChanges.pdf for pay plan changes effective September 1, 2007. The minimum rate for classified positions has been increased from $8.03 to $8.30. Please refer to the link above for specific rate changes by title. Departments must assure that minimum rates are adhered to for all classified positions as of September 1, 2007. To minimize wage compression that can occur when minimum rates are increased, departments should consider the use of equity or merit adjustments as appropriate. Allocations for increases to the new minimum rates will be provided to units for individuals affected by pay plan changes who are paid from Educational & General, Designated Tuition, and Enhancement Fee funds only.

6. **Other**

   a. **New Positions and Title Changes for Existing Non-Faculty Positions**  
   New positions (including title changes for existing non-faculty positions) must be approved in advance and must be funded within existing allocations. If the position has not received final approval, it should be budgeted in the appropriate *Unallocated Salaries* category. Please be aware that the University is subject to a faculty and staff FTE cap set by the 80th Legislature.
1) **Non-classified**
   With the exception of faculty positions, new positions (including title changes to current positions) must be approved through normal administrative procedures prior to being budgeted.

2) **Classified**
   Current classified positions may be reclassified, and new classified positions added to the budget, only after the appropriate approval document or electronic approval has been issued by Employee Services.

Employee Services guaranteed a July 18 completion of FY 2008 requests for new positions and reclassifications, if requests were received by May 18. Requests received between May 18 and July 6 will be completed for a September 1 effective date. Requests received after July 6 can be processed to be effective in the pay period in which they are approved by Employee Services.

b. **Longevity Pay**
   Budgeting for Longevity Pay will be handled in the following manner:

1) Longevity Pay for accounts funded from General Revenue (12xxxx through 16xxxx) will be budgeted in a special account to be centrally administered, and no action is required.

2) Sufficient amounts should be budgeted to cover the estimated fiscal year’s expenditures in the lump sum item *Longevity Pay* in each salary paying account in the following fund groups:
   - Service Departments and Designated Funds (2xxxxx)
   - Auxiliary Enterprises (3xxxxx)
   - Restricted Funds (4xxxxx and 5xxxxx)

3) Longevity pay shall be paid to eligible employees at the rate of $20 per month for each **two** years of lifetime service credit.

c. **Legislation Affecting New Retirees**
   As a result of legislation passed by the 79th Legislature, the new employment on or after September 1, 2005, of any retirees subject to the Teacher Retirement System (TRS) program requires the employer to fund the cost of BOTH the employee and employer retirement contribution amounts. The hiring department will be required to fund these expenses. This increased employer cost does not apply to TRS retirees employed **before** September 1, 2005, or Optional Retirement Program (ORP) retirees.

**Wages**
Required funding for student workers and other temporary employees (part-time clerk, etc.) should be budgeted as *Wages*. Minimum wage for student workers and other temporary employees in FY 2008 will at least be $5.85. The new rate of $5.85 is effective July 24, 2007. There may be some portion of FY 2008 affected by the second increase of the minimum wage to $6.55, which will occur July 24, 2008. In addition, this category will contain the following:
a. Overtime
Anticipated overtime costs for both wage and classified positions should be included in this category. Wage and classified employees who work in excess of 40 hours per week must be compensated at 1.5 times their regular rate of pay, unless the extra hours worked are banked as compensatory time.

b. Regular Position
No regular position will be included in Wages. A regular position is defined as one requiring a work schedule of 20 hours, or more, per week for at least 4 ½ continuous months or more (excluding student positions).

Utilities
Guidance for departments subject to utility billings has been provided previously. Any questions related to budget guidance on utility billings should be directed to Kathy Hubbard, Director of Facilities-Finance; email: kchubbard@tamu.edu; telephone: 458-3957.

Scholarships and Fellowships
This category only includes scholarship and fellowships related to students.

Capital Equipment
Capital assets are real or personal property that have an estimated life of greater than one year. An asset that has a value equal to or greater than the capitalization threshold must be capitalized. For a complete list of capitalization thresholds, please refer to the budget website at http://finance.tamu.edu/budget/guidelines/FY2007guide.asp. Building purchases, construction and improvements can be capitalized; however, building maintenance and repair can not be capitalized (must be expensed).

Operations and Maintenance
Budgets should be based on careful estimates of actual needs. The appropriate amount should be entered on FAMIS screen 599 as Operation and Maintenance. This includes items such as supplies, travel, telephone, computing, etc. Travel Expenses in E&G accounts should be budgeted based upon the following tentative reimbursement rates:

| Personal auto mileage: State Accounts: | $.445 (as determined by the State Comptroller) |
| Local Accounts: | $.485 (as determined by the State Comptroller) |

| Meals and lodging: In-state: | Meals (Actual cost, not to exceed $36/day) | Lodging (Max $85/day) |
| Out-of-state: | Shall not exceed amount in Federal Travel Regulations |

- Travel on non-E&G accounts should follow University guidelines.
- No funds should be budgeted for the reimbursement of partial per diem when traveling on official business that does not require overnight stay.

Self-Supporting Activities (Auxiliary Enterprises, Service Centers, etc.)
Guidance below applies specifically to self-supporting activities

a. Estimated Account Balance
Budget requests will be submitted on Form 908 or entered on FAMIS screen 599, indicating specifically the estimated account balance as of September 1, 2007, estimated income or receipts, estimated transfers, budgeted expenses, and the estimated account balance at August 31, 2008.

b. Retirement Contributions
Budgeting instructions for Retirement Contributions are described below:

1) Contribution Rates
   • 6.58% for members of Teacher Retirement System
   • 6.58% for Optional Retirement Program (ORP) participants hired on or after September 1, 1995
   • 8.5% for ORP participants on the state payroll as of August 31, 1995

2) Account Instructions
   • Service Department, Designated Fund, Auxiliary Enterprises, and Restricted Fund accounts should include employer contributions in the budget category, Fringe Benefits.

c. Social Security and Medicare Tax – FICA (Employer’s Matching Portion)
   Includes Old Age and Survivors Insurance (OASI) and Old Age Health Insurance (OAHI). Expenditures should be budgeted in Fringe Benefit and are computed using the following rates:
   • Calendar year 2008 - 7.65%
     (6.2% for the first estimated $98,400 for Social Security tax, 1.45% of all earnings for Medicare)

d. Workes’ Compensation Insurance
   The rate will be .0030 of all salaries and wages. The calculated amount should be budgeted in Fringe Benefits.

e. Unemployment Compensation Insurance
   The rate for Texas A&M University departments will be .0009 of all salaries and wages, and the resulting amount should be budgeted in Fringe Benefits.

f. Group Insurance Premiums
   Monthly employer contributions for Health and Basic Life premiums for each qualified employee and retiree have changed. The rates for FY 2008 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Full Time (100%)</th>
<th>Part Time (50.00% – 99.99%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Only</td>
<td>$363.53</td>
<td>$181.77</td>
</tr>
<tr>
<td>Employee and Spouse</td>
<td>539.12</td>
<td>269.56</td>
</tr>
<tr>
<td>Employee and Children</td>
<td>473.28</td>
<td>236.64</td>
</tr>
<tr>
<td>Employee and Family</td>
<td>626.92</td>
<td>313.46</td>
</tr>
<tr>
<td>Waiver</td>
<td>181.77</td>
<td>90.88</td>
</tr>
</tbody>
</table>

Only regular employees and students admitted to a graduate program and who are appointed to budgeted positions with titles of Graduate Assistant Teaching, Non-Teaching, Research, and Lecturer will be eligible to receive
contributions toward insurance premium payments. Eligibility for these graduate students requires employment for at least 20 hours per week for a period of at least 4 ½ months. A regular employee is defined as one who is budgeted by name for 50% or more time for at least 4 ½ continuous months, excluding students other than those described above holding positions for which student status is a requirement.

For joint and/or split positions, the monthly contribution will be prorated between accounts and/or parts of the system.

Group Insurance Premiums applicable to accounts funded from Designated, Auxiliary, or Restricted Funds should be budgeted in each account within the *Fringe Benefits* category.

**ESTIMATED INCOME**
Estimates of income should be made on a realistic basis, taking into consideration the projected enrollment for the budget year, and other factors affecting individual departmental operations. These estimates will be reviewed for reasonableness before being finalized.