

USF Budget Model Redesign

Status as of: 9/6/2023



Goals and Objectives

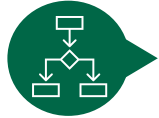
USF has established a set of budget model guiding principles to steer the development and implementation of a new RCM model.



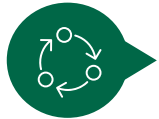
Provide **increased transparency into USF finances** and foster an information-rich disclosure on college priorities and budget matters.



Establish a **simple, consistent, predictable, and sustainable funding model** with incentives that advance the university's strategic plan and mission of excellence.



Diversify and strengthen financial revenue streams to support programs and operations in a dynamic environment.



Ensure **cost-effective** and **strategic use of fiscal and human resources** through streamlined processes and structure.



Align **responsibility, authority, and accountability** over fiscal matters.



Model Redesign Effort Recap

Budget Model Redesign Launch

Aug. '22 – Jan. '23

- Formed and charged Resource Allocation Workgroup to study RCM methodology and engage campus to formulate model guiding principles
- Interviewed executive leaders, deans, and staff across all campuses
- Produced preliminary RCM model with multi-year implementation timeline

Budget Model Assessment and Model Build

Jan. '23 – Mar. '23

- Reviewed redesign guiding principles and initial model parameters recommended by the Resource Allocation Workgroup
- Created baseline Actuals FY22 model to test parameters and alternative scenarios
- Refined model parameters with BFA and Resource Allocation Workgroup to create initial RCM model for socialization

Model Socialization

Apr. '23 – Jul. '23

- Facilitated meetings with Deans and budget officers to share RCM methodology and solicit model feedback
- Met with executive leadership and Board of Trustees to share progress and solicit feedback
- Refined model using Workgroup, deans, and leadership feedback
- Met with Support Unit leaders to discuss new responsibilities within the RCM model
- Developed informational website to answer RCM FAQs for the USF Community

Communication of Process and Community Engagement



Process Timeline¹

As the initial model is confirmed, the Parallel Year will provide an on-ramp for unit leaders and budget officers to prepare for model go-live.

| Phase | Fall 2022 | Spring 2023 | Summer 2023 | Fall 2023 | Spring 2024 | FY25 | FY26 | FY27 |
|--|-----------|-------------|-------------|-----------|-------------|------|------|------|
| Phase 0: Initial Work by USF | | | | | | | | |
| Phase 1a: Develop Initial Budget Model Design | | | | | | | | |
| Phase 1b: Modeling Support | | | | | | | | |
| Phase 2: Socialization and Infrastructure Development | | | | | | | | |
| Phase 3: "Parallel Year" Monitoring and Refinement | | | | | | | | |
| Phase 4: Hold Harmless Period and Go-Live | | | | | | | | |



Begin Hold Harmless Years



Go-Live © 2023 Huron Consulting Group Inc. and affiliates.

1: Timeline reflects plan as of 8/31



USF Budget Redesign – Key Questions

Using these questions as a guide, Huron facilitated multiple rounds of socialization and iterated the model to arrive at a customized USF RCM budget model.

| | Component | Questions |
|----|---|---|
| 1. | Model Organization | How should colleges, administrative units, auxiliaries, and other units be depicted and treated in the model? |
| 2. | Tuition, Fees, and Financial Aid | How should USF distribute tuition, fees, and financial aid to units responsible for generation? |
| 3. | State Appropriations | How should USF distribute state appropriations to supplement costs and/or incentivize activity? |
| 4. | Other Revenue Distributions | How should other revenue sources be distributed across academic units? |
| 5. | Indirect Expenses (Overhead) | How should university-wide administrative costs be funded? |
| 6. | Strategic Investment Funding | What mechanisms should USF deploy to create a strategic investment fund? How do units access these funds? |
| 7. | Model Management | What structures are in place or needed to maintain model integrity going forward? |



Incentive-based Model Elements

In general, incentive-based budget models share five common elements related to the flow of revenues and expenses across the institution.

| Component | Description |
|---------------------------------------|--|
| Direct Revenues | <ul style="list-style-type: none">• Recognized as revenue by the primary unit for goods or services provided |
| Allocation of General Revenues | <ul style="list-style-type: none">• Models devolve ownership of revenues from central administration to the local units that generate them; particularly, general state appropriations, and tuition and fees |
| Direct Expenses | <ul style="list-style-type: none">• Colleges are accountable for, and actively manage, direct expenses |
| Indirect Cost Allocations | <ul style="list-style-type: none">• Optimal decision-making requires that the full costs of activities be understood; not just direct costs, but also the facilities utilized, and central services provided• By understanding how indirect costs are allocated, management can estimate the full marginal costs of proposed initiatives• Each academic unit pays for a share of the central support unit expenses |
| Use of Central Funding | <ul style="list-style-type: none">• Investment of direct resources for mission-aligned strategic initiatives which can be university-wide or executed by a single unit• Allocations from central sources to academic units to invest in mission-critical units to continue providing comprehensive academic offerings |



Revenue Sources

Of USF's revenue sources, some lend themselves to incentive-based allocations, while others are typically managed directly by the generating units.

Direct Revenues

- Revenues directly attributable to goods or services provided by a revenue unit
- Revenue is typically recognized by the generating unit within the University's financial systems
- **USF Direct Revenues:**
 - Grants and Contracts
 - Gifts
 - Market Rate/Cost Recovery Tuition
 - Sales and Services
 - Investment Income
 - Indirect Cost Recovery (*proposed practice*)

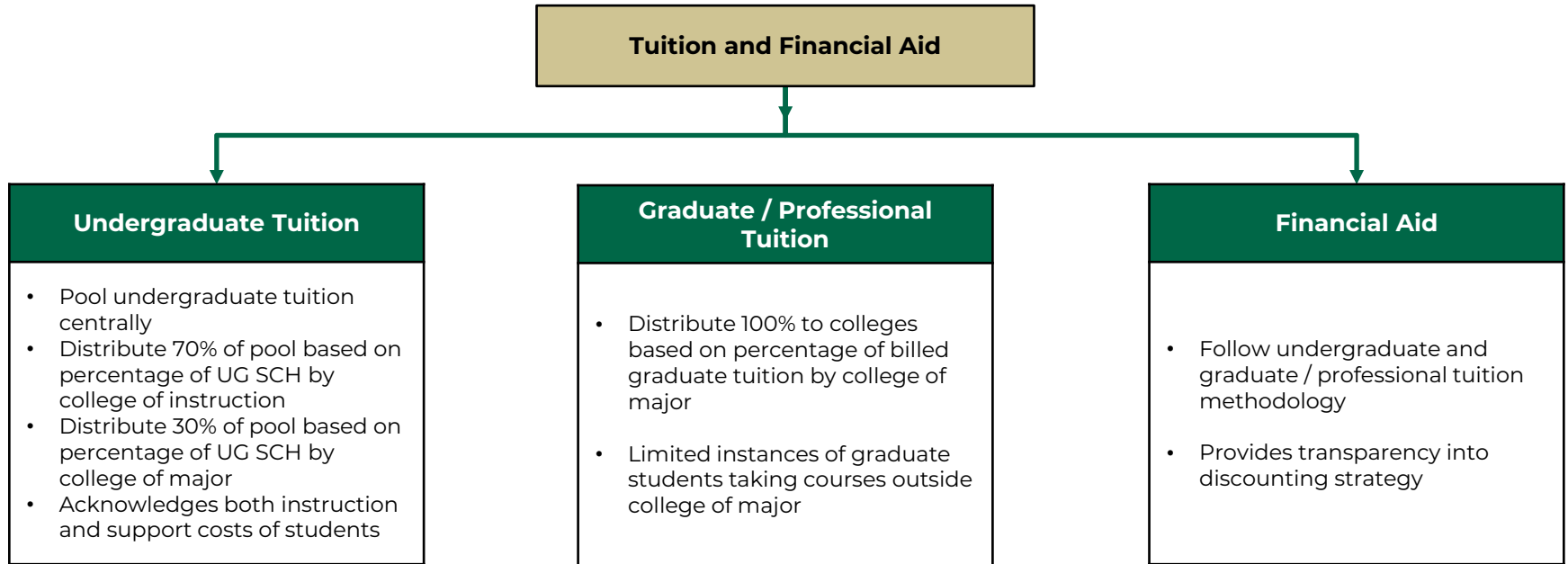
General Revenues

- Revenues that are received by USF administration on behalf of the units that generate the revenue
- Centrally received revenues are pooled together and allocated through various methodologies aligned with institutional goals
- **USF General Revenues:**
 - Tuition
 - Non-earmarked state appropriations
 - Indirect Cost Recovery (*current practice*)



Tuition and Financial Aid

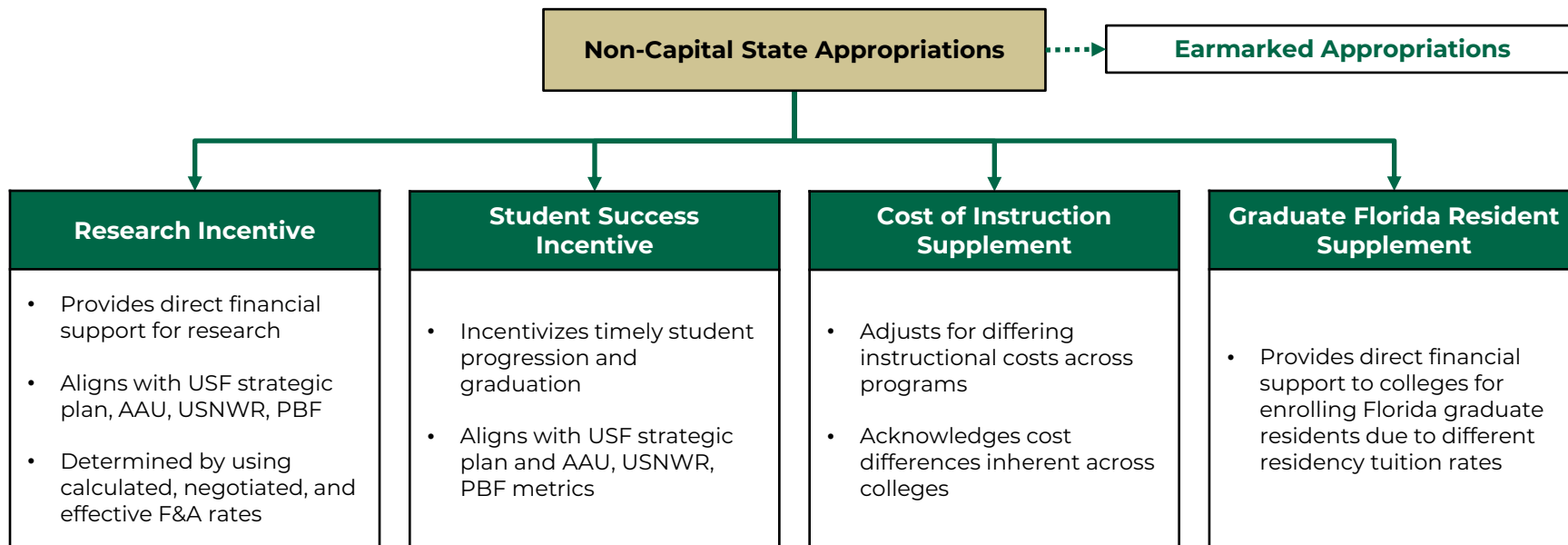
Directly distributing tuition to colleges increases model transparency, provides greater fiscal autonomy for deans, and increases accountability on college-level performance.





State Appropriations

The proposed model uses state appropriations to incentivize four specific areas that align with the strategic priorities and goals of USF.





Indirect Costs: Activity-Based Costing

USF's RCM model will allocate central administrative expenses to revenue generating units via a proxy metric (e.g., headcount) to estimate an appropriate support contribution.

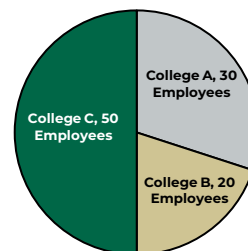
Overhead Allocation Considerations

1. Activity based costing increases **transparency** and requires a **balance between simplicity and accuracy**
2. Encourages **healthy dialogue** between academic and administrative leaders around **service costs, relevancy, and satisfaction levels – primary units must participate**
3. Will highlight **administrative duplication**
4. Can enable colleges to **project comprehensive fiscal impacts**

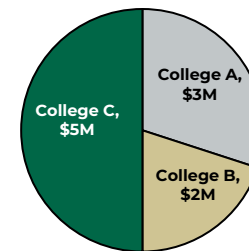
Example Allocation

| | |
|-----------------------------------|---|
| Direct Revenues | \$1M |
| Direct Expenditures | (\$11M) |
| Net Allocable Expenditures | (\$10M) |
| Sample Activity Driver | Employee Headcount (100 Employees) |

Proportion of Employee Headcount



Allocation of Cost Pool Expenditures (\$10M)





Indirect Costs

Central administrative costs are grouped into cost pools based on the nature of support services they provide to campus and serve as the foundation for Activity Based Costing.

| Key Takeaways: Activity Based Costing | Cost Pool Composition ¹ (Allocation Variable) | |
|---|--|--|
| <ol style="list-style-type: none"> 1. Uses a metrics driven approach to assign indirect costs to units 2. Strikes a balance between simplicity and accuracy 3. Increases transparency into overhead cost structures 4. Promotes healthy dialogue between administration and academic units on service levels 5. Elevates the long-term planning capabilities of USF | Academic and Student Affairs (Student Credit Hours) | Facilities and Public Safety Operations (Weighted Square Feet) |
| | Academic Advising | Utilities |
| | Health and Wellness Services | Facilities Management Services |
| | Financial Aid Services | University Policing |
| | Career Center Services | Space Planning, Design, and Construction |
| | Faculty Affairs Services | Environmental Health and Safety Services |
| | Library Resources | |
| | General Administration (Direct Expenditures) | Information Technology (Employee Headcount) |
| | Budgeting and Financial Services | Enterprise Applications and Systems |
| | Recruitment / Retention Support | Desktop Support Services |
| | Community / Government Relations Services | |
| | Communications and Marketing Services | Sponsored Project Administration (Sponsored Expenditures / Proposal Volume) |
| | Alumni Outreach and Engagement | Research Administration Services |
| | | Research Compliance |

1. Services listed within cost pools are illustrative and not comprehensive



University Investment Overview

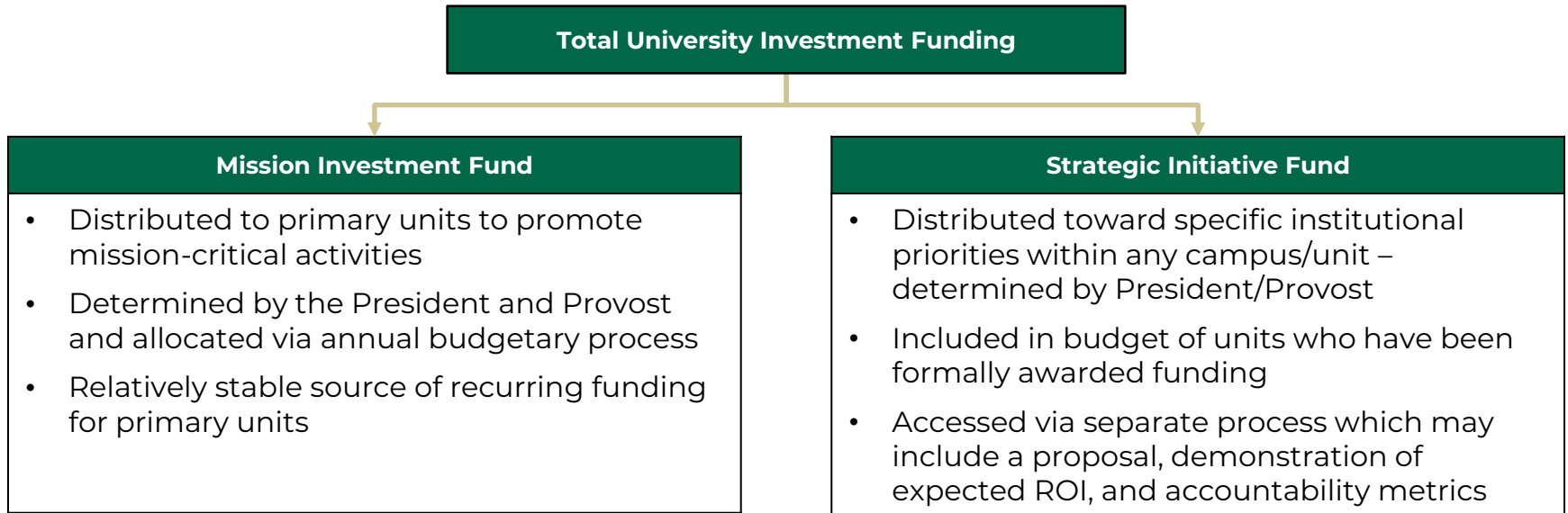
University Investment Funding exists for leadership to invest in mission-critical activities, promote strategic priorities, and mitigate unforeseen funding changes.

| | Mission Investment Fund | Strategic Initiative Fund | Hold Harmless Principle |
|-------------------|--|---|---|
| Definition | <ul style="list-style-type: none">Funding to support revenue generating units that cannot fully self-fund direct and indirect costs | <ul style="list-style-type: none">Funding to advance priorities within colleges and unitsExists in perpetuity, but specific investments are time-bound | <ul style="list-style-type: none">Funding to ensure individual units are not harmed due to model changes through implementation |
| Rationale | <ul style="list-style-type: none">Acknowledgement that select parts of a comprehensive university will need investment | <ul style="list-style-type: none">Provides mechanism for executive leadership to 'steer' the institution | <ul style="list-style-type: none">Provides unit leaders with time to adapt to model changes without immediate financial impact |
| Illustrative Uses | <ul style="list-style-type: none">Distribute funding to bring units to breakeven when expense levels exceed self-generated revenues | <ul style="list-style-type: none">Provide seed/bridge funding for high priority academic programsEncourage new initiatives that are collaborative (cross-unit) in nature | <ul style="list-style-type: none">Maintain status quo funding levels to eliminate severe disruptions to operations during model transition |



University Investment Funding Pools

University Investment Funding is generated through a fixed percentage assessment on revenue sources and is distributed to units at the discretion of the President and Provost.



Over time, University Investment levels will shift away from operational uses, building capacity for additional strategic initiatives in the future.



Next Steps

1. Continue socialization of model to campus stakeholders
2. Complete FY24 Model refresh
3. Begin parallel year implementation process
 - a. Refine budget development process and timeline
 - b. Evaluate supporting policies (e.g., carryforward and reserve)
 - c. Align RCM model to anticipated operating model changes
 - d. Share RCM-style FY24 Income Statement with deans
 - e. Train unit leaders and budget officers

Please reach out to Masha Galchenko at RCM@usf.edu with any questions.