Response to Offsite Review Summary of Lines of Inquiry
Additional Information Request #10
Documentation Outlining the New Budget Model
August 2018

EXECUTIVE SUMMARY

In 2010, UCR published its long-term strategic plan: UCR 2020. This document has served as the university's guiding vision, offering a compelling narrative of our aspirations for the 2010-2020 decade, and helping to structure campus activities toward attaining an AAU profile. In 2015, UCR created a transparent budget model to reinforce the aspirational goals of the strategic plan, aligning the campus financial framework with its commitment to key areas such as student retention and improvement in graduation rates. This decentralized budget model was designed to increase predictability and transparency and to create easily understood revenue allocation methodologies that allow campus and organizational leaders to manage their resources holistically and with more flexibility. Consistent stakeholder engagement was a key pillar throughout the two-year design process and continues today with subsequent training and feedback sessions.

The implementation of, and transition to, such a model represents a significant effort for the campus. UCR anticipated that a comprehensive post-implementation review would be necessary to identify changes in behaviors and unintended consequences associated with the model. The campus has now experienced three budget cycles under the new decentralized model (FY17, FY18 and FY19) and is well positioned to begin critically examining the strengths and weaknesses of the model. A formal in-depth review of the model is scheduled to begin in Fall 2018, with consultations planned with stakeholders.

Possible areas for refinement of the model already identified include: central campus funding, recharge activities, course weightings, differential cost of space and the budget process and its associated administrative overhead.

Our efforts toward developing and consolidating our new budget model have been complicated by UCR's recent assumption of a major leadership role in UCPATH, a UC system-wide, multi-year business transformation initiative to integrate support of payroll, benefits, human resources and Academic Personnel transaction services across all UC campuses. UC's legacy payroll technology was over thirty years old and increasingly difficult to update and use. Historic processes were also unable to adapt to changing business needs or to adequately serve UC's diverse employee population. The frailty of the previous system therefore posed significant risk to UC payroll and human resources operations. The UCPATH initiative represented a significant investment of the UC system and had the close attention of senior UC leadership.

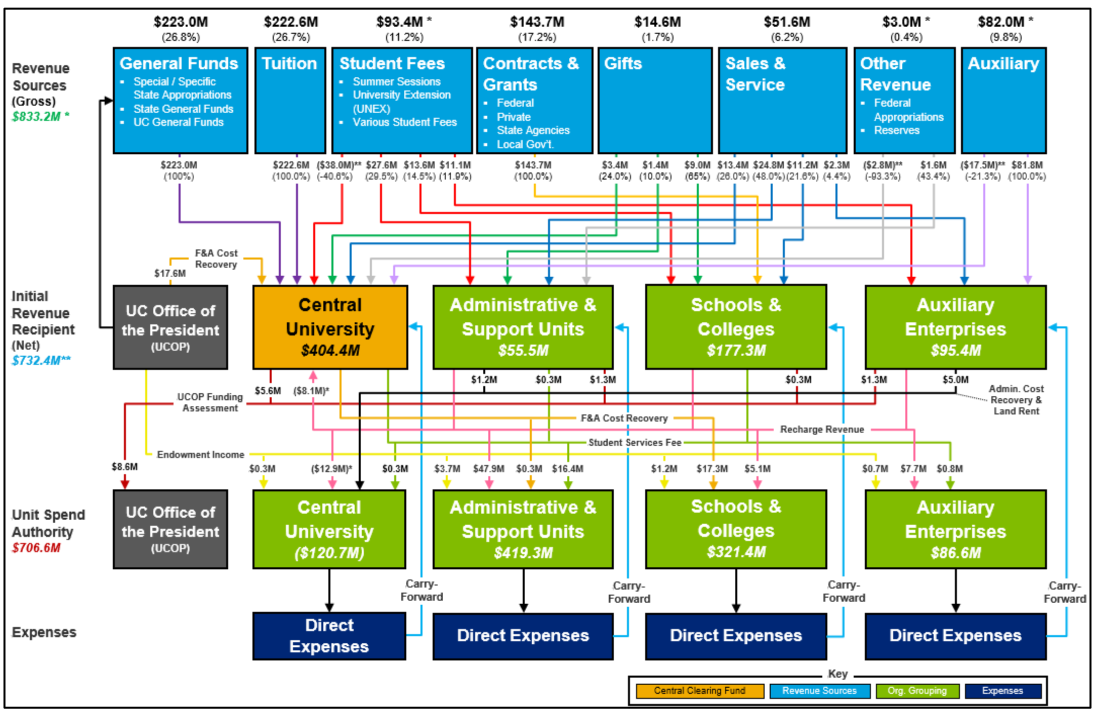
In August 2015, UCR was selected as a pilot campus for the UCPATH initiative alongside UC Merced and Associated Students of UCLA (ASUCLA). UCR responded positively to this request and has been at the forefront of this key strategic UC initiative, allocating significant personnel and financial resources toward its successful implementation. UCR's role as a pilot campus has consumed much time and energy campus-wide, particularly that of financial experts across campus. Energy and focus that might have been spent further developing assessment data across campus and efficiencies within the budget model were necessarily diverted to UCPATH. Given that UCPATH went live in January 2018 and will soon enter its stabilization phase, campus resources and expertise will be freed towards assessment activities in the budget process and refinements of the budget model. The fact that UCLA decided to withdraw as a pilot campus not long before the go-live date, put additional pressure on UCR to test and implement the new functionality.

I. GUIDING PRINCIPLES AND STRUCTURE OF UCR's NEW BUDGET MODEL

Administration, faculty and staff described the previous budget model as opaque, inefficient, cumbersome, and complicated. Essentially a "bare plus" model, the previous allocation methodology was based on incremental allocation of funds to campus units by the Provost after closed-door meetings with Deans and Unit Directors.

A main source of confusion was the unclear path of revenue and expense distribution. The campus received revenue from a variety of well-known sources, but the distribution path was so complex as to be indecipherable. Deans and other leaders perceived little ability to change their revenue or their expenses. Mapping the old model proved to be a challenge, given the labyrinthine allocation structure, and confirmed the descriptions provided by campus stakeholders, validating the call for a redesign.

Figure 1: Map of Previous Budget Model

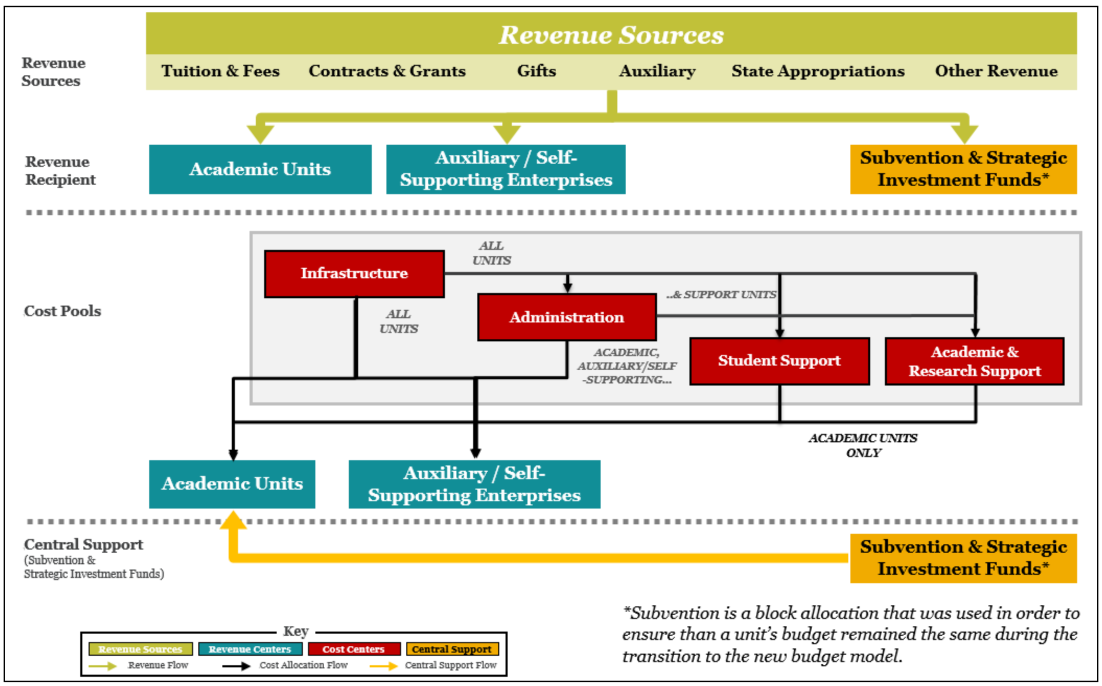


Based on feedback from stakeholders, five principles guided the design of the new budget model. Each component of the model was designed to be transparent, incentivized, strategic, risk tolerant, and logical.

Under the previous model, the university budget represented a common pool resource out of which every unit had an incentive to draw as much as possible. There was a corresponding lack of transparency regarding the requests made, the criteria for allocation and the results.

The new model more closely aligns the budget with UCR's mission and strategic plan. It is decentralized, in that it devolves considerable budgetary autonomy to the School/College level, and is performance based, in that some funding follows directly from units' success in achieving institutional priorities. Rather than depending on the Provost to increase or decrease their budgets, Schools and Colleges can improve their budgets by bringing in more revenue, by cutting costs, or by achieving strategic campus goals. Changes in teaching activities, research and space utilization now translate into budget changes through established formulae, providing predictability and transparency to campus resource allocations.

Figure 2: Map of Redesigned Budget Model



The figure above depicts the clearer, more transparent allocation structure under the new model. Transparency in this sense refers not only to information dissemination, but also to presenting that information in an accessible, understandable way for all stakeholders.

In the decentralized model, units that directly generate revenue from outside the university, such as Schools/Colleges and Auxiliary/Self-Supporting units, are considered Revenue Generators. All other units are considered Service Providers and are grouped into one of four Cost Pools: Infrastructure, Administration, Student Support and Academic and Research Support. All institutional revenue flows to Revenue Generators, and Service Providers' budgets are funded via charges to service customers based on "drivers" that reflect each unit's consumption of the service in question. For example, facilities costs are allocated based on each unit's percentage of campus square footage utilized. Thus, units that use more space will bear a higher share of the facilities costs. Should a unit choose to reduce its space on campus, its portion of facilities costs would then decrease. The table below outlines the drivers used to determine the indirect costs charged to the campus units.

Figure 3: Drivers for Indirect Costs Under the New Budget Model

Cost Pool	Description	Driver
Infrastructure	Facilities	Square Footage
	IT, Police, Enterprise Risk Management	Academic + Student + Staff FTE
Administration	Functional Administration (Finance, HR, etc.)	Academic + Staff FTE
	Central Administration (Chancellor, Planning & Budget, International Affairs, etc.)	
Student Affairs Support	Student Affairs	Undergraduate FTE/ Graduate FTE
Academic & Research Administration	Research Administration	Academic FTE
	Academic Administration	Academic + Student FTE

II. TUITION

In the prior budget model, tuition[1] was held centrally and allocated incrementally across campus. The new model explicitly recognizes that tuition is linked to the instructional activity that generates it, and is allocated based on how much teaching the units perform and how many majors they have, as well as their success in reaching strategic campus goals.

For every $1 of undergraduate tuition revenue UCR receives, 33% is returned to financial aid. Of the remaining 67% tuition revenue available, 70% is allocated to the Schools and Colleges and the remaining 30% is allocated to the Subvention fund to cover fixed cost increases associated with salary and benefits.

The 70% allocated to the Schools and Colleges is apportioned as follows:

- 60% is allocated based the number of student credit hours taught ($3,351 for every 45 credit hours);
- 20% is allocated based on the number of majors ($1,068 per undergraduate major);
- 20% is allocated based on improvements in strategic campus goals ($1,068 per undergraduate major). However, the actual implementation of this performance piece of the budget model is currently under review.

Under this allocation methodology, Deans can now plan for adding classes or majors, knowing how much revenue they will receive per student. While the subvention portion of each School/College's budget is essentially fixed, the portion from tuition is variable.

The allocation of graduate student tuition is also based on a formula. Under the new model, 100% of Ph.D. tuition is used for graduate student support. Schools and Colleges receive 67% of Master's tuition and 50% of Professional Master's tuition, both based on headcount, with the remainder going to graduate student support. This allocation formula was designed to generate sufficient revenue to provide the required level of graduate student support to advance towards our graduate education goals.

[1] Tuition includes all credit hour costs paid by students, but not special fees beyond these costs nor the non-resident added charge.

III. STATE FUNDING AND THE SUBVENTION FUND

The subvention reflects the different cost structures of the Schools and Colleges and was designed to maintain each unit's core/state funding level through the transition to the new budget model. Each School/College receives a subvention, the size of which depends on how much was needed to hold the unit harmless when moving to enrollment-based allocation of tuition (FY15-16). The subvention does not increase, except for mandatory cost increases such as salary increases. As the subvention remains essentially constant, while tuition revenue generally increases (primarily due to enrollment growth), the subvention will comprise a smaller portion of the budget over time.

Funding received from the State of California via the UC Office of the President and UC General Funds are considered subvention funds. In this budget model, state funding is thought of as providing the baseline funding for the core campus operations. State funds are supplemented by a portion of tuition revenue to form the subvention fund.

IV. SERVICE PROVIDER GOVERNANCE PROCESS

In the decentralized model, the Revenue Generators fund the Service Providers and can be thought of as their customers. To govern these arrangements, Service Level Agreements, or SLAs, act as a contract between the Service Provider and customer to align expectations about the services provided and the costs. Each service is classified as a core service (provided as a base service to units), premium service (provided and charged only by additional agreement) or recharge.

A Governance Committee has also been established to serve as an advisory committee to the Provost and Vice Chancellor for Planning and Budget during the budget process. Governance Committee members serve 3-year terms, with new members rotating in each year. The Committee is composed of representatives of the academic units, Service Providers, Auxiliaries and the Academic Senate (Figure 4). The Committee reviews Service Provider budgets and works closely with the Service Providers to ensure that service provision, quality of services and costs are in alignment with the needs of the customer units and the overall strategic objectives of UCR. Increases in Service Provider budgets will necessarily increase the indirect costs charged to each unit. Thus, the units that pay for services now have a voice in what services are prioritized and how much is spent on them.

Figure 4: Governance Committee Composition

Governance Committee Representatives	Current Member
2 Deans	Dean of the College of Humanities, Arts and Social Sciences (CHASS)
	Dean of the Graduate School of Education (GSOE)
2 Chief Financial and Administrative Officers (CFAOs)	CFAO of the College of Natural and Agricultural Sciences (CNAS)
	CFAO of the School of Public Policy (SPP)
1 Self-Supporting/Auxiliary Director	Assistant Vice Chancellor of Auxiliary Services
1 Service Provider	Vice Chancellor of University Advancement
1 Academic Senate Representative	Chair of the Academic Senate Planning & Budget Committee

V. OUTCOMES FOLLOWING IMPLEMENTATION OF THE BUDGET MODEL

Several new outcomes, behaviors and consequences associated with the budget model have been observed following implementation.

A. Decrease in Funding Available for Campus Strategic Investment

Directing tuition revenue to the Schools and Colleges following the allocation formula has left insufficient resources under central control for strategic implementation of the campus vision. Senior leaders, including deans, have indicated that additional central resources are needed for the central campus to be able to effectively lead in the planning and execution of capital projects, infrastructure and deferred maintenance as well as strategic investments such as cross School/College programs and initiatives. These preferred functions have been limited under the current structure of the model. Further, Chief Financial and Administrative Officers in the academic units have also stated that central campus should fund mandated costs such as merits and range increases, but this has become increasingly difficult to achieve under the current distribution of funds.

B. Increase in Central Campus Obligations

As part of the transition to the decentralized budget model, UCR underwent a “recharge rationalization” process aimed at decreasing the number of recharge transactions and reaping the associated workload cost savings. This transferred approximately $20M in budgets from recharge funds to general funds. As 70-80% of that funding covered salaries and benefits, the central campus obligation for fixed cost increases on general funds also increased as a result. Additionally, central campus provided $7M in core funds to Service Provider units in order to stabilize their budgets and to help those units meet the increased campus demand for core services now offered free of charge (more on this below). This rationalization process further decreased the amount of funding available at the center.

Historically, salaries and benefits (and specifically salary and benefit savings from turnover) have been a significant point of financial flexibility for most institutions, through the Provost’s office. In the new budget model, the schools and colleges retain the salary and benefit savings that occur when faculty separate or retire. While the new budget model delegates hiring authority to campus units, the central campus retains all responsibility to fund annual salary and benefit increases. Because units do not face the full cost of their hiring decisions, this aspect of the model has led to over-hiring in some units, thereby increasing the demands on central resources.

C. Overconsumption of Services

While the rationalization process significantly reduced the number of transactions on campus, it also had the unintended consequence of materially increasing the demand for many services that Service Providers now offer as core (i.e. zero marginal cost to the customer) services across campus. The demand for these services often outpaces the level of core funding provided.

D. Creation of New Degree Programs

Given the funding incentive for majors in the tuition allocation formula, UCR has experienced changes in several majors on campus, including:

- A new Education undergraduate major;
- A new Data Science undergraduate degree program (in process);
- A proposal for a new 4-year Business degree (students complete all four years as Business school students, rather than just the last two years);
- A proposed new joint BS/MS program in Entomology;
- The transfer of the Public Policy undergraduate major from the College of Humanities and Social Sciences (CHASS) to the School of Public Policy (SPP).

E. Indirect Cost Recovery of Auxiliary Units

Using Student FTE as the driver for certain indirect costs has led to a rapid increase of administrative cost recovery from certain Auxiliary units such as the Student Recreation Center. If this unintended consequence is not addressed the Recreation Center will not be able to afford its debt going forward. Other units in a similar predicament include University Extension and the Highlander Union Building (HUB).

VI. POTENTIAL OPPORTUNITIES FOR REFINEMENT

Based on preliminary discussions with academic and service units through the budget process, key opportunities for refinement include:

A. Recharge

It is possible that the new budget model went too far in eliminating recharges, and a more appropriate balance of recharge activity with Service Level Agreements is likely needed.

B. Central Funding

The need for more funds to be held centrally has been a consistent refrain from the senior leadership team and campus Chief Financial and Administrative Officers. While the budget model was designed to create a more entrepreneurial environment on campus and to give units more direct authority and responsibility over their budgets, a fully decentralized structure has been difficult to coordinate as central funding is often sought for strategic initiatives such as cross School/College programs or strategic investments in diversity, infrastructure, etc. The budget model, as designed, does not allocate sufficient funding to the central campus for these initiatives, including increased salary and benefit costs. Particular attention will be given in the coming months to the amount of funding that should remain in central resources.

C. Tuition Allocation Formula

Under the tuition allocation formula, 20% of the allocation to Schools and Colleges is based on improvements in strategic campus goals. This performance pool was originally intended to be allocated based on graduation rates, but the actual implementation is currently under review as the campus reexamines which performance indicators are best aligned with current reality in the academic units.

D. Undergraduate Course Weighting

The current model does not provide any weights to credit hours by level, discipline or course type, or to major headcounts. Most data on costing of higher education shows significant cost difference based on discipline (driven often by salary and benefit costs for faculty, accreditation issues, cohort size, curriculum issues, facilities/equipment needs, etc.) and level of instruction. Some of these factors are already part of the "base" computed for each School/College, but these weights are not part of the incentives for enrollment growth.

E. Differentiation of Space Costs

Space on campus varies widely from agricultural/storage-type facilities to high-end facilities, including diverse types of laboratories. Further, the quality of space varies depending on the age of building and maintenance performed. However, the current budget model does not distinguish cost for space and assigns the same cost to all space regardless of type or condition. In the refinement discussions, consideration will be given to providing general weights to the type and quality of space, and the associated costs, in the model.

F. Budget Process

The annual budget process developed to support the new model has added a very important component of transparency to the overall allocation of campus resources. However, the new process has also added substantial administrative overhead, both centrally and at the individual College/Unit level. Leadership will work with the Colleges/Units to identify ways to materially lessen the administrative burden of the new process while retaining the important aspects of transparency and sharing of important financial information.