

UNIVERSITY FINANCIAL MODEL
Top-Level Outline

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Effective during the 2014-15 fiscal year, the University will follow a new Agency 207 budgeting/financial model in which organizational units in various categories are expected to develop and adhere to balanced budgets.

As noted later in this document, several significant issues with implications for the University Financial Model are in the process of resolution at the time of this writing. They include:

- Likely significant cuts in state appropriations for FY14-15 and FY15-16 (will affect the availability of supplemental funding)
- Model for Affordable Excellence to be considered by the Board of Visitors for approval in February 2015

General Model Outline

In the model, affected organizational units are categorized as:

- Revenue Centers
 - University school
 - Specially designated academic/public service entity
 - Auxiliary enterprises, including intercollegiate athletics
- Cost Centers
 - University library, administrative or academic support units (central service-providing units)

A detailed sample of mapping of University organizations to the activity centers indicated above is available at <http://tinyurl.com/lonlko5>. Because this mapping will change over time (as new University entities are added, for example), the University Budget Office is the source of the most up-to-date information on the assignment of University organizations to activity centers.

The new University financial and budgeting model allows schools and specially designated academic/public service entities to receive most of the revenues they generate, and also requires them to fund from these self-generated revenues and from supplemental support provided by the institution (when needed) the direct cost of their own operations, metered services, and allocated costs for central services, while maintaining a school- or unit-level balanced budget.

Governance Assumptions:

- Decisions on matters related to the financial/budgeting model will be made according to existing organizational hierarchies and decision processes, including the regular meetings of the Executive Vice President and Provost and the University deans. Discussion of the value of services provided for academic units and their costs will usually take place via interactions between the Executive Vice President and Provost or the Executive Vice President for Health Affairs and the Executive Vice President and Chief Operating Officer.

- Regular UFM cost and allocation methodology will apply to Agency 207 entities included in the new Health Affairs financial/management framework (such as School of Medicine, School of Nursing, Claude Moore Health Sciences Library).
- Each year, each vice president and school dean will be expected to develop a plan with both short- and long-term components that includes explanation of priorities and a balanced budget that contains (among many other components) targets for revenues, direct expenditures and his/her school's or division's proportion of the costs for central services as allocated by the UFM methodology. Those plans will be shared broadly across University leadership, and each is ultimately subject to approval by the relevant Executive VP. The approval process will include negotiation related to any supplemental operating funding needed to complete the balance between revenues and costs. Failure to win approval for such a plan from the EVP may lead to withdrawal of the entity's spending authority. Consistent with the general transparency of the model, explanations of the rationale behind supplemental operating support for individual schools and units will be shared broadly within the University.
- In addition to approval to exercise spending authority, the evaluation and reappointment process of senior officers (vice presidents and deans) will represent a primary means of accountability to ensure good-faith adoption of and adherence to the new model, in a general context of:
 - Academic values-driven innovation and entrepreneurship
 - Alignment with the University's strategic interests and/or the Commonwealth's priorities.
 - Collaborative, collegial planning and partnership with the University, its schools and units.
 - Effective financial management/operational excellence.

Specific language that makes standards clear and describes any measurement criteria will be included in the performance expectations for these officers, and they will be encouraged to use similar language in expectations for those who report directly to them.

- The University and its units and schools will maintain sufficient cash reserves, based on factors such as the mission and risks associated with each unit, to manage year-to-year variations in revenues and/or expenditures, and the liquidity needs of the institution.
- Generally, current operational and financial policies should be assumed to persist. Examples include, but are not limited to, debt issuance, banking services, cash management, investments, procurement, disbursements, purchase of real estate, and lease transactions. Proposed changes to existing University policies related to the University Financial Model will go through the normal policy review process.
- In addition to the built-in incentives of the model itself, a set of incentives will be articulated and documented in planning agreements between the executive VPs and the deans or unit heads in their areas of responsibility. Those incentives will encourage top-quality financial management, openness to economies of scale, inter-school and inter-unit cooperation and collaborative planning, and innovation, while disincentives will be established that discourage unnecessary redundancy of staffing and services and failure to maintain primary focus on the University mission.
- The University central administration will develop formal, open and inclusive processes for regularly assessing the need for, cost of, and quality of central services. Costs of base-level services are included in the financial model's allocated costs. Base-level services will be defined by published service-level specifications, and are documented in agreements between the relevant executive vice presidents and the chief operating officer. Premium services may be available to units and schools at additional cost. The executive VPs will take the lead roles in addressing any concerns of academic entities about central services.
- The schools that have been classified as "self-sufficient," Law and Darden, have extended their current agreements with the University for paying for centrally-provided services based on a

percentage of school tuition and fee revenues. Because of this status, the two schools are out-of-scope for the cost-allocation strategies described below. However, proportions of the two schools' payments, based on overall institutional proportions of cost in each category (except facilities, a category in which the two schools already pay their costs directly), reduce the amounts in each category that are allocated to the remaining schools. As in the past, changes in the services available to Law and Darden from central providers are likely over time, and some may require a review of what specific services are included in the payments from the two schools by the EVP/Provost and the COO with the deans of those schools.

Significant Allocation Assumptions:

Sources

- Undergraduate tuition:
 - Regular session undergraduate tuition (net of financial aid and blind to in-state vs. out-of-state proportions) will be allocated via a blended formula driven by the credit hours of degree-seeking students (off-Grounds and on-Grounds).
 - The proportion of undergraduate financial aid that is funded by undergraduate tuition is budgeted, and both the regular-session and summer-session undergraduate tuition pools are reduced by relevant amounts before allocation to the schools.
 - The credit-hour counts are recorded at the end of October and the end of March for the regular academic session and as a total for each year's summer session.
 - The net tuition revenue per credit hour is distributed by the following weighted formula: 75 percent to the school offering the instruction and 25 percent to the school in which the student is registered.
 - Those undergraduate schools with differential tuitions or school-specific fees will receive that tuition (net of financial aid) or fee revenue directly, not through an allocation formula.
 - Undergraduate tuition revenues from summer session will be allocated directly to schools through the same methodology with the following exceptions: all undergraduate student credit hours are counted (not just degree-seeking) and the summer session administrative costs of providing undergraduate courses are deducted from the tuition pool before allocation.
- As of 2013-14, graduate tuition has been distributed directly to the schools of enrollment (and includes both financial aid and any out-of-state differential). Both summer session graduate tuition and tuition generated by enrollment in courses (at any time) in schools other than the graduate school in which the student is registered are subject to specific agreements between relevant entities.
- Grants and contracts will be allocated to the unit holding the grant or contract.
- Facilities and administrative (F&A) cost recoveries associated with sponsored research will be allocated to the school or unit housing the research activity. Because of the full distribution of F&A, some research-facilities debt that was previously paid by central F&A sources can no longer be, and the schools benefitting from those research facilities will assume responsibility for those debts.
- Restricted endowment distribution will be allocated according to the donor's wishes.
- The full 50-basis point endowment administration fee will be allocated to the recipients of the previous 25-basis point distribution.

- Schools must make good-faith efforts to report available foundation support (cash and in-kind) to the extent possible during the budget process
- Other revenue (gifts, sales, services, transfers, etc.) is allocated to the school that receives it.
- ETF credits equal to direct expenditures in the same category are included in school revenue totals.
- Unrestricted state funding, unrestricted gifts and unrestricted endowment distribution will be retained by the President and deployed in ways that include the following:
 - To maintain a program that will provide supplemental funding from a central pool to ensure that all schools and units sustain excellence.
 - To invest in the University's highest priorities as identified by the strategic planning process.

Uses

- Direct expenditures are allocated to the schools that generate them.
- "Metered" services is a shorthand term applying to University-provided services for which the usage is directly measured and billed. In addition to an array of already-existing "metered" billing, the Department of Facilities Management is expecting to begin billing for energy and other utilities, when such billing is ready for implementation.
- Allocated costs for central services are the costs of University-provided services for which usage cannot be directly measured, so the allocation of such costs is accomplished through formulas that approximate the relative proportions of usage. The usage approximation formulas are applied in a step-down cost-allocation methodology in the sequence below. Each cost is allocated to all service-providers in the categories below it on this sequential list and to the non-auxiliary revenue centers (except as noted below).
 - Facilities services costs for entities within scope of the University Financial Model will be computed as a general per-square-foot-occupied rate. UFM entities will be allocated that cost based on their total of assigned square feet and on their proportion of shared space (such as hallways and bathrooms).
 - IT services costs will be attributed to schools based on a formula weighted 75 percent from the FTE number of each entity's salaried employees and 25 percent for its students (regular session, undergrad and grad, FTE).
 - HR services costs will be attributed to schools and units based on the headcount of salaried employees.
 - Fundraising/Alumni-engagement costs will be allocated by separate allocation methods. Also, the University will provide initially (for FY14-15 only) a central subsidy to reduce the cost allocated to the schools (and other affected units) while all parties discuss approaches to ensure efficiency and effectiveness in these efforts in the schools and for the University as a whole. The full costs will be allocated in FY15-16.
 - Fundraising service costs will be attributed to schools according to the proportion of gifts over \$100,000 received over the last four years.
 - Alumni engagement service costs will be attributed to schools according to the number of contactable alumni.
 - Central Library services costs will be attributed to each school by its proportion of the sum of teaching/research faculty (FTE), students (regular session, undergrad and grad, FTE) and doctoral degrees awarded. The Health Sciences library is included in the direct expenses of the School of Medicine. A proportion of central library costs is covered by a University allocation of operating support to the library that is commensurate with the library's institution-level public-service role.

- Research support service costs will be allocated based on a weighted formula with 50 percent based on the number of awards and 50 percent based on the total dollar value of awards.
- Student support service costs will be allocated based on student (regular session, undergrad and grad) FTE.
- Undergraduate admissions services costs will be allocated only to schools with undergraduate student enrollment, based on that enrollment.
- Academic support service costs will be allocated based on sum of student (regular session, undergrad and grad) and teaching/research faculty FTE.
- Business, Executive and Managerial services costs will be allocated to schools only and based on each school's proportion of the total of direct expenditures of all in-scope schools.

Other Initial Assumptions/Conditions:

- Several significant issues with implications for the University Financial Model are in the process of resolution at the time of preparation of this document. They include:
 - Likely significant cuts in state appropriations for FY14-15 and FY15-16 (will affect the availability of supplemental funding)
 - Model for Affordable Excellence to be considered by the Board of Visitors for approval in February 2015
- The University expects to provide supplemental funding in FY14-15 sufficient to meet expectations from the previous model of budgeting if adequate funding is available from all sources to provide it. This has been known previously as “hold-harmless” funding. The decision on whether this provision will be in place for FY15-16 will be made in early Fall 2014.
- The University Budget Office has completed the standard budget process for FY14-15 based on previous methods of budget development. At the end of the budget development process, the Budget Office began overseeing a translation of the budget for FY14-15 into the terms of the new financial model, to be completed by early September 2014.
- Supplements for operating funding (which will be reviewed annually) will be awarded to qualified schools based on a range of criteria, including but not limited to:
 - Alignment with the University's strategic interests and/or the Commonwealth's priorities.
 - Collaborative planning and partnership with the University and the other schools within the University.
 - Effective financial management/operational excellence.
- In determining additional operating support, consideration will be given to special circumstances not easily addressed in the model's methodology. For example, the model does not award revenue for foreign study by U.Va. undergraduates when those students do not register for courses through the University registrar and do not pay tuition directly to the University. This circumstance may merit special consideration in light of the goals of the University's Cornerstone Plan. This and other circumstances are appropriately discussed, decided, and documented in the annual planning agreements between the executive VPs and their deans and/or unit heads.
- Some educational & general fees (application fees, activity fees, arts\$, etc.) are allocated to the revenue centers; some are retained centrally (E&G Debt Service, Technology Fee, OOS Debt Service); corresponding expenses are distributed or retained, accordingly.
- Grants & Contracts and Endowment Distributions that are restricted to student financial aid will be allocated based on the actual student financial aid expenditures.

- Except when mandated by financial aid restrictions, grants and contracts and restricted gifts and endowment distributions will remain in the unit where they are owned.
- Restricted state funds will be allocated based on the purpose of the appropriation.
- Expenditures related to instruction, research, and public service remain in the unit where incurred.
- Auxiliaries' G&A assessments will remain unchanged initially, with the intention that the method of calculating these costs eventually may use the University Financial Model cost allocation methodology in the future (upon careful, inclusive internal review and with approval from SCHEV).

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