Budget Recalibration Update – Extended Cabinet

April 17, 2017

Presented by: Ruth Johnston and IPB Planning Team
Agenda

- Goals & Process
- Current Budget Overview
- Outcomes from Modeling Conversations
- Modeling Scenario
- Pros & Cons of Modified RCM
- Small Group Discussion & Report Out
Core Team Members

Adrian Sinkler, Senior Institutional Analyst, Institutional Research
Amy Stutesman, Administrator, Libraries
Bill Erdly, Associate Professor, Computing and Software Systems
Bill Humphreys, Administrator, Interdisciplinary Arts and Sciences
Christian Adams, Director of Academic Budgets, Institutional Planning and Budget
Cody Thorne, ASUWB Vice President
Lisa Walker, Assistant Director, Office of Advancement and External Relations
Ruth Johnston, Vice Chancellor, Administration and Planning
Segan Jobe, Senior Director, Institutional Planning and Budget
Soofin Lam, Program Operations Specialist, Facilities Services
Steve Walline, Planning Analyst, Institutional Planning and Budget

Steering Committee Members

Carolyn Brennan, Assistant Vice Chancellor, Research, Academic Affairs
Casey Mann, Professor, Engineering and Mathematics
Christian Adams, Director of Academic Budgets, Institutional Planning and Budget
Cody Thorne, ASUWB Vice President
Ed Buendia, Dean, School of Educational Studies
Emily Christian, Interim Dean, Student Affairs
Jonathan Cluts, Director of Strategic Initiatives, Academic Affairs
Kendra Yoshimoto, Director, Fiscal and Audit Services
Phil Akers, Vice Chancellor, Advancement and External Relations
Russell Cannon, Director of Institutional Research, Academic Affairs
Ruth Johnston, Vice Chancellor, Administration and Planning
Segan Jobe, Senior Director, Institutional Planning and Budget
Steve Syverson, Assistant Vice Chancellor, Enrollment Management
Steve Walline, Planning Analyst, Institutional Planning and Budget
Susan Jeffords, Vice Chancellor, Academic Affairs
Leading Up to Today

- Core and Steering Committee Meetings to learn about current methods and discuss ideas
- EAB presentation on Aligning the Budget Model to Strategic Goals
- Dave Maddox presentation on ABB model at UW
- Committee (CCPB) and Unit/Group Meetings (TLC, GSO, GFO)
- Faculty Metrics Work underway (parallel process)
- Staff benchmarking work underway (parallel process)
- Consultation with OPB, Treasury, Provost, others
- Chancellor’s Executive Team (CET) meetings to review and agree to concepts
- Now to modeling with goal of phased implementation for FY 2018 and beyond
Mission Critical Operating Imperatives

Funding necessary for operations and contingent needs of the institution to address opportunities and challenges

- Campus Reserves
- Equity Contributions (for residence hall/dining)
- Facilities, Equipment, Asset Replacements, Refreshes
- Financial Aid
- Strategic Initiatives
Goals & Process
Today’s Goals and Process
– holding questions till end

- Goals for today
  a) Agree to overall goals and principles for this effort
  b) Gain basic understanding of the model
  c) Provide feedback, questions for follow up

- Process
  a) Only discussing tuition/state appropriations today
  b) High level concepts, don’t worry about specific $ in the buckets
Overall Budget Recalibration Goals and Principles

1. Achieve UW Bothell sustainable budget, and plan for a healthy financial future

2. Increase transparency of the budget process – where the dollars sit, how they are allocated, how they are accessed

3. Increase accountability of budget management (budgets, budget reviews, fully costed programs)

4. Incentivize right behavior (strong fiscal management, innovative, healthy organizations)

5. Assure shared governance

6. Able to support 2020+ strategic plan/goals

7. Make the model as simple as possible
Current Budget Overview
Incremental Budget Model Definition

Incremental budgeting is a cost-based approach based on historical costs. Incremental amounts are added for items such as inflation, program improvements, hiring, & capital investments, etc.

**Pros:**
- Relatively quick and easy to prepare
- Relatively easy to understand
- Simple to track budget variances

**Cons:**
- Budget proposals and allocations based on prior year budget
- Does not provide sufficient transparency
- Assumes all current activities and costs are still needed
- Allows for potential inefficiencies, inertia and slack
Incremental Budget Model – Uses

Potential Uses

- Distribution of funds for fixed costs
  - E.g. Utilities, Rentals, UW Overhead
- Distribution of funds with predictable cost escalators for base service levels
  - E.g. Non-Instructional Units
- Institutional level funding imperatives
  - E.g. Reserves, Equity, Institutional Strategic Initiatives etc.
RCM Definition

Responsibility Center Management (RCM) is perhaps closer to a management philosophy than a budgeting strategy. It is designed to support the achievement of academic priorities within an institution, and allows for a budget which closely follows those priorities. Requires units to manage their own budgets.

Pros
- Allows individual units to be innovative, and catalyzes deans to pursue new revenue sources
- Transparency about true costs of the unit

Cons
- RCM can promote competition between deans (creating classes offered by other units, reducing interdisciplinary opportunities for faculty and students)
# FY 2017 Budget Distribution

<table>
<thead>
<tr>
<th>FUNDING SOURCES</th>
<th>FY 2017</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TUITION</td>
<td>49,758,858</td>
<td></td>
</tr>
<tr>
<td>STATE APPROPRIATION &amp; OTHER</td>
<td>21,323,302</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL FUNDING</strong></td>
<td><strong>71,082,160</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NON-INSTRUCTIONAL UNITS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FIXED COSTS</td>
<td>9,654,306</td>
<td>13.6%</td>
</tr>
<tr>
<td><strong>NON-INSTRUCTIONAL UNITS</strong></td>
<td>25,354,867</td>
<td>35.7%</td>
</tr>
<tr>
<td>ACADEMIC AFFAIRS</td>
<td>14,413,199</td>
<td>20.3%</td>
</tr>
<tr>
<td>ADMINISTRATION</td>
<td>8,765,993</td>
<td>12.3%</td>
</tr>
<tr>
<td>ADVANCEMENT</td>
<td>2,175,675</td>
<td>3.1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>35,009,173</strong></td>
<td>49.3%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>INSTRUCTIONAL UNITS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SCHOOL OF BUSINESS</td>
<td>7,012,857</td>
<td>9.9%</td>
</tr>
<tr>
<td>SCHOOL OF EDUCATIONAL STUDIES</td>
<td>2,737,381</td>
<td>3.9%</td>
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<tr>
<td>FIRST YEAR PRE-MAJOR PROGRAM</td>
<td>1,525,959</td>
<td>2.1%</td>
</tr>
<tr>
<td>NURSING &amp; HEALTH STUDIES</td>
<td>3,507,688</td>
<td>4.9%</td>
</tr>
<tr>
<td>INTERDISCIPLINARY ARTS &amp; SCIENCES</td>
<td>9,723,513</td>
<td>13.7%</td>
</tr>
<tr>
<td>SCHOOL OF STEM</td>
<td>11,565,589</td>
<td>16.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>36,072,987</strong></td>
<td>50.7%</td>
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</tbody>
</table>
Outcomes from Modeling Conversations
Chancellor’s Executive Team & Core Team Feedback

1. Pursue Modified RCM budget model
   a) Support Transparency, Autonomy & Accountability
   b) Encourage Dean level innovativeness
   c) Minimize RCM adoption pain points
   d) Understand Pros & Cons of Operationalizing RCM
   e) Modified approach:
      ➢ Modified RCM formula for Instructional Units
      ➢ Modified Incremental budgeting for Non-Instructional units and Fixed costs

2. Funding of Mission Critical Operating Imperatives is a priority
   a) Both permanent and temporary funds
   b) Funding accessible to entire institution where possible for strategic investment

3. Create transparent decision making process

4. Create list of Institutional Services (fiscal, facilities, advising, IT, Libraries, student services, etc.)

5. Phase in the model over three years
Modeling Scenario
Current Modified RCM Model

Based on the feedback and commitment from CET, we will be using a Modified RCM model adapted to best fit the priorities and institutional needs. Regular review and adjustments to the model will occur regularly.

- Key structure of current model
  - Consider tuition funding separately from state appropriations
    - Tuition driven by enrollment or tuition increases
    - State appropriations either fixed, or earmarked for particular purposes
  - Define Institutional Allocations
    - Fixed Costs = Overhead
    - Non-Instructional Units = Services
  - Prioritize contributions to “Bucket” Funding when needed
  - Set Baseline funding on budgeted FY 2017
  - Apply Modified RCM formula to incremental tuition revenue
# Modified RCM View – FY 2017 base (draft)

<table>
<thead>
<tr>
<th>MODIFIED RCM</th>
<th>FY 2017 TOTAL</th>
<th>FY 2017 TUITION</th>
<th>FY 2017 STATE &amp; OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUNDING SOURCES</td>
<td>71,082,160</td>
<td>49,758,858</td>
<td>21,323,302</td>
</tr>
<tr>
<td>NON-INSTRUCTIONAL UNITS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FIXED COSTS</td>
<td>9,654,306</td>
<td>3,774,085</td>
<td>5,880,221</td>
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<tr>
<td>SERVICES</td>
<td>25,354,867</td>
<td>9,911,786</td>
<td>15,443,081</td>
</tr>
<tr>
<td>ACADEMIC AFFAIRS</td>
<td>14,413,199</td>
<td>5,634,443</td>
<td>8,778,756</td>
</tr>
<tr>
<td>ADMINISTRATION</td>
<td>8,765,993</td>
<td>3,426,823</td>
<td>5,339,170</td>
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<tr>
<td>ADVANCEMENT</td>
<td>2,175,675</td>
<td>850,520</td>
<td>1,325,155</td>
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<tr>
<td>NON-INSTRUCTIONAL TOTAL</td>
<td>35,009,173</td>
<td>13,685,871</td>
<td>21,323,302</td>
</tr>
<tr>
<td>INSTRUCTIONAL UNITS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INSTRUCTIONAL UNIT TOTAL</td>
<td>36,072,987</td>
<td>36,072,987</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL COSTS</td>
<td>71,082,160</td>
<td>49,758,858</td>
<td>21,323,302</td>
</tr>
</tbody>
</table>
Fixed Costs or Overhead:
- Utilities, Property Rentals and UW Overhead

Services include those offered in:
- Academic Affairs: Academic & Student Affairs, IT, Library, SSC, DEM etc.
- Administration: Admin & Planning & Chancellor Office
- Advancement: Advancement, Alumni, Government Relations, Marketing and Communications
Modified RCM – Distribution Breakdown

<table>
<thead>
<tr>
<th>BASE-LINE FUNDING SHARE</th>
<th>PERCENTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TUITION</td>
</tr>
<tr>
<td><strong>NON-INSTRUCTIONAL UNITS</strong></td>
<td></td>
</tr>
<tr>
<td>FIXED COSTS</td>
<td>8%</td>
</tr>
<tr>
<td><strong>SERVICES</strong></td>
<td></td>
</tr>
<tr>
<td>ACADEMIC AFFAIRS</td>
<td>11%</td>
</tr>
<tr>
<td>ADMINISTRATION</td>
<td>7%</td>
</tr>
<tr>
<td>ADVANCEMENT</td>
<td>2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>28%</td>
</tr>
<tr>
<td><strong>INSTRUCTIONAL UNITS</strong></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>72%</td>
</tr>
<tr>
<td><strong>TOTAL COSTS</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: Some costs, especially Fixed Costs are volatile and may dictate distribution rate changes as a result. Based on current estimates, FY18 distribution would be 30% to cover increases.
Modified RCM – Year 2 projected (draft)

Note: Some costs, especially Fixed Costs are volatile and may dictate distribution rate changes as a result. Based on current estimates, FY18 distribution would be 30% to cover increases.

<table>
<thead>
<tr>
<th>INCREMENTAL FUNDING BY SOURCE</th>
<th>FY 2018 INCREMENTAL</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tuition</td>
<td>State Appropriations &amp; Other Revenues</td>
</tr>
<tr>
<td>Tuition Increase</td>
<td>2,700,000</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Costs Allocation</td>
<td>218,170</td>
<td>8%</td>
</tr>
<tr>
<td>Services</td>
<td>537,830</td>
<td>20%</td>
</tr>
<tr>
<td>Non-Instructional Units</td>
<td>756,000</td>
<td>28%</td>
</tr>
<tr>
<td>Instructional Units</td>
<td>1,944,000</td>
<td>72%</td>
</tr>
</tbody>
</table>

Note: Some costs, especially Fixed Costs are volatile and may dictate distribution rate changes as a result. Based on current estimates, FY18 distribution would be 30% to cover increases.
Pros & Cons of Modified RCM
Modified RCM – Pros & Cons

**PROS**
1. Provides autonomy and independence to Schools
2. Budget process transparency
   - Supports multi-year planning
3. Supports Mission Critical Operating Imperatives

**CONS**
1. Could create competition between schools
   - Impairs collaboration?
   - Emphasizes silo-ism
2. Encourages school growth for more funds
   - How does that work in a pause state on campus?
Discussion Questions
Discussion Questions

1. For all, What do you see as the Pros and Cons of this approach?

2. For faculty, in order to maintain connections, collaboration and interdisciplinary teaching across the Schools, what will be needed to achieve these goals?

3. For non-instructional unit leaders/staff, what will incentivize you/your unit to be the most effective, efficient and provide the best quality service?

4. For School administrators, what will you need to be effective in managing within this new model?

5. For Deans, in order to maintain connections, collaboration and interdisciplinary teaching across the Schools, what principles might you put in place to assure these goals?

6. For Deans, with this modified RCM model, how will this help/hinder your ability to manage your resources more effectively?

7. General comments/questions.
Large Group Report Highlights/Questions

Questions/Comments
- What do the RCM variations look like?
- How do we know what we’re doing/funding well?
- Project unit growth and related activities
- Be mission-aligned
- Total cost ownership
- Which activities must/can we stop doing?
- What is the common student experience and how do we incentivize/align with this?
- Keep track of investments made
- Services driven by student population—bring closer to instructional units
- Be able to respond to emergent needs/services outside of schools
- How to calibrate incentives?
- How to find transparency in non-instructional space?
- Is 2017 the right base?
- Time/Training/Tools
- Role clarification

- Clear plan to operationalize new model
- More accountability and authority at schools
- Assess any impact on FYPP
- Achieve financial equilibrium by 2020
- The more we drill down, the more complexity there is
- What are university mandatory/fixed costs?
- Develop new financial taxonomy
- Be mindful of growth off the backs of other departments

Pros/Cons
- Some schools will be able to enjoy structure, others may struggle with no room for growth
- Cost-effectiveness
Next Steps

- Core and Steering continue to meet through June
- Cabinet final review for phase 1 implementation on June 15, 3 – 4:30
- CET continue to review updates to model, with final approval before June 20
- Begin meeting with Deans and Administrators to review specifics of the budget model
- Begin Phase 1 implementation on July 1

- Simultaneously, to finalize the actual budget model, keep working on:
  - Faculty metrics
  - Staff benchmarking
  - Enrollment actuals for FY 18
  - Agree to institutional level services and how to measure effectiveness
  - Allocation methodology for Fee based programs, Summer Quarter, RCR, Carryover policy, etc.
Questions and Feedback Always Welcomed

Website: https://www.uwb.edu/admin/planning-budget/budget

Contact: uwb-adminplng@uw.edu