



# BUDGET ALLOCATION MODEL

Dean's Retreat  
February 4, 2020



*Draft: For Discussion Purposes Only*

# Discussion Topics

1. Provide project overview and discuss retreat objectives
2. Review key model decisions
3. Discuss governance best practices and carryforward
4. Outline next steps to move forward with the budget redesign

# Implementation Timeline

The Budget Model implementation timeline will leverage current momentum while providing time for additional engagement, infrastructure development, and training.

	FY20				FY21				FY22				FY23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Proposed Implementation Timeline</b>		Budget Model Development		Adaptive Tool	Parallel Year/Hold Harmless Year				"Live" Model (Year 1)				"Live" Model (Year 2)			

	Month:							
	1	2	3	4	5	6	7	8
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Phase 1: Project Initiation & Visioning	● ★							
Phase 2: Model Development		★	★ ● ★					
Phase 3: Stakeholder Engagement			○	★ ●	★ ●	★		
Phase 4: Infrastructure Development						★ ○	🚩	
★ - Steering Committee (SC)   ● - Deans Meetings   🚩 - Deans Retreat   ○ - Campus Open Forum Date								

- Budget Model Development in FY2020 provides foundation for next steps in Budget Redesign Roadmap
- Implementation timeline allows benefits of the model to be realized sooner
- Maintains project momentum by offering immediate reward and risk to primary units
- Adaptive implementation meetings commence February 2020

# Stakeholder Interviews Key Themes

The topic of a budget model redesign has been discussed at UTK for several years. To better understand current budgeting at UTK, Huron interviewed 20+ academic and administrative leaders.

Primary Theme	Interview Feedback
<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ Stakeholders believe that a more strategic resource allocation model could better align university resources to areas of current and future growth, rather than use of a historic basis</li> <li>▪ Stakeholders do not understand the basis for resource allocation decisions</li> <li>▪ Certain programs were viewed as lacking incentives for growth, including summer programs, long distance education and certificate programs</li> </ul>
<b>Transparency and Equity</b>	<ul style="list-style-type: none"> <li>▪ Current budgeting approach lacks sufficient transparency, especially with regards to revenues, central services costs and campus administrative costs</li> <li>▪ Incentives are based upon historic deals and revenue sharing percentages can differ by School</li> </ul>
<b>Predictability</b>	<ul style="list-style-type: none"> <li>▪ Budget does not equate to spending authority and must still seek finance or Provost approvals</li> <li>▪ Certain revenue shares and expenses may be posted at end of year or following year, making it difficult to forecast</li> </ul>
<b>Data Reliability</b>	<ul style="list-style-type: none"> <li>▪ Systems do not speak to each other, resulting in shadow systems and manual reports compiled from different sources</li> <li>▪ Difficulty in verifying data has created distrust in reports and/or data received</li> </ul>

# Guiding Principles

A Subgroup of the Steering Committee developed a set of guiding principles, as summarized below, which will be used to inform decisions on the development of the budget model.

- Supports the flagship, land grant mission, vision and values of the diverse constituencies of the University in advancing its pursuit of on-going excellence in teaching, research, scholarship, creative activity, outreach and engagement.
- Facilitates investment in the operational and administrative units, essential to university and college priorities.
- Fosters innovation, collaboration and responsible fiscal stewardship through flexible incentive design.
- Allocates resources using a transparent, consistent and straightforward methodology.
- Provides accessible, predictable, accurate and timely information to promote trust across colleges, administrative and support units.

# Effort Recap

Huron worked closely with the Working Group and Steering Committee to support the University's desire to develop an incentive-based budget model.

Phase 1 Due Diligence & Visioning	Phase 2 Financial Modeling	Phase 3 Stakeholder Engagement
<ul style="list-style-type: none"> <li>▪ Facilitated kick-off meetings with the project Steering Committee, and collected institutional feedback through meeting with the Working Group and Senior Leadership</li> <li>▪ Supported the development of guiding principles for the proposed model</li> <li>▪ Interviewed 30+ stakeholders to inform budget model development through an iterative process<sup>1</sup></li> <li>▪ Assisted in the visioning and creation of the proposed model structure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Collected and organized activity level metrics</li> <li>▪ Tested various allocation methodologies and participation fee policies to understand the impacts</li> <li>▪ Developed a prototype model based on FY19 “actuals” as a starting point for future state discussions</li> <li>▪ Developed a “baseline” financial model that depicts direct and allocable revenues and expenses by operating unit</li> </ul>	<ul style="list-style-type: none"> <li>▪ Facilitated eight Steering Committee meetings to establish preliminary model decisions</li> <li>▪ Facilitated four rounds of discussions with Academic Deans and their Budget Directors to provide project updates, field questions and collect feedback to subsequently review with the Steering Committee</li> <li>▪ Co-facilitated two open forum attended by 200+ members of the campus community to introduce budgeting concepts and provide an update on the budget redesign initiative</li> <li>▪ Met with College Budget Directors group and Auxiliary Unit representatives</li> <li>▪ Incorporated broad institutional feedback through an iterative process to develop a customized model tailored to UTK's needs</li> </ul>

# Steering Committee Meetings

The Steering Committee's role in overseeing the initiative is to develop an initial allocation methodology based on the guiding principles and Huron-facilitated discussions and provide continued feedback throughout the process.

No.	Meeting	Discussion Topics	Date
1	Initiative Kick-Off	Project goals, approach, and guiding principles	Aug 26
2	Model Structure Discussion	Model structure discussion and introduction to revenue and central support units	Sep 11
3	Revenue & Cost Allocation Discussion	Revenue and cost allocation discussion, financial aid considerations and cost pool content	Oct 8
4	Central Funding Mechanism/ Introduction to Subvention	Feedback from Deans Meetings #2, allocation discussion, central funding mechanism, initial subvention and participation fee discussions	Oct 23
5	Allocation Decisions	Finalized allocation decisions, discussed subvention, and feedback and requests from Deans Meetings #3	Nov 13
6	Budget Model Recommendations	Reviewed budget model scenarios for State Appropriations and Research, college specific requests and sample Budget Model Income Statement	Dec 11
7	Budget Governance	Discussed governance best practices and annual budget process	Jan 15
8	Budget Governance & Model Next Steps Discussion	Governance discussion, review of Business Officer Self-Assessment survey, and project next steps	Jan 22

# Retreat Objectives

Huron is pleased to share a revised Steering Committee proposed budget model that aligns with the project's goals and guiding principles.

## Objectives

1. Develop a clear understanding of revised model methodology and incentives
2. Discuss any further refinements that may be needed for an implementable budget model for the University
3. Confirm next steps and introduce key components that are often involved in operationalizing the proposed budget model

## Documents Provided

1. Dean's Retreat Presentation Document (this document)
2. Budget Model Handouts (Initial Model and Updated Model)
3. Allocation Calculations Sheet

### **Questions to Keep in Mind:**

*Is the proposed model an improvement over the one the University uses today?*

*Is the new model directionally correct?*

*Do you support using the proposed model to initiate the parallel process?*



# MODEL DECISION POINTS

1) Model Organization

2) Tuition

3) Financial Aid

4) Program & Course Fees Revenue

5) State Appropriations

6) Indirect Cost Recovery (IDC) Revenue

7) Support Unit Cost Allocations

8) Central Funding

# Illustrative Budget Model

	Primary Units								Support Unit	University Total	
	College 1	College 1	College 1	College 2	College 3	College X	Academic Units Total	Auxiliary Units Total	Support Units Total		
	Unrestricted	Restricted	Total	Total	Total	Total	Total	Total	Total		
1 Tuition	F	F	F	F	F					##	F
2 Fees	F				F					##	F
3 Less: Financial Aid	F				F					##	F
4 <b>Total Tuition &amp; Fees</b>											
5 State Appropriations	F				F	F	F	F	F	##	F
6 Grants & Contracts	##				##	##	##	##	##	##	##
7 Indirect Cost Recovery (IDC) Revenue	F				F	F	F	F	F	##	F
8 Gifts	##				##	##	##	##	##	##	##
9 Sales, Services, & Other	##	##	##	##	##	##	##	##	##	##	##
10 <b>TOTAL REVENUES</b>											
11 Wages	##	##	##	##	##	##	##	##	##	##	##
12 Benefits	##	##	##	##	##	##	##	##	##	##	##
13 <b>Total Wages and Benefits</b>											
14 Supplies, Equipment & Other	##				##	##	##	##	##	##	##
15 Travel	##				##	##	##	##	##	##	##
16 Utilities, Maintenance & Renovations	##				##	##	##	##	##	##	##
17 Rent	##				##	##	##	##	##	##	##
18 Services	##	##	##	##	##	##	##	##	##	##	##
19 Debt Service	##	##	##	##	##	##	##	##	##	##	##
20 Depreciation	##	##	##	##	##	##	##	##	##	##	##
21 <b>TOTAL DIRECT EXPENDITURES</b>											
22 Transfer In	##				##	##	##	##	##	##	##
23 Transfer Out	##	##	##	##	##	##	##	##	##	##	##
24 <b>OPERATING MARGIN</b>											
25 <b>OPERATING MARGIN (%)</b>											
26 <b>Support Unit Allocations</b>											
27 Academic Affairs & Student Affairs	F				F	F	F	F	F	##	F
28 Central Services & Administration	F				F	F	F	F	F	##	F
29 Executive Affairs	F				F	F	F	F	F	##	F
30 Facilities	F	F	F	F	F	F	F	F	F	##	F
31 Information Technology	F	F	F	F	F	F	F	F	F	##	F
32 Libraries	F	F	F	F	F	F	F	F	F	##	F
33 Research	F				F	F	F	F	F	##	F
34 <b>TOTAL SUPPORT UNIT ALLOCATIONS</b>											
35 <b>UNIT MARGIN BEFORE CENTRAL FUNDING</b>											
36 Participation Fee	F				F	F	F	F	F		F
37 Strategic Funding Distribution	M	M	M	M	M	M	M	M	M		M
38 <b>UNIT MARGIN AFTER CENTRAL FUNDING</b>											

Fund Types / Restriction

Allocable and Direct Revenues

Unit Organization

Direct Expenditures

Support/Central Unit Allocations

Central Funding Mechanism

# 1.0 Model Structure

The budget model discussed today is built upon three main general ledger elements:

Fund Transparency	Account Classifications	University Organization
<ul style="list-style-type: none"> <li>▪ Model reflects an “all funds” approach</li> <li>▪ Unrestricted, restricted, and total fund balance of each primary unit is shown on the income statement</li> <li>▪ Non-operating funds have been excluded from the operational budget model as they fall outside the purview of normal course operations (Plant funds, Alumni Affairs)</li> <li>▪ UTK finance provided guidance to exclude restricted account activity from Support Unit cost pool allocations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Revenue and expense accounts were reviewed, discussed, and updated throughout the development process to arrive to today’s account classifications</li> </ul>	<ul style="list-style-type: none"> <li>▪ Units were organized by their ability to influence revenue generation. All units were categorized into these categories: Academic, Other Academic (Centers, Institutes), Auxiliary, and Support</li> <li>▪ Academic, Other Academic units and Auxiliary units are meant to cover direct costs with generated revenue</li> <li>▪ Support units fully allocate their net unrestricted expenditures (revenues net of expenses) to the Primary units</li> </ul>

# 1.1 Primary Units Organization

The Working Group and Steering Committee selected Primary Units organized into three categories: Academic, Other Academic and Auxiliary.

Primary Units		
Academic Units (10)	Other Academic Units (2)	Auxiliary Units (7)
<ul style="list-style-type: none"> <li>▪ College of Architecture and Design</li> <li>▪ College of Arts and Sciences</li> <li>▪ College of Communication and Information</li> <li>▪ College of Education, Health and Human Sciences</li> <li>▪ College of Nursing</li> <li>▪ College of Law</li> <li>▪ College of Social Work</li> <li>▪ Haslam College of Business</li> <li>▪ Herbert College of Agriculture</li> <li>▪ Tickle College of Engineering</li> </ul>	<ul style="list-style-type: none"> <li>▪ Centers and Institutes:               <ul style="list-style-type: none"> <li>○ Baker Center</li> <li>○ Bredesen Center</li> <li>○ Ctr Environmental Biotechnology</li> <li>○ Inst Adv Comp Manu Innovation (IACMI)</li> <li>○ Institute for Nuclear Security</li> <li>○ Joint Institutes (JIAM, JINS, JIBS, JICS)</li> </ul> </li> <li>▪ Conferences and Non-Credit Programs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Athletics</li> <li>▪ Dining</li> <li>▪ Housing</li> <li>▪ Parking</li> <li>▪ Service Center</li> <li>▪ Thompson-Boling Arena</li> <li>▪ VolShop</li> </ul>

# 2.0 Tuition Allocation Methodology

The Steering Committee developed a methodology to devolve undergraduate and graduate tuition to recognize both the direct costs of instruction and academic support.

<b>Current Practice</b>	Undergraduate and graduate tuition is received centrally, then allocated to campus units as spending authority through a mostly incremental budgeting process
<b>Proposal</b>	<p>Undergraduate and graduate tuition would be organized into resident and non-resident pools and allocated to the Colleges as follows:</p> <ul style="list-style-type: none"> <li>▪ Allocate 80% to academic units based on instructed credit hours (i.e., College of Instruction)</li> <li>▪ Allocate 20% to academic units based on enrolled credit hours (i.e., College of Record)</li> </ul>
<b>Rationale</b>	Funds for credit hours that pertain to the College of Instruction can support the direct costs of instruction while funds for credit hours that pertain to the College of Record can support program development, student recruitment, and retention. Additionally, the split aims to foster an environment of cross-collaboration between academic units
<b>Implications</b>	<ul style="list-style-type: none"> <li>▪ The allocation of tuition acknowledges and compensates academic units for the direct costs related to instruction and the indirect costs related to recruitment, advising etc.</li> <li>▪ Shares the revenue between the College of Instruction and the College of Record, which is likely to promote interdisciplinary program development, or at a minimum, not impede it</li> <li>▪ Provides a greater emphasis on effective tools to analyze credit hour trends and to make future projections</li> </ul>

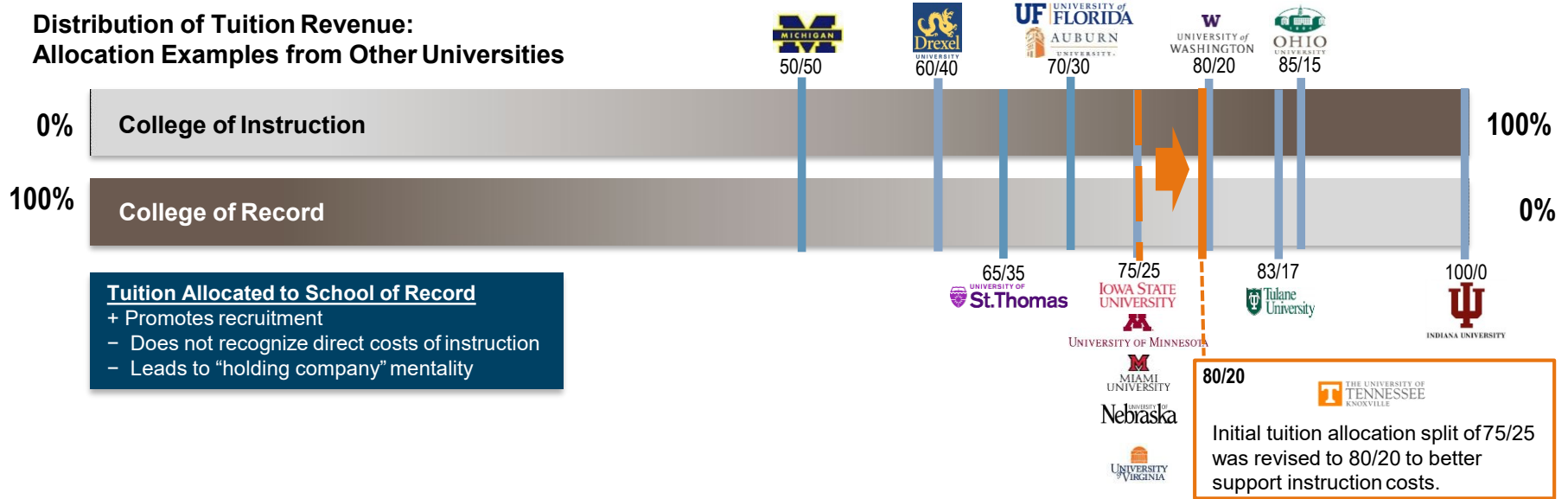
# 2.1 Tuition Allocation Split

UTK's historic split between instruction vs. academic support expenses served as a starting point to consider all tuition allocations for undergraduate tuition and graduate tuition.

**Tuition Allocated to School of Instruction**

- + Recognizes direct costs of instruction
- Incentive for course competition and redundancy
- Misaligned incentives for academic advising

Distribution of Tuition Revenue:  
Allocation Examples from Other Universities



# 3.0 Financial Aid

Several types of financial aid were reviewed and some components will be treated differently in the new model.

	Direct Aid	General Aid
Undergraduate Aid	\$38.6MM - Will continue to flow directly to the units as recorded within the general ledger	\$64.8MM <sup>1</sup> - Will be allocated to each of the academic units based on a College's proportional share of undergraduate tuition that they receive through the allocation methodology
Graduate Aid (Tuition Remissions)	\$27.8MM - Will continue to flow directly to the units as recorded within the general ledger	Not Applicable

Note 1: Cost pool of \$579k in net Undergraduate Scholarships and Fellowships expenses was reclassified to allocate amount as part of General Aid.

Note 2: Restricted federal aid of \$89.6MM is not included in the above numbers as funds are treated as passthrough funds in the model.

# 4.0 Program and Course Fee Revenue

In the proposed budget model, program and course fee revenue is directly attributed to the campus unit where the revenue is generated.

<b>Current Practice</b>	Program and course fee revenue is posted directly to campus units based on a standing methodology
<b>Proposal</b>	Attribute 100% of program and course fees to the units where program and course fees originate
<b>Rationale</b>	Attributing 100% of program and course fees reflects actual amounts generated and could better support academic entrepreneurship and costs related to course development
<b>Implications</b>	<ul style="list-style-type: none"><li>▪ Campus units will receive 100% of the program and course fee revenue to support instructional cost and better recognize where the revenue is generated</li><li>▪ Monitor / govern how fees are established and/or used</li></ul>



# 5.0 State Appropriations

The Steering Committee developed a methodology to allocate general state appropriations to support the core missions.

<b>Current Practice</b>	In the current practice, general state appropriations are received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process
<b>Proposal</b>	<p>General state appropriations would be allocated as follows:</p> <ul style="list-style-type: none"> <li>▪ Allocate 43.5% to academic units as an incentive for undergraduate instruction based on number of completed credit hours instructed</li> <li>▪ Allocate 17.5% of the state appropriations to academic units as an incentive for undergraduate student success based upon the undergraduate degrees completed</li> <li>▪ Allocate 21.0% of the state appropriations to academic units as an incentive for graduate student success based upon the graduate degrees completed</li> <li>▪ Allocate 18.0% as an incentive for research based on total grants and contract revenue</li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>▪ Funds for instruction recognize the cost of instruction</li> <li>▪ Funds for student success outcomes align the allocation of state dollars with both the University's strategic plan and the State of Tennessee Outcomes Based Funding Model</li> <li>▪ Funds for research recognize the need for central investment due to limitations on recovering the total cost of research (e.g., unrecovered IDC, mandatory cost share, start up packages, bridge funding, etc.)</li> </ul>
<b>Implications</b>	<ul style="list-style-type: none"> <li>▪ Greater emphasis on instruction, scholarship, and student success by closely aligning resources to specific research, instruction and student outcome metrics</li> </ul>

# 6.0 IDC Revenue

In the proposed budget model, Indirect Cost Recovery (IDC) revenue of \$29MM is attributed 100% directly to the campus unit where the cost is incurred.

<b>Current Practice</b>	<p>Portion remains with central administration and portion distributed to colleges. College allocations vary at discretion of Dean, with some college allocations to departments and principal investigators</p>
<b>Proposal</b>	<p>Attribute 100% of IDC revenue to campus units where IDC is generated</p>
<b>Rationale</b>	<p>Attributing 100% of UTK received IDC revenue to the units should reflect actual amounts generated to support research, further incentivize the pursuit of higher recovery, and help cover facilities and administration expenses</p>
<b>Implications</b>	<ul style="list-style-type: none"> <li>▪ Campus units involved in research will receive 100% of the IDC revenue</li> <li>▪ Portions of these funds may have been used to cover support unit costs and central investment pools (e.g., strategic investment, deferred maintenance, etc.); therefore, proposal may not result in a net revenue increase for a particular campus unit</li> <li>▪ Greater emphasis will require PIs to determine appropriate split when doing cross disciplinary work (multiple colleges)</li> </ul>

# 7.0 Support Unit Allocations Discussion

During our stakeholder conversations, questions arose as to the composition of cost pools, the allocations directed to academic units, and the details surrounding relevant processes.

1. **Allocation Metrics:** Support unit net expenditures are allocated formulaically based on allocation metrics
2. **Level of transparency:** All cost pools in the model are composed of a number of administrative units, though transparency is set at an aggregate level
3. **Validity:** This initiative did not assess reasonableness of support unit funding levels
4. **Stakeholder Input:** Committees are usually formed to review the relationship of service levels and cost
5. **Service level agreements:** Select areas often develop finite service level agreements during the hold harmless period to provide clarity with regards to services associated with cost pool allocations
6. **Facilities and Utility Charges:** Decision to separate Facilities cost pool and Utilities cost pool to provide additional transparency
7. **UT System and Foundation Charges:** Decision to record UT System and Foundation charges as separate cost pool to provide additional transparency

# 7.1 Support Unit Allocations

Support unit costs are allocated net of revenues to colleges. This is done through use of an allocation variable for each model group, allowing a per unit allocation to be calculated.

Cost Pool	Support Units	Allocation Metric	Total Pool
Academic Support	Chancellor's Honors, Continuing Studies, Distance Learning, Educational Advancement, Graduate School, Military Science & Leadership, Provost & Sr. Vice Chancellor, Teaching & Learning Innovation, Access and Diversity Funds, Center for Global Engagement	Student & Faculty Headcount	\$9.4MM
Administrative Support	Associate VC Finance and Admin, Budget and Finance, Bursar's Office, Business Services, Chancellor, General Support, Institutional Memberships, Institutional Research, McClung Museum, Direct Support	Direct Expenditures	\$16.6MM
Employee Services	Human Resources, Staff Benefits	Faculty & Staff FTE	\$6.1MM
Facilities	Assoc VC Facilities Services, Facility Services, <del>Emergency Management Services, Environmental Health &amp; Safety</del>	Net Assignable Square Feet (NASQFT)	\$36.9MM
Utilities	Utilities	(NASQFT)	\$18.6MM
IT	Associate VC and CIO, Data Processing Services	Total Headcount	\$18.1MM
Libraries	Libraries	Faculty & Student Headcount	\$22.3MM
Public Safety	Assoc VC Public Safety/Chief, Campus Police, <del>Emergency Management Services, Environmental Health &amp; Safety</del>	Total Headcount	\$8.7MM
Research	Research & Sponsored Support, Research Development, Research Integrity, Sponsored Projects Accounting, The Science Alliance, VC Research and Engagement, Natl Inst Bio Math Syn (NIMBioS)	Grants & Contracts Revenue	\$7.9MM
Student Services	Enrollment Management, Student Life	Student Credit Hours	\$24.2MM
UG Scholarships/ Fellowships <sup>1</sup>	Scholarships & Fellowships	Undergraduate Gross Tuition	\$.6MM
UT System & Foundation Charges	UT System Charges, UTK UTRF Charge, UTK Foundation Charge	Direct Expenditures	\$20.1MM

# 7.2 Allocation Metric Definitions

Various allocation metrics were discussed by the Steering Committee for consideration in use to distribute Support Unit cost pools.

Allocation Metric	Metric Definitions
Student Credit Hours – Unit of Instruction	<ul style="list-style-type: none"> <li>• <b>Includes</b> all hours taken in courses offered by the unit.</li> <li>• Fiscal year includes enrollment from the leading summer term. Fall and Spring data is based on 14-day enrollment files. Summer data is based on end-of-term data.</li> </ul>
Student Credit Hours – Unit of Record (Major)	<ul style="list-style-type: none"> <li>• <b>Includes</b> all hours taken by degree-seeking students rostered in the unit, regardless of unit of instruction. To avoid duplication, students are reported under the <u>primary</u> major (as determined by standard IRIS logic.)</li> <li>• Fiscal year includes enrollment from the leading summer term. Fall and Spring data is based on 14-day enrollment files. Summer data is based on end-of-term data.</li> </ul>
Student and Faculty Headcount	<ul style="list-style-type: none"> <li>• <b>Includes</b> all degree-seeking students enrolled for credit.</li> <li>• Students assigned to a single unit using the primary major logic described above.</li> <li>• <b>Includes</b> active, paid employees as of October 31, 2018.</li> <li>• <b>Excludes</b> student employees, student faculty and special appointments.</li> </ul>
Faculty and Staff FTE	<ul style="list-style-type: none"> <li>• <b>Includes</b> active, paid employees as of October 31, 2018.</li> <li>• <b>Excludes</b> student employees, student faculty and temporary workers.</li> </ul>
Net Assigned Square Footage	<ul style="list-style-type: none"> <li>• Net Assigned Space Data is based on Space Survey data and ‘responsible center’.</li> <li>• <b>Excludes</b> buildings and units that are directly billed for utilities and maintenance.</li> </ul>
Grants & Contracts Revenues	<ul style="list-style-type: none"> <li>• Based on FY19 GL data for Grants &amp; Contracts revenue.</li> </ul>

# 8.0 Central Funding Mechanism

One of the most critical elements of an incentive-based budget model is the creation of a Central Funding Pool, to address mission-subsidies, university priorities, and revenue growth strategies.

Central Funding Mechanism Overview	
<b>Rationale</b>	<ul style="list-style-type: none"> <li>The sum of the parts is not optimal for the whole therefore the university needs the ability and flexibility to act as one entity with respect to key initiatives</li> </ul>
<b>Funding Source</b>	<ul style="list-style-type: none"> <li>Central funds are centrally retained and/or generated revenues purposed for mission and strategic investment</li> </ul>
<b>Fund Principles</b>	<ul style="list-style-type: none"> <li>The Strategic Initiative Pool can be a useful management tool to <b>help fund long-term initiatives</b> by advancing capital, provide critical subsidies to kick-start initiatives</li> <li><b>Funding size should enable leadership to “steer,”</b> which will ultimately benefit the university mission as a whole</li> <li>Funds provided to any unit <b>should never be viewed as an annual entitlement</b> only as a way to kick-start initiatives</li> <li>The model uses a participation fee to generate the central fund, applying a participation rate to selected revenues. Having a <b>diverse revenue portfolio rather than a single source allows for stability</b></li> <li>Participation fees need to ensure “neutral starting points” at implementation; thus the <b>rate needs to be high enough to ensure surpluses are available to fill all Revenue Unit deficits</b></li> </ul>

# 8.1 Participation Fee

The central funding mechanism is generated by collecting a percentage of select unrestricted revenues from the primary units. The table below lists what revenues are assessed the participation fee.

Proposed List of Revenues	Steering Committee Feedback
Tuition <sup>1</sup>	Include
Fees	Exclude
Direct State Appropriations	Exclude
General State Appropriations	Include
Grants & Contracts	Exclude
Indirect Cost Recovery	Exclude
Endowment Income	Exclude
Sales, Services, and Other	Exclude
Gift Revenue	Exclude

**The Central Funding Pool provides funding for subvention and strategic funding for reinvestment in the University. Steering Committee members elected to apply a participation fee to Tuition and General State Appropriations.**

# Revenue and Direct Expense Variables

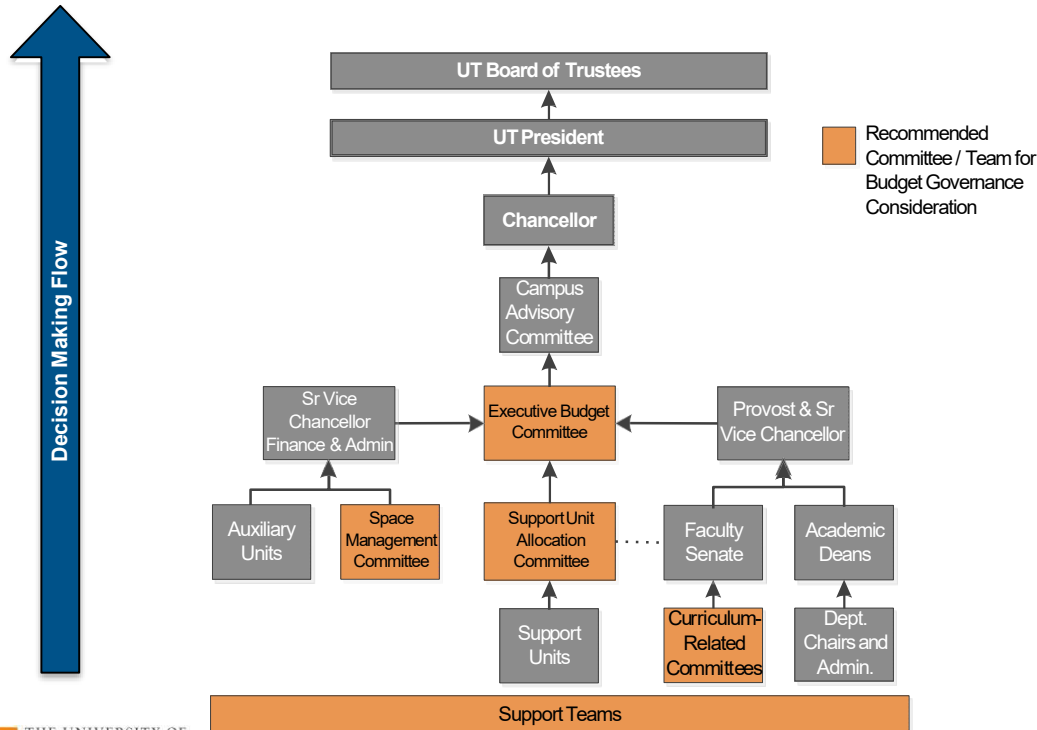
The timing (historical vs. real-time) of data used to drive revenue and expenditures must be considered as the model is operationalized.

Model Component	Allocation or Calculation Dependent Variable(s)	Variable Timing	Dollars Used in Live Model
<b>Allocated Revenues: Tuition</b>	Credit Hours Instructed Credit Hours Record	Real-time Variable <b>One Year in Arrears</b> Two Year Average	<b>Real-time Revenues</b> Budgeted Revenues (with contingency)
<b>Allocated Revenues: State Appropriations</b>	CH Completed (Instruction) Degrees Awarded Grants & Contracts Revenue	Real-time Variable <b>One Year in Arrears</b> Two Year Average	<b>Real-time Revenues</b> Budgeted Revenues (with contingency)
<b>Direct Revenues</b>	N/A	N/A	Real-time Revenues
<b>Direct Expenses</b>	N/A	N/A	Real-time Expenses
<b>Support Unit (Cost Pool) Expense Allocations</b>	Various (e.g., headcount, square footage, direct expenses)	Real-time Variable <b>One Year in Arrears</b> Two Year Average	Budgeted Net Expenses (with contingency)
<b>Central Funding Mechanism</b>	Select Unrestricted Revenues	<b>Budgeted Revenues</b> One Year in Arrears / Two Year Average	Budgeted Revenues



# Illustrative Governance Structure

In the annual budgeting process, central leadership, primary units, support units, and governance committees would work in close coordination to optimize use of UTK's resources.

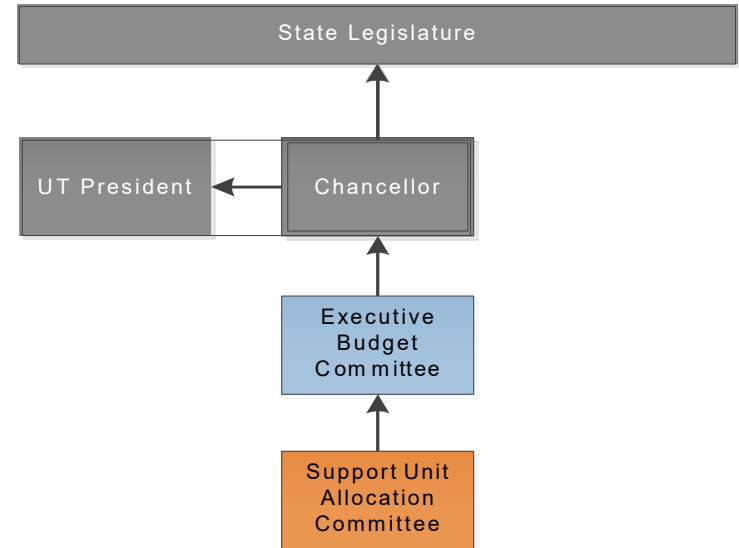


Governance Considerations
<ul style="list-style-type: none"> <li>▪ What stakeholder group should have ultimate authority for annual resource allocation decisions?</li> <li>▪ Who will have opportunity to provide input into allocation decisions and other changes to the model?</li> <li>▪ Support unit costs and budget considerations may be shared with the Faculty Senate</li> <li>▪ Stakeholders have expressed a desire for transparency into the resource allocation process</li> </ul>

# Support Unit Allocation Committee

The Support Unit Allocation Committee would meet during October and November with support unit leadership to review unit budget proposals, and support service effectiveness and efficiency.

Roles and Charges	
<ul style="list-style-type: none"> <li>▪ <b>Reviews the support unit's budget proposals</b>, including strategic objectives, service level demands, and workforce plans</li> <li>▪ <b>Offers suggestions for performance improvement</b>; promotes development of service level agreements between primary units and select support units</li> <li>▪ <b>Submits an executive summary of the unified support unit budget recommendations</b> to the Executive Budget Committee</li> <li>▪ <b>Elevates the support unit budgets, and any unresolved issues</b>, to the Executive Budget Committee</li> </ul>	
Example Membership	
<p>Committee is commonly chaired by Senior Vice Chancellor for Finance and Administration or designee</p>	
<ul style="list-style-type: none"> <li>▪ Finance and Admin. Rep.</li> <li>▪ 3 Deans</li> <li>▪ Auxiliaries Rep.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Select Support Unit Representation</li> <li>▪ May select Faculty Governance Representative and/or reporting of budget results to Faculty Senate</li> </ul>

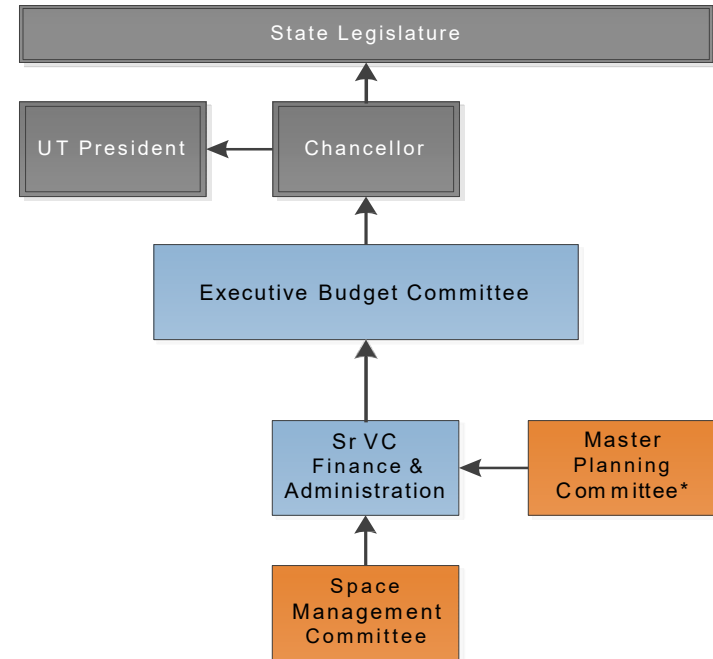


# Space Management Committee

Existing Space Management Committee could be leveraged to develop policies and procedures for space management as it relates to the model and act as a broker for space across campus.

Roles and Charges	
<ul style="list-style-type: none"> <li>▪ <b>Reviews space requests</b>, identifies possible solutions, and makes recommendations for the use of space on campus</li> <li>▪ <b>Develops policies and procedures</b> for space management and deferred maintenance prioritization</li> <li>▪ Governs the <b>allocation and brokering</b> of space across campus</li> <li>▪ Ensures that facilities management distributes accurate and timely space <b>utilization data</b> to operating units for budget planning</li> <li>▪ Supports <b>development of service level agreements</b> between facilities management and revenue-generating units</li> </ul>	

Example Membership	
Committee is currently co-chaired by Sr. Assoc. VC for Finance & Amin and VP for Academic Affairs	
<ul style="list-style-type: none"> <li>▪ 4-5 College Representatives</li> <li>▪ Division of Student Life Rep</li> <li>▪ Office of Research Rep</li> </ul>	<ul style="list-style-type: none"> <li>▪ Office of Registrar Rep</li> <li>▪ Facility Services Rep</li> </ul>



# Curricula and Courses Committees

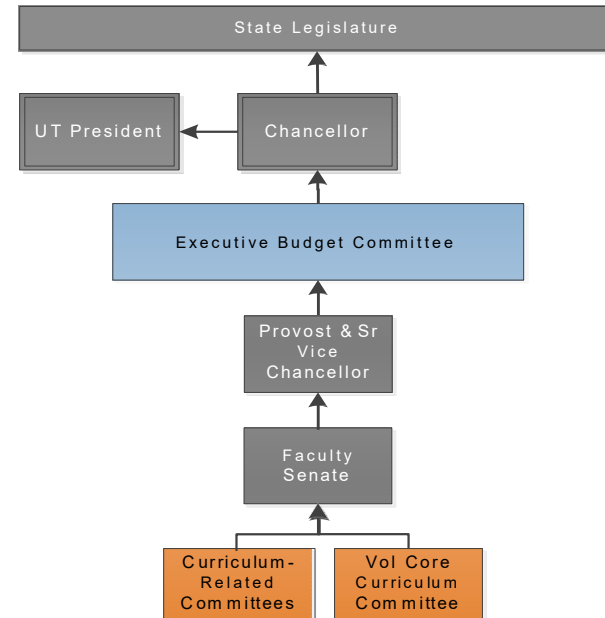
Curricula and Courses Committees advise colleges and departments on curriculum issues. This includes the addition or elimination of courses or programs, and ensuring coherent interdepartmental curriculum changes.

## Roles and Charges

- Considers proposals for **new courses and programs, and changes to existing ones**
- Reviews the various university curricula with special attention to duplication or obsolescence of courses
- Promotes the **development of interdisciplinary courses and programs**
- Ensures that proposed changes embody coherent courses of study and adhere to sound educational practices. **Recommends against course/program changes that are strictly for financial gain**
- Keeps the Executive Vice Chancellor's office informed of recommendations to the Faculty Senate

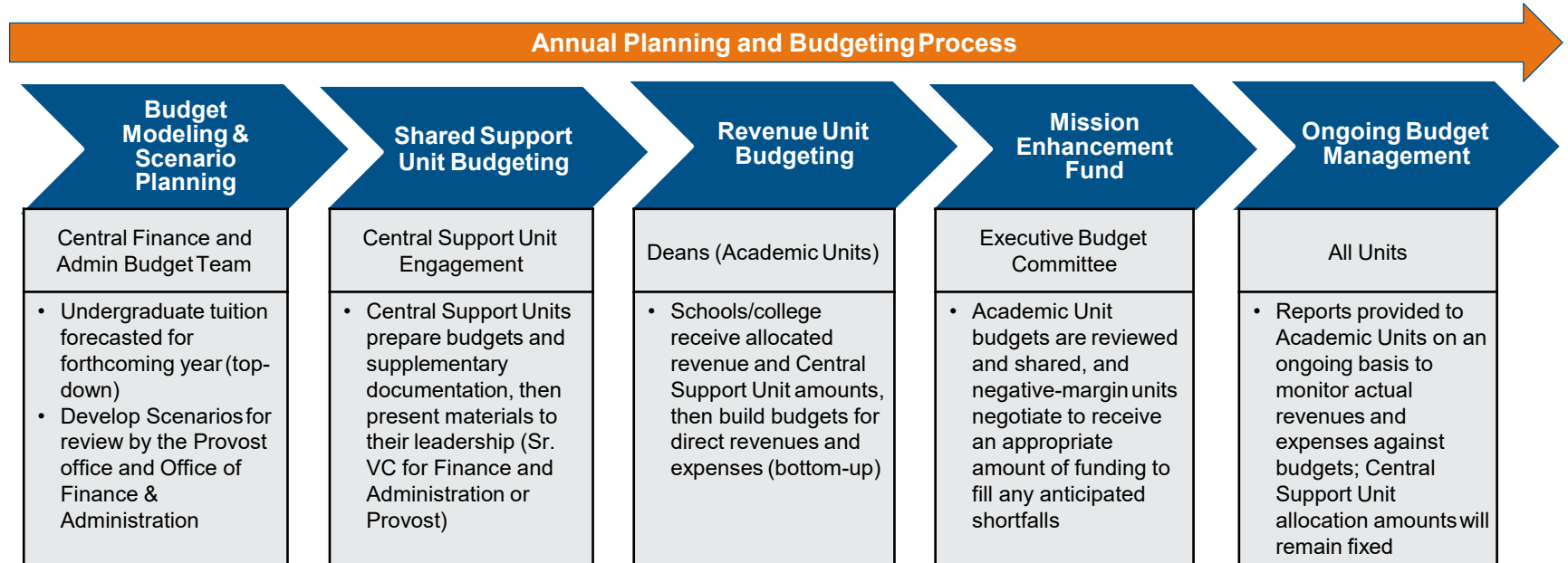
## Considerations

- UTK should leverage existing curriculum committees
- Committees may require additional responsibilities to ensure that new programs are in the best interest of the students and not solely for financial gain



# Budget Process Overview

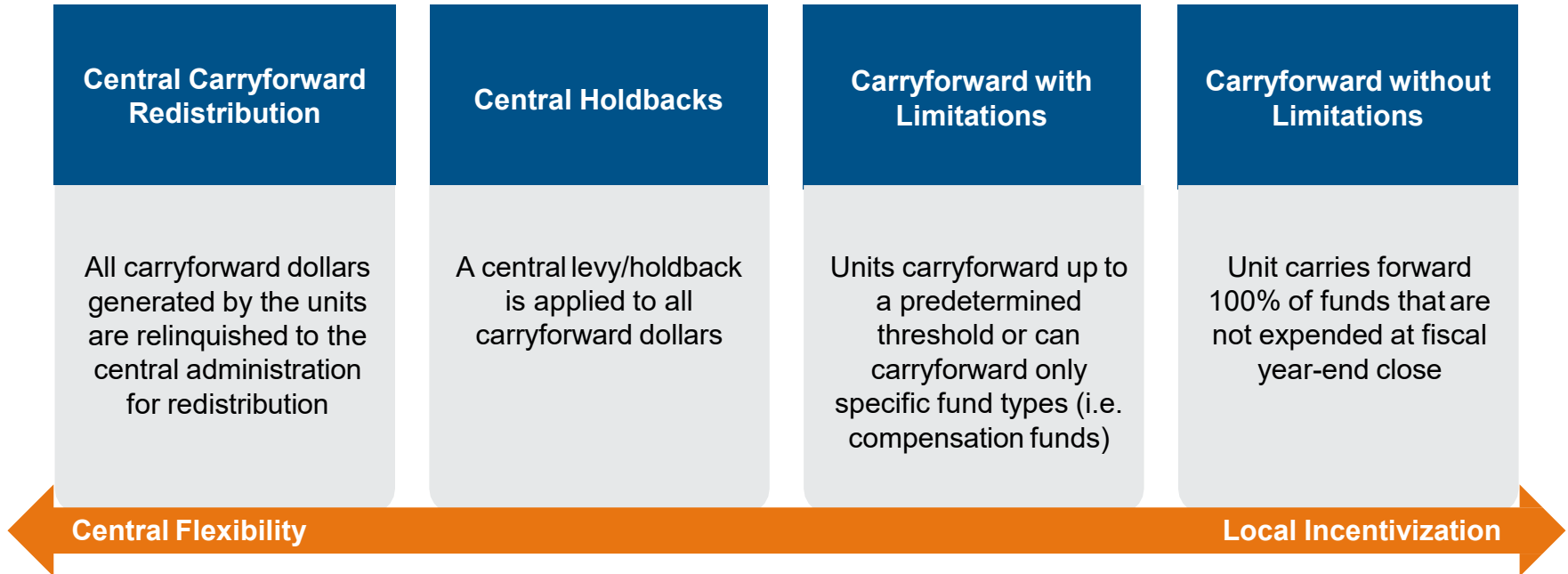
The table below outlines the budget development process milestones and the groups with primary accountability and responsibility for their completion.



**Strong central leadership and relevant feedback from key stakeholders will ensure that the budget process is equitable for all units and allow for mission-critical and strategic growth.**

# Carryforward Alternatives

While Huron outlines four common approaches to the treatment of carryforward dollars, a hybrid policy that balances central flexibility with local incentivization should also be considered.





**MOVING FORWARD**

# UTK Business Case for Action

Steering Committee members provided feedback for additional examples in each category below to create the UTK Business Case for Action.

## WHY:

- Align resources with university strategy
- Provide more opportunities for units to own their future
- Promote consistency of approach and prioritization
- Provide transparency into financial results
- Allow university to be more agile to make investments and improve ability to react

## IMPACTS:

- Ability to recognize our vision to impact the community
- Clarity of accountability and ownership
- Refined reporting capabilities
- Equitable resource methodologies

## COST OF NOT CHANGING:

- Incomplete reporting and oversight capability
- Potential inability to expand into new services
- Inefficient use of resources

## WHAT:

- Develop Budget Allocation Model providing transparent, formulaic resource allocations while allowing a degree of management input
- Create infrastructure to support implementation of new Budget Allocation Model
- Standardize documentation and processes

The above business case for action summarizes important budget model related information  
To help facilitate communications with the broader campus community.



# Achieving the Guiding Principles

UTK began the budget redesign project by developing guiding principles for the new model. Below is a summary of how the new model aligns with the guiding principles:

Guiding Principle Component	Description	Addressed?
Supports the flagship, land grant mission, vision and values of the diverse constituencies of the University in advancing its pursuit of on-going excellence in teaching, research, scholarship, creative activity, outreach and engagement.	<ul style="list-style-type: none"> <li>▪ Budget model features a strategic investment fund that generates discretionary funds to support strategic priorities and mission-critical needs.</li> <li>▪ Model allocates resources in a manner that incentivizes revenue growth and cost containment.</li> </ul>	Yes
Facilitates investment in the operational and administrative units, essential to university and college priorities.	<ul style="list-style-type: none"> <li>▪ Fosters a greater dialogue between central and local leadership that encourages primary and support units to live within their means.</li> <li>▪ Budget model assists with scenario planning to better analyze new initiatives and decisions in alignment with strategic plan.</li> </ul>	Yes
Fosters innovation, collaboration and responsible fiscal stewardship through flexible incentive design.	<ul style="list-style-type: none"> <li>▪ Model features incentives that will reward performance, entrepreneurship, and innovation.</li> <li>▪ The model allocates state appropriations to incentive research, instruction and student success. Allocated resources follow growth in research and instructional programs.</li> </ul>	Yes
Allocates resources using a transparent, consistent and straightforward methodology.	<ul style="list-style-type: none"> <li>▪ Revenues and costs are allocated in a transparent and consistent manner using metrics that are commonly agreed upon. Central unit costs use institutional data as a proxy to allocate costs.</li> <li>▪ Model incorporates all operating funds to better understand how units contribute to the University's fiscal position thereby promoting transparency, efficiency, and accountability across all units.</li> </ul>	Yes
Provides accessible, predictable, accurate and timely information to promote trust across colleges, administrative and support units.	<ul style="list-style-type: none"> <li>▪ Financial data is sourced from a "single source of truth" to ensure that data can be verified and is standardized across the University to serve as the best predictor of performance.</li> <li>▪ Model decisions were made to create logical allocation methodologies that are simple, which will enhance management decision-making and long-range planning.</li> </ul>	Yes

# Scenario Planning Tools

UTK can develop scenario planning tools to allow the academic units to examine the impacts that new revenue streams and costs could have on their margins.

Scenario Planning Tool					
	Driver Total	Pool Total	Allocation Rate	Scenario +/-	Scenario +/-
<b>Undergraduate Tuition Allocation Drivers</b>					
Undergraduate Resident Tuition - Instruction	#	#	F	0	#
Undergraduate Resident Tuition - Record	#	#	F	0	#
<b>Undergraduate Tuition Allocation Drivers</b>					
Undergraduate Non-Resident Tuition - Instruction	#	#	F	0	#
Undergraduate Non-Resident Tuition - Record	#	#	F	0	#
<b>Graduate Tuition Allocation Drivers</b>					
Graduate Resident Tuition - Instruction	#	#	F	0	#
Graduate Resident Tuition - Record	#	#	F	0	#
<b>Graduate Tuition Allocation Drivers</b>					
Graduate Non-Resident Tuition - Instruction	#	#	F	0	#
Graduate Non-Resident Tuition - Record	#	#	F	0	#
<b>State Appropriations</b>					
Adj. SCH (Instruction) - Undergraduate Total	#	#	F	0	#
Undergraduate Degrees Awarded	#	#	F	0	#
Adj. SCH (Instruction) - Undergraduate Total	#	#	F	0	#
Graduate Degrees Awarded	#	#	F	0	#
Grants & Contracts - Total	#	#	F	0	#
Direct Revenue					
Direct Expense					
<b>Administrative Costs</b>					
Academic Support	#	#	F	0	#
Administrative Support	#	#	F	0	#
Employee Services	#	#	F	0	#
Facilities	#	#	F	0	#
IT	#	#	F	0	#
Libraries	#	#	F	0	#
Public Safety	#	#	F	0	#
Research	#	#	F	0	#
Student Services	#	#	F	0	#
Utilities	#	#	F	0	#
UT System and Foundation Charges	#	#	F	0	#
Participation Fee	#				#
<b>Margin Attributable to College</b>					#

## Key Components

- This is an illustrative high-level tool where the value of a given pool divided by the respective allocation metric associated with allocable revenues and costs calculates an allocation rate
- **It is not dynamic**, as it does not account for changing allocation metric proportions that occur as other academic units increase/decrease their shares of a specific allocation metric
- This is just a sample of tools that will be developed in **Adaptive Insights budget tool**
- The implementation of Adaptive Insights will provide more detailed **scenario analysis and planning tools**

# Research Incentives

The Budget Model supports the research infrastructure and incentivizes research at UTK by provided additional funding to academic units while supporting Office of Research.

Research	Budget Model Consideration
IDC revenue allocated 100% to units generating the research	Funding available for college to determine best use of IDC funds received in supporting the college research infrastructure or incentivizing departments/Pis.
No participation fee on Grants & Contracts revenue or IDC revenue	No tax on Grants and Contracts revenues generated by a Primary Unit.
State Appropriations support to bridge research gap in funding (IDC received versus actual cost of research)	Gap between IDC Funds versus cost of research at UTK for Sponsored Research was calculated for FY2019 and 'research funding gap' is covered in the current model. Steering Committee agreed to increase State Appropriations allocation for Research Support from 12% in State Funding Formula to 18%.
Office of Research and Engagement maintains ability to provide strategic or other funding pool as determined by UTK senior leadership	Office of Research and Engagement maintains ability to provide strategic or other funding pool as determined by UTK senior leadership or associated budget governance committee. As a Support Unit, the ORE budget is fully allocated to Primary Units.

# Model's Impact On Decision-Making

Incentive-based models have the potential to materially transform institutions over a 5-10 year period as they change the culture of decision-making.

## Chancellor's Cabinet

Remove luxury of "all things to all people" by forcing difficult decisions

## Chancellor, Provost, and Sr. VC for Finance and Admin.

Force clarity regarding priorities and strategic initiatives

## Deans

Know the full-cost of activities and prioritize them through cross-subsidies between revenue generating activities and mission-driven activities

## Administrative Units

Connect service levels and resource levels

## Department Chairs, Department Heads and Faculty Members

See how activities drive funding for their respective units

# Wrap-Up Questions

As introduced at the beginning of today's retreat, we would like to understand responses to the following key questions:

***Is the proposed model an improvement over the one the University uses today?***

***Is the new model directionally correct?***

***Do you support using the proposed model to initiate the parallel process?***

# Post-Retreat Objectives

**Huron recommends the University take actionable steps following this retreat to continue the positive trajectory of the budget redesign initiative.**

**Following the retreat discussion, the following activities are suggested:**

1. If needed, the Steering Committee should reconvene to finalize any pending discussions
2. The committee co-chairs should present the proposed model to the Chancellor for review and approval
3. UTIA and UTSI should be integrated into the budget model and their impact to revenue and expense allocations should be assessed
4. Involved stakeholders should communicate budget model updates through on-going campus-wide faculty and community engagement sessions
5. The University should begin operationalizing the budget model and studying its effects in future budget periods
6. University leadership should use this budget model to engage additional campus stakeholders

# APPENDIX

# Adaptive Insights Implementation

Implementation of the Adaptive budget tool begins in February 2020 and will provide access to scenario and planning tools, dashboards and additional information into course level data.

Accounts	FY2020				FY2021				FY2022				FY2023			
	Long Range Plan	Enrollment Increase	Var (#)	Var %	Long Range Plan	Enrollment Increase	Var (#)	Var %	Long Range Plan	Enrollment Increase	Var (#)	Var %	Long Range Plan	Enrollment Increase	Var (#)	Var %
Enrollment	18,102	18,219	117	0.65%	18,308	18,429	121	0.66%	18,800	18,932	132	0.70%	19,186	19,323	137	0.71%
Net Tuition and Fees	200,951,576	202,045,339	1,093,763	0.54%	203,361,107	204,527,640	1,166,533	0.57%	207,000,400	208,278,580	1,278,180	0.62%	213,814,370	215,186,698	1,372,328	0.64%
Total Housing Revenue	11,487,744	11,495,778	8,034	0.07%	11,263,468	11,263,781	312	0.00%	11,283,481	11,284,176	694	0.01%	11,276,538	11,276,885	347	0.00%
Total Dining Revenue	6,382,080	6,386,543	4,463	0.07%	6,257,482	6,257,656	174	0.00%	6,268,601	6,268,986	386	0.01%	6,264,743	6,264,936	193	0.00%

- Adaptive puts the power of self-service interactive dashboards, visualizations, and charts into your hands to monitor and drive performance
- Use scenarios to create powerful what-if analysis and see the impact throughout your model in real-time
- You'll get greater visibility into performance, confidence in the numbers, data-driven decision-making



# THANK YOU

