NEW FINANCIAL MODEL STEERING COMMITTEE – Oct. 03, 2012

REVENUE ATTRIBUTION RECOMMENDATIONS TO THE STEERING COMMITTEE

The following is a brief description of the options and recommendations of the Modeling group (recommendations in bold italics) to the Steering Committee. The Steering Committee reviewed the options and determined which revenue recommendations (in bold) will be modeled as shown below. The Modeling group will spend the next month creating models to demonstrate the SC revenue recommendations in combination with a variety of cost allocation strategies to illustrate how the strategies impact each of the academic units. These models will be reviewed and discussed by the Steering Committee. The outcome will be to determine the package of revenue and cost recommendations that will be presented to President Sullivan.

Many of the below revenue sources are obligated for long-term or permanent commitments. These commitments will be considered along with the distribution of all allocated costs.

a. Undergraduate Tuition Revenue

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.

Four options presented for consideration:

- Option 1. Attribute revenue to schools based on student credit hours
- Option 2. Attribute revenue to schools based on school of enrollment
- ***Option 3. Attribute revenue to schools based on a blend of credit hours and school of enrollment***[1]
- Option 4. Attribute revenue to schools based on number of undergraduate degrees conferred.

Steering committee recommendation for Option 3: Attribute revenue to schools based on a blend of credit hours and school of enrollment, with a heavier weighting towards credit hours. (Use various blend scenarios: 75/25; 85/15)

b. Graduate Tuition Revenue

Graduate tuition revenue will be distributed, including any tuition-funded financial aid. Only one option presented for consideration.

- ***Option 1. Attribute revenue to schools based on school of enrollment. Allow for MOU arrangements between/among schools for cross-enrolling or joint degree programs.***

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

Steering committee recommendation for Option 1: Attribute revenue to schools based on school of enrollment. Allow for MOU arrangements between/among schools for cross-enrolling or joint degree programs.

c. Restricted Gifts and Endowment Distribution

This is what is required by donor agreements – no other options available.

- ***Option 1. Distribute according to terms of donor restrictions.***

Steering committee recommendation for Option 1: Distribute according to terms of donor restrictions.

d. Unrestricted Gifts and Endowment Distribution

Only one option presented; guidance was included in the core guiding principles.

- ***Option 1. Retain all unrestricted gifts and endowment distribution centrally.***

Steering committee recommendation for Option 1: Retain all unrestricted gifts and endowment distribution centrally.

e. Equipment Trust Funds

This fund must be approved by SCHEV first, is subject to numerous purchasing restrictions, and often must be spent, received, and tagged within the fiscal year. Therefore, this fund is fairly restricted.

Three options presented:

- ***Option 1. Allocate all ETF to non-auxiliary units with the highest equipment levels (schools, ITS, vivaria, and library based on equipment levels as determined through the Fixed Assets Inventory.)***[2]
- Option 2. Allocate all ETF to the schools only, based on equipment levels as determined through the Fixed Assets Inventory.
- Option 3. Apportion ETF between direct allocation to the schools, library, and ITS, holding a strategic reserve pool[3] to be managed centrally. (*Note: this is how ETF is handled today*).

Steering committee recommendation for Option 1: Allocate all ETF to schools, ITS, vivaria, and library based on equipment levels as determined through the Fixed Assets Inventory.

Note: Would require a process to be developed to cap and trade ETF if a unit determines that the funds will not be spent by the end of the year. Funds must be spent in the fiscal year that they are distributed.

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[2] The schools, ITS, and the Library are the areas with the highest inventory levels.
[3] The size of the ETF strategic reserve pool would be determined at a later date.

f. Facilities & Administrative Cost Recoveries (F&A)

When allocating F&A, need to consider the state requirement to transfer $16.6 million into E&G – but anticipate that this can be accomplished through an accounting entry. Two options presented:

- ***Option 1. Distribute 100% to school/unit where grant residents.***
- Option 2. Continue current practice of distributing recoveries to schools, central administration, and strategic reserves. (*Note: this is today's practice.*)

Steering committee recommendation for Option 1: Distribute 100% to school/unit where grant resides.

Note: Need to develop new procedures for operating and adopt the principle that "A follows A and F follows F. The costing of central funding when two schools are involved and how to tax back to central will need to be defined, including how to provide support for research administration.

g. Endowment Fee

Two options presented:

- ***Option 1. Allocate entire fee to the endowment holder.***
- Option 2. Maintain current practice of splitting the fee 50/50 between central and the endowment holder.

Steering committee recommendation for Option 1: Allocate entire 50 basis point (bp) fee to the endowment holder.

h. State General Fund Appropriations

State General Fund Appropriations are distributed net of any restricted line items. Four options presented for consideration, with the note that any of the four could be modified to exclude self-supporting schools with the ability to charge market rate tuition (i.e., Law and Darden):

- Option 1. Attribute State General Funds proportionally, based on allocation of undergraduate and graduate tuition revenues.
- Option 2. Attribute State General Funds based on number of students enrolled (fall headcount).
- ***Option 3. Attribute State General Funds based on weighting of various programs in state's funding model multiplied by enrolled students.***[4]

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[4] This incorporates the Commonwealth's Base Budget Adequacy Model, which identifies base levels of tuition support as follows: Undergraduate: $12,571; Graduate: $26,372; Law: $12,752; Medical Education (M.D.): $130,931.

- Option 4. Attribute State General Funds based on a proxy of cost of instruction multiplied by number of degrees produced.

Discussion of State General Fund Appropriations:

First 2 options are based on enrollment activity; and the last two options focus on some measure of differential cost per program. Several felt that a focus on revenue was preferred since that would incent the correct behavior for building revenues rather than focusing on spending per program.

Law and Darden discussed the need for their schools not to receive state funding since their students, faculty and donors associate the schools with having a self-sufficient model without getting state funds. They support continuing the current practice by which the central administration buys down 50% of their in-state: out-of-state tuition differential.

Need also to understand what is the short term and long term strategy for the medical school and determine how to pay for medical school costs. [Note that the Medical School was not available for this discussion.]

It was suggested that a good use of the state appropriation fund may be to use the fund in the first year of the new financial model as a gap filler to help schools that will not have the revenues needed to sustain themselves.

It was determined that the issues surrounding the state appropriation fund do not need to be decided today.