Provost and Executive Vice Chancellor

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☒ Approved   ☐ Denied

Kim A. W~~ilcox, Chancellor~~

MEMORANDUM

Date: January 18, 2019

To: Kim Wilcox, Chancellor, University of California Riverside

From: Cynthia K. Larive Larive, Provost and Executive Vice Chancellor

            Gerry Bomotti, Vice Chancellor for Planning, Budget & Administration

Re: Final Recommendations on Adjustments to Campus Budget Model

As you know, we have been working to review the new budget model the campus implemented three years ago, to determine if any adjustments would be valuable for UCR. The new budget model has been well received, but in this review, we did notice some areas where we believe we can adjust the model and strengthen its support for UCR. We have completed our evaluation of input on the campus budget model and are recommending specific action to improve our process, as defined in the attached document. We would be happy to discuss this document with you and address any questions you may have.

Thank you

Attachment

B17023

EXECUTIVE SUMMARY

Following consultation with the campus community, we recommend the following refinements to the budget model. Details regarding each recommendation may be found in the **budget model refinement document**.

This document presents recommendations in several sections:

I.	Recommended actions effective 7/1/19
II.	Recommended actions effective 7/1/20 and beyond (but require planning starting now)
III.	Process changes to be implemented as soon as possible
IV.	Further actions that are related to the budget process, but were not specifically part of the previous drafts

Additional items found in the budget model refinement document but without specific recommended action may be found in Appendix A.

It is also important to highlight the changes in recommendations from the 12/6/18 draft refinement document circulated to the campus, summarized below:

- Rapid Growth of Assessments to Auxiliary units: A new proposal has replaced the previous options.
- Undergraduate Non-Resident Tuition Distribution: An incentive for recruitment and retention of international students has been added.

I.   RECOMMENDED ACTIONS EFFECTIVE 7/1/19

RECOMMENDED ACTIONS EFFECTIVE 7/1/19				
Topic	**Recommendation**	**Lead**	**Timeline**	**Financial Impact**
Salary and Benefits	Annually establish a sliding scale based on central state/tuition income for coverage of salary and benefit costs if new core revenue is insufficient to cover the mandated salary and benefit costs. The goal would be to cover these costs centrally to the extent possible. However, if central campus is not able to fully fund these costs, the Governance Committee would then provide recommendations to the Chancellor regarding what portion of the costs should be covered centrally on an annual basis.	VCPB	**January- June 2019**: FP&A Modelling **FY19-20**: Implementation	$15M+ per year
Recharge Rationalization	Return specific ITS, Facilities and Human Resources services back to recharge effective 7/1/19. Services to be transitioned are outlined in Appendix B. Rates for these services will be reviewed by the Rate Committee and approved by the Governance Committee prior to implementation.	FP&A	**7/1/19**: Implementation	TBD
Facilities Renovations and Support	Implement an appropriate institutional cost-share approach on renovations. Develop a priority process for renovations in the Schools/Colleges, with specific attention to faculty start-up and support spaces, including wet labs, dance studios, etc.	Facilities Services	**7/1/19**: Implementation	TBD
Rapid Growth of Assessments to Auxiliary Units	Replace the current assessment with a sliding scale percentage of prior year expenditures as an Administrative Cost Recovery (ACR) charge to self-supporting and auxiliary units. Under this scale, the first $1M of expenditures would have a rate of 9.6%. Expenditures from $1M to $8M would be assessed at 7.9%. Expenditures above $8M would be assessed at 6.2%. This implementation will be phased in over 3 years as demonstrated in Appendix C.	FP&A	**7/1/19**: Implementation	Negative financial impact during the 3-year phase in as the campus will not be able to increase assessments to fund other activities
Old Budget Model Structures	Remove central campus commitments which are not aligned with the budget model and review current cost-share activities between the Provost and the Schools/Colleges. These commitments total $1.3M and include the following: • Dean/VC (Executive) Searches- $250,000 • Yellow Ribbon Program Match- $50,000 • Executive Severance- $160,000 • Staff Severance- $500,000 • Faculty Searches- $350,000	VCPB	**7/1/19**: Implementation	$1.3M

Topic	Recommendation	Lead	Timeline	Financial Impact
RECOMMENDED ACTIONS EFFECTIVE 7/1/19 (Continued)				
Undergraduate Non-Resident Tuition	Scholarships and discounts are currently taken off the top. Implement a new allocation methodology such that the remainder is split 70% to central and 30% Schools/Colleges. Central campus will also provide the Office of International Affairs with additional funding of $1,000 per additional student per academic year for students paying at least 75% of the full non-resident tuition amount. Additional students are defined as those above the 600 base number projected for FY18-19. The purpose of these funds is to support activities that enhance the recruitment and retention of international students.	Provost, VCPB	**7/1/19:** Implementation	**Original Model:** Central campus lost $2K per NR student **Current Model (Central at 30%):** $7.3K per student to Central **Proposed Model (Central at 70%):** • $13.6K/student to Central • $6.9M to Central at 5% UG NRT • $13.79M to Central at 10% UG NRT • Schools/Colleges still receive more funding for NR students than resident students under proposed model **International Student Allocation:** Every increase of 1 international student over the current base would financially benefit the International program by $1k/year, assuming they paid in most of their tuition and they were not covered through other means.

II.   RECOMMENDED ACTIONS EFFECTIVE 7/1/20 AND BEYOND

Topic	Recommendation	Lead	Timeline	Financial Impact
RECOMMENDED ACTIONS EFFECTIVE 7/1/20 AND BEYOND				
Credit Hour Weighting	Establish credit hour weights for the tuition workload calculation, which would be applied to all growth in credit hours. Academic Senate Committee on Planning and Budget (CPB) could lead this initiative (if feasible) with a charge from the Provost and VCPB. This Committee should also consider how these weightings will impact TA funding.	VCPB and appropriate committee.	**By Fall Qtr. 2019**: Cmte. to provide recommended set of weights **Winter Qtr. 2020**: Cmte. to develop implementation strategies **FY20-21**: Implementation	Change in allocation between Schools/ Colleges of the same fixed amount of money.
Masters Level Incentives	Work with the Graduate Council and Graduate Dean to address current lack of financial incentives for masters student growth, especially when some program declines offset growth in others in the same School/College. As self-supporting degree programs are not currently included in the budget model, this group should also consider if these programs have the correct incentives as compared to state-funded programs. The group will also develop a list of recommendations regarding the establishment of these programs to ensure alignment with the best interests of the campus.	Graduate Dean	**FY19-20**: Consultation **FY20-21**: Possible Implementation	TBD
Ph.D. Support	Provost to form and lead a committee to develop specific recommendations relating to Ph.D. growth priorities and allocation of funding collected centrally for purposes of this investment, with matching funding from the School/College. Members on this Committee might include the following: • Graduate Council representatives (2-3) • BCOE Dean • CHASS Dean • CNAS Dean • GSOE Dean • SOM Dean • 2 faculty members at large appointed through Senate process This group should also consider if the current model is incentivizing the hiring of Postdocs over Ph.D.'s as GSRs. Going forward, report "graduate" enrollment with specific categories, including Ph.D., in order to track the percent of Ph.D. over time as an important metric.	Provost	**FY19-20**: Consultation **FY20-21**: Possible Implementation	TBD

	RECOMMENDED ACTIONS EFFECTIVE 7/1/20 AND BEYOND (Continued)			
Topic	**Recommendation**	**Lead**	**Timeline**	**Financial Impact**
Performance Funding	Provost to form a committee to develop priority performance metrics for allocation of one-time funding beginning as early as FY20-21.	Provost	**FY19-20:** Convene Workgroup **FY20-21:** Implementation	TBD
School of Medicine Undercapitalization	While not technically a budget model issue, the undercapitalization of the School of Medicine is of significant financial importance to UCR and should be highlighted in discussions involving campus finances. Senior leadership will continue to work with UCOP and the state legislature to increase base funding for SOM.	Chancellor and Provost.	**Ongoing lobbying at State level**	$25M shortfall in base funding
Need for Increased Central Funds and "Reserves"	Several of the recommendations outlined in other areas will serve to increase central campus funding. Establish mechanism to track "reserves" in the Schools and Colleges.	FP&A	**Ongoing**	
Viable Ways to Grow UCR's Total New Revenue	Formation of an ad-hoc group to lead a focused effort to formulate new ideas to grow UCR's total new revenue. Members for this committee might include: • VCPB (Chair) • Dean of UNEX • Dean of a Professional School • Academic Senate Committee on Planning and Budget Representative • University Advancement Development Representative • VCRED Office of Technology Commercialization Representative • 2 faculty members at large	VCPB	**FY19-20:** Convene Workgroup **FY20-21:** Initial implementation with continued work in this area	

III.   PROCESS CHANGES TO BE IMPLEMENTED AS SOON AS POSSIBLE

The recommendations below relate to the campus processes surrounding the budget model. Many of these changes will be incorporated in this year's annual budget process, beginning January 2019.

PROCESS CHANGES TO BE IMPLENTED AS SOON AS POSSIBLE				
Topic	**Process Change**	**Lead**	**Timeline**	**Financial Impact**
Budget Process Interaction with Campus Strategic Plan	Start the annual budget process with a focused discussion of the strategic plan and specific goals/priorities for the upcoming cycle as well biannual reporting of any/all allocations made by the center for that period.	Provost, VCPB	**January 2019:** Convene Governance Committee to discuss	
Multi-year Budget Model	Transition to a 2-year budget model. Documents prepared in the annual budget process will now include 2-year projections.	FP&A	**January 2019:** Include 2-year projections in budget templates	
Fixed Cost Increase Computation	Include in the budget model a call for all fixed cost increases so they can be disclosed and evaluated as part of the annual budget process.	FP&A	**January 2019:** Include fixed cost increases in budget templates	
Service Level Agreements	Eliminate SLAs in the current form and replace with a simplified document defining the authority and responsibility for specific goods and services.	FP&A	**February-March 2019:** Work with campus units to redesign **7/1/19:** Implementation	
Funding Schedule for Enrollment Growth	Implement the following tuition funding allocation schedule for enrollment growth: • 50% funding in September based on enrollment projections (temp only) • First "true-up" in November based on fall enrollment (temp only) • Final "true-up" in the spring (based on 3-quarter average actuals; temp and perm)	FP&A	**Implemented**	
Budget Related Activities During Fiscal Year	Distribute annual budget letter to the campus at the end of the budget process as well as biannual updates to the Governance Committee, Faculty Senate and campus regarding funding decisions subsequent to the process.	FP&A	**February:** Budget process call letter will include July-December allocations **September:** Annual budget letter	
Tracking of "Permanent" Positions/ Commitments Funded on Cash	Revised budget templates used in the annual budget process will track these positions and commitments.	FP&A	**February 2019:** Budget templates to track positions/ commitments	

IV.   FURTHER ACTIONS IN KEY AREAS

The following areas were referenced regularly throughout the consultation meetings and budget model survey. Specific actions already undertaken in these areas include:

Topic	Action	Lead	Timeline	Financial Impact
Campus Core Research Facilities	The Vice Chancellor for Research and Economic Development is currently drafting a proposal to outline central support for core campus research facilities.	VCRED	**FY19-20**: Consultation regarding VCRED proposal with Provost and Deans Begin Implementation as soon as feasible, perhaps in a phased manner.	TBD
F&A Distribution	The Provost will continue to work with the Deans to include language regarding centers in the F&A distribution policy.	Provost	**FY19-20**: Consultation **FY20-21**: Implementation	

APPENDIX A: ITEMS WITH NO IMMEDIATE ACTION

In order to focus on high-priority items listed in the recommendations above, and based on campus feedback we received on these issues, we recommend that no immediate action be taken with regard to the areas listed below. Further information for each topic may be found in the budget model refinement document.

Topic	Description
Space Weights	The current budget model does not distinguish cost for space. General weights for the type and quality of space on campus could later be incorporated in the budget model.
Economic Downturn Scenario	The budget model assumes the influx of new resources every year as well as adequate funding for fixed cost increases. It would be important to have some policy assumptions in the future as to what steps the institution would take when an economic downturn presents itself.
Financial Reporting	Automated access to financial reporting to assist campus units in financial operations should be addressed. However, campus efforts should remain focused on UCPATH reports in the near term.
Graduate Student Fees vs. Services Provided to Them	A concern has been raised about what fees graduate students now pay balanced against the services they receive and whether this should be reviewed relative to the same analysis for undergraduate students. The Vice Chancellor and Student Affairs and Dean of the Graduate Division would be positioned to perform this analysis related to the student services fee.
Summer Sessions	A proposal to integrate Summer Sessions into the budget model, treating it similarly to Fall, Winter, Spring was introduced to the campus during the consultative sessions. Based on multiple concerns of Senate faculty, the Summer financial structure should not be changed at this time.
Existing Base Budgets	The budget model made the de facto assumption that the existing (at the time) allocation of base resources was reasonable and appropriate for all units. This may or may not have been accurate.
Sustainability	There are no significant sustainability measures in the existing budget model.
Funding/Treatment of Specialized Programs	The model does not address a number of specialized campus programs or units, such as the Natural Reserves programs, Ag ops and the Botanic Garden.
Online Education Incentives	The model does not include any incentives related to online education.
Deferred Maintenance Funding	The need for deferred maintenance across campus exceeds available funding. Setting priorities for addressing deferred maintenance is therefore an important undertaking for the campus, including a new Decision Memorandum (DM) process to more carefully evaluate and prioritize needed investments.
Interdisciplinary/ Intercollegiate Programs	Interdisciplinary/Intercollegiate activities are not addressed by the model.
Professional Development for CFAOs and Department Level Management	Consideration might be given to developing a formal training process for this critical group of employees.
Technology Systems Investment Fund	The campus currently does not have a funding strategy for campus IT systems.

APPENDIX B: SERVICES TO BE MOVED BACK TO RECHARGE

Specific services to be returned to recharge 7/1/19 include:

Service Provider	Service	Description	Amount*
ITS	Coding and maintenance of non-campus-wide software applications	Programming, upgrading and maintenance of new and existing non-campus-wide software applications	TBD
	Non-instructional media	Multimedia (A/V) support for non-instructional events on the UCR campus	$187K
	Adds/Moves/Changes	Voice and network adds/moves/changes	TBD
Facilities Services	Moves/Setups	Moves, set-up services and associated equipment in support of campus events, and small departmental moves and equipment disposal/salvage	$465K
Human Resources	Non-mandatory Human Resources (HR) professional development courses	HR-led courses which require the purchase of licensed material, to include, but not limited to, the following: • Franklin Covey material • Crucial Conversations • Employee Engagement • Exercising Influence • Managing Transitions • Change Management • Leading Change • Management Development Questionnaire • DiSC Class Paper Profile Rates for these courses will need to be approved through the newly established Rate Committee.	TBD
	CORO	Campus units will now be charged for CORO participation	TBD

* The amount for each service represents the funding provided to the Service Providers in order to provide these services to the campus as core. These amounts do not represent what is currently being spent on these activities.

In reconsidering recharges, we recommend that Environmental Health and Safety (EH&S) focus primarily on faculty and instructional labs. Waste disposal for administrative units should be included in the project costs going forward.

We further recommend the following new recharges which will need to be approved the annual budget process:

New Recharge Rates	
Service Provider	Service
ITS	Renewal and replacement
	Online course support
Planning, Design and Construction	Fire and Life Safety Program[1]

[1]This is a continuation of current activities for capital projects which will now go through the budget process, and be integrated with the building code/quality program.

APPENDIX C: PHASED-IN ACR ASSESSMENT METHODOLOGY FOR AUXILIARY UNITS

We recommend the following ACR assessment for auxiliary units to be phased in over 3 years:

Auxiliary/Self-Supporting Unit Assessment Modeling								
Unit	**Old Methodology[1]**		**Budget Model Indirects[2]**			**Recommended Refinement[3]**		
	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	ACR FY19-20	ACR FY20-21	ACR FY21-22
UNEX	$1,365,513	$1,363,418	$1,254,869	$1,235,783	$1,181,477	$1,263,706	$1,345,935	$1,428,164
Housing/Dining	$3,479,429	$3,614,042	$4,649,179	$4,125,659	$4,488,466	$4,497,253	$4,506,040	$4,514,827
TAPS	$680,339	$690,032	$450,939	$394,686	$443,985	$462,404	$480,822	$499,241
Bookstore	-	-	$81,604	$65,198	$39,755	$38,907	$38,060	$37,212
R'Card	$13,160	$13,794	$23,124	$20,024	$22,693	$23,703	$24,714	$25,724
Early Childhood Services[4]	$18,047	$126,251	$497,905	$328,980	-	-	-	-
HUB[5]	$188,490	$207,901	$239,321	$244,593	$194,953	$190,736	$186,519	$182,301
Student Rec Center	$318,299	$348,141	$815,144	$945,901	$1,051,914	$930,361	$808,808	$687,255
Student Health Center	-	-	$524,868	$523,664	$506,617	$510,482	$514,348	$518,213
Faculty Housing	$18,502	$20,521	$9,630	$11,229	$6,045	$18,809	$31,572	$44,336
Charge Received by Central Resources	$6,181,779	$6,384,100	$8,546,583	$7,895,717	$7,935,905	$7,936,361	$7,936,817	$7,937,274

[1] Assessment of expenditures at 6%.

[2] Current budget model treatment for auxiliary and self-supporting units.

[3] Sliding scale percentage of prior year expenditures under which the first $1M of expenditures is assessed at 9.6%. Expenditures from $1M to $8M assessed at 7.9%. Expenditures above $8M assessed at 6.2%. These assessments would be phased in over 3 years.

[4] Early Childhood Services considered a Service Provider beginning in FY18-19.

[5] Indirects directly related to facilities mergers have been removed to normalize the changes.