Digging Deeper Budget Reform: Cost and Investments

April 2018
This model is a tool to make our decisions about revenue, spending and transfers more transparent.

The main difference from today is that these transfers will now be intentional and transparent.
Costs & Investments: How to allocate?

FY18 Total = $1,167M

- Technology Services, Facilities and Utilities: $135M (12%)
- Other Centrally Budgeted Academic & Admin Units: $147M (13%)
- Centrally Awarded Financial Aid: $86M (7%)
- Tuition Units: $534M (46%)
- Campus-Wide Support, Initiatives & Risk Management Reserve: $221M (19%)
- Campus Level Research Units: $44M (4%)
Resource Allocation System

**Campus Leadership**

- Establishes **strategic** and **investment** priorities
- Determines **investment levels**: academic and admin. units
- Assures **accountability**

**Budget Model**

- **Tool** that **informs** decision makers
- Establishes and documents **transparent** processes
- Provides appropriate **incentives**

[Level pane]

[Weights pane]
College Budgeting Framework

**Sources of Funds:**
- Tuition
- Indirect Cost Recovery (ICR)
- University Value-Based Investment

**Sources Total**

**Uses of Funds:**
- Existing College Budget
- Facilities, Utilities & Technology Services
- Investment in Administration & Public Goods

**Uses Total**
Initial Conditions

**SOURCES of FUNDS:**
- Tuition
- Indirect Cost Recovery (ICR)
- University Value-Based Investment

**Sources Total**

**USES of FUNDS:**
- Existing Unit Budget
- Facilities, Utilities & Technology Services
- Investment in Administration & Public Goods

**Uses Total**

University Value-Based Investments offsets Uses of Funds not supported by Tuition and ICR.
Cost & Investment Drivers:

- Price x Unit
- Aggregate Total

Data Considerations:

- Availability
- Timing
- Averaging
Criteria for Model Components

- Data Driven and Comprehensive
- Provide Correct Incentives
- Enhance Predictability
- Improve Financial and Risk Management
COST DETAILS
Direct Cost Assessments

**F&S Building & Space Costs to Allocate**
- Centrally-held budget accounting for direct-billed services
- Includes centrally-funded leases
- Adjusted for direct billing by F&S for services
- Centrally-budgeted costs added to cost of the F&S

Cost estimates (FY17):
- Total centrally-held budget $42M
- Directly allocated to tuition units $28M
# Allocation of Costs

## Tuition Units

**By Space Type Office (DMI)**

- Lab 100%
- Office 52%
- Classroom 47%
- Study 40%
- Special 40%
- General 40%
- Support 40%
- Health Care 100%
- Residential 100%

- Based on: CBRE Group, Inc. (formerly Whitestone Research Corporation)
- Updated from white paper
- Adjusted for college-funded space costs: Division of Responsibility
- General classrooms allocated to campus
- College controlled classrooms allocated to colleges
Building Costs

Scenario Rate Calculation (FY17)

F&S Tuition Unit Allocated Building Costs

\[
\frac{\text{Adjusted Net Assignable Square Ft (ANASF)}}{\text{ANASF}} = \frac{\$28 \text{ Million}}{3 \text{ Million ANASF}} = \$9.33 \text{ per ANASF}
\]

*This is a draft estimate:
ANASF needs to be adjusted for Division of Responsibility

Likely need to have incremental increases to address deferred maintenance
Utility Costs

Utilities Costs to Allocate
✓ Direct usage costs
✓ Indirect utility costs: energy administration and overhead
✓ Indirect costs allocated in similar proportions to direct cost
✓ Utility costs for centrally-budgeted units get added to centrally-budgeted unit cost

Cost estimates (FY17):
- Total campus utilities $71M
- Direct usage all units $51M
- Direct usage by tuition units $34M
Central Technology Services

Tech Services Costs to Allocate

✓ Centrally-held budget accounting for direct-billed services

✓ Tech Services attributed costs from campus (utility, space, etc.)

✓ Accounts for direct billing by Tech Services, distributed IT and library IT fee

Cost estimates (FY17):

Total centrally-held budget $20M
Directly allocated to tuition units $13M
 Allocation of Tech Services Costs
Tuition Units

Example Scenario
✓ Student weight (25%)

✓ Employee weight (75%)
  - Identify lower technology users

Preliminary Cost Estimates (FY17)*:
- Per adjusted FTE $1,400
- Per IU $1.15
- Per Major $36

* Need to make adjustments for grad assistants to avoid double counting
## College Investments in Administration and University-Wide Excellence

<table>
<thead>
<tr>
<th>Description</th>
<th>FY17 Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>University System Office</td>
<td>$42,000,000</td>
</tr>
<tr>
<td>Research Admin. &amp; Campus Interdisciplinary Research Units</td>
<td>$38,610,955</td>
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<tr>
<td>Administrative and Other Campus Units</td>
<td>$158,324,787</td>
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<td>Investment for Growth</td>
<td>$10,000,000</td>
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<td>University-wide Investments &amp; Initiatives</td>
<td>$100,622,903</td>
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<tr>
<td>Contributions to University Risk Management</td>
<td>$20,000,000</td>
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<tr>
<td><strong>Total College Investments in Administration and University-Wide Excellence</strong></td>
<td><strong>$369,558,645</strong></td>
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</tbody>
</table>
University System Office

- Changing their budget model
- Likely based on size of budgets among Universities
- Neutral impact in first year

For an organizational chart
Research and Campus Interdisciplinary Research Units

✓ Cost attribution accounts for ICR generated in the institutes

✓ Campus portion of generated ICR used to reduce the costs allocated to colleges

✓ Building, space, utilities and tech services costs attributed to institutes added

✓ Allocation Scenario:
  ▪ 25% on all expenditures (adjusted)
  ▪ 75% on research expenditures

* PRI has a separate budget allocation from the state and costs are not allocated to the units.
All Expenditure Calculation Adjustments

Included expenditures on the following funds:
- State/Income Fund & Special State Appropriations
- Institutional funds: Education & Admin Allowances, ICR, Patents & Royalties, and Term Sick Leave
- Auxiliary Enterprises and Departmental Activities
- Sponsored Projects
- Medical Service plan (COM)
- Federal Land Grant Appropriation

Excluded expenditures on the following funds:
- Gifts/current use endowment Income
- Service and Storeroom funds
- Plant & Agency funds
- The following expenditures on included funds:
  - Capitalized equipment
  - Plant expenditures
  - Student Aid & Awards
  - Workers Compensation
  - Cost of goods for resale
  - Admin allowance charges
  - F&A assessments on sponsored projects
  - Federal Works Study
  - Benefit Costs
  - Non-mandatory expense transfers
  - Mandatory transfers except debt service
Research and Campus Interdisciplinary Research Units

✓ Example Scenario FY17:

- 25% on all expenditures (adjusted)
  $0.013 per $1

- 75% on research expenditures
  $0.10 per $1

* PRI has a separately budget allocation from the state and costs are not allocated to the units.
Administrative & Campus Public Goods (Units)

- Centrally-held budget for administration and centrally-budgeted academic units
- Net of student fees
- Scenario: Costs allocated based on all expenditures (adjusted)

FY17 $0.18 per $1
Investments, Initiatives and Risk Management

✓ Risk Management
   ▪ Enrollment changes
   ▪ Shifts in demand across colleges
   ▪ Provide stability buffering in costs/salary programs

✓ Scenario:
Costs Allocated based on all expenditures (adjusted)

FY17 $0.16 per $1
Rates and Data Timing Issues

Potential Scenarios

**Expenditures:** 2-year average with 1-year lag (FY20 calc: average of FY17 & FY18)

**Research Expenditures:** 2-year average with 1-year lag (FY20 calc: average of FY17 & FY18)

**Utilities:** 2-year average with 1-year lag (FY20 calc: average of FY17 & FY18)

**FTE:** Prior year October DMI snapshot (FY20 calc: October 2019 DMI)

**Student Numbers:** Prior year October DMI snapshot (FY20 calc: October 2019 DMI)

**Square Footage:** Prior year DMI snapshot (FY20 calc: 2019 DMI code)
Revise Review Processes

Review Process for All Units

 ✓ Composition of review teams
 ✓ Scope of the review
 ✓ Frequency
 ✓ Time of year

Accountability
Transparency
Initial Conditions

**Sources of Funds:**
- Tuition
- Indirect Cost Recovery (ICR)
- University Value-Based Investment

**Uses of Funds:**
- Existing Unit Budget
- Facilities, Utilities & Technology Services
- Investment in Administration & Public Goods

University Value-Based Investments offsets Uses of Funds not supported by Tuition and ICR
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>ITEM</th>
<th>FY17</th>
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<tbody>
<tr>
<td>Tuition Revenue</td>
<td>Undergraduate Base-Rate Tuition</td>
<td>$ 21,446,406</td>
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<td>Undergrad Non-resident Tuition</td>
<td>6,886,178</td>
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<td>Undergrad Program Differential</td>
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<td>Undergrad International Base</td>
<td>230,904</td>
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<tr>
<td></td>
<td>Undergrad International Differential</td>
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<td></td>
<td>Less: Centrally-Funded Financial Aid</td>
<td>(3,327,708)</td>
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<td>Less: Centrally-Assigned Tuition Waivers</td>
<td>(1,730,157)</td>
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<td>Less: College-Assigned Tuition Waivers</td>
<td>(1,595,237)</td>
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<td>Net tuition: Graduate</td>
<td>6,725,138</td>
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<td>Net tuition: Professional</td>
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<td>Net tuition: CITL (all levels)</td>
<td>7,265</td>
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<td>Coursera and Other Revenue</td>
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<td><strong>Total Tuition Revenue Generated</strong></td>
<td>$ 31,114,173</td>
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<table>
<thead>
<tr>
<th>Indirect Cost Recoveries</th>
<th>All Tuition Remission</th>
<th>167,442</th>
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<tbody>
<tr>
<td>College Managed Grants</td>
<td>Facilities &amp; Admin. Cost: Distributed</td>
<td>$ 1,313,301</td>
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<td></td>
<td>Campus Portion Facilities &amp; Admin. Cost: Allocated (banner)</td>
<td>1,605,151</td>
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<tr>
<td>IRUs &amp; Other Unit Managed Grants</td>
<td>Facilities &amp; Admin. Cost: Distributed</td>
<td>3,139</td>
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<td><strong>Total Indirect Cost Recoveries Generated</strong></td>
<td>$ 3,089,035</td>
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<tr>
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<td><strong>Total Revenue Generated</strong></td>
<td>$ 34,203,208</td>
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<td>Payments on Behalf Estimates (contingent liability)</td>
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<td>Pension</td>
<td>3,034,924</td>
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<tr>
<td>Health and Dental</td>
<td>5,534,597</td>
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### Direct Cost Assessments

**Facilities and Space**

- Building and Space: $2,917,500
- Utilities: $1,916,815
- Capital Renewal / Deferred Maintenance

Less: College Funded Facilities and Space

Total Facilities and Space Costs: $4,834,315

- Technology and Services: $718,067

**Total Direct Cost Assessments:** $5,552,382

### College Investments in Administration and University-Wide Excellence

- University System Office: $2,297,758
- Research Admin. & Campus Interdisciplinary Research Units: $637,714
- Administrative and Other Campus Units: $9,277,202
- Investment for Growth: $839,630
- University-wide Investments & Initiatives: $5,896,101
- Contributions to University Risk Management: $1,171,920

Total College Investments in Administration and University-Wide Excellence: $20,120,326

### Total Direct Costs and Investments

Total Direct Costs and Investments: $25,672,709

### Total Revenue less Direct Costs and Investments

Total Revenue less Direct Costs and Investments: $8,530,499

### University-Wide Investments & Transfers with College

University Investments and Transfers: $22,397,719

### Budget Allocations

- Attributed College Budget: $30,928,218
Next Steps

✓ Listen and learn
✓ Compile feedback and make adjustments
✓ July: Set the attributed college budgets based on existing model
✓ Fall: Finalize baseline parameters year 1
✓ Fall/Spring: Establish medium-term targets
✓ Fall/Spring: Educational sessions for departments and colleges including revised reports
Concerns & Questions

Next Provost Coffee: Panel Discussion
May 4, 2018
provost.illinois.edu