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budget allocation review project

Oct. 1 Learning session transcript

**EVC Ann Sherman:** Good morning, everyone. Welcome to our first budget allocation review committee report out session. This is our first learning session based on the first two sessions of the committee's work. Our acronym for the budget allocation review committee is BARC [Budget Allocation Review Committee]. So, I welcome you all to listen and hear what's been happening in our first two sessions. For those of you I have not had a chance to meet. My name is Ann Sherman. I'm the Executive Vice Chancellor for Finance and Administration and the CFO here at CU Denver. Joining me today as our expert is Jen St. Peter, the Associate Vice Chancellor for Budget and Financial Planning.

We want to talk a little bit about what the purpose of the BARC committee is. What is it that the budget allocation review committee is doing? What is the representation on BARC, which comes from all areas of the schools, colleges, and units across campus. We want to talk about the initial topics that we've covered so far in our first two sessions, some key messages that came out of each session, and then talk about our work plan over the next several months.

The purpose of BARC and the expected outcomes are many. Fundamentally, the key objective or outcome of this work is a recommendation regarding CU Denver's future budget allocation process, and within that, there are some key objectives that we're trying to meet. One is to build a healthy financial awareness, and that's part of the reason that we're doing these regular sessions throughout the group's work, including our session today. Second is to establish a multi-year financial horizon so that we can plan in advance and be able to anticipate and pivot quickly as circumstances change around us. The third thing is to enable each institutional unit to be successful. How is it that we can all contribute to our collective mission and purpose? Fourth thing is to identify improvements to our allocation process which improve our flexibility, transparency, and accountability. Then last, but by no means least, we're supporting the future work of shared governance groups across the campus by ensuring that we have accurate information by which to ensure informed decisions, discussion, and debate.

So why are we doing this right now? What is it that launched our budget allocation review committee? What it is it that we're trying to do? With anything that we do, it's important to continuously improve our processes. Some of the recommendations from the last time we looked at our budget allocation process back in 2016-2017 were not implemented, and they were deferred for good reasons at the time, but it's probably time that we start to think about whether or not to try to implement them. Some assumptions about the base budget were not accurate. We didn't have enough information, or there was information that was sort of cloudy, that since has become clear, and we want to make sure that we have good assumptions going in, so that we have a very strong foundation. It's best practice to review our budget every five years or so; it's been seven. As I said, we started this process last in 2016-2017. And our higher education landscape has significantly changed. We know that there are fewer high school graduates. This is happening across the country. As we look at the demographics of the United States, there's less state support, and in the state of Colorado in particular, this has been a challenge, and the value proposition of a degree has changed as people look at alternatives to what they consider to be student debt and the attractiveness of alternative work immediately after high school.

What's the difference between the budget model and the budgeting process? A model is the mathematical way in which we go about looking at how our revenue is allocated. So, what are our expenses? How do we help forecast our resources? How do we allocate them according to the institutional needs? The budgeting process is the whole approach that we take to forecasting, to planning and then to allocating our resources in order to achieve our mission and purpose.

One of the key things that was different last time when we looked at our budget model and the process that we would use is that it was largely comprised of deans and some of our shared governance leaders. This time, what we have is broad representation. So every school and college is represented, as well as our administrative units, and the representation on these across these units were picked to ensure that we have multiple levels across the institution. So we have one dean, which is Dean Scott Dawson from the Business School, an associate dean in the form of Rich Allen from CLAS, an assistant dean and so on, including representation from all of our shared governance groups, two members from the BPC or Budget Priorities Committee of the Faculty Assembly, our vice president from our Staff Council, and a key representative from our Student Government Association.

So the initial topics that we covered in our first two BARC meetings were as follows.: How was the budget model created last time? Why are we doing this review now, which you just heard a little bit about. How does the budget model currently work? What have been the pain points that we've identified across the campus? We talked a little bit about myth busting regarding common assumptions, and then we talked about the criteria that we would use as we assess our future recommendations. At the end of each session, we talk about key messages, so that we can communicate fully and transparently about the work of the committee.

So how does this currently work? This is a simplistic model of it. We look at the projected revenue. That is, how much money are we bringing into the campus from our various sources? What are our estimated expenditures? And the largest expenditure that we have are our salaries and benefits. What is our mission enhancement fund? That is money set aside for our key initiatives in order to support our strategic objectives and our growth plans. We look at subvention, which is a funny word, lots of conversation about that. It's basically looking at how do we reallocate the money out based on certain needs for particular groups. And then lastly, we end up with the resources for the fiscal year allocated out to all of our respective departments.

This is a more complicated view on the left-hand side, you'll see exactly what I just went over. On the right-hand side, in the multiple colors, you'll see a little bit more detail about how that actually works. So, when we think about the ways in which the main campus tuition and state appropriation is allocated out, it's via metrics. When we look at key differences or differentials for each school or college, those are assigned to that particular unit. When we think about differential tuition, we think about the indirect cost recovery from research. We think about D1 or D2 extended studies, kinds of programs, and then gifts, those are all unique to their respective areas.

Then we look at what the central support unit allocations might look like. And in central support, we include things like our tuition support for the system office, what we pay to the AHEC campus for the Auraria Campus environment, things like our infrastructure and our debt and insurance.

Then we look at, how are we going to reapportion some of this based on those unique needs? That's what subvention looks at:how do we need to reprioritize or reassign some money because we've got some unique need in a particular group? These might be things like lab work. It might be a growth area. It can be a variety of different things where we need to think about what is going to be fair, in essence, for each group. And then again, what does our initiative fund look like? What does our mission enhancement? And which is exactly what it's described. How are we enhancing the mission that we all share? And then lastly, we get down to the budget allocation.

One of the things that we asked the committee to do in between our first and second sessions was to go out and talk with the campus about our presenting problems and our pain points. So, what did they hear from their constituents as they went out and talked with people? As I said, one of the big questions is what does subvention mean? What's the impact on the schools or the colleges? We had questions about D2 and D3; what is that? What is the difference between a D2 and a D3—what is that phrase even mean? What does it mean to have extended studies in some way? What are the rules and the issues associated with them? Then, how does the allocation process tie into our strategic plan? What's the linkagehere between what we say that we want to do and how we're allocating the funds to make it happen?Questions about one-time money, carry-forward funds, cash:are those all the same, or is there some difference between those things? How do we model in or incentivize encouraging collaboration? What does that look like as we think about the way that the money is currently divvied out. Is there a way to ensure and encourage collaboration in ways that don't disadvantage one group over another? How might we mitigate the budget volatility that we've seen in the last few years and plan more strategically? How do we encourage or support growth as our budgets become more constrained, and what can we do? And how do we support all of the university functions, even those that are not in revenue generating areas, how do we best balance teaching, research, and student support?

So those are the kinds of things that people are asking about, and we talked a little bit about each one of those questions, and looked at where we see clumps of questions so that we've got the biggest issues identified.

Then, we went into, what are some of the myths and the legends that we already see on the campus, many of which address those very issues. So, one question is:is there any incentive in our current budget model? So that was one of the questions. How do we incentivize and help support? This is both a myth and a fact.How is that possible? Because our current model does incentivize student credit hours, but that model has been suspended the last two years as we've dealt with our budget constraints and the revenue decline that we've seen. So is this the right thing to incentivize? We need to talk more about that. That's one of the things that committee is going to focus on. Can administration just give out additional budget in a year? Nope, that's a myth. Our continuing budget is fully allocated at the beginning of the fiscal year.

Another question, do Deans have discretion over allocations within their schools and colleges? Yes, they do, that's a fact, but they also have limited discretionary funding due to the salary and benefits obligations, which is the case in administration as well. Typically, when we look at the obligations that we have our own salaries and benefits, it's up above 80% of our overall budget. So if you think about where the bulk of our money is going, it's to all of us as people in and employees in the institution.

Do we have to allocate budgets by student credit hours or majors? No, we don't. The budget itself could be allocated in a variety of ways, and that's a lot of what the committee is going to be talking about over the next several months, is the timing of the budgeted allocation a lag or a lead to our enrollment growth or our decline. It is, in fact, a lag. So our current model allocates the fiscal year next using metrics from two years ago. So as we've seen, notable changes and quick changes over the last several years, our budget model has had a hard time trying to keep up with that.

And then lastly, can we guarantee future outcomes if our school or college makes a new program? Nope, we can't, that's a myth. The campus can sometimes provide temporary support for a program at a startup, and we have done that, most recently with our cyber program. But there is no guarantee. It all hinges on the desirability and the attractiveness of our students taking that program.

One of the things that the committee looked at the last time we met was our success criteria. We broke down into subgroups and started to talk about: What criteria would we use to assess whether or not an option is a good option or not? What criteria would we use? And this list of things is an interesting compilation, and I hope that you see the committee's breadth of expertise and contributions in this, because it looks at a wide range of success criteria, including our students, our systems, our divisions, or that is the way that we're structured, And also our strategic plan. If we think about increasing flexibility, so that we can respond to something unexpected, that it supports our strategic plan and strategic priorities, that it looks at yearly cost increases. What is it that's going up every year? And as it says, there are technology costs, increased insurance costs, increased library costs, etc. We want something that's relatively simple and predictable and transparent, so that everybody on the campus can understand it. We want long-term analysis, so that we can do good predictions and modeling, that it includes a human element, not just a formula, but that we're thinking about all of the people involved in our knowledge-based system. We wantbaseline data that is accurate so that nobody starts in red. We want tofocus on student retention and student experience, encourageof collaboration, and ensureopportunities for shared governance input.

I hope you see from the success criteria that were identified that it ties in really well with the questions that came up from the campus constituents as the committee members went out and talked with people, and that it ties in as well with the charge letter that was sent out for the group's mission.

At the end of each session, we do key messages that the group puts together themselves. It's a crowdsourcing, so to speak, from the committee. So for session one, we really talked about how we get started. So we had a good agenda. It generated a lot of thoughtful questions that transparency and sharing is fundamental to the way this group is planning to work. The breadth and depth of representation is very meaningful for the group, the group is committed to being available to all of us and everyone on this call communicating broadly across campus to foster shared knowledge, and we're committed to the goals laid out in the charge letter that I discussed earlier. In session two, we got into more details, so one of the key messages there was “it's complicated.” We're going to try to make it simpler!There's no easy answers to this as we think about how to make this, but there's commitment from the group to make it clear - clearer - for our units and to benefit the students as we think about how we educate and achieve our mission. There's a lot of conversation about headcount and about credit hours. How does that allocate revenue out currently, and what could it be like? And then the committee examined the pieces of our model and talked about how we can work through those common points of confusion for the future.

So, as we look at the work plan for the academic year ahead, the meeting dates are on the lefthand side. And as you can see, we've got a couple sessions pretty much every month, except for during the holiday breaks and then our communication windows. Similarly, after each two to three sessions of the committee, there is a communication window, similar to this session. So today, we're hosting our zoom meeting. Last week, we had an in-person session, and each member of the committee is also out on the campus talking with their groups about these very same materials. Our next session will be at the end of October and the beginning of November, and we'll be talking about the different types of budget models that we come up with, and what comes next.

We have a website available. For more information, you can go to this website. This material will be available as soon as we're done today, as well as the slides from the first two sessions of the committee and the notes from the committee sessions, as well as the charge letter, our work plan, etc. If you'd like any more information and you want to get really engaged with your particular representative, feel free to do so. All the information is available, and we welcome your comments and questions.

This is the direct contact information you can email Jen or myself. We'd be happy to answer any questions that you might have.