

NEW FINANCIAL MODEL STEERING COMMITTEE - MAY 3, 2012

MODELING WORK

Melody Bianchetto presented the tool that she and Dave Boling built for the purpose of gathering two years (2010 and 2011) of budget data for analysis and modeling. She began by reviewing the financial model, and explaining assumptions and definitions.

Tabs on the main spreadsheet provided details behind the data.

Michael S stated that Melody and Dave had put considerable thought and effort into the model, which will be a most valuable tool. The SC was asked to experiment with the tool from a principle basis and use the model to see what produces the biggest variation. In addition, the SC was asked to consider the expense categories and revenues that were a main concentration and if there was a need for exploration of other variables or details.

Some approaches may be best short term rather than long term. Most RCM institutions plan for some elements to remain constant and for some incentives or governance decisions to be reviewed for effectiveness after a certain window of time.

The Deans agreed to the assumption that service costs were eligible to consider changing and that square footage indicated was under the control of each school. Discussion regarding tax rate followed. RCM tax models vary at peer institutions. The current information available to us tells us what is currently being taxed; it does not necessarily tell us what the tax should be.

It was noted that Foundations may cover many expenses (including faculty benefits, for ex.), so it can be challenging to communicate the complexity of the financial figures.

In addition, the present model factors in the allocation of IT institutional support, administrative support and student services.

Regarding capital construction project monies, principal and interest payments on a loan from the University are included as an operating expense, but the principal amount of the loan is not. Capital costs are not in the model.

Clinical financials and Foundation fund flows are not included in the modeling tool. Foundations and auxiliaries will need to be addressed.

It is unlikely that we will find a peer institution for a direct comparison because no one else has 27 foundations.

A comment was made that the College of A&S has the largest gap between revenue and expenditures. Economies of scale need to be considered.

In general, if a higher ed institution is very tuition centric, then central allocation of funds is more likely.

The SC was asked to spend time with the model and reach Melody and/or Dave with questions. This will be reviewed in the fall.

TASK FORCE UPDATES

Communication and Change Management – the TF asked each SC member to nominate two people from their schools/units to be part of a pool of speakers that will appear across Grounds to speak on the new financial model in the fall. Feedback was requested on a process for messaging to the University community. Communication is important. A void of information breeds anxiety. It is difficult to get consensus and approval on messaging.

At a minimum, would like to send an email to University faculty and staff with these points:

- Progress has been made; quick wins (enrollment growth tuition distribution)
- Current modeling work being done by the SC
- Activity will be evident in the fall; task forces are working and we are utilizing financial models to grapple with tough issues and will come back to staff and faculty in October.

Approved.

B. Allen stated that the Faculty Senate had distributed an update on the NIFM to faculty. Simon advised caution on communications; the SC did not have an opportunity to provide feedback prior to its distribution.

The point was raised that many faculty don't yet understand the current budget process. A Finance 101 website was created recently to help with this; needs to be finalized and posted.

Hold harmless question – what happens if we are perpetually held harmless and never achieve RCM? Response was that this is our opportunity; we need to fix our budget planning now.

Revenue and Incentives - the TF looked at ten institutional financial profiles that were summarized by the Core Work Group. Survey of attributes that TF saw in the models, tested how each served the principles: accountability, transparency and simplicity; looked at 4 categories of revenue: tuition, state allocation, unrestricted endowment income, and F&A.

Cost and Service Level Architecture – the TF has been identifying the core principles and have outlined the following as key;

1. Incentives for central and schools to economize (not minimize); be efficient.

2. Fine line between too simple and the reality of what is required to make decisions;
3. Direct charges whenever possible rather than general allocations
4. Discuss topic of schools and opt out of services

Governance and Cost Task Forces need to work together to discuss “opt in / opt out” and who determines the impact of that decision; perhaps it should be set up so that opt out is not permissible if the fringe benefits paid by the University are greater than those paid by the contractor. Benchmark data may be needed.

Financial Reporting – this TF is going forward with the management information that everyone would need no matter what model is chosen.
Scope is the driver of decisions; we will need to discuss how to add productivity measures into the models at a later date

Decision-making, Governance and Policy Making – the TF has conducted experiments using case studies, most recently a case study on F&A. This was an excellent way to “play with the clay” and derive principles. For the next meeting the group will do another case study on tuition, and endowment revenues.

Suggestions regarding communications are welcome: srstrine@virginia.edu