New Budget Model Open Forum
YOUR PRESENTERS

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Managing Director
Huron Consulting Group
AGENDA

1. Welcome and Introductory Remarks
2. Budget Model Redesign Concepts
3. CU Denver’s New Budget Model Initiative
4. Q&A
WELCOME AND INTRODUCTORY REMARKS
CONTEXT AND BACKGROUND

The University initiated conversations surrounding a budget redesign due to:
+ Increasing financial constraints
+ Costs continuing to outpace revenues and downward pressure on tuition increases
+ Limited understanding throughout the campus of internal funds flow

In late 2016, The University selected Huron via a competitive process to help develop a model to:
+ Increase understanding surrounding the budget model and budgeting process
+ Promote a better appreciation of fiscal challenges
+ Formulate better linkages between strategic planning and resource allocation

The Steering Committee was then established to recommend a new budget model.
Creating a Sustainable Financial Future

University Mission, Vision, Values and Strategic Plan

Financial Sustainability

1. Grow Revenues
   - Campus units become more engaged in the process of generating and managing revenues
   - We need to move towards a campus defined by dynamic revenue generation (versus an incremental mindset)

2. Control Expenses
   - Every dollar we save is a dollar that we can redeploy towards our highest priorities
   - Every unit and every employee can do their part to operate more efficiently

3. Improve Resource Allocation
   - Ensure that we are doing the best possible job of allocating our scarce resources towards our top priorities
MODEL INCENTIVES FOR CU DENVER

- Attract and retain more students
- Apply a market driven approach to all units
- Grow existing and build new programs
- Enhance administrative accountability
- Incentivize bottom-up academic cost rationalization
SELECTED HIGHER EDUCATION BUDGET REDESIGNS

Common budget redesign rationales:
- Change nature of decision making
- Move to a more methodical approach
- Grow revenues
- Promote incentives
- Increase transparency
RESOURCE ALLOCATION MARKET OVERVIEW

In the quest for a long-term solution to financial challenges, a significant number of institutions have decided to undertake budget redesign initiatives.

- Inside Higher Ed’s 2015 survey of college business officers found that 45% of institutions have significantly changed their approach to resource allocation in the past four years \(^{(1)}\).

- Institutions are working diligently to reframe budgeting as an activity designed to develop new resources, promote desired activities, and funnel resources to strategic priorities.

- Majority of changes are resulting in *more inclusive* strategies as an acknowledgement of the powerful impact engaged stakeholders can have on institutional resources.

- Enhanced stakeholder engagement requires better and more useful data, information and reports.

- Ultimately, institutions appear to be adopting hybrid allocation models that are customized to institutional cultures and goals.

\(^{(1)}\) Source: Inside Higher Ed Survey of College & University Business Officers; May 2015
OVERVIEW OF BUDGETING ALTERNATIVES

Incremental budgeting remains the most common approach to university resource allocation, though adoption rates are a bit misleading due to the array of alternative and hybrid models.

<table>
<thead>
<tr>
<th>Common Budgeting Models¹</th>
<th>Incremental Budgeting</th>
<th>Formula Funding</th>
<th>Performance Funding</th>
<th>Incentive-Based Models</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▪ Centrally driven</td>
<td>▪ Unit-based model focused on providing equitable funding</td>
<td>▪ Unit-based model focused on rewarding mission delivery</td>
<td>▪ Focus on academic units</td>
</tr>
<tr>
<td></td>
<td>▪ Current budget acts as “base”</td>
<td>▪ Unit rates are input-based and commonly agreed upon</td>
<td>▪ Unit rates are output based and commonly agreed upon</td>
<td>▪ Incorporates a devolution of revenue ownership to local units, as generated</td>
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<td></td>
<td>▪ Each year’s budget increments (decrements) adjust the base</td>
<td>▪ Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</td>
<td>▪ Annual fluctuations are driven primarily by changing production and not from changes to rates</td>
<td>▪ Allocates costs to revenue generating units</td>
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<td></td>
<td>▪ Focus is typically placed on expenses</td>
<td>▪ Common modifications:</td>
<td>▪ Common modifications:</td>
<td>▪ Utilizes a centrally managed “subvention pool” to address strategic priorities</td>
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<td></td>
<td>▪ Common modifications:</td>
<td>▪ Weighting schemes to control for local cost structures</td>
<td>▪ Weighting schemes to control for local unit mission</td>
<td>▪ Common modifications:</td>
</tr>
<tr>
<td></td>
<td>▪ Block-grant models bucket line-items together to promote local control</td>
<td>▪ Used only for select activities (e.g., instruction)</td>
<td>▪ Used only for small portions of overall resources (as little as 1% - 5%)</td>
<td>▪ Revenue allocation rules</td>
</tr>
<tr>
<td></td>
<td>▪ Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base</td>
<td>▪ Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model</td>
<td>▪ Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model</td>
<td>▪ Number of cost pools</td>
</tr>
<tr>
<td></td>
<td>▪ Approximately 60% of institutions and 79% of public doctoral institutions report using this model</td>
<td></td>
<td></td>
<td>▪ Participation fee (tax rate)</td>
</tr>
</tbody>
</table>

¹ Adoption rates from the 2011 Inside Higher Education Survey of College and University Business Officers; Percentages do not add to 100% due to hybrid budgeting models
When institutional stakeholders consider decentralized models, focus often shifts to a responsibility center management model; yet there is material differentiation among the landscape of decentralized models.

<table>
<thead>
<tr>
<th>Incentive-Based Budget Model Iterations</th>
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</thead>
<tbody>
<tr>
<td><strong>Contemporary Decentralized Budgeting</strong></td>
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<tr>
<td>- A higher degree of central control</td>
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<tr>
<td>- Local units keep a majority of their revenue but give up more than in the traditional incentive-based budgeting model through a higher subvention “tax” paid</td>
</tr>
<tr>
<td>- Through increased tax revenue, central administration has greater ability to subsidize colleges, fund strategic initiatives, and support mission-related programs</td>
</tr>
<tr>
<td>- Higher tax rate, typically between 15 and 20% (in addition to indirect cost rates)</td>
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<tr>
<td>- This iteration has been the most commonly implemented since 2005</td>
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More centralized

Less centralized
BENEFITS OF EFFECTIVE BUDGETING

During a budget model redesign initiative, it is important to maintain the focus on the benefits of effective budgeting:

- Facilitates two-way discussions between entities, a joint understanding of markets, and annual discussions about institutional priorities
- Translates strategic goals into management and operating plans
- Results in policies and procedures that focus on incentive alignment, entrepreneurship, and the efficient use of resources
- Optimizes incentives with the potential to create win-win opportunities across an entire institution
- Identifies the true nature of internal subsidies (transfer payments)
- Avoids “incremental” budgeting, which fails to evaluate base budget allocations or adequately reflect changes in key drivers

Effective budgeting leads to the distribution of useful information, data-informed decisions, and the effective utilization of institutional resources
CU DENVER’S NEW BUDGET MODEL INITIATIVE
# PROJECT TIMELINE

<table>
<thead>
<tr>
<th>Work Step</th>
<th>Contributing Participants</th>
<th>Outcomes / Deliverables</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Initiation</td>
<td>Deans, Cabinet, Project Team, Senior Business Administrators</td>
<td>▪ Confirmation of goals&lt;br&gt;▪ Develop common understanding of approach and timing&lt;br&gt;▪ Begin process of engagement</td>
<td></td>
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<tr>
<td>Principles</td>
<td>Steering Committee, Working Group, Project Team</td>
<td>▪ Finalization and codification of principles</td>
<td></td>
</tr>
<tr>
<td>Data Collection &amp; Financial Modeling</td>
<td>Project Team, Working Group, Steering Committee</td>
<td>▪ Assessment of data availability and reliability&lt;br&gt;▪ Pro forma financial statements&lt;br&gt;▪ Broad financial model for what-if analysis</td>
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</tr>
<tr>
<td>Communication and Vetting</td>
<td>Steering Committee, Working Group, Sr Business Admins, Faculty Assembly, BPC, Student Leaders, Town Halls</td>
<td>▪ Distributed understanding of what is changing, why it is changing, and what the change means</td>
<td></td>
</tr>
<tr>
<td>Implementation Planning</td>
<td>Steering Committee, Project Team</td>
<td>▪ Actionable plan for implementation</td>
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</tbody>
</table>
# GOVERNANCE: STEERING COMMITTEE

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>School/Central</th>
<th>E-mail/Phone</th>
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<tr>
<td>GUIDING PRINCIPLES</td>
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<tr>
<td><strong>1</strong> Develop a flexible budget model that aligns financial resources with campus vision, mission, and strategic priorities as a student-centered, urban-serving research university</td>
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<td><strong>2</strong> Ensure and support continuous improvement in academic quality, scholarship, and student success</td>
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<td><strong>3</strong> While promoting fiscal responsibility and financial sustainability, provide a simple, predictable, and transparent methodology for allocating resources and managing associated costs</td>
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<td><strong>4</strong> Building on the strengths of CU Denver, include incentives for achieving growth, efficiency, effectiveness, innovation and entrepreneurship</td>
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<td><strong>5</strong> Reflect a shared commitment for the fiscal health of the campus and promote collaboration and accountability across all academic and administrative units</td>
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</table>
OVERVIEW – BUDGET MODEL

+ All units are placed into two groups:
  1) Academic Units
  2) Central Support Units

+ Academic Units (revenue units): comprised of Schools/Colleges; units to which funds/revenues are directly allocated in support of teaching, research and service activities

+ Central Support Units: i.e., student services, research services, libraries, HR, financial services etc.; units which receive funds from Academic Units based on a set of cost allocation variables

+ Mission Enhancement Fund created through a common fee (or tax) on select revenues generated by Academic Units

+ Mission Enhancement Fund used to support the University’s strategic priorities and operations
ACADEMIC UNITS

+ Academic Units are generally defined by the following characteristics:
  - Ability to influence revenue generation
  - Receive allocation of central unit costs
  - Accountable for performance, retaining both surpluses and losses
  - Contribute to Mission Enhancement Fund through a common fee

<table>
<thead>
<tr>
<th>Academic Units Include:</th>
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</thead>
<tbody>
<tr>
<td>• Architecture &amp; Planning</td>
</tr>
<tr>
<td>• Arts &amp; Media</td>
</tr>
<tr>
<td>• Business</td>
</tr>
<tr>
<td>• Education &amp; Human Development</td>
</tr>
<tr>
<td>• Engineering</td>
</tr>
<tr>
<td>• Public Affairs</td>
</tr>
<tr>
<td>• Liberal Arts &amp; Sciences</td>
</tr>
</tbody>
</table>
CENTRAL UNITS

Central Units are generally defined by the following characteristics:

- Less opportunity to influence revenue
- Provide services and/or support to academic units
- Accountable for operating within an expense budget
- Responsible for providing optimum service based upon service-level understandings

Central Units Include:

- Academic & Student Affairs
- Commitments & Obligations
- Graduate School
- Library
- Research
- Facilities
- Central Support & Administration
STRATEGY-FOCUSED BUDGETING PROCESS

Prior Year Results and Environmental Scan

Strategic Discussions

Financial Plan Development

Shifts and Trade-Offs Decision-Making

Finalize Budget

Assess and Recalibrate

Start of FY

• How do we expect to end the year?
• What course corrections do we need to implement?

• Are we on track with our strategic plan & performance?
• How do year-end financial results impact CY forecast?
• What does this mean for our funding envelope for the new FY and budget process?

• Where are we on strategic plan?
• How is our organization performing?
• What new initiatives will move us forward?
• What can we improve or divest?

• What is the ROI on our initiatives?
• What $$ savings/efficiencies can we realize?
• What funding envelope can we support?
• What initiatives will we fund?
• What subsidies are needed?
• What savings/efficiencies will we implement?

• How do our strategic discussions change our financial plan (operating and capital)?
• What is the ROI on our initiatives?
• What $$ savings/efficiencies can we realize?
• What funding envelope can we support?

Critical Enablers
Data Access and Reliability
Fact-Based Decision-Making
Analytic Staff Capabilities

Year-round

Admin: Q1
Provost: Q2
Admin: Q2
Provost: Q3
Q1-2
Q4

Data Access and Reliability
Fact-Based Decision-Making
Analytic Staff Capabilities

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Universities are exploring new ways to update their budget models to become more decentralized. In response to this shift, we have outlined the transformation between the old budget model and the proposed budget model.

<table>
<thead>
<tr>
<th>Current Budget Model</th>
<th>Future Budget Model</th>
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<tbody>
<tr>
<td>Funds flow centrally and distributed to Academic Units (centralized)</td>
<td>Funds flow to Academic Units (more decentralized)</td>
</tr>
<tr>
<td>Resources are allocated incrementally</td>
<td>Academic Units keep majority of their revenue and give up some for central costs and central pool</td>
</tr>
<tr>
<td>Few incentives to grow revenue and reallocate costs</td>
<td>Majority of the revenue growth stays with units</td>
</tr>
<tr>
<td>Low understanding of the internal economy</td>
<td>High understanding of the internal economy</td>
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</table>
GENERATING INCREMENTAL RESOURCES

The budget model does not result in additional resources being added on day one.

The model will serve as a mechanism for revenue to flow in a more direct and understandable manner, but is not a cost accounting tool.

Schools and colleges get to carry forward an unrestricted balance if they outperform the budget.

How do we all win?

1) Increase Total Student Credit Hours
2) Create efficiencies and cost savings
3) Diversify non-tuition revenue streams
4) Actively leverage more restricted revenue streams (gifts, endowed professorships, research, etc.)
5) Take advantage of central services in lieu of local duplication of services
Q&A
THANK YOU