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budget allocation review project

Oct. 5 Learning session transcript

**AVC for Budget Jen St. Peter**: Good morning, everybody. Thank you all for joining us today. Hopefully this is not your first time joining us for a learning session, as this is our second one. I'm Jen St Peter, the Associate Vice Chancellor for Budget and Fiscal Planning, and with us today, we also have Executive Vice Chancellor Ann Sherman, and we will walk through some slides and leave a lot of time at the end for some Q&A. First, we'll go over the purpose of the BARC and our progress to date. Next, we'll cover the types of budget models, principles, and success criteria that the committee has identified. We'll go through the types of budget models that the committee has looked at, and then we will talk a little bit about the decision points that the committee is going to be tasked with making.

The purpose of the BARC - we went over this in our first learning session and want to make sure that we continue to cover that, is directly out of the charge letter to the committee from Executive Vice Chancellor Ann Sherman. The first is to build a healthy financial awareness. The next goal is to establish a multi-year financial horizon. The next is enabling each institutional unit within CU Denver to be successful in contributing to the collective mission and purpose. The next goal is to identify improvements in the allocation process, and lastly, support the work of our shared governance through this budget model.

The committee has now met four times. In our first two sessions, we covered the history and structure of the current CU Denver budget model. We talked about pain points and went through a myth busting and fact or fiction [exercise] with the group. We had the group identify success criteria to which we can gauge the future recommendations to make sure that we've actually accomplished what the group is wanting to achieve. We also reviewed all of that in our last set of learning sessions. Following that were sessions three and four, which we're here to talk about today. We talked about the budget model principles from our current budget model and measured that against the success criteria that the group identified to see if there's gaps or if they're well aligned. Next, we talked about the types of budget models that we tend to see in higher education. And lastly, we talked about decision points that the group is going to have to make.

The budget model principles -I'm going to go over this this pretty quickly. These are the success criteria that the committee identified. We went over this in the last learning session as well. The group identified flexibility, supporting the strategic plan and strategic priorities, accounting for annual costs, creating a simple, predictable, and transparent model, allow for prediction and forecasting for individual units to start thinking out longer term. The committee identified the desire to have a human element somewhere in there, rather than the model just being a formula. Next, the group talked a lot about how do we make sure that the baseline data is correct? We continue to talk about this in almost every meeting. The committee identified the desire to incorporate student retention and student experience somewhere in the in the model, and also to encourage collaboration and opportunities for shared governance input. Next, we had the group think about the current budget model principles, which I will just go over quickly. Here you'll see that there is a lot of overlap between the success criteria that the committee identified and what we have for our current budget model principles. That includes a flexible model; ensuring continuous improvement in academic quality, scholarship and student success; promoting fiscal responsibility and financial sustainability through a simple, predictable, and transparent budget model; including incentives for achieving growth, efficiency, effectiveness, innovation, and entrepreneurship; and lastly, have a shared commitment to the fiscal health of the campus, while also promoting collaboration and accountability across all academic and administrative units.

The committee identified that there is reasonably good alignment between those success criteria that they had identified and the current model’s principles. The committee has talked quite a bit about wanting to add specificity and detail into the principles so that we can think about how we can measure the success of the budget model over time in very concrete, measurable ways, which we can't currently do because they're a little high-level. The committee talked about potentially ranking the principles, because we can't always be everything to everybody. And the group wanted to maybe think about, are there some principles that may be more important than others? As we are thinking about measuring the budget model, there may be some things that we want to achieve more. The group talked about making explicit within the principles that we want to ensure both campus and individual units’ financial health and also adding that human element into the principles so that we can continue to remind ourselves that it's not just a formula, that there are people involved throughout the budget model itself.

Onto the spectrum of budget models, this is why everybody's here today, is to hear exactly about higher ed budget models. The first one that the group talked about is a centralized budgeting model. And this is a type of budget allocation where a small group of upper-level administrators are making the decisions about where the budget is going to be allocated. The next is an incremental budgeting allocation, where, typically, what you see is across-the-board increases or decreases based on how much the revenue is going up by in a given year, up or down. Zero-based budgeting wipes out everything from the prior year and essentially starts over. This is one where an administrative unit likethe Budget Office would have to defend annually the level of resources that we have. For the Budget Office, we would come in and say, “We need eight people within the Budget Office. And this is why we need these eight people. This is the work that they're going to do and how much that's going to cost.”

The next type of budget model is called performance-based budgeting. This is where the allocation is based on an output. This is how the state allocates out their funding to all the institutions of higher ed in Colorado. An example of this is degrees awarded, where you would say, based on the number of degrees awarded within each school or college, that helps determine how much that allocation would be. An activity-based budgeting is almost on the flip side of that, where it's input-based. [In this model] you're looking at, say, the number of academic advisors that you want to have in each school, college, or centrally, and you allocate out a dollar amount based on the number of that position that you would want within each of the units.

And then the last type of model that we talked about is called incentive-based budgeting. That is where all of the academic units have more flexibility in their budgeting, because all of the revenue is pushed out to them and they can make the decisions for themselves. The reason that it shaded is that's where CU Denver's current budget model is. So we have an incentive-based model, and the incentive-based models actually have a spectrum within a spectrum. We're going to talk a little bit about the different types of incentive-based budgeting that we can use. There are essentially three high-level types of incentive-based budget models. The first is called contemporary, decentralized budgeting. It's a mouthful. That's what CU Denver's current model is. Essentially all of these are very similar. The difference between these three is how much money we build to sit in the middle for university leaders to make decisions about. The contemporary decentralized budgeting is going to have a relatively large pot of money sitting in the middle; kind of moving over to the opposite end of the spectrum “each tub on its own bottom” is going to be highly, highly decentralized, with little to no funding sitting in the middle for university leaders to make decisions about. And then responsibility-centered management kind of sits in the middle somewhere. That funding that sits in the middle is not meant to be like, you know, just administrators making decisions about that. It's the Deans, Cabinet, and all of our shared governance leaders coming together to make recommendations about that funding. It supports two separate things. The first is mission-related units that may not have sufficient funding to pay for all of their expenses. So this is going to be your high cost programs that tend to have lower enrollments. And then the second thing that this funds is strategic initiatives. For CU Denver, we have kind of a larger pot sitting in the middle to support mission critical schools and colleges and also strategic initiatives.

We presented to the committee three different types of budget models and scenarios of like, what could this have looked like over time? We do have more detail on the website. I'll just put a little plug in for we have the presentations from each of the BARC committee meetings included on the website, and you are more than welcome. This is in session three, but these are three different types of budget models that that we presented [that] to the committee [looking] over time. This is from 2017-18 to 2022-23.

You can see that these different types of budget models do result in varying changes between academic units over time. The work of this committee is to identify what we value as a CU Denver community, and how do we want to make sure that the budget model is aligning with that, and then measuring the outcomes of that over time. And only through this work of this committee are we going to make sure that we're actually aligning our budget model allocations with the mission and strategic plan.

As the committee continues the work, because we're in higher ed, I sent everybody home with some homework. What we asked the group to do was think about each of these types of budget models and how well those are aligning with the principles and also the priorities that the committee had thought of. So you can see here that relatively you know, relative alignment with each of the types of budget models. This was out of five. You can see that some of them are coming in a little bit better than others. We saw that performance-based budgeting seemed to align better with the with the principles, and contemporary decentralized. We then asked the committee to think about how well do each of them align with the principles, and which would they recommend to move forward with thinking about and investigating. I would say pretty strongly most of this is a count of individual members that voted this way. You can see that the contemporary decentralized budgeting model came out with the most votes for aligning with principles and also for recommending to continue moving forward with. We also saw the committee want to think a little bit more about that performance-based budgeting as well, which, remember, is the outcomes-based budgeting.

Next, we talked about what decision points would be required in any type [of budget model]. It says incentive-based budget model, but this also can apply to a performance-based budget model. There's really three big things that we would have that the group think about how they want to treat. The first is revenue allocations. We talked with the group about: What incentives do you want to create through revenue allocations? Do we want to incentivize instruction, majors, research outcomes? There are all sorts of different ways that we can incorporate incentives into the model. Based on what they decide is the most important based on those desired incentives, how do we treat each of the different types of revenue, that of unrestricted revenue that the university has?And we really only have four larger, large-ish buckets of money.

The first is our tuition. We have some differential tuitions in there, so that would be our non-resident tuition largely. We also have our state support, and then indirect cost recovery. And lastly, the group is going to have to think about how we want to treat auxiliary revenues. So that would be our extended studies and sales and services of educational activities. Right now, our current budget model pools all of our tuition revenue and allocates it out based on instruction and majors. Our current model pools state support and allocates that out incrementally among the schools and colleges. We pool indirect cost recovery and allocate that out based on sponsored research expenditures, and then auxiliary revenues are allocated out directly to the academic units that are that are earning it. And this revenue has no impact on their unrestricted fund budget.

The next set of decision points is going to be around indirect costs. There's two large buckets of indirect costs. The first is campuswide expenses. That's all the boring stuff that nobody likes to talk about, our insurance, the debt on our buildings, our utilities, that kind of stuff. There's kind of two ways to treat these types of expenses. The first is, do you want to take them off the top and just say that like we're going to pay for that right off of the bat, knowing that it is supporting the entire university? Or do we want to allocate it out within the budget model? Similar, we have to think about how do we treat administrative support units? This would be everything that reports up through Executive Vice Chancellor Sherman or through the Provost. Do we want to, again, think about having that come off of the top and just pay for that? Do you want to do it through kind of a set percentage between schools and colleges and administration? Do you want it to be allocated out within the budget model? You can also kind of pick and choose some of that, and say, some of the areas, maybe we want to come off the top. Maybe we want some others to be very to be allocated out within the within the model. And if you are going to allocate them out within the model, what variables do you want to use for those?

Just for some context, our current budget model allocates out campuswide and administrative support all within the budget model. So that's buried within seven cost pools, and each cost pool has its own variables to allocate those expenses out. The variables tend to align with the type of activity that that pool has. So for example, facilities is allocated out based on assigned square footage. Just a little bit more about that idea of taking things off at the top versus allocating them out within the unit or within the budget model. If you take out these central costs at the front end, it is simple, and it also tends to create a model where you're sharing increases and decreases in revenue between academic and administrative units. It can be seen as less transparent because it doesn't allow for the calculation of what's called a unit margin for each of the schools and colleges, which is all of the revenue that's allocated to the unit minus all of the expenses, both direct and indirect, to see whether that's positive or negative. So doing that allocation within the budget model, kind of the back-end, does add complexity to the budget model. It implies that academic units have control over their portion of central costs and if you reduce consumption, that would change the overall level of expense sitting within that bucket. And the example that I use with the committee is around facilities, you know our College of Architecture and Planning, because of the structure of their programs uses a lot of space. That means that they have a large portion of the campus’ facilities budget being allocated to them in the budget model. If they were to reduce their space, that doesn't necessarily mean that the university's entire budget actually decreases. It just means that that that portion would then be spread across the other academic units. This does create that transparency that I was talking about in that you can look at that unit margin for each of the schools and colleges.

The last decision point that the group is going to have to think about is university revenues, and I talked about that, it's the bucket that sits in the middle that we can use for two things. And the first is, you know, the first consideration for the group is, how do we want to fund units that are not able to cover their direct expenses? How do we want to fund strategic initiatives and at what levels? How do we want to create that? Do you want to create it through a formula? Do you want to do a set dollar amount that you're putting aside? And then if you are doing it through a formula, how do you choose which revenues that's based on, and how much of that? How much do you want, kind of sitting in the middle?

Our current budget model, we build what's called the mission enhancement fund. That mission enhancement fund pays for two things. The first is subvention. Tthat's the funding of academic units that are not able to cover their direct expenses, and the committee is going to come up with a really great alternative to the word subvention. And then the last thing that it covers is anything that's left over goes into a strategic initiatives pool, and that can fund things like new program startup, or if an academic unit is growing faster than the budget allocation is allowing for them, maybe it'll help fund instruction within that unit.

The key messages from sessions three and four, and we do this at the end of each session to make sure that we have kind of the highlights of each of each meeting identified. In session three, the group identified that their key messages were starting to learn about other budget models, their benefits, challenges and impacts, learning a lot more to help dispel myths and half-truths, including by understanding how things could have gone differently under different models, clarifying principles, and determining the importance of having those clear principles that we can measure ourselves against. The group is growing understanding of how various parts of the institution relate to and impact the whole and vice versa, and the group is understanding where we are, where we want to be, and how to operationalize the work. After session four, the group identified that they were learning about the budget models, needs to consider, identifying the future budget model, needs to consider in the differences in costs between the different academic programs and that we may need to bring more information to the group around what creates that cost differential. The committee identified areas for decision making around revenue allocation, indirect costs, and university revenues, and began to narrow down the types of budget models that the committee wants to continue investigating.

Just a little bit of reminder of the work planned for the year ahead. We have the committee dates all the way out through April, and then kind of sprinkled within those we have these two-week periods for communication. So we're right now in our October 28 through November 8 communication window, and we will have a few more opportunities to meet with the community. And last, I just want to invite everybody to visit our website, where we're posting notes and the presentations given at each of the committee sessions, as well as kind of recaps of these learning sessions. And all our slides from the learning sessions will be available on the website. And you are always welcome to reach out to either myself or Executive Vice Chancellor Ann Sherman with any questions.