



Integrated and Value-Centered Budgeting

The University of Illinois at Urbana-Champaign's
Framework for Budgeting System Reform

By: The Office of the Provost

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I. Introduction

Background

The University of Illinois at Urbana-Champaign strives to utilize a financial management framework that provides flexibility to act strategically while fostering sound fiscal management, cost efficiency, and optimal use of available resources. It also recognizes that, with time, its budgeting frameworks can become strained or less effective due to internal and/or external environments and changes, and thus require periodic substantial review and possible modification. Therefore, in June 2015, University Provost Ilesanmi Adesida appointed and designated the Campus Budget Advisory Task Force (CBATF) to address budget and resource allocation matters through shared governance and collaboration with campus leadership. In November 2015, Interim Provost Edward Feser refined the CBATF's focus on issues surrounding the university's current budget system.¹

The CBATF identified the primary shortcomings of the current budgeting model and advocated for the development and implementation of a new budget system.² The committee recommended a budget system that would:

- Align with the University's strategic goals, and enable the University and its units³ to set and achieve those goals;
- Enable each unit to set and achieve individual goals, to plan, and to act strategically;
- Be transparent;
- Encourage colleges to develop a transparent unit-allocation budget system using components that are consistent in principle with the campus budgeting model;
- Promote wise financial stewardship and revenue generation that is consistent with institutional values;
- Ensure that decision-makers are accountable for their decisions;
- Allow decisions to be made at the appropriate levels; and
- Have the committed backing of the campus over an appropriate implementation horizon.

As a result of the CBATF findings, in September 2016, Interim Provost Feser established a Budget Reform Steering Committee and, in December 2016, charged two workgroups (Budget Components Working Group and Data Systems Working Group) to provide recommendations on the budgeting model components and the financial data systems necessary for a comprehensive budget system. Both workgroups prepared broad recommendations and outlined the issues surrounding some of the primary decisions related to resource allocation.

¹ In this report, the "budgeting framework" or "budgeting model" refers to the set of overall ideas, rules, or beliefs that provides support and guidelines when setting objectives and goals and making decisions in regards to the University's new budget system.

² The CBATF report can be accessed at www.provost.illinois.edu.

³ "University units" in this report refer to the population of all colleges, schools, administrative units, and centrally-budgeted units.

Report Objectives and Components

This report proposes a budgeting framework that builds on the principles of the CBATF report and initial recommendations of the Budget Reform Steering Committee and workgroups. It is intended to provide clarity and transparency of the University’s progression toward a new budgeting model for users such as deans, directors, and unit executive officers, as well as faculty, staff, students, and others who are interested in University operations. It also is meant to be written with a broad level of detail so it can be understood by a wide audience, and it will be distributed to purposely generate formal and informal budget system discussions. Updates on this report will occur based on feedback and recommendations from campus committees, administrators, and the campus community at-large.

The budget system discussed herein encompasses three primary components: the new budgeting model; the budgeting and financial data that supports the model; and the necessary budgeting processes—including timelines and review protocol—for proper system implementation, support, and maintenance.

We, the Office of the Provost, have framed the issues, concerns, and recommendations of the various committees in this report. Our framework discussion is organized into seven sections. Following this introduction, Section II describes the model’s guiding principles and an overview of the framework necessary to deploy the new system. Section III discusses the issues related to revenue allocations, and Section IV elaborates on the cost and investment attributions. In Section V, we discuss campus investments to the colleges/schools⁴, and in Section VI we propose the implementation plan over the next three years. In Section VII, we recommend adaptations to the University’s financial and budgeting information systems. Critical to all budget systems is the adequate monitoring and budgetary review of all units as well as the budgeting model as a whole; an assessment of potential review processes is provided in Section VIII.

⁴ Hereafter, tuition-generating colleges and schools will be referred to as “colleges” for simplicity purposes.

II. Budgeting Reform Principles

The guiding principle for budget reform is to develop and implement a system that allows for both campus strategic investments and individualized college financial plans. The system must be integrated with campus strategic priorities, work across disciplines, and support all mission areas. Likewise, it must have the flexibility to allow for investments at the college and University levels that support campus values and campus-wide excellence. Based on these fundamental principles, we have entitled the budgeting framework **Integrated and Value-Centered Budgeting (IVCB)**.

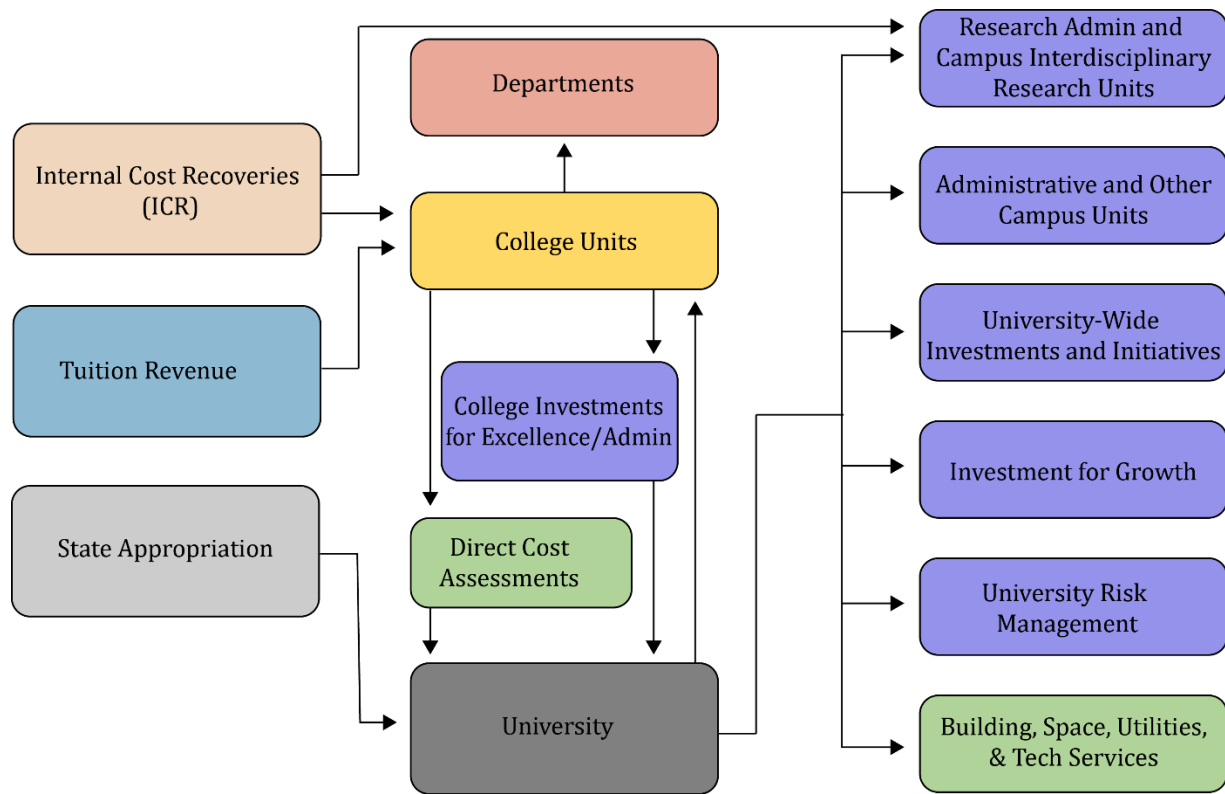
As recommended by the CBATF, committees, and workgroups, the IVCB's goals should:

- Promote transparency,
- Include components that allow for predictability,
- Encourage wise stewardship,
- Ensure accountability,
- Enhance responsiveness to strategic goals/priorities,
- Facilitate multi-year planning, and
- Stimulate appropriate incentives.

Importantly, the general framework necessitates a balance between the University's flexibility and capacity to invest in strategic priorities and a college's flexibility and capacity to define its trajectory and to meet individual strategic goals.

The IVCB framework requires a comprehensive and systematic approach to allocation of the University state appropriation, tuition, certain fees, and Indirect Cost Recovery (ICR) revenues, as well as cost assessments, University-wide investments, funds for capital renewal, and risk management, as shown in Figure 1.

Figure 1. General Framework for Integrated and Value-Centered Budgeting.^{5 6}



Each arrow represents a flow of resources between units that require a specific model algorithm. The three boxes on the left side represent the University’s primary sources of unrestricted funds. Through the IVCB framework, tuition revenue and ICR revenue will be directly attributed to the college units. Some ICR revenue also will flow to the campus Interdisciplinary Research Units. The state appropriation will flow to the University and ultimately be invested in the college units. The college units support their portion of direct cost assessments and college investments, and then provide resources to the University. The boxes on the right side represent the categories of direct costs and investments in administration and campus goods that need funding for the University to operate effectively. The level of resources required for each category is based on unit leadership decisions and campus strategic priorities. The allocations of the cost of these campus goods investments across units are based on an additional set of rules in the new budget system. The flow of resources and the allocations of the costs across units are covered in Sections III and IV of this report.

Data availability and timeliness are also important elements in guiding the budget reform process. Allocations of revenue, costs, and investments must be based on available, clearly defined data. We

⁵ Figure 1 does not include sources like gifts and grant funds because they are not subject to the same allocation process.

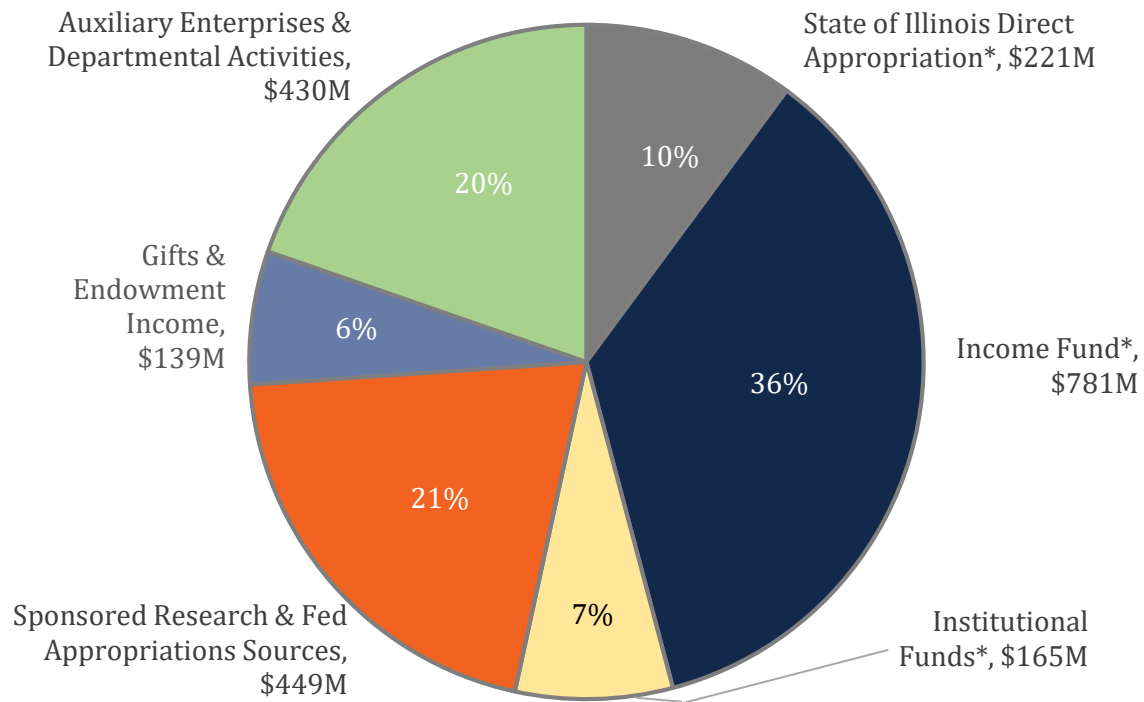
⁶ The box colors represent different attributions of the costs and revenues among University units. An example of the flows for a specific college using this color scheme is provided in Table 10.

intend to base fiscal year budget allocation calculations on data that are accessible through the Division of Management Information (DMI).

Revenue Allocations

The primary sources of available funds to units include (1) State of Illinois direct appropriation⁷, (2) income fund revenue⁸, (3) institutional funds⁹, and (4) restricted funds such as fees, gifts, grant and contract direct costs, auxiliary revenue, and other sales. Sources 1-3 are primarily unrestricted sources and are the discretionary elements discussed in Section III. Figure 2 shows the sources of funds for FY18.

Figure 2. FY18 Budget Sources for the University of Illinois at Urbana-Champaign, Total \$2.185 billion. (* denotes unrestricted funds, which total \$1.167 billion)



⁷ Does not include payments for employee benefits paid on behalf of the University by the State of Illinois or services provided by University System Office on behalf of the University (e.g., payroll, legal counsel, etc.)

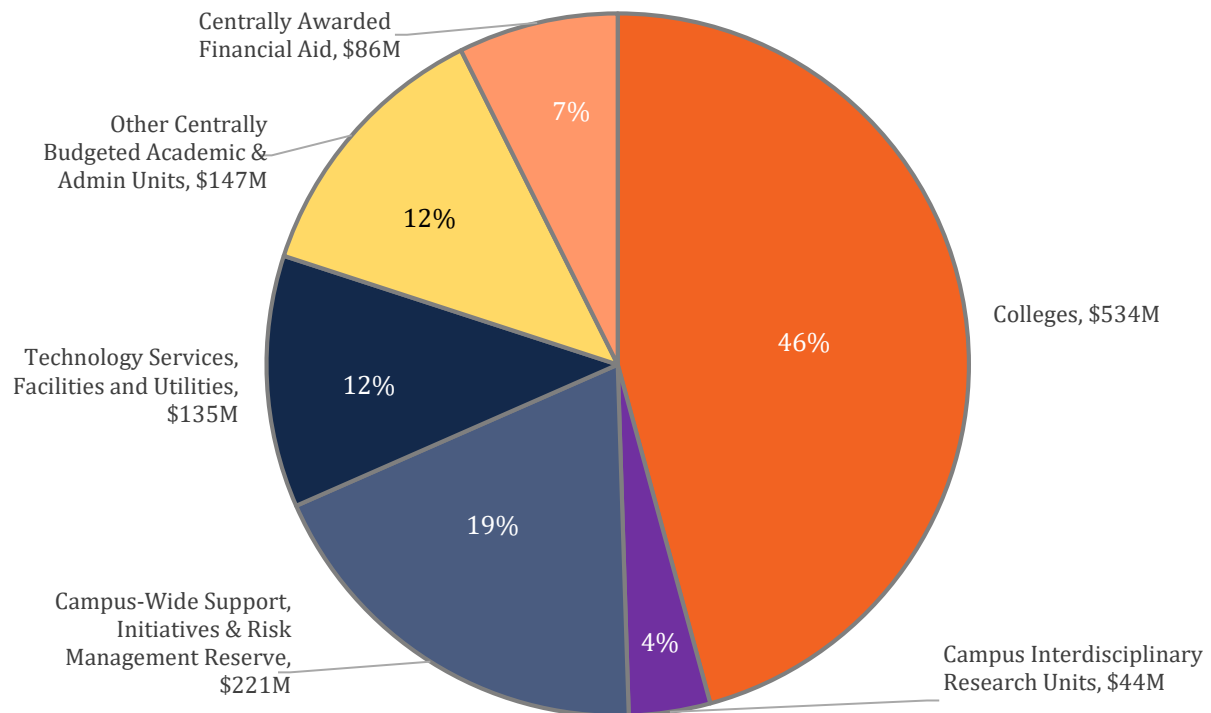
⁸ Approximately 95% of the income fund is net tuition revenue. Most non-tuition components of the income fund are targeted towards specific activities and functions. Therefore, hereafter, this report will use the term “tuition funds”.

⁹ Approximately 89% of the institutional funds is revenue received from indirect costs recovered from grants and contracts (Indirect Cost Recoveries, or ICR). Hereafter, this report will use the term “ICR”.

Cost and Investment Allocations

The second major component of the budget system is the attribution of campus uses of funds. Similar to the University's sources of funds, its costs can be broadly separated into restricted and unrestricted uses. The restricted uses, which are not discussed in this report, include items such as research expenditures for designated grants and contracts, gift expenditures assigned to the designated use of the gift and endowment agreements, auxiliary expenditures, and other specified expenditures tied to specific fee income. The uses with some degree of discretionary allocation include (1) funds specifically allocated to the colleges, (2) centrally-funded financial aid, (3) campus Interdisciplinary Research Units, (4) administrative units and other centrally-funded academic units, (5) service costs such as building, technology, and utilities, (6) support for University-wide initiatives, and (7) risk management reserves. Figure 3 shows these budget allocations for FY18. Section IV of this report outlines a framework for the allocation of costs associated with these uses across University units.

Figure 3. FY18 Unrestricted Budget Allocations for the University of Illinois at Urbana-Champaign, Total \$1.167 billion.



III. Revenue Allocations

This section discusses the allocation of general undergraduate tuition, financial aid, and tuition waivers; graduate tuition; Center for Innovative Teaching and Learning (CITL) tuition; and Indirect Cost Recovery (ICR) revenue. We highlight considerations and supporting viewpoints related to each allocation. These considerations are numbered to aid stakeholders in providing specific feedback.

Undergraduate Tuition

The University has a wide range of tuition rates for undergraduates based primarily on academic program and residency. The Budget Model Components Working Group recommends that the University's allocation of tuition should consider both the student's college¹⁰ of home enrollment where the student's (major) department is housed and the college paying for instruction, based on Instructional Units (IU).¹¹ The college of home enrollment incurs marketing, recruitment, advising, mentoring, and career placement costs, whereas the college paying for instruction incurs costs for professors/lecturers, teaching assistants, labs, etc. The Budget Model Components Working Group's recommendation is to separate the components of tuition into (1) base-rate, (2) non-resident differentials, (3) program differentials, (4) international differentials, (5) non-degree, and (6) study abroad. We will discuss these six categories, as well as Division of General Studies tuition, in more detail in this section.

Consideration 1: Should the tuition allocation follow the revenue of a specific student or be defined by the aggregate number of students in the majors and IUs within a specific college?

Support for student-specific tuition allocation

- May be easier to articulate
- Would enhance the richness of enrollment data, which some units might find useful

Support for aggregate majors and IU calculations tuition allocation

- Easier for data systems to support and for units to predict the value of an additional IU taught; a student-specific model would make it difficult to project the value of an IU because the amount would depend on the number of hours in which a specific student is enrolled
- Historical data are readily available through the Division of Management Information (DMI)
- For purposes of distribution of IU-related revenues, all students in a class bring in the same revenue regardless of program, residency status, or number of hours enrolled; student-specific allocation could result in budgetary incentives to advise students toward specific classes (i.e., a non-resident student would bring more revenue than a resident) or to discourage students from enrolling in additional hours

Recommendation: The University should allocate tuition revenue by aggregate numbers supported by DMI data and not follow the revenue of a specific student.

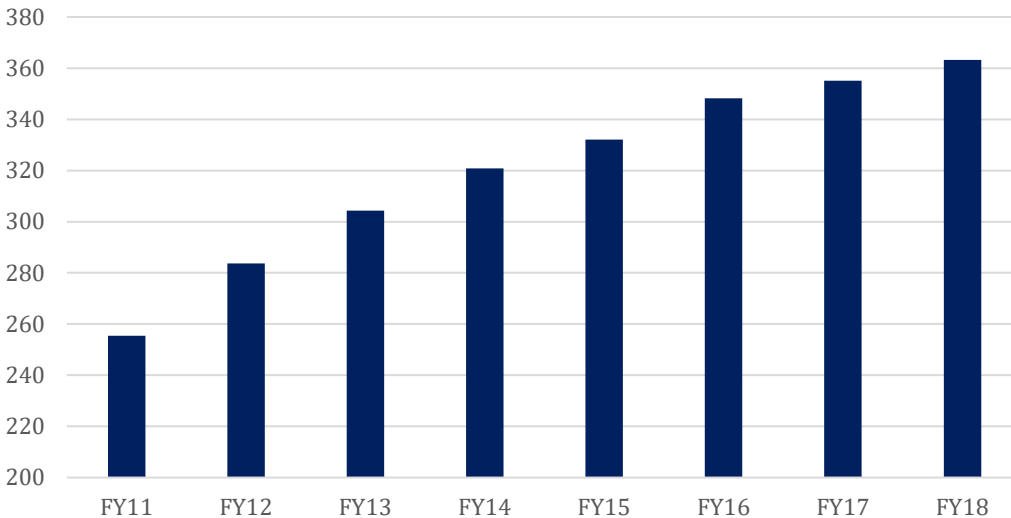
¹⁰ "College" hereafter refers to tuition-generating colleges and schools.

¹¹ An Instructional Unit (IU) equals one undergraduate credit hour or ¼ of a graduate unit.

Base-Rate Tuition

All undergraduates are assessed base-rate tuition. Figure 4 shows the trend in base tuition over the past eight years. The two primary options for base-rate tuition allocation are to the college(s) of enrollment (major) and to the colleges paying to teach (IUs).

Figure 4. Budgeted Undergraduate Base-Rate Tuition (\$ millions)



Consideration 2: What portion of the base-rate allocation should be based on the college(s)¹² of enrollment (major) versus college(s)¹³ paying for instruction (IUs)?

Support for high proportional weighting on majors

- Some colleges invest substantial funding into services for majors (e.g., recruitment, branding, scholarships, academic support, student groups, career services, etc.); a high proportional IU-based model would not recognize those additional costs
- Many programs require small classes due to pedagogy, laboratory restrictions, and performance-based classes
- There is a need to incentivize the recruitment of high-quality majors
- Higher weighting on IUs would likely intensify competition among colleges over course enrollments and encourage duplicative course offerings, therefore possibly incentivizing the quantity of students instructed over the quality of instruction

Support for high proportional weighting on IUs

- Compensates colleges for educating students enrolled in other colleges

¹² There are a few cases where a non-college unit is the home of enrollment. These cases will be excluded from the allocation of tuition related to majors.

¹³ There are a few cases where a non-college unit is paying for instruction. These cases will be excluded from the allocation of tuition related to IUs.

Recommendations:

- A. A blended weighting based on both IUs and majors should be used when distributing base-rate tuition. The Budget Model Components Working Group recommends a minimum weighting for both IUs and majors of 25%.
- B. The IU attribution should be based on the college paying for instruction.
- C. The University needs to adapt enrollment and data systems to support and identify dual degrees.
- D. The Provost should appoint an oversight committee to monitor general education and large classroom offerings actively and to ensure that the best interests of the students are being served.

Consideration 3: After the major versus IU proportions for base-rate tuition are determined (see Consideration 2), should the rates per major and IU be fixed for a period of time or should rates be adjusted annually to reflect campus changes in IUs and majors?

Support for fixed-rate attribution

- The annual adjustment option increases planning uncertainty, as campus-level rates are influenced by changes in campus-wide base-rate tuition generated, as well as campus-wide growth or reductions in IUs or majors; there is more predictability for college-level planning and forecasting with fixed rates
- Buffers the colleges for unexpected reductions in rates
- Even though the fixed rates will change periodically, the rate changes will be known and will allow units time to adjust accordingly

Support for annual adjustments in rates

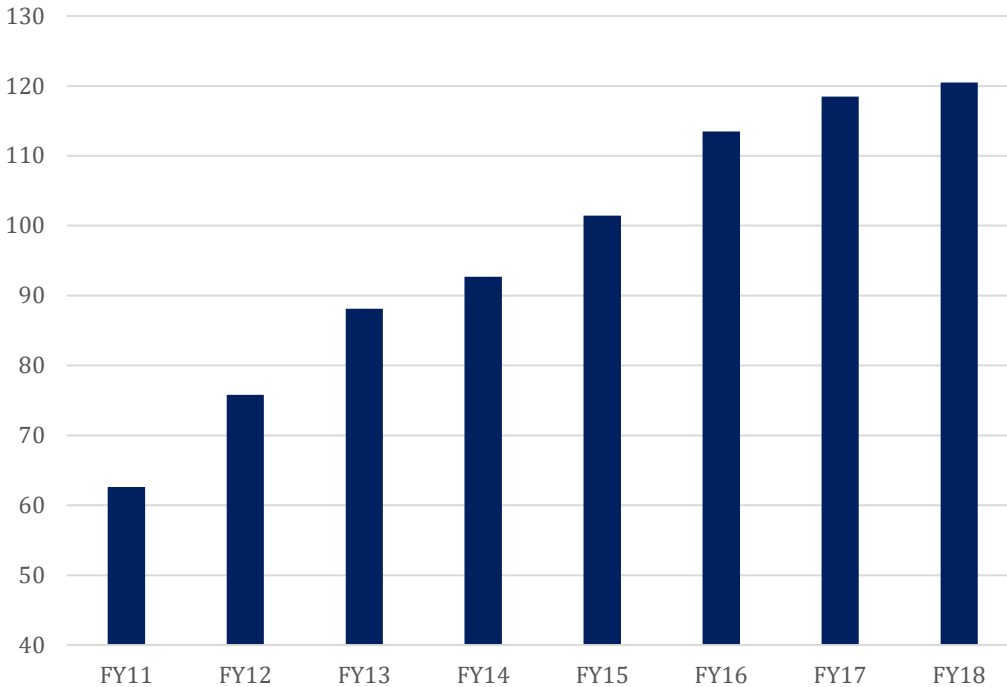
- Reduces the risk of getting the longer-term fixed rate incorrect; campus may be allowed a smaller risk management reserve than under the fixed rate attribution
- Colleges benefit sooner from increasing rates

Recommendation: The rates per IU and per major should be adjusted annually. Consideration should be given to lagging the rates by one year to allow for improved planning.

Non-Resident Differential Tuition

All undergraduate non-residents are assessed additional differential tuition. Figure 5 shows the trend in non-resident tuition over the past eight years. Again, the method of allocation should be based on majors and IUs, but not necessarily in the same proportions as base-rate tuition.

Figure 5. Budgeted Undergraduate Non-Resident Tuition (\$ millions)



Consideration 4: What portion of the non-resident differential allocation should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

Support for mirroring the base-rate allocation

- Consistency in approach
- Would de-incentivize excessive investment in non-resident undergraduate recruitment

Support for higher proportional weighting on majors

- Would recognize the additional costs incurred by some colleges for recruitment, career services, and other student services
- Central management of undergraduate enrollments mitigates the risk of colleges favoring non-residents over residents for admission

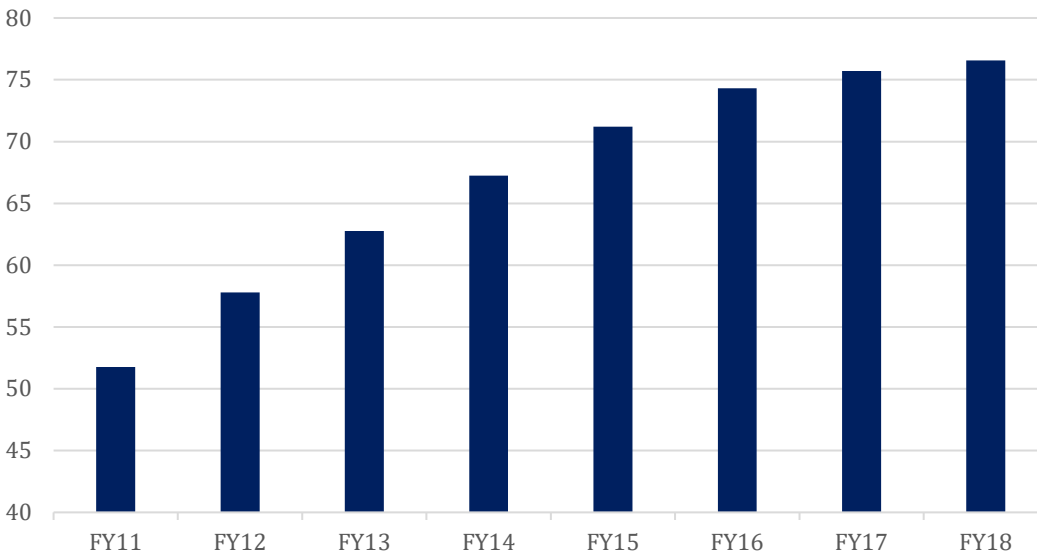
Recommendation: The University should consider allocating a small proportion (less than 25%) of the non-resident tuition specifically to the college(s) of enrollment. The remaining portion should be allocated with the same proportions of IUs and majors as the base-rate tuition.

Program Differential Tuition

Consideration 5: What portion of the program differential allocation should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

Specifically developed programs have received Provost, Chancellor, President, and Board of Trustee approval for a program differential tuition to compensate for higher costs of instruction (equipment, lab, facilities, faculty salaries, etc.). Figure 6 shows the trend in program differential revenue over the past eight years.

Figure 6. Budgeted Undergraduate Program Differential Tuition (\$ millions)



Recommendation: Since the differential approvals were justified based on higher costs, the program differential revenues should flow to the college(s) of enrollment.

International Differential Tuition

Consideration 6: What portions of the campus-level and college-level international differential allocations should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

There are campus-level and college-level tuition differentials assessed to international students. Similar to program differentials, the colleges with college-level international differentials have received approval from the Provost, Chancellor, President, and Board of Trustees.

Recommendation: The campus-level international differential revenues should flow to the central tuition pool and be divided based on the same weighted percentage of IUs and majors as base-rate tuition. The college-level international differentials should flow back to the college(s) of enrollment.

Non-Degree Tuition

Consideration 7: What portion of non-degree tuition should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

There is a small amount of undergraduate tuition revenue being generated from non-degree students who are in college-specific non-degree program codes.

Recommendation: Undergraduate non-degree tuition should be treated the same as base-rate undergraduate tuition. Any related program differential revenues should flow the same as degree program differentials.

Study Abroad Tuition

Consideration 8: What portion of study abroad tuition should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

Currently, students participating in the Study Abroad Program are assessed at the Range IV (0-0.99 credit hours) tuition rate, and the revenues flow to the college(s) in which the student is enrolled.

Recommendation: Study abroad tuition revenues should continue to flow to the college(s) of enrollment.

Division of General Studies Tuition

Consideration 9: Assuming that the DGS tuition revenue generated follows the flow of all other undergraduate tuition under the new model, which college(s) should receive the college of enrollment (major) portion?

The Division of General Studies (DGS) enrolls first- and second-year students who have not yet declared a specific major and generates a significant amount of undergraduate tuition revenue.

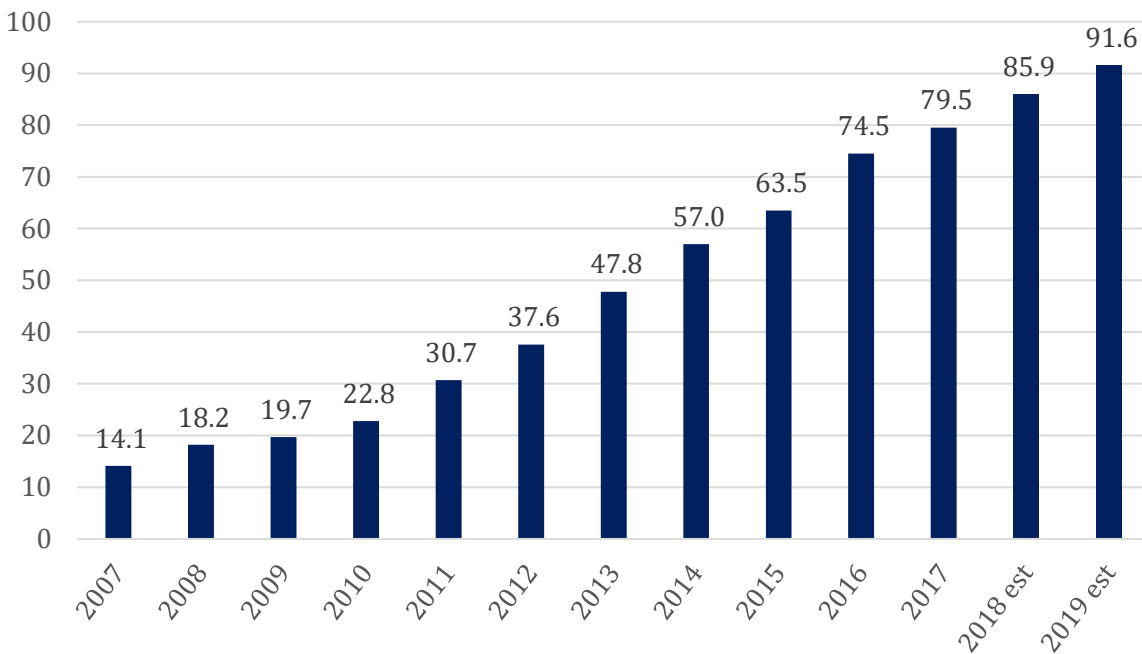
Recommendation: DGS serves the entire campus and has its own operating costs including academic advisors. The college of enrollment portion of the tuition revenues should be attributed to DGS to support its direct operating costs. Net revenues available after supporting the operating costs should be used to offset some of the cost of undergraduate financial aid. The organizational and reporting structure of DGS should remain the same.

Undergraduate Financial Aid

Consideration 10: How should investments in centrally-funded financial aid be attributed?

Undergraduate financial aid is one of the largest recurring investments made at the University and one that has increased substantially over the past eight years. Figure 7 shows centrally-funded investment in financial aid over the past 12 years, as well as our planned commitment in FY19¹⁴.

Figure 7. Centrally-Funded Investment in Financial Aid (\$ million)



Recommendations:

- A. Institutional (centrally-funded) financial aid should be allocated across campus with no regard to the college(s) of enrollment for the individual students receiving financial aid.
- B. Financial aid costs should be attributed using the same weighting on majors and IUs as base-rate tuition.
- C. The net revenue received from DGS will reduce the overall cost being allocated to the colleges for financial aid.
- D. The amount of financial aid awarded by colleges using their own funds is independent of this centrally-funded allocation.

¹⁴ This chart does not include waivers or college and other unit-funded scholarships and financial aid.

Undergraduate Tuition Waivers

Consideration 11: How should tuition waivers be attributed?

The four general types of tuition waivers being used at the University are statutory waivers, need-based waivers, talent and other discretionary waivers, and foreign exchange waivers.

Recommendations:

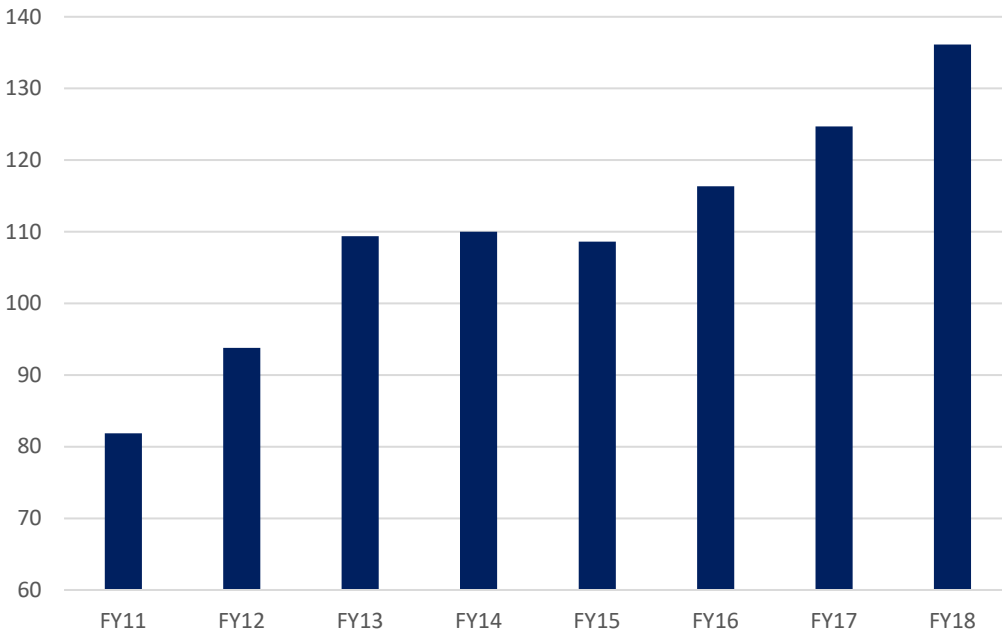
- A. The University has no control over statutory waivers. Thus, the costs should be allocated across campus with no regard to the college(s) of enrollment of the individual students receiving the waivers. The value of statutory waivers should be attributed using the same weighting on majors and IUs as base-rate tuition.
- B. Similar to centrally-funded financial aid and statutory waivers, need-based waivers should be allocated across campus with no regard to the college(s) of enrollment of the individual students receiving the waivers. Need-based waivers should be attributed using the same weighting on majors and IUs as base-rate tuition.
- C. Talent and other discretionary waivers should be individually reviewed by the Provost's Office to determine the level of benefit to the entire campus. It is likely that a high proportion will be assessed specifically to the college(s) of enrollment.
- D. Tuition for foreign exchange students is assessed at the relevant program rate and then fully waived when using foreign exchange waivers. This netting process should occur prior to the distribution of tuition revenues, rendering the net impact to the colleges at zero. If the University moves to monetize undergraduate tuition waivers in the future, it will require a reconsideration of the tuition rate being assessed to these students.
- E. Many colleges have contracts in place with foreign higher education institutions, under which funds are received from the institution but are being booked in self-supporting/other types of accounts, thus bypassing the standard tuition revenue distribution model. The Provost's Office should review these agreements to consider changes to how these revenues are being accounted and handled.

Graduate and Professional Tuition

Consideration 12: What portion of the graduate student tuition should be based on the college(s) of enrollment (major) versus college(s) paying for instruction (IUs)?

There is a range of graduate and professional tuition rates being charged and waived at the University. Figure 8 shows the revenue from graduate and professional tuition the past eight years.

Figure 8. Budgeted Graduate and Professional Tuition (\$ millions)



Recommendations:

- A. Colleges should retain the net tuition they generate, mirroring the current 100% college-of-enrollment model. This decision reflects the fact that most graduate instruction occurs in the home enrollment college of the student. A review of campus data did not reveal major imbalances among colleges for the amount of service teaching provided at the graduate level. We will continue to monitor the balance of service teaching across the colleges. We do want to provide opportunities for our students to enroll in classes that enhance their academic experience. Additionally, in some cases, there are already negotiated agreements between colleges that facilitate the transfer of tuition revenues in a case where a college’s graduate program includes a required course outside of that college. Also, as new graduate programs are created, if a curriculum includes a cross-college course requirement, the Senate Committee on Educational Policy requires documentation of a revenue-sharing agreement or a statement from the course-offering college acknowledging that it is willing to provide the instruction without compensation. As the campus conversations progress regarding a change in the handling of graduate tuition waivers, this policy may need to be reconsidered.
- B. Non-degree tuition income related to students enrolled through the Graduate College should be attributed to the college(s) paying to teach the selected courses (paying IU).
- C. Because of the revenue-sharing agreements, the distribution of revenues generated by courses/programs offered on Coursera or other educational partners’ platforms are handled outside of the regular tuition model.

Center for Innovative Teaching and Learning Tuition

Consideration 13: Should CITL-administered tuition revenues for degree-seeking students be distributed based on the college(s) of enrollment (major), the college(s) offering the course, or college(s) paying for instruction (IUs)?

Tuition revenues related to courses/programs administered by the Center for Innovation in Teaching & Learning (CITL) are accounted for separately and are currently distributed based 100% on the offering college (i.e., that “owns” the course). The vast majority of this revenue is degree-seeking graduate tuition. CITL also administers one undergraduate degree program¹⁵ and non-degree registration.

Recommendations:

- A. The tuition revenue for courses/programs administered by the Center for Innovation in Teaching and Learning (CITL) should continue to be distributed to the offering college.
- B. The CITL-administered undergraduate (degree and non-degree) and graduate non-degree tuition revenues are low. The Provost’s Office should evaluate the distribution of these revenues in more detail.

Indirect Cost Recovery Revenue

The 2012 Indirect Cost Recovery (ICR) Steering and Working Groups made recommendations regarding the distribution of ICR to units on campus. These policies, effective July 2014, are described here:

[ICR Distribution Policy & Special Policies](#)

[ICR Allocation Policy Committee Final Report 2012](#)

ICR is comprised of both Facilities and Administration (F&A) and Tuition Remission. Under this policy, 45% of F&A generated flows to the home college of the Senior/Key Personnel/Principal Investigator (PI) on the grant, and 55% is retained centrally and used to cover facility, utility, administrative, and other costs. For grants managed by the campus-level Interdisciplinary Research Units (IRU)¹⁶ where the PI’s home is in one of the colleges, the 55% portion retained centrally is separated into two parts. Approximately 28% flows to the IRU and 27% is retained centrally. For Tuition Remission, 75% flows to the college of enrollment of the Research Assistant working on the grant, and 25% is retained centrally. At this time, there is no intent to change the portions of the distributions of F&A and Tuition remission that are attributed to the home college of the PI. The portions previously retained centrally may be allocated differently.

¹⁵ Earth, Society, and Environmental Sustainability

¹⁶ See Table 3 in Section IV for a complete listing of campus IRUs

The portion of F&A previously retained centrally is allocated differently in the IVCB model because the costs for administration, space, utilities and other campus goods are attributed to the colleges. Note, however, that actual payments to units such as Facilities and Services (F&S) for these costs that are currently covered centrally will continue to be paid centrally via each unit's annual budget allocation.

Because ICR will be a component of revenue along with tuition in the new IVCB model, an increase/decrease in either ICR or tuition revenues generated will impact the total revenues generated by a college.

The 2012 Indirect Cost Recovery review committees recommended a review of ICR distribution policies two years after implementation. We support a review of the current ICR policy to ensure that the policy is meeting the needs of the units. The change in the campus portion of the distribution could also be considered under this review. The following considerations and recommendations are based on the existing ICR distribution policy.

Consideration 14: How should F&A revenues (the 45% PI home college portion + the 55% campus portion) for grants being managed by the colleges be attributed in the IVCB model?

Recommendations:

PI home college portion (45%): There is no intent to change this portion of the distribution from the current ICR distribution policy. These revenues should be attributed to colleges based on the home college of the PI¹⁷. This allocation recognizes the costs incurred by the college employing the PI. In cases where another college administers a grant of a PI or co-PI and/or the PI or co-PI uses facilities in another college to conduct their research pertinent to the grant, the colleges involved should negotiate appropriate compensatory transfers or set up additional Banner funds assigned to the unit where the work is done.

Campus portion (55%): Since the costs for administration, space and utilities that are currently covered centrally will be attributed to the colleges in the IVCB model, it is appropriate for these revenues to be attributed to colleges. This must be done with consideration of: (1) the college managing the grant fund, (2) the home college of the PI or co-PI, and (3) the college where the facilities the PI or co-PI uses for the pertinent research are housed.¹⁸ In cases where (1) and (3) are not the same, the units should set up additional Banner funds assigned to the units where the work is done.

¹⁷ In some cases there are negotiated agreements in place to distribute a portion of the F&A differently than the home college of the PI. We do not recommend any change to this portion of the distribution and recommend that ICR flows via existing Banner distribution codes. We can only account for negotiated agreements when Banner distribution codes properly disperse the funds to the negotiated buckets.

¹⁸ If attribution to the home college of the PI or co-PI is selected and there is a negotiated agreement in place for the 45% PI home college portion with a corresponding F&A Banner distribution code, the flow of the 55% campus portion will mirror that of the 45% PI home college portion.

Consideration 15: How should F&A revenues (the 45% PI home college portion + the 55% campus portion) for grants being managed by the campus-level IRUs and other centrally-budgeted units be attributed?

Recommendations:

PI home college portion (45%): There is no intent to change this portion of the distribution from the current ICR distribution policy. These revenues should be attributed to colleges based on the home college of the PI or per negotiated agreement. This allocation recognizes the costs incurred by the college employing the PI.

Campus portion (55%): There is no intent to change this distribution that flows to the IRUs from the current ICR distribution policy. The portion (typically 28%) flowing to the IRUs under the ICR distribution policy should continue if the majority of this interdisciplinary work is being done in the IRU facilities. If a campus IRU partners with another unit on an initiative, the units should negotiate a fair distribution of F&A. Thus, it appropriately recognizes the related facilities and administrative costs. The remaining 27% should be directed to reduce the allocated costs of the campus goods, including the campus-level IRUs and various administrative offices that help support the campus research enterprise.

Consideration 16: How should Tuition Remission be attributed in the IVCB model?

Recommendation: Tuition Remission should be fully attributed (college and campus portions) to colleges based on the college(s) of enrollment of the Research Assistant. This allocation appropriately ties revenues to the unit that will incur the majority of the costs to educate the student.

IV. Cost and Investment Assessments

This section describes the assessments of direct costs and investments in administration and campus goods to University units¹⁹. The functions supported by these expenditures are essential for efficient University operations. Campus leadership determines the budgets for these costs and investments in conjunction with a robust review process. Section VII explains the review process.

One of the guiding principles of the budgeting reform initiative is to provide transparency about administrative costs and investments in other campus goods. These costs and investments are divided into (1) direct cost assessments and (2) investments in administration and University-wide excellence, which will be explicitly identified herein.

There are two general steps necessary to allocate costs that cannot be directly assigned to a unit. The first step is the determination of the overall campus cost level to allocate, and the second is the establishment of the method to distribute the allocation across campus units. A common accounting method used to distribute costs is to define an appropriate cost driver that is readily measurable and correlated to the cost. The determination of the drivers for the various costs are critical for IVCB. Essentially, cost driver candidates need to have metrics that are easily measurable, predictable, available in a timely manner at college/ departmental levels, and correlated to the costs incurred.

Below is our assessment of cost driver candidates. We highlight specific considerations and details related to each assessment. These considerations are numbered to aid in receiving stakeholder feedback.

Direct Cost Assessments

Direct cost assessments are charges for (1) buildings and space, (2) utilities, and (3) technology services.

Building and Space

Facility costs have a significant impact on the financial health of the University. Under the existing budgeting model, the cost of operating and maintaining most of the campus facilities has been covered by central resources and has not been the direct responsibility of the units occupying the space. Assigning these costs to units will incentivize them to optimize the space they occupy on campus and strengthen the awareness of space costs.

The building and space cost allocation includes assessments for building operations and maintenance, grounds care, safety and compliance updates, energy services administration, and energy conservation efforts. More than 90% of the historical costs of building and space have been

¹⁹ The Budget Model Components Working Group defined campus public goods as centrally-budgeted units, either academic or non-academic in mission. The working group also recommended that campus public goods include commitments to diversity, investments in interdisciplinary initiatives, innovation, public engagement, arts and culture, global reach, and safety.

funded by centrally-allocated resources. The units included in building and space allocation are provided in Table 1.

Table 1. Units Included in Building and Space Allocation ^a

Building Maintenance Crafts/Trades (815)
Building Maintenance Function (266)
Building Operation (456)
Campus Stores and Receiving (566)
Capital Planning (814)
Construction Improvements (374)
F&S Engineering Services (311)
F&S Fleet Operations (766)
Facilities and Services (701)
Grounds (328)
Leasehold (467)
Maintenance Asset Management (543)
Safety and Compliance (940)
Waste Management (915)

^a Number in parenthesis is the DMI unit identifier

The logical cost driver for building and space is a metric or set of metrics based on net assignable square feet (NASF), as reported by the Division of Management Information (DMI). Costs of building and space vary; Table 2 provides a summary of the definitions for different types of space currently used at the University. There is also a substantial range of quality and value of buildings within a specific category, which increases the potential complexity in assigning building and space costs. A tradeoff between simplicity/predictability and technical precision is also a critical consideration in assessing costs. One approach to account for the differences across space categories is to weight each type of space. Table 2 proposes weights assigned to space types based on cost comparisons for maintenance, repair, custodial, etc. The estimates were based on 2013 data provided by an industry-leading provider of facilities-related cost analysis tools and services, CBRE Group, Inc. (formerly Whitestone Research Corporation).

Table 2. University Space Categories, Definitions, and Proposed Cost Weights

Space Category (in order by number sequence)	Definition	Proposed Cost Weight
Classrooms (100 series)	General-purpose classrooms, lecture halls, recitation rooms, seminar rooms, and other spaces used primarily for scheduled non-laboratory instruction	45.8%
Laboratory Facilities (200 series)	Rooms or spaces characterized by special purpose equipment or a specific configuration that ties instructional or research activities to one discipline or a closely related group of disciplines	100.0%
Office Facilities (300 series)	Offices and conference rooms specifically assigned to each of the various academic, administrative, and service functions	52.0%
Study Facilities (400 series)	Study rooms, stacks, open-stack reading rooms, and library processing spaces	55.3%
Special Use Facilities (500 series)	Military training rooms, athletic and physical education spaces, media production rooms, clinics, demonstration areas, field buildings, animal quarters, greenhouses, and other room categories that are sufficiently specialized in their primary activity or function to merit a unique room code	45.8%
General Use Facilities (600 series)	Assembly rooms, exhibition space, food facilities, lounges, merchandising facilities, recreational facilities, meeting rooms, child and adult care rooms, and other facilities characterized by a broader availability than special use areas to faculty, students, staff, or the public	45.8%
Support Facilities (700 series)	Computing facilities, shops, central storage areas, vehicle storage areas, and central service space providing centralized support for campus activities	45.8%
Health Care Facilities (800 series)	Facilities used to provide patient care (human and animal)	100.0%
Residential Facilities (900 series)	Housing facilities for students, faculty, staff, and campus visitors	100.0%
Unclassified Facilities (000 series)	Inactive or unfinished areas, or areas in the process of conversion	0.0%
Circulation Areas (WWW series)	Non-assignable spaces required for physical access to floors or subdivisions of space within a building, whether or not directly bounded by partitions	45.8%
Building Service Areas (XXX series)	Non-assignable spaces used to support cleaning and public hygiene functions	0.0%
Mechanical Areas (YYY series)	Non-assignable spaces designed to house mechanical equipment and utility services, and shaft areas	0.0%

Consideration 17: How should the University allocate building and space costs to campus units?

Discussion Points

- The approach should incorporate NASF data available at the college and department levels.
- The overall building and space costs should not include costs billed directly to the colleges.
- Costs for space occupied by the IRUs, Technology Services, Facilities & Services, and administrative units should be assigned to each of their respective functional areas and included in the costs allocated by each of these functional areas.
- An evaluation will be necessary to determine if the approach should consider the difference in building and space costs within a space category, such as facility age or market value.
- Starting with current data for assigned space, a process will commence this year to confirm and update current assignments.
- An oversight committee will be needed to work with the colleges and Facilities & Services to assure consistency in space use categorization. This level of consistency should apply to the existing portfolio and applied to changes that occur over time.
- The current allocation for facilities operations is inadequate to maintain the University buildings and spaces. We address the deferred campus maintenance problem through our proposed transition plan for increased assessment, discussed in Section V.

Recommendation: The overall assessment of building and space costs should be separated between colleges and other University units based on assigned proportional spaces. The costs of space allocated to the IRUs, Technology Services, and administrative units (including campus-assigned classroom space) should be attributed to the respective functional cost areas. Campus-assigned classrooms will be added to the general campus pool, while college-controlled classrooms will be directly assigned to the colleges.

As stated earlier, the recommended cost driver for facilities and space costs is based on weighted net assignable square feet per unit reported in the Division of Management Information dataset. Different weightings are assigned to various space types based on detailed cost comparisons for maintenance, repair, custodial, etc., for that particular space type, as shown in Table 2. The NASF calculations should be adjusted to reflect the space costs being directly billed to a college or space that is the responsibility of the college.

Utilities

Similar to the cost of buildings, the cost of utilities has not been the responsibility of the units occupying space under the existing budget model. Assigning utility costs to units will incentivize units to conserve energy and water and strengthen the awareness of utility costs.

Consideration 18: How should the University allocate utility costs to campus units?

Discussion Points

- Should the approach consider the individual building age or the efficiency of the existing utility infrastructure in the space allocated?
- How should maintenance and capital improvements to the University-wide utility generation and distribution infrastructure be allocated to the units?

- Weather and commodity price volatility will have an impact on utility usage and price, outside the control of University units. How should year-to-year risks be addressed? Should the funds for year-to-year changes be funded by central campus or allocated to University units?

Recommendations:

- A. Facilities and Services currently calculates a direct utility assessment for each department on campus that includes costs for chilled water, electricity, fuel oil, gas, propane, sanitary sewer, steam, and water. This direct assessment should now be attributed to each occupying University unit.
- B. A three-year moving average utility level should be used to establish baseline levels and year-to-year changes. A three-year moving average metric will buffer University units from annual fluctuations, but place more risk on central campus resources.
- C. All indirect and overhead utility costs should be added to the building and space cost.
- D. The costs of utilities allocated to Campus Research Institutes, Technology Services, campus-controlled classrooms, and administrative units should be attributed to the respective functional cost areas.

Technology Services

Technology services operations are a crucial service to the campus community at all levels. Technology Services at Illinois is the University unit that provides campus-wide computing, networking, storage, communications, and instructional technology services.

Consideration 19: How should the University allocate Technology Services costs to campus units?

Discussion Points

- The allocated portion of the Technology Services budget should exclude the budgets funded by students (library/IT fees), the auxiliaries (housing, DIA, etc.), and other external users.
- Technology Services has made arrangements with some campus units to provide and integrate all IT services including desktop support, purchasing, and server support. This portion of Technology Services’s operating budget (Distributed IT) should be excluded from the cost allocation to other University units.
- Many potential cost drivers could be used to allocate costs. Previous committees have used faculty and staff counts. The level of technology use across employee groups also varies. For example, faculty are likely higher users of technology than skilled craft employees. The weighting of some employee groups as lower technology users should be considered.
- Since students are a significant consumer of technology services, a partial allocation based on enrolled students also should be considered.

Recommendations:

- A. The level of allocation should involve the fully-costed technology costs—including direct salaries, equipment, infrastructure maintenance, and overhead costs (along with an allocation of building and space costs as well as direct utility charges incurred)—to provide the baseline services to the campus at-large.

- B. The Technology Services budget funded by students (i.e., library/IT fees), the auxiliaries, and external users should be excluded from the allocation.
- C. The costs of technology above the base-level service (e.g., high-performance computing, custom infrastructure for research and innovation in technology use for education, etc.) will remain as they are in the current model, billed for service outside of the annual budget attribution process. The Technology Services budget for Distributed IT service is not included in this allocation. Units participating in that program will have a separate cost attribution based on their service-level agreements.
- D. Recommended cost drivers are a blend of faculty and staff FTE ²⁰and enrolled undergraduate and graduate students, with a higher proportional weight applied to faculty and staff FTE. The weighting of some employee groups as lower technology users should be considered.

Investments in Administration and University-Wide Excellence

This section examines the treatment of the remaining administrative and support services, campus goods, and University-wide investments and initiatives. The costs for allocation in this section specifically entail (1) the University System Office, (2) Research Administration and Campus Interdisciplinary Research Units, (3) Administrative and Other Campus Goods, (4) University-Wide Investments and Initiatives, and (5) Contributions to University Risk Management.

The University System Office

The University System Office (USO) provides services and support for the Universities of Illinois in Urbana-Champaign, Chicago, and Springfield, as well as the regional campuses, the UI Health hospital and clinics, research facilities, clinics, and Extension offices throughout the state of Illinois. Revisions to the funding model for USO are under consideration. It is likely that USO will have a cost and investment assessment to each of the Universities based on a few metrics. After USO assessments are determined and allocations made to the Universities, we will use a comparable approach to allocate the costs to University of Illinois at Urbana-Champaign units.

Research Administration and Campus Interdisciplinary Research Units

A transparent and effective funding model for continued research investments is critical in maintaining and enhancing our University-wide excellence and research reputation. Each college invests in research activities from its own internal budgets, but a substantial campus investment is also required. The Office of Vice Chancellor for Research (OVCR) and the campus Interdisciplinary Research Units, or IRUs, (IGB, Beckman, NCSA, iSEE, etc.) provide a research infrastructure that is essential for this university to excel and to leverage college investments in research. The OVCR and IRUs are funded through a combination of campus-allocated funding, grant and contract funding, and internally generated resources.

²⁰ FTE count is based on employees paid from all sources of funds. DMI also reports employees paid from state and tuition only.

Consideration 20: How should the University attribute campus costs associated with the OVCR and IRUs to University units?

Discussion Points

- The allocated costs to colleges should only include the campus allocation of funding to the OVCR and IRUs.
- Technology Services has a specific budget portion allocated to research IT costs. Campus-allocated funding should be included in research costs and allocated in the same manner.
- Potential cost drivers include grants and contract expenditures, sponsored research expenditures, earned ICR, and/or all expenditures.
- A possible issue with using grants and contract expenditures is this measure's inclusion of expenditures on grants and contracts not related to research.
- Earned ICR is highly correlated with research activities, but the range of negotiated rates on many grants could be problematic in measuring total research activity.

Recommendations:

- A. There should be clear and transparent communication regarding the centrally-funded portion of the budgets allocated to the OVCR and IRUs. The University units included in the Research Administration and campus IRU's allocation are identified in Table 3.
- B. All colleges benefit from the strong research reputation at the University. A portion of the allocated costs should be attributed to all units, while a larger portion of the costs should be allocated to units with significant research activities.
- C. Recommended cost drivers are all expenditures for the general allocation and sponsored research expenditures for the portion assigned to colleges with higher research activity.
- D. A multi-year average of expenditures should be considered to mitigate significant year-to-year changes and to enhance predictability.

Table 3. Units Included in Research Cost Allocation ^a

Office of Vice Chancellor for Research

Agricultural Animal Care & Use Program (612)
Biotechnology Center (531)
Division of Animal Resources (298)
Division of Research Safety (877)
Institute Animal Care & Use Committee (409)
Office of Corporate Relations (658)
Office of Proposal Development (696)
Office of Sponsored Programs (681)
Protection of Research Subject (344)
Research Board (207)
Sponsored Programs Administration Post-Award (879)
VCR General (393)
Vice Chancellor-Research (370)

Interdisciplinary Research Units ^b

Beckman Institute (392)
Institute for Genomic Biology (231)
Institute for Sustainability, Enrgy, & Env (508)
Interdisciplinary Health Science Initiative (520)
Program for Research in the Humanities (327)
Supercomputing Applications (320)

Technology Services at Illinois

Campus Research IT (749)

^a Number in parenthesis is the DMI unit identifier

^b Prairie Research Institute is excluded from this list due to its special state appropriated funding

Administration and Other Campus Units

There are many centrally-budgeted units within the University whose services are essential in meeting campus missions. A complete list of these units is included in Table 4.

Table 4. Units Included in Centrally-Budgeted Allocations^a

Centrally-Budgeted Academic Units

Cooperative Extension (384)
Council Teacher Ed Admin (541)
Disability Res & Educ Services (943)
Illinois Informatics Institute (468)
Krannert Art Museum (607)
Krannert Center (262)
Law Library (694)
Spurlock Museum (895)
University Library (396, 540, 600, 668, 795)

Centrally-Budgeted Administrative Units

Armed Forces (558, 762, 914, 974)
Campus Honors Program (759)
Campus Insurance Coverage (376)
Center for Advanced Study (626)
Center Innov in Teach Learn (641)
Diversity Committee & Advocacy (267)
Diversity, Equity and Access (433)
Division of Public Safety (664)
Enrollment Mgmt (269, 317, 593, 898, 972)
Graduate College (297, 486, 683)
Human Resources (504, 630, 746, 980)
Illini Center (611)
Illinois International Programs (345, 411, 535, 597, 631, 794)

Centrally-Budgeted Administrative Units (cont'd)

I-STEM Education Initiative (711)
Medicare (753)
Office of the Chancellor (700)
Office of the Provost/VCAA (431)
Office of Vice Chancellor Inst Advancement (280)
Police Training Institute (575)
Public Affairs (234, 243, 395, 645)
Purchasing Office (629)
Title IX Disability Coord Off (930)
University Laboratory HS (223)
Willard Airport (693)
Worker's Compensation (503)

Office of Vice Chancellor Student Affairs^b

Campus Mail (427)
Counseling Center (695)
Division of Campus Recreation (571)
Illinois Leadership Center (635)
Inclusion & Intercultural Rels (822)
Minority Student Affairs (743)
Office of Dean of Students (459)
Student Conflict Resolution (573)
The Career Center (391)
VC Student Affairs (825)

^a Number in parenthesis is the DMI unit identifier(s)

^b Includes all VCSA Departments that receive at least some centrally-allocated funds

Consideration 21: How should the campus costs provided to the centrally-budgeted units be attributed to the colleges?

Discussion Points

- There is a wide range of services provided by the centrally-budgeted units, resulting in a high number of potential cost drivers.
- The Budget Model Components workgroup advocated for the judicious use of cost drivers to avoid complexity and to enhance flexibility, efficiency, predictability, and transparency.
- Other universities have encouraged a limited number of cost drivers. For example, another university reduced its cost drivers from more than 100 when it launched its budget reform initiative to five in its current model.
- Some universities attribute campus costs based on revenues, while others use cost drivers based on expenditures.

Recommendations:

- A. There should be clear and transparent communication regarding the centrally-funded portion of the budgets of all units being allocated.
- B. There should be a robust and transparent review process for administrative and centrally-budgeted units.
- C. The cost driver should be expenditure-based rather than revenue-based. This would allow units to retain revenue growth that does not result in increased expenditures. A revenue-based approach might dis-incentivize units from aggressively pursuing revenue-generating activities, as they would automatically lose a portion of the resulting revenue growth.
- D. The cost driver should be a modified calculation of all expenditures for a college. The proposed modifications for the all-expenditure metric are shown in Table 5.
- E. A multi-year average of all expenditures should be considered to mitigate significant year-to-year changes and to enhance predictability.

Table 5. Recommended Modifications for All-Expenditure Cost Metric used to Allocate Costs for Centrally-Budgeted Units

<i>Included</i>	Expenditures: <ul style="list-style-type: none"> • State/Income Fund and Special State Appropriations • Institutional Funds: Education and Admin Allowances, ICR, Patents and Royalties, and Term Sick Leave • Auxiliary Enterprises and Departmental Activities • Sponsored Projects • Medical Service Plan • Federal Land Grant Appropriation
<i>Excluded</i>	Service and Storeroom Funds Plant and Agency Funds Expenditures: <ul style="list-style-type: none"> • Capitalized Equipment >=\$5,000 (committees should evaluate the inclusion of capitalized equipment) • Gift Expenditures • Plant Expenditures • Student Aid and Awards • Workers Compensation • Cost of Goods for Resale • Admin Allowance Charges • F&A Assessments on Sponsored Projects • Federal Work Study • Benefit Costs • Non-Mandatory Expense Transfers • Mandatory Transfer Except for Debt Service

University-Wide Investments and Initiatives

In terms of both number and dollar amount, there is a sizable volume of recurring and temporary commitments funded through central resources that need to be costed in the new model or transferred to the colleges. Examples of these commitments include salary programs, salary awards for promotion and tenure, investments in the dual career and target of opportunity hiring programs, and funding for new deans’ salaries and searches. Mandatory centrally-funded costs include items such as graduate assistant health benefits, Medicare, hazardous waste disposal, fire safety, federal single audit costs, and legal fees.

Consideration 22: How should the University allocate campus costs to the colleges for University-wide investments and initiatives?

Discussion Points

- What initiatives should be funded from central resources, and what should be funded from college resources?
- All Consideration 21 discussion points also apply here.

Recommendations:

- A. During the transition period, most of the initiatives will continue to be centrally funded. Longer term, many of these commitments should be built into the colleges' financial plans.
- B. There should be clear and transparent communication regarding the budgets to support University-wide investments and initiatives.
- C. There should be a transparent reporting process for investments to University-wide investments and initiatives.
- D. The cost allocation for investment for growth has previously been established and communicated to the colleges. The college allocation should continue in the same proportions.
- E. The recommended cost driver for all items except the investment for growth initiative is a modified calculation of all expenditures for each college. The modifications for the all-expenditure metric are included in Table 5.
- F. A multi-year average of all expenditures should be considered to mitigate large year-to-year changes and to enhance predictability.

Contributions to University Risk Management

Consideration 23: How should the University allocate to colleges contributions to University risk management?

The University needs to maintain a risk management fund to cover budget shortfalls resulting from internal and external shocks to the University's budget system. The risk management reserve can be used to buffer abrupt revenue shortfalls or cost increases, allowing more time to transition the impact to the colleges. Although most of the colleges have capacity to manage some shortfall, it is more efficient to have a central reserve fund that can address significant net revenue shortfalls.

Recommendations:

- A. The recommended cost driver for contributions to risk management should be a modified calculation of all expenditures for each college. The modifications for the all-expenditure metric are included in Table 5 previously shown.
- B. A multi-year average of all expenditures should be considered to mitigate significant year-to-year changes and to enhance predictability.

Consideration 24: Should cost and investment attribution rates for any or all the Direct Costs and Investments in Administration and University-Wide Excellence (Considerations 17-23) be fixed over a period of time or adjusted annually to reflect changes in University-wide cost and investment levels?

Support for fixed-rate attribution

- Under the annual adjustment option, campus-level rates are influenced by changes in campus-wide costs. These annual adjustments increase planning uncertainty. There is more predictability for college-level planning and forecasting with fixed rates.
- Fixed-rate attribution buffers the colleges for unexpected changes in rates.
- Even though the fixed rates will change periodically, the rate changes will be known and will allow units to adjust and to explicitly estimate the impact of a change in a specific metric.

Support for annual adjustments in rates

- Annual rate adjustments reduce the risk to significant campus-level cost changes that would need central management. Campus may be allowed a smaller risk-management reserve than under the fixed-rate attribution.
- Using a moving average cost driver will lower the potential fluctuations in rates.

Recommendation: The University should consider multi-year fixed rates for all items with the exception of Technology Services. Advances in technology and campus integration plans could change the cost of Technology Services. Adjustable rates will allow for these changes to be passed onto colleges sooner.

V. University Investments to Colleges

This section describes how, under the IVCB model, the Provost’s Office will use the revenues, costs, and investment allocations to calculate annual college budget measures. The following summarizes the calculations each college will receive:

	<u>Line Reference</u>
Tuition revenue generated	A
+ Indirect Cost Recovery revenues generated	B
- Direct cost assessments for facilities, utilities, and technology services	C
- <u>College’s investments in administration and University-wide excellence</u>	D
=Total Revenue less Direct Costs and Investments	E
<u>+/-University-wide investments and transfers with the college</u>	F
= Attributed college budget (college’s annual budget allocation)	G

The allocations for lines A through D are explained in Sections III and IV of this report. Line E reflects the net revenue generated by the college after cost and investment reductions. Line F is the investment the University provides to the college. The attributed budget for the college is determined by adding or subtracting the University investment to the college’s generated net revenue. Each component’s details, including example calculations, are discussed below.

Tuition Revenue Generated

Table 6 shows tuition calculation components. The allocations used for each row were described in Section III. The tuition generated is adjusted for the allocated portions of centrally-funded financial aid and tuition waivers. In this example, the college generates \$11.351 million in tuition revenue.

Table 6. College Example of Tuition Revenue Statement.

Tuition Revenue			
	Undergraduate Base Tuition	\$	7,643,767
	Undergrad Non-Resident Tuition		2,062,358
	Undergrad Program Differential		-
	Undergrad International Base		80,296
	Undergrad International Differential		-
	Less: Centrally-Funded Financial Aid		(1,462,059)
	Less: Centrally-Assigned Tuition Waivers		(606,613)
	Less: College-Assigned Tuition Waivers		-
	Net tuition: Graduate		1,555,889
	Net tuition: Professional		-
	Net tuition: CITL (all levels)		2,077,566
	Coursera and other revenue		-
	Total Tuition Revenue Generated	\$	11,351,205

Indirect Cost Recoveries

The flow of Indirect Cost Recoveries (ICR) is itemized in Table 7.

Table 7. College Example of Indirect Cost Recoveries Statement.

Indirect Cost Recoveries (data for discussion purposes - will be adjusted)			
	All Tuition Remission		242,380
College Managed Grants	Facilities & Admin. Cost : Distributed	\$	692,219
	Campus Portion Facilities & Admin. Cost : Allocated		846,046
IRUs & Other Unit Managed Grants	Facilities & Admin. Cost : Distributed		-
	Total Indirect Cost Recoveries Generated	\$	1,780,645

The All Tuition Remission line represents the college and campus portions of tuition remission on grants with the home college enrollment of the Research Assistant. The College Managed Grants section refers to all grants managed through any college. The two lines in this section represent the portion that is distributed under the current ICR model. The campus portion is based on the distribution discussed in Consideration 14.

The IRUs and Other Unit Managed Grants section refers to grants managed in the Interdisciplinary Research Units or other centrally-budgeted units. The Facilities and Administrative Cost Distributed line represents the flow of ICR to the home college of the PI (typically 45%) per existing ICR distribution policy.

Direct Cost Assessments

The format for the direct cost assessment statement is shown in Table 8. The building, space, and utility allocations are calculated as described in Section IV. The row for Capital Renewal/Deferred Maintenance will be used in Phase II of the budget reform. In Phase II, there will be an assessment to each college to address the substantial deferred maintenance backlog. The adjustment for College Funded Facilities and Space is used to account for the costs that are currently the college's responsibility and would be included in the college's net NASF totals. Technology Services represents the assessment based on a blend of students and faculty/staff FTE discussed in Consideration 19.

Table 8. College Example of Direct Cost Assessment Statement.

Direct Cost Assessments			
Facilities and Space			
	Building and Space	\$	448,370
	Utilities		539,769
	Capital Renewal / Deferred Maintenance		
	Less: College Funded Facilities and Space		
	Total Facilities and Space Costs	\$	988,138
	Technology and Services		461,924
	Total Direct Cost Assessments		1,450,063

College Investments in Administration and University-Wide Excellence

The items included in the College Investments in Administration and University-Wide Excellence are shown in Table 9. The allocations are based on Considerations 20-23.

Table 9. Example of College Investment in Administration and University-Wide Excellence Statement.

College Investments in Administration and University-Wide Excellence			
	University System Office		
	Research Admin. & Campus Interdisciplinary Research Units		888,185
	Administrative and Other Campus Units		5,146,446
	Investment for Growth		408,369
	University-Wide Investments & Initiatives		1,633,946
	Contributions to University Risk Management		653,579
	Total College Investments in Administration and University-Wide Excellence	\$	8,730,525

Consolidated Report

The sample college's consolidated report is shown in Table 10. In this example, the college generated \$13.132 million in tuition and ICR. The direct costs and investments are \$10.181 million, resulting in a net revenue generation for the college of \$2.951 million.

Under the existing budget model, this college would be allocated \$15 million in FY19. Hence, the baseline University Investment needed to add to the net revenue generated is \$12.049 million (\$15 million less \$2.951 million).

Table 10. College Example of Consolidated Format of IVCB

Tuition Revenue			
	Undergraduate Base Tuition	\$	7,643,767
	Undergrad Non-Resident Tuition		2,062,358
	Undergrad Program Differential		-
	Undergrad International Base		80,296
	Undergrad International Differential		-
	Less: Centrally-Funded Financial Aid		(1,462,059)
	Less: Centrally-Assigned Tuition Waivers		(606,613)
	Less: College-Assigned Tuition Waivers		-
	Net tuition: Graduate		1,555,889
	Net tuition: Professional		-
	Net tuition: CITL (all levels)		2,077,566
	Coursera and other revenue		-
	Total Tuition Revenue Generated	\$	11,351,205
Indirect Cost Recoveries (data for discussion purposes - will be adjusted)			
	All Tuition Remission		242,380
College Managed Grants	Facilities & Admin. Cost : Distributed	\$	692,219
	Campus Portion Facilities & Admin. Cost : Allocated		846,046
IRUs & Other Unit Managed Grants	Facilities & Admin. Cost : Distributed		-
	Total Indirect Cost Recoveries Generated	\$	1,780,645
	Total Revenue Generated	\$	13,131,850
Direct Cost Assessments			
	Facilities and Space		
	Building and Space	\$	448,370
	Utilities		539,769
	Capital Renewal / Deferred Maintenance		
	Less: College Funded Facilities and Space		
	Less: Transition factor		
	Total Facilities and Space Costs	\$	988,138
	Technology and Services		461,924
	Total Direct Cost Assessments		1,450,063
College Investments in Administration and University-Wide Excellence			
	University System Office		
	Research Admin. & Campus Interdisciplinary Research Units		888,185
	Administrative and Other Campus Units		5,146,446
	Investment for Growth		408,369
	University-Wide Investments & Initiatives		1,633,946
	Contributions to University Risk Management		653,579
	Total College Investments in Administration and University-Wide Excellence	\$	8,730,525
	Total Direct Costs and Investments	\$	10,180,588
	Total Revenue less Direct Costs and Investments	\$	2,951,262
University-Wide Investments & Transfers with College			
	University Investments and Transfers	\$	12,048,738
	College Target Level		
Budget Allocations	Attributed College Budget		15,000,000

VI. Transition to Integrated and Value-Centered Budgeting

The establishment of the baseline parameters in Sections III and IV of this entire report and the calculations of this consolidated report for FY19 constitutes Phase I of the budget reform process. Phase II of the process entails (1) establishment of a college target level for University Investments and Transfers and (2) annual assessments for capital renewal and deferred maintenance.

College Target Level for University Investments and Transfers

The Phase I calculation of University Investment and Transfers is based on historical allocations and may not represent current values, needs, and demands. Each college has distinct values that cannot be determined solely by metrics. Changes in student demand, societal issues, and campus priorities outlined in the strategic planning process could warrant some reallocation among the colleges. The Provost and Chancellor will discuss college values and associated University Investment and Transfers with each college's dean. A three-year fixed target level of University Investment and Transfer will be established for each college. The net change in target levels across all colleges will need to be zero to balance the budget.

Colleges will need to adjust their budgets and planning to reflect their target level of University Investment and Transfer. Their annual attributed budgets (last row in Table 10) would then be determined by the revenue, cost, and investment allocations adjusted for the fixed University Investment and Transfer.

Capital Renewal and Deferred Maintenance

With a deferred maintenance backlog of more than \$700 million, the University faces the prospect of increasing costs and potential catastrophic failures of many buildings' systems. These failures will not only affect brick and mortar, but also directly impact the core missions of the University: teaching, research, and public engagement.

Deferred maintenance is the postponement of buildings and equipment upkeep from a normal operating budget cycle due to a lack of funds. Lack of funding for routine maintenance can cause neglect, allowing minor repair work to evolve into more serious conditions. The problem can be further compounded by choices made during austere financial times, when routine maintenance is often deferred to meet other fiscal requirements. The failure to take care of major repairs and/or restore building components that have reached the end of their useful lives results in a deferred maintenance backlog.²¹

All facilities require regular maintenance, and determining those maintenance needs requires periodic monitoring, particularly as buildings age. The majority of the University's facilities are more than 25 years old, which is an important threshold for maintenance needs, including core

²¹ <http://fs.illinois.edu/services/capital-programs/deferred-maintenance>

exterior and mechanical systems. This factor alone places these facilities in a “high-risk” category of need. As of 2016, 71% of campus facilities fell into this category²².

The University is long overdue for a condition assessment of facilities, which helps to identify the buildings in greatest need of repair or renovation. Previously, two assessments determined the greatest facilities’ needs, which were completed by professional services consultants: VFA and Cannon Design. VFA’s initial assessment of 171 buildings was conducted in 2001. This effort was followed by re-assessments of 20% of campus in 2002, 2004, and 2006. In 2013, Cannon Design completed the MEP (Mechanical, Electrical and Plumbing) assessment of 134 buildings (37 VFA buildings were not assessed by Cannon Design for budget reasons). The latter assessment did not include architectural items, which makes a complete determination of the current deferred maintenance backlog somewhat cumbersome. To reconcile the two consultants’ reports, F&S developed a DM database that is the source for the University’s current DM backlog estimate of more than \$700 M (\$714,482,971.24).

Given the importance of accurate data, as well as the significance of a growing DM backlog, a new condition assessment of campus facilities is needed. This assessment could be used to match the physical needs of campus facilities with their program value to determine a priority list for campus.

Additional University-wide and state resources will be needed to address the backlog. Phase II of the budget will begin with college assessments to address the deferred maintenance issue. Campus and college leadership will determine the level and timing of assessments.

²² Sightlines ROPA Report, January 2017

VII. Future Financial Management Reporting and Education Plans

Because a comprehensive financial management system is an essential tool for campus leaders in today's increasingly complex higher education fiscal landscape, campus leaders need direct access to relevant data and reports for central management needs and sound and timely decision making. As a result, in December 2016, Interim Provost Feser charged the Data and Systems Working Group with identifying the critical data, reviewing financial management and planning systems currently utilized by various campus units, and recommending a strategy for either adapting those systems or implementing a new system. Therefore, the workgroup surveyed deans, department heads, and budget officers to gain insight on identifying gaps in data and tools that facilitate effective financial planning. The survey included both qualitative and quantitative questions.

The survey responses indicate a need to develop a baseline set of financial reports that are timely, flexible, and easy to understand, and that provide data elements crucial to planning and decision making. Ideally, the baseline set of reports should focus on accurate, available data that can help address the needs and questions of decision-makers at the campus, college, and department levels, as well as those in administrative units. Respondents also expressed the need to develop and implement tools that enable multi-year planning and forecasting. While the University's current systems are designed to report historical data, they are inadequate for planning and forecasting. It was pointed out that, while technical and transactional training is adequate, support for decision making and financial management training is lacking.

To address these challenges, the Provost's Office plans to:

- Seek additional input regarding data and reporting needs through focus groups composed of unit heads and business managers.
- Identify and assemble a set of best financial management practices that are currently in place across campus.
- Modify existing reports or develop new reports based on information gathered from the focus groups and best practices exercise. Input will be sought from stakeholders across campus and University System Offices' staff. The priority will be to modify and develop historical financial reports. The development and implementation of forecasting tools will occur over a longer timeframe.
- Develop and conduct financial management training sessions for unit heads and business managers to strengthen the understanding and proper use of the budget system and the budgeting framework.

VIII. Planned University Review Processes

Robust and transparent review processes are necessary for well-functioning budget systems. The review processes should involve campus and college leadership, as well as faculty, staff, and other stakeholders. In this section, we discuss four processes: the annual reviews of colleges, of centrally-budgeted academic units, and of centrally-budgeted administrative and service units, and the review of the IVCB framework.

Annual Review of Colleges

Consideration 25: What should be the primary components of a review process for the colleges?

Recommendations:

- A. As previously mentioned, the annual budgets of activity-based tuition units will be calculated in the IVCB model via the following calculation:

Tuition revenue generated
+ Indirect Cost Recovery revenues generated
- Direct cost assessments for facilities, utilities, and technology services
- College's investments in administration and University-wide excellence

=Total Revenue less Direct Costs and Investments

+/-University-wide investments and transfers with the college

= Attributed college budget (college's annual budget allocation)

- B. The dean of each college will discuss and negotiate a fixed target with the Provost and Chancellor for University-wide investments.
- C. Financial planning parameters such as tuition rate changes, changes in state appropriation, campus-wide salary programs, and cost adjustments to direct costs will be provided to the colleges during the fall semester. In the spring, the colleges will be required to submit a comprehensive financial plan that incorporates the campus planning parameters. The financial plan will need to address the tuition parameters and ICR factors impacting revenue, the change in cost drivers, and hiring plans. As with the current review process, each college will need to demonstrate how its financial plan integrates with its strategic plan. Similar to the current process, each college will be asked to address its strategic priorities, opportunities and threats, changes in program demand, revenue growth and cost containment activities, restructuring opportunities, strategic plans for cash, and staffing plans.

- D. The review committees, including the role of the Campus Budget Oversight Committee (CBOC), will be comparable to the existing review process, as reported in Provost Communication #1.

Annual Review of Centrally-Budgeted Academic Units

Consideration 26: What should be the primary components of a review process for the centrally-budgeted academic units?

Recommendation: Evaluations of centrally-budgeted academic units should be conducted as a component of the review process for the college in which they reside. Budgets will be developed on an incremental basis and will be set at a level that will allow the unit to carry out its core missions effectively. As with the current review process, units will be required to prepare an annual report with a financial plan that incorporates the prescribed planning parameters and also includes strategic priorities, opportunities and threats, cost-saving actions taken, and staffing plans.

Annual Review of Centrally-Budgeted Administrative and Service Units

Consideration 27: What should be the primary components of a review process for centrally-budgeted administrative and service units?

The increased transparency of the allocated costs of centrally-budgeted units to the colleges increases the awareness and accountability of costs. Centrally-budgeted units' budgets are set so that they are sufficient to allow the unit to accomplish the set of activities and tasks that comprise its support of the academic enterprise. Under the new model, these budgets will continue to be developed through a more traditional style of incremental budgeting, with annual increases in unit allocations to account for inflationary increases and requests for additional resources.

Recommendations:

- A. Heads of administrative and service units should prepare annual budgets, including requests for funding increases that exceed the base salary program and inflationary adjustments. This process will sensitize units to the cost of their operations and increase transparency and accountability.
- B. In addition, the annual review process will be conducted by the Administrative Budget Committee (ABC), as currently documented in Provost Communication #1. This process requires units to prepare an annual self-assessment report. Since the colleges' budgets are directly impacted by budget changes in the administrative units under IVCB, the Office of the Provost will request input from CBOC and the Council of Deans for ABC membership.

- C. To enhance transparency, the ABC will provide written feedback to each of the units as well as report to the Office of the Provost and the Council of Deans. The components of the annual reports, the charge of the ABC, and representation on the ABC committee should be evaluated by the Office of the Provost with input from the Council of Deans and CBOC.
- D. Provost Communication # 1 will need to be changed to reflect the changes in the review and reporting process for centrally-budgeted administrative and service units.

Review of IVCB framework

It will be important for the IVCB model to be reviewed to ensure it is meeting the established goals. The Budget Model Implementation Group, Council of Deans, Senate Budget Committee, CBOC and the Office of the Provost will be individually requested to review the model and provide feedback to the Provost and Chancellor. This feedback should occur annually during the the first three years of implementation. A longer term review process will be assessed after the initial three years.