

University of Colorado Colorado Springs

Budget Model Redesign Initiative Overview & Discussion

UCCS

Today's Discussion Topics

- Motivations for Budget Model Redesign
- Trends in Resource Allocation
- Budget Model Redesign Timeline and Governance
- Strategic Plan Update
- Q&A



Motivations for Budget Model Redesign

Motivation for Budget Model Redesign

UCCS is engaging in a budget model redesign initiative to better align its resource allocation processes with its strategic mission and goals.

- The UCCS 2030 Strategic Plan contains core strategies to “fuel the future” of the University, including:
 - Intentional revenue viability– expanding revenue sources to strengthen UCCS’ financial sustainability
 - Supporting the growth of the university
 - Providing greater services to students from all backgrounds
- An Incentive-Based Model will:
 - Allocate resources in alignment with strategic priorities.
 - Provide a pool of funds to be directed toward strategic investments.
 - Result in a budget allocation model that is consistent and transparent.



Trends in Resource Allocation

Recent Trends in Budgeting

The changing needs of higher education have resulted in increased economic pressures; evolving student desires force institutions and leaders to act differently.

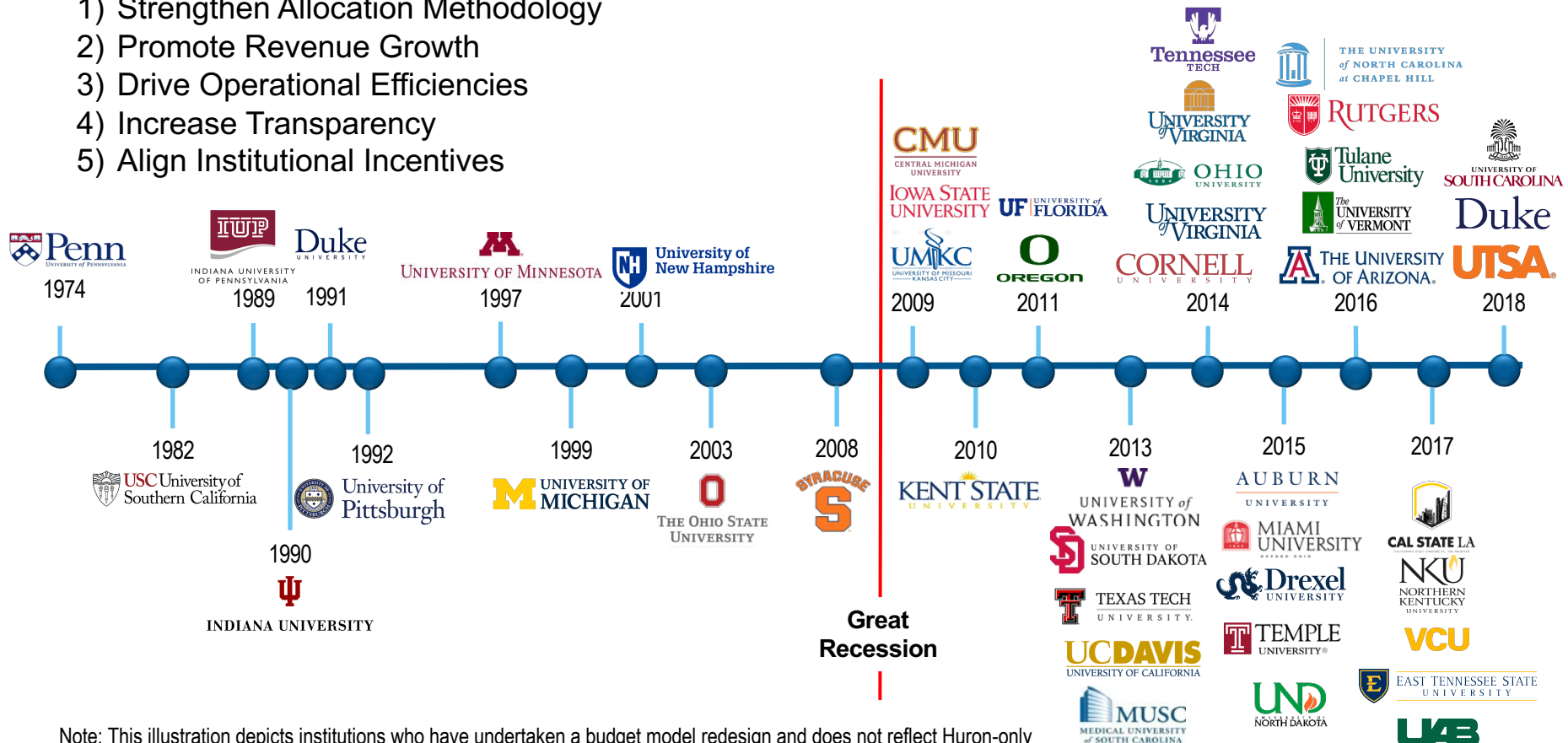
- Institutions are working diligently to reframe budgeting as a way to develop new resources, promote desired activities, and funnel resources to strategic priorities
- A 2016 Inside Higher Ed Survey reported that 47% of U.S. institutions surveyed have changed their budget model in the past four years with 35% of those who have not changed their institutions model planning to do so
 - 21% of those surveyed say their institution uses a Responsibility-Centered Management (RCM) budget model
- Recent changes have resulted in more inclusive strategies that acknowledge the powerful impact engaged faculty and staff can have on institutional resources
- With enhanced inclusiveness, universities have needed to produce more timely, comprehensive, and insightful data and reports
- Ultimately, universities appear to be adopting hybrid budgeting models that are highly customized to institutional cultures and goals

Budget Redesign Initiatives

Based on Huron's research and client experience, as universities face fiscal challenges and seek to expand focus on resource maximization, it has been shown that institutions pursuing budget redesigns nationwide and beyond continue to grow.

Primary Reasons for Budget Redesigns

- 1) Strengthen Allocation Methodology
- 2) Promote Revenue Growth
- 3) Drive Operational Efficiencies
- 4) Increase Transparency
- 5) Align Institutional Incentives



Note: This illustration depicts institutions who have undertaken a budget model redesign and does not reflect Huron-only budget redesign clients.

Budget Redesign Experience

As of September 2018, Huron has partnered with over 65 institutions on the design, assessment, and implementation of budgeting and financial planning models.

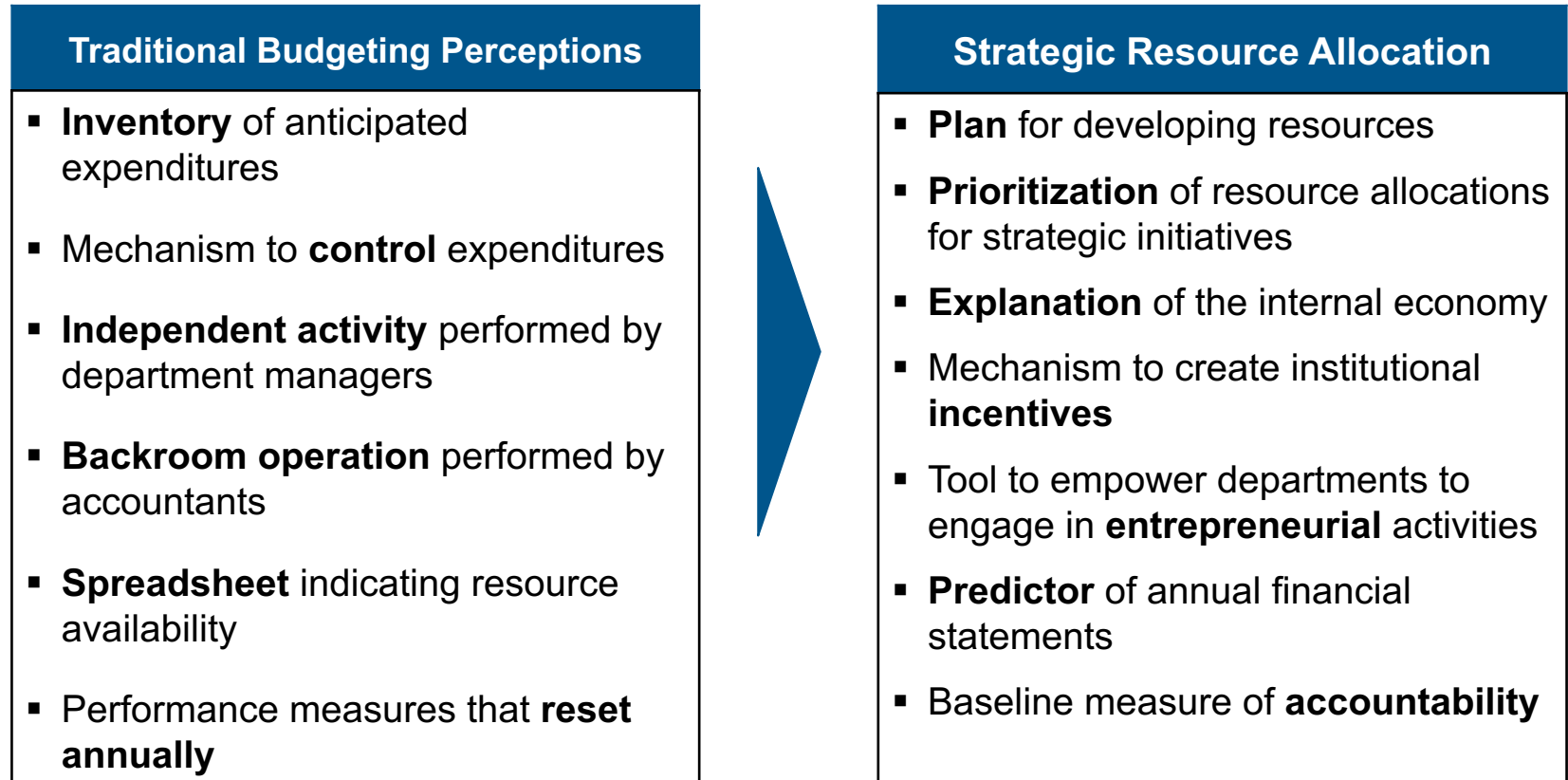


Canada



Shifting Focus of University Budgeting

University budgeting initiatives often begin with an attempt to reframe traditional campus budgeting perceptions by highlighting the strategic importance of resource allocation.



As university community members begin to shift their thinking on the role of budgeting, individuals will be more willing to prioritize the budget process, share information, and make strategic decisions.

Overview of Budgeting Alternatives

Incremental budgeting is the most common approach to university resource allocation, though an array of alternative and hybrid models exists.

Traditional Budgeting Perceptions

Incremental Budgeting	Formula Funding	Performance Funding	Incentive-Based Models
<ul style="list-style-type: none"> Centrally driven Current budget acts as “base” Each year’s budget increments (decrements) adjust the base Focus typically on expenses Common modifications: <ul style="list-style-type: none"> Block-grant models bucket line-items together to promote local control Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base Approximately 60% of institutions and 79% of public doctoral institutions report using this model 	<ul style="list-style-type: none"> Unit-based model focused on providing equitable funding Unit rates are input-based and commonly agreed upon Annual fluctuations are driven primarily by the quantity of production and not from changes to rates Common modifications: <ul style="list-style-type: none"> Weighting schemes to control for local cost structures Used only for select activities (e.g., instruction) Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model 	<ul style="list-style-type: none"> Unit-based model focused on rewarding mission delivery Unit rates are output based and commonly agree upon Annual fluctuations are driven primarily by changing production and not from changes to rates Common modifications: <ul style="list-style-type: none"> Weighting schemes to control for local unit mission Used only for small portions of overall resources (as little as 1-5%) Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model 	<ul style="list-style-type: none"> Focus on academic units Incorporates a devolution of revenue ownership to local units, as generated Allocates costs to revenue generating units Utilizes a centrally managed “subvention pool” to address strategic priorities Common modifications: <ul style="list-style-type: none"> Revenue allocation rules Number of cost pools Participation fee (tax rate) Approximately 21% of all institutions and 24% of public doctoral institutions use an incentive-based model

It is common to find institutions that are utilizing multiple budget models simultaneously, either as hybrid models or models to facilitate various university missions.

Budgeting Alternatives: Goal Alignment

In determining the most appropriate budget model, stakeholders should consider which models provide alignment with their desired budgeting goals and resolve identified operating gaps.

Budget Model Goal Alignment				
<i>Institutional Goals:</i>	Incremental Budgeting	Formula Funding	Performance Funding	Incentive-Based Models
Institutional Flexibility	●	○	○	◐
Revenue Growth	○	◐	◐	●
Expenditure Containment	◐	◐	◐	●
Funding Justifications	◐	●	●	●
Transparency	●	●	●	●
Periodic Assessment	○	●	●	●
Entrepreneurship and Innovation	○	◐	●	●
● = High Goal Alignment; ○ = Low Goal Alignment				

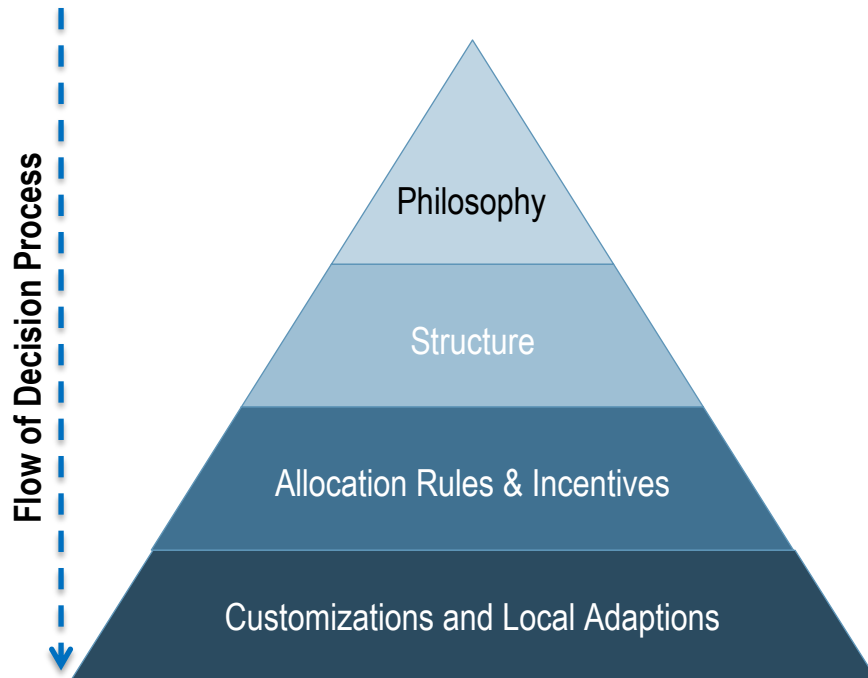
The selection of model variations should ideally be informed by a set of four-to-six guiding principles that communicate a model's objectives and drive the ultimate model design.



Budget Model Redesign Initiative Timeline & Governance

Elements of Model Development

Effective budget redesign typically requires four stages of decisions, with each level requiring increased levels of institutional insights and customizations.



- **Philosophy** – reflects the university’s desired financial management model, considering elements such as centralization, authority, accountability, and responsibility
- **Structure** – reflects the elements of the model with respect to scope of funds, categorization of operating units, presentation of data, etc.
- **Rules** – reflects how the model will portray the institution’s internal economy and drive behavior
- **Customizations** – reflects model tweaks to address operational realities, institutional culture, and local unit needs

Material consensus for each element is needed among model development leaders prior to moving forward with implementation.

Key Decision Points for Budget Model Design

Budget model redesign initiatives require stakeholders to address key decision points related to resource allocation rules, budgeting infrastructure, and model philosophy, structure, and governance.

Model Philosophy

How decentralized should budgeting authority be, and how closely should the model reflect economic reality?

Model Structure

How should institutional units be classified and treated?

Tuition

What is the appropriate basis for allocating tuition?

Model Sensitivity

How responsive should the model be to one-year changes in institutional activity?

State Appropriations

To what activities should state appropriations be allocated?

Research Support

How should growth and increased quality of the research enterprise be incentivized and subsidized?

Cost Allocations

What metrics should be used to allocate administrative overhead costs?

Scholarships, Aid, and Waivers

What is the appropriate balance for allocating scholarships and aid expenses and funding centrally?

Cost Pools

How many cost pools should be established?

Subvention Funding

How should a strategic investment pool be funded, and how should strategic investments be allocated back to the institution?

Model Infrastructure

Does the institution currently have the professional and technological resources to manage a sophisticated, decentralized model?

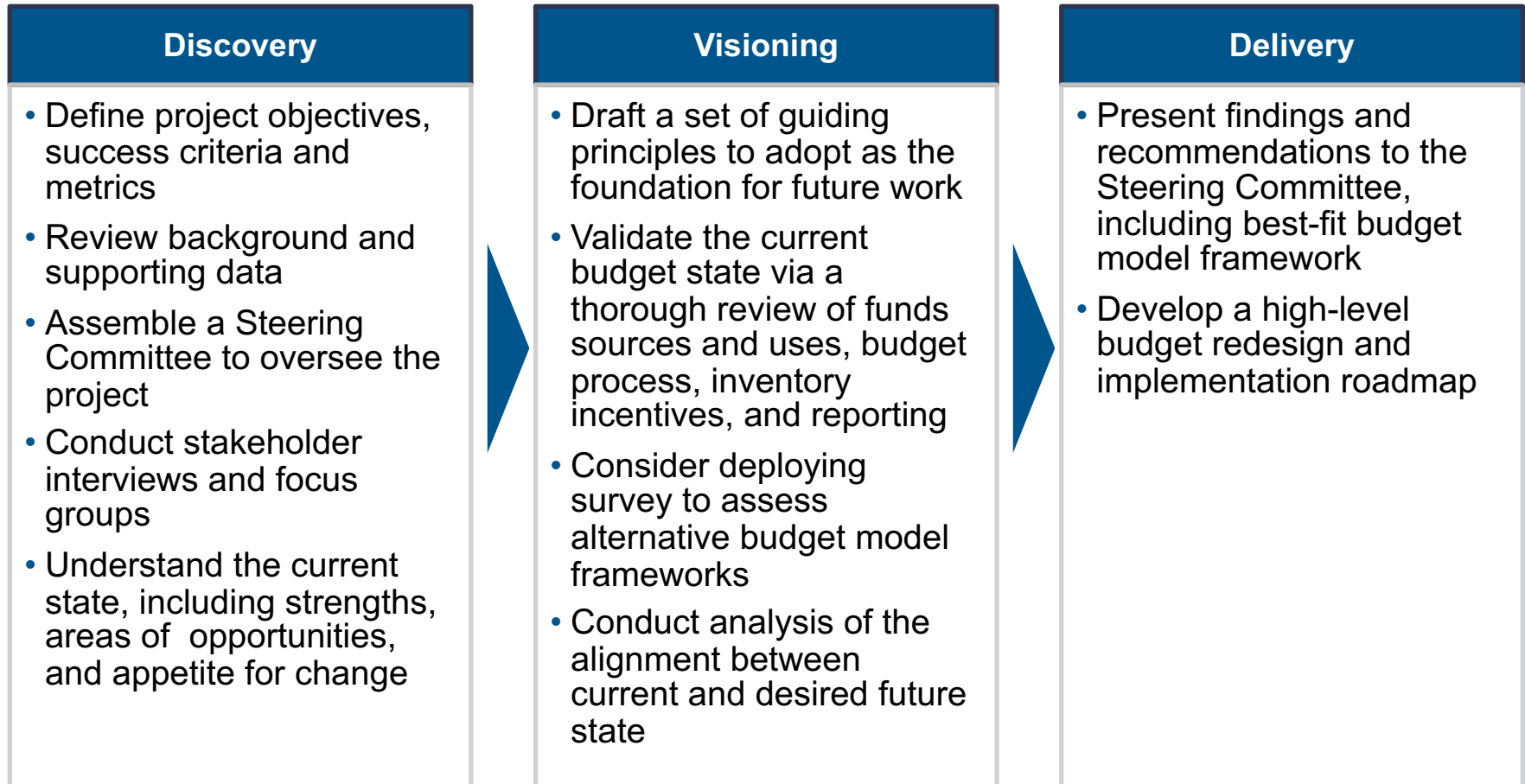
PROJECT TIMELINE

Huron expects this initiative to span 24 weeks and include extensive engagement with campus stakeholders, including the initiative Steering Committee and Deans

Task Element	Month						
	0	1	2	3	4	5	6
Pre-Work							
Task 1 – Initial Assessment & Model Development 1. Due Diligence and Visioning 2. Financial Model Development							
Task 2 – Evaluation, Refinement, & Stakeholder Engagement 1. Model Evaluation 2. Engage Academic Deans and Business Officers 3. Engage Additional Stakeholders 4. Refine Pro Forma Budget Model 5. Conduct Model Training							
Task 3 – Implementation & Delivery Fulfillment 1. Budget Model Expansion 2. Establish Governance Structure 3. Map and Enhance Budget Processes 4. Unit-Level Scenario Planning Tool Development 5. Budget Workshop Delivery 6. Conduct Additional Engagement 7. High-Level Academic Portfolio Review							

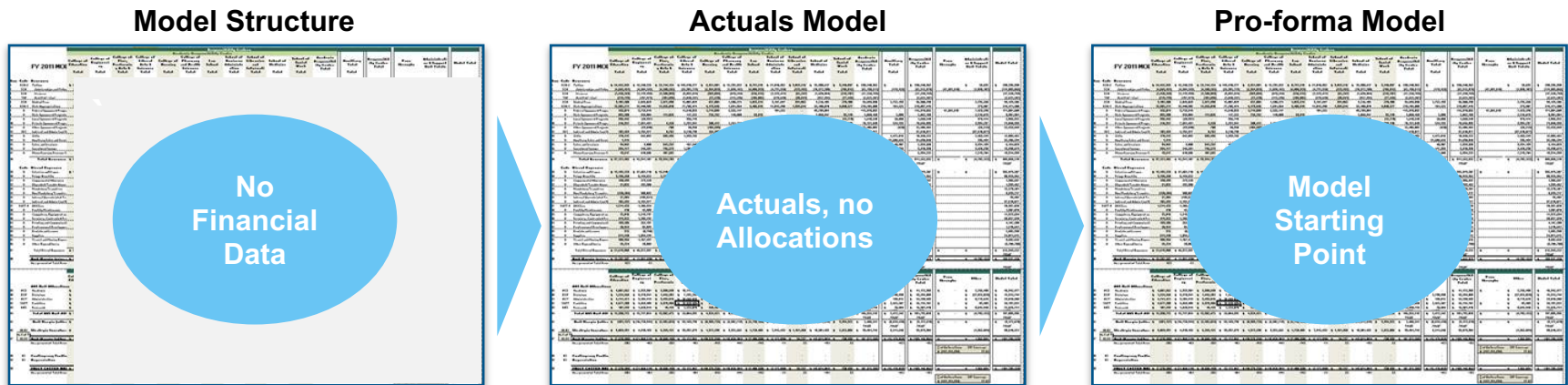
TASK 1 APPROACH: INITIAL ASSESSMENT

The objective of the Task 1 initial assessment is to help clarify and focus the case for change.



TASK 1 APPROACH: MODEL DEVELOPMENT

The objective of the Task 1 model development exercise is to build a pro forma financial model that begins by developing an initial report structure, is followed by layering in financial actuals, and then integrates scenario testing flexibility.



- Draft model structure representing units and revenue and expense lines in a model income statement format
- Actuals data in the model income statement format with no allocations
- Actuals data in the model income statement format with "starting point" allocations

TASK 2 APPROACH: EVALUATION, REFINEMENT, & STAKEHOLDER ENGAGEMENT

The objective of Task 2 is to engage stakeholders, particularly Deans, in order to understand what customizations may be necessary in the pro forma model to arrive to a final “UCCS model” for recommended implementation.

Key Decision Points

- Revenue Allocations: Decisions related to allocation of major revenue sources
- Cost Allocations: Decisions related to grouping central administrative costs into cost pools, and allocation of costs
- Subvention: Decisions related to how resources are captured centrally to permit strategic initiatives
- Additional Customizations: Any additional customizations related to model structure, allocations, and/or variables based on feedback from stakeholders.

Layers of Stakeholder Engagement

- Steering Committee: We will leverage the Steering Committee to develop initial drafts for key decision points
- Deans: We will share highlights from Steering Committee discussions with Deans in individual meetings and collect feedback for further customizations.
- Retreat: Following Steering Committee and Deans meetings, we will facilitate a retreat to review the model in full with the Steering Committee and Deans
- Other Forums: We will leverage other forums available to engage with key stakeholders, including faculty, VP's, and other constituency groups.

TASK 3 APPROACH: IMPLEMENTATION AND DELIVERY

The objective of Task 3 is to support UCCS in continuing to engage campus and developing the infrastructure and processes necessary to fully implement the model.

Infrastructure & Process Development

- Budget Model Expansion: Support Budget Office in recreating pro forma model using historical budget data
- Establish Governance Structures: Identify and support kick-off of select governance committees
- Enhance Budget Processes: Coordinate with Budget Office to adapt the existing annual process to incorporate planning needs of the new budget model
- Scenario Planning Tool: Development of an Excel-based planning template to facilitate unit-level planning

Further Stakeholder Engagement

- Budget Workshops: Present Excel-based planning template and additional engagement with Business Officers to assist with unit-level planning
- Additional Engagement: Provide support at supplemental campus engagement events

STEERING COMMITTEE MEMBERS

- Co-Chairs: Tom Christensen (Provost) and Chuck Litchfield (VCAF)
 - 2 Deans
 - 2 Associate deans
 - 2 Financial staff
 - 2 Faculty (UBAC chair and one recommended by faculty assembly)
 - 1 Representative from Student Affairs and Auxiliaries

- Ex-officio:
 - Suzanne Scott (Budget officer)
 - Enid Ruiz-Mattei (Assoc. Director of Budget Planning)

- Steering committee will confirm working groups

Q&A

Feedback Opportunity:

[HTTPS://WWW.UCCS.EDU/STRATEGICPLAN/STRATEGIES/5](https://www.uccs.edu/strategicplan/strategies/5)



Concluding Thoughts

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- Institutional leaders face more demands in today's higher education marketplace than ever before, warranting renewed focus on how resources are deployed.
- Resource allocation is more than budgeting, rather it impacts all aspects of the institution's ability to deliver on strategic priorities.
- There is not a "single model" or "approach" that should be adopted by all institutions; the model must be customized to reflect the unique culture, mission, and values of the institution.
- To be effective, resource allocation models need to provide enhanced decision support by providing clear and compelling data, information, and incentives.
- Successful budget model redesign initiatives deeply engage stakeholders across campus – this is important in both the design and operation of budget models.



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