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

FROM: K. Sue Redman

SUBJECT: Preparation of Texas A&M University Operating Budget for FY 2007

The Texas A&M University operating budget for FY 2007 is due to the System in early June to facilitate Board of Regents approval in July. 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 FY2007 BUDGET**

Budget categories (or patterns) have been changed to facilitate reporting requirements. The key changes affecting budgets at TAMU are 1) a requirement to budget capital expenditures separately from Operations & Maintenance (O&M) expenditures (For further clarification of capital assets, please refer to the budget website at http://finance.tamu.edu/budget/guidelines/FY2007guide.asp , and 2) a requirement to budget salaries for Graduate Assistants – Teaching (GAT’s) separately from salaries of other categories of graduate assistants.

**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 Friday, June 2, 2006. 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 May 19th.

Phase II of budget preparation will begin approximately July 17, 2006. 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 28, 2006. Departments entering data electronically must submit signed forms by August 8, 2006. 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 8, 2006 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 2007. 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 sum salary budgets, while Phase II will include individual salary increases.
1. **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. **Meritorious performance must be documented by a 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 System Rule 31.01.08, Merit Salary Increases, for further information).*

a. **Faculty Merit Increases**  
For FY 2007, merit increases for faculty should not exceed an aggregate average of 3% for each college (excluding promotions 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, an allocation of 3% of the FY 2006 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. The Dean of each college may set aside a portion of the faculty merit pool to address special needs such as salary compression, salary inequities, and retention.

b. **Staff Merit Increases**  
For FY 2007, merit increases for staff should not exceed an aggregate average of 3% for each college or division (excluding promotions, 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, an allocation of 3% of the FY 2006 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.

2. **Equity Adjustments**

In some cases, equity adjustments may be necessary to address gender and ethnic disparities, internal salary compression or high external demand for both faculty and staff. These should be made from existing funds available to the department, including a portion of the merit pool mentioned in 1.a. above. All equity adjustment requests must be supported by strong evidence of necessity and should be budgeted in the appropriate Unallocated Salaries category for Phase I purposes. **All equity 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, 2006.**

3. **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.

4. **Classified Pay Plan**
Please refer to the Human Resources website at http://hr.tamu.edu/classification/ for pay plan changes effective September 1, 2006. The minimum rate for classified positions has been increased from $7.77 to $8.03. 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, 2006. 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.

5. 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 79th legislature. New position requests will be reviewed by Employee Services and will only be allowed to the extent the University has capacity within the mandated FTE cap. Therefore, before assuming a new position may be added, it is recommended that you check with Employee Services or the Office of Budgeting and Analytical Services on the current status of the FTE cap.

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 will guarantee completion of FY 2007 requests for new positions and reclassifications if received by the following dates:

- Friday, June 9, review completion by August 8 is guaranteed. August 8 is the Phase II deadline for signed electronic Forms 900 and 901 corrections.

- Friday, July 7, review completion for a September 1 effective date is guaranteed. If approved after September 1, the request can still be made effective if it is approved by Employee Services within the biweekly or monthly pay period that includes September 1.

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. 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, 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: $.445 (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, 2006, estimated income or receipts, estimated transfers, budgeted expenses, and the estimated account balance at August 31, 2007.

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

1) Contribution Rates
• 6.0% for members of Teacher Retirement System
• 6.0% 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 2006 - 7.65%
  (6.2% for the first $94,200 for Social Security tax, 1.45% of all earnings for Medicare)
• Calendar year 2007 - 7.65%
  (6.2% for the first estimated $98,400 for Social Security tax, 1.45% of all earnings for Medicare)

d. Workers’ 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 each qualified employee and retiree have changed. The rates for FY 2007 are as follows:

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Only regular employees and students admitted to a graduate program and who are appointed to budgeted positions with titles of Graduate Assistant Teaching, Nonteaching, 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 percent 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.