NEW FINANCIAL MODEL STEERING COMMITTEE – SEPT. 19, 2012

INTRODUCTORY REMARKS AND CORE PRINCIPLES – PRESIDENT SULLIVAN

President Sullivan reviewed the three key principles on which the development of the model would be based: 1) transparent, simple and accountable; 2) provide incentives to innovate; and 3) quality and stewardship.

She stated that the work to advance the new internal financial model this past year was less than all of us had hoped. However, we are now armed with the task force reports and a planning and modeling team that will test alternatives and provide data on which to base decisions. This puts the NIFM team in a strong position to accelerate the work of the Steering Committee.

The Steering Committee will consider significant actions that will be presented to President Sullivan for final decision-making approval and then taken toward a phased implementation. President Sullivan emphasized that there had been questions regarding who would make the final decisions regarding the new financial model, "Let me clear, I'm going to." Recommendations from the Steering Committee will be taken seriously.

President Sullivan and the Steering Committee discussed the core principles that will be embedded into the new internal financial model. (*See Core Principles listed on page 3).*

REVISED PROJECT TIMELINE

The Steering Committee will be building a toolkit for revenue and costs for the new financial model. A working group will be modeling the various options and provide decision briefs to the Steering Committee for their review and approval. Although the Steering Committee may not make decisions today; the Steering Committee will be deciding on recommendations for revenue and costs which will go to the President for ratification.

The revised NIFM timeline was also distributed. It was noted that the timeline which originally planned to implement the new financial model in a "big bang" approach is now targeted to be implemented over a two year period in conjunction with the budget development cycles. The deliverables for each of these implementations are still to be determined but are expected to be identified within the next few months.

REVENUE ATTRIBUTION RECOMMENDATIONS TO THE STEERING COMMITTEE

Undergraduate Tuition Revenue:

- Assumption: Undergraduate tuition revenue will be distributed (1) net of tuition-funded financial aid, and in a way that neutralizes the in-state/out-of-state mix by school.
- Assumption: Base tuition is built on 15 student credit hours.

- Four options presented for consideration (those in bold italics identify the recommendations of the modeling group):
  - **Option 1*. Attribute revenue to schools based on student credit hours***
  - Option 2. Attribute revenue to schools based on home school of undergraduate degree
  - **Option 3. *Attribute revenue to schools based on a blend of credit hours and home school of undergraduate degree*[1]**
  - Option 4. Attribute revenue to schools based on number of undergraduate degrees conferred.
- Decision on this recommendation will be deferred until the Steering Committee meeting on October 3rd (3-5pm).

<u>Undergraduate Tuition Discussion</u>

Some schools spend a lot of time advising students prior to their acceptance at a school (1-3 years prior to attending the school). These costs would not be included in the homeschool and credit hour options presented. These costs could be picked up in one of the blended models.

How do we decide which blended model is best – 75/25 or 85/15? May need each school to determine what their actual costs are for recruitment and advising to determine which blended model reflects their schools' actual activities and costs.

Discussed faculty concerns with compensating a school based on number of credit hours – an approach that will seemingly demonstrate an emphasis on instructing as many students as possible, incentivizing larger classes and duplication of classes in schools without some other consideration; For example, the approach may dis-incentivize a professor teaching a class in another school without compensation. Deans will need to start communicating with their faculty regarding the new financial model and understand their schools disciplines and the courses involved. Large classes may need to subsidize small classes and we do have to realize that some small classes may need to be eliminated. These are discussions that the deans will have with their faculty and the provost office.

With student credit hour approach, concerns over incentivizing the wrong behavior by the duplication of courses in order to keep more credit hours within each school could lead to school silos rather than course collaboration.

[1] Based on an as-yet undetermined blend, for example 75% based on credit hours and 25% based on home school.

University of Virginia
New Internal Financial Model

Core Principles

Core Central Services: There are central services that are so important or fundamental to the University that no constituent unit may opt out from them. Examples include, but are not limited to the library, compliance, audit, finance, insurance and risk management, financial aid, payroll, employee benefits, and the Board of Visitors.

Discretionary Funds for Central Officers: Central officers of administration need discretionary funds to carry out their duties and responsibilities on behalf of the institution. The New Internal Financial Model (NIFM) will ensure that central officers of administration have the necessary resources.

Donor-Directed Funds: Decisions of donors regarding the direction of their own gifts are to be scrupulously observed. This includes funds such as endowment and gifts given to the Rector and Visitors, not otherwise earmarked or restricted, which will not be part of the revenue streams allocated through the NIFM, but instead will be undesignated and unrestricted funds to support the priorities of the University as directed by the President.

Self-sufficiency: The term “self-sufficiency” is not to be equated with or used in lieu of the NIFM. The term is not to be used by any unit that cannot charge market-rate tuition and forego state appropriation—in other words; the term is limited to the School of Law and the Darden School of Business.

Subsidies: It is reasonable to believe that, as a mission-driven institution, there will be a need for subsidies, especially as we initiate the new model. Subsidies exist at most institutions that have a responsibility center or activity based model. Subsidies, where needed, should be transparent. The NIFM is not premised on a “tubs on their own bottoms” model as this is not a reasonable model for UVA at this time.

Implementation and Feedback: It is reasonable to expect that the new model will be enacted and implemented in stages, or in specific schools, and not all at once or as a “big bang”. We expect to learn during and after implementation and to adjust the model systematically as we do.

Tax Rate and Structure Principles: It is reasonable to expect that the new “tax rate” will begin at a high level, on the assumption that in the future it can be reduced. Tax rates are much harder to raise. In addition, the costing and allocation of some services initially included in the base tax rate may take time to implement effectively.

It is reasonable that the “tax” be levied on expenditures, not revenues, to incentivize revenue growth and expense management.

It would be reasonable to set lower “tax rates” on expenditures from some sources (e.g. gift funds and endowment, research funds that carry full indirect costs). These lower rates encourage expenditures of these funds while incentivizing conservation of general funds.

Appropriate Reserves: It is reasonable to expect units to maintain sufficient cash reserves as determined by central policy reflecting factors such as the mission and risks associated with each unit or the liquidity needs of the institution as the foundation for such reserve policies.

Current Policies: 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 University policies will go through the normal policy review process.