

# UNIVERSITY BUDGET COMMITTEE RECOMMENDED MODEL FOR UMKC FY 2009 BUDGET

March 10, 2008

## I. OVERVIEW

### A. Goals

In developing this recommended model for UMKC's current funds budgeting for FY2009 and subsequent fiscal years (the "Budget Model"), and with guidance from the Chancellor, the University Budget Committee ("UBC") sought to achieve the following principal goals:

- **Equity and Transparency.** Establish equitable resource allocation policies and transparent reporting of those policies and their results to UMKC constituencies.
- **Performance Incentives.** Provide performance incentives for academic and support units to promote excellence in carrying out UMKC's missions and strategies.
- **Direct Financial Benefits.** Direct new revenues generated by enrollment increases and entrepreneurial endeavors to the financial benefit of the generating unit.
- **Promote Effective Decentralized Management.** Replace tendencies toward micro-management, unpredictable exercises of upper Administration discretion and difficulty encountered at the unit level in accessing financial data, with a system of largely decentralized budget management in which unit leaders and unit budget committees have access to accurate, user-friendly data and the ability to predict financial results with a high degree of confidence.
- **Ensure Supportive Financial Management Infrastructure.** Implement improved data systems and business processes/infrastructure to both facilitate administration of the Budget Model and enhance management tools.

### B. Major Components of Budget Model

The major components of the proposed Budget Model are as follows:

- **General Tuition.** Net tuition revenues are allocated to the Schools/College, utilizing specific attribution rules for cross-unit instruction.
- **State Appropriation.** The State Appropriation is allocated (1) first, in accordance with legislatively-directed special appropriations to certain units; (2) second, to fund a small number of clearly identified University priorities; and (3) the balance (the bulk of the State Appropriation) to the Schools/College based on a weighted-credit-hours formula designed to take into account varying unit instructional costs.
- **Student Fees and Other Income Sources.** Student fees, restricted gift and endowment income, restricted grant revenues and other revenue items that have been properly designated as special revenue sources of particular units continue to be allocated to those units.

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- **Recovery F & A.** Recovery F & A (overhead recovery associated with sponsored research/grants) is allocated and used in accordance with clearly identified rules.
- **General Overhead Assessments.** Approved costs of various administrative/support goods and services and certain specified Campus-Wide programs formerly funded through direct General Revenue Allocations are funded instead through reasonable assessments (“General Overhead Assessments”) on the Schools/College reflecting their respective levels of utilization of such goods and services.
- **Support Unit Funding from General Revenues.** By establishing a specific percentage (subject to periodic adjustment) of UMKC’s General Revenues to be assigned to each administrative/support unit, such units will be able to have greater predictability in their budgeting and will participate automatically in increases (or decreases) in such General Revenues.
- **University Reserves & Incentives Fund.** A University Reserves & Incentives Fund is established to provide resources for special capital needs, innovative programs and incentives for excellent performance.
- **Auxiliaries and Service Operations.** Auxiliary and Service Operations are to charge fair and uniform amounts for goods and services provided to other UMKC units. The costs charged and quality of services provided will be closely monitored on a regular basis, as will the overhead assessments paid by these Auxiliary and Service operations.
- **Fund Balances Policy.** Each leader of a Responsibility Center will be required to include in his/her proposed budget for the upcoming fiscal year a detailed explanation of the unit’s plans, including plans for managing and utilizing Current Unrestricted Expendable Fund Balances. Absent financial exigency, the presumption will be that each Responsibility Center will retain 100% of its Current Unrestricted Expendable Fund Balances unless the Chancellor, after receiving recommendations from the Vice Chancellors and the UBC, determines that it is appropriate to transfer a portion of one or more of those balances to address such exigency.
- **Oversight Committees.** In addition to the UBC, the following two committees will play important advisory roles on UMKC resource allocation decisions: (1) a “Support Costs Review Committee” (formed as a subcommittee of the UBC), and (2) an enhanced “Programs Evaluation Committee.”

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## II. SPECIFICS OF BUDGET MODEL

### A. Responsibility Centers and Submission of Annual Budgets

Subject to modification as changes to organizational structure or other circumstances dictate, the “Responsibility Centers” under the new Budget Model are as listed in Appendix 1. Each Responsibility Center will be (1) held accountable for its fiscal performance; and (2) required to prepare and submit to the applicable Vice Chancellor an annual operating budget and performance plan. Each Responsibility Center is to build its annual budget based on all of its spending needs and revenue sources. This will include spending needs and revenues associated with the Operating Fund, Auxiliary and Service Funds, Continuing Education, and Restricted Gift and Grant Funds. Thus, such budgets must account for all expenditure needs of the Responsibility Center, including personnel costs, operating needs, and any new program initiatives, and forecast all directly attributed existing and projected new revenues. All sub-units within a Responsibility Center will be responsible for providing the necessary information for their applicable portions of their Responsibility Center’s annual budget.

Further information regarding the determination of the portions of the General Overhead Assessments proceeds to be directed to various administrative and support units as an important element of their budgets is set forth in Section C.2 below.

### B. Initial Attribution of Revenues

#### 1. *General Tuition*

General tuition (net of scholarships and waivers) is attributed to the Schools/College in accordance with the procedures set forth in Appendix 2, which include the general rule that tuition from cross-unit instruction will be attributed 20% to the student’s home unit and 80% to the unit providing the instruction. In keeping with the premise that each School/College will keep its own tuition, the difference between the estimated general net tuition attributed to each academic unit for the fiscal year and the actual net tuition of that unit per year-end accounting will be reconciled by year-end cash adjustment. The official source of student credit hour (SCH) data for these and other computations under the Budget Model will be the UMKC Office of Institutional Research, Assessment & Planning. The year-end reconciliation to actual figures will be implemented by adjustment to the Operating Fund balance of each affected School/College during the first quarter of the following fiscal year.

#### 2. *Student Fees*

Appendix 3 lists all significant current fees, apart from general tuition, charged to UMKC students, showing the name and amount of the fee and the Responsibility Center to which each such fee is designated/specifically attributed. Instructional fees will flow to the instruction provider, which may or may not be a student’s “home” unit. The Support Costs Review Committee and the Programs Evaluation Committee, as applicable, will have, as part of their charge, the responsibility to review and report to the Chancellor and the UBC on the amounts and uses of these fees.

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**3. State Appropriation**

The State Appropriation, less (a) any amounts the Missouri Legislature specifically earmarked for particular programs and (b) any amounts the Chancellor directs to specified "Priority Allocations," is apportioned among the Schools/College. This sharing of the State Appropriation (after exclusion of (a) and (b) above) is in the ratio of student credit hours, weighted to take into account estimates of varying costs of instruction based on the data and formulae described in Appendix 4. In conjunction with the year-end reconciliation of budgeted to actual net tuition described above, such State Appropriation allocations will also be recomputed to reflect actual SCH, and appropriate adjustment to the Operating Fund balances made during the first quarter of the following fiscal year.

The legislatively earmarked portions of the State Appropriations for FY2009 are:

- Conservatory: \$ 212,000 (Top 10 Program)
- Dental School: \$ 970,000 (Academic Capacity)
- Medical School: \$ 727,500 (Anesthesiology)
- Medical School: \$ 507,195 (Informatics Department)
- Nursing School \$ 186,000 (Joplin Program)

The Chancellor has designated the following "Priority Allocations" for FY2009:

- Bloch School \$ 700,000 (Inst. for Entrepreneurship/Innovation)
- Conservatory \$ 500,000 (Additional Instructional Support)
- Dental School: \$1,978,000 (Kansas Exchange Scholarships)
- Education School: \$ 575,000 (Inst. for Urban Ed. Scholarships)
- Salary Adj. Pool \$4,095,482 (To Fund 3% Salary Increases w/Benefits)
- Twin Oaks Debt \$1,340,000 (1<sup>st</sup> Part of 4-year Pay-off)

The Chancellor or his designee will explain to the UBC and to the leader of each unit receiving a Priority Allocation the extent to which such allocation is essentially permanent or is planned to be increased, reduced and/or eliminated in future years (subject to adjustment for significant changes in circumstances). At this point, the Chancellor has indicated that his intention is that:

- (i) The Bloch School's IEI Priority Allocation will increase to \$1,000,000 in FY2010 and continue as a permanent rate money allocation (in FY2009, \$300,000 of the \$1,000,000 commitment, which relates to a match from the Ewing Marion Kauffman Foundation, will be funded with cost money).
- (ii) The transition plan for the Conservatory will include planned reduction of its Priority Allocation by approximately 50% by FY2012. This planned reduction we will be revisited during FY10 budget planning.

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- (iii) The Dental School's Priority Allocation will continue as a permanent rate money allocation, the specific amount of which will be set annually to track just the discount for Kansas students mandated by the Kansas Exchange Scholarship program.
- (iv) The Education School's Priority Allocation will continue as a permanent rate money allocation, the specific amount of which will be set annually to track just the financial burden of the I.U.E. Scholarships mandate.
- (v) The Salary Adjustments Pool Priority Allocation is anticipated for FY2009 only, with the understanding that by FY2010 the budget plans of each Responsibility Center should have built-in mechanisms to address below market salary problems; and
- (vi) The Twin Oaks Debt Priority Allocation will be redirected to the University Reserves & Incentives Fund after FY2012 (i.e., after retirement of the Twin Oaks Debt).

If and when the Chancellor proposes to add additional allocations to the list of Priority Allocations, or to eliminate or modify any Priority Allocation, the UBC will be consulted for input on such proposals in its advisory capacity.

#### **4. *Auxiliaries, Service Operations and Continuing Education***

Each Responsibility Center with an Auxiliary, Continuing Education or Services Operation program is allocated 100% of the revenues generated by such program, less the special assessments (known as "Institutional Offset" and "CE Offset") currently imposed under UM-System or UMKC policies. The proceeds generated through such assessments are allocated to the University Reserves & Incentives Fund, as described further in Section C.3 below.

#### **5. *Recovery F & A***

For FY2009, Recovery F & A will be allocated 50% to the academic units generating such revenue and 50% to administrative and support functions designated by the Chancellor and Provost. The apportionment of Recovery F & A, and rules as to its use, are currently under study by the Provost's Office and the Research Advisory Council. That study is to be completed prior to the setting of the FY2010 budget. After receiving a final report on that study, the Chancellor, with advice from the UBC, will determine what modifications (if any) are to be made in the Budget Model's handling of Recovery F & A for FY2010 and subsequent years.

#### **6. *Attribution of Other Revenues***

- Restricted gift and restricted endowment income are credited to the respective Responsibility Centers satisfying the applicable donor conditions.

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- Unrestricted gift and unrestricted endowment income, to the extent not attributed to a specific Unit, are credited to the University Reserves & Incentives Fund. Scholarships historically earmarked for students in a particular school or gifts that might not technically be “restricted” but are nonetheless generated by a particular school for use by that school will not be redirected to other uses, as they will be treated as attributed to such school.
- Miscellaneous revenues not attributed to a particular unit by operation of the rules described in the foregoing provisions of this Part II.B are credited to the University Reserves & Incentives Fund, with the following exceptions: (a) any such miscellaneous revenues that in the FY2008 budget are specially allocated to other Responsibility Centers will continue to be so allocated and (b) unless otherwise determined by the Chancellor, with input from the UBC, 100% of any new types of revenue created by a Responsibility Center shall be allocated to that Responsibility Center.

### **C. Operating Costs and Mechanisms to Fund Various Campus Needs/Investments**

#### **1. *Directly Traceable Operating Costs***

Operating costs that are directly traceable to individual Responsibility Centers will be charged to the Centers that gave rise to the costs. Typical examples of such costs include, but are not limited to, salaries, wages, benefits, supplies, and other normal costs of operation.

#### **2. *Assessments to Fund Certain Administration and Support Centers***

Appendix 5 lists several Responsibility Centers that provide academic and support services or goods for various Campus needs or represent specific recurring Campus-Wide programs. Specific amounts of funds to cover certain costs of these Units and programs will be raised through General Overhead Assessments imposed on the Schools/College by using the allocation bases described in Appendix 5. The bases selected are deemed fair and appropriate to allocate the various types of services, goods or programs in question based on relative usage by the Schools/College. Because of the administrative complexities and limited impact that would be involved, the assessments reflected in Appendix 5 will not be recomputed to take into account differences between estimated and actual SCH for the year.

For FY2009, the dollar amounts of revenue to be directed to the items listed in Appendix 5—i.e., the budgets of the administrative and support units/programs to be funded from the General Overhead Assessment on the Schools/College—will be determined by the Chancellor after receiving recommendations from the applicable Vice Chancellors and the UBC. These determinations will include consideration of (a) all other sources of revenue available to the Responsibility Centers in question and (b) input from the Support Costs Review Committee regarding the reasonableness of the proposed expenditures of any Responsibility Centers it has studied. The Support Costs Review Committee will strive to minimize the amounts to be assessed to the Schools/College.

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In general, the Support Costs Review Committee, acting as a subcommittee of the UBC, will be charged with looking for ways to avoid unnecessary duplication, conserve energy, ensure equity and predictability in “charge-backs,” review the amounts and uses of student fees allocated to administrative and support units, and otherwise promote efficiencies in administrative and support units. The Support Costs Review Committee shall include faculty, deans and administrative personnel, along with one or more external evaluators with appropriate expertise.

Once the dollar amount of the proceeds of the General Overhead Assessments to be directed to an applicable administrative/support unit is determined in a manner that includes meaningful input from the Support Costs Review Committee and the UBC, it will then be expressed as a percentage of UMKC’s projected General Revenues. Such unit will then, absent financial exigency, receive the same percentage of UMKC’s projected General Revenues unless and until such percentage is adjusted as a consequence of a periodic review (every three, four or five years). The Support Costs Review Committee will be provided with a proposed schedule of the periodic review cycles for the various administrative/support units and will provide comments on the same to the UBC, which will, in turn, provide advice to the Chancellor and Vice Chancellors regarding such proposed cycle.

Information collected and suggestions made by the Support Costs Review Committee should be considered by the Chancellor, the Provost, the UBC and other UMKC decision-making individuals/bodies in a collaborative process and take into account all relevant considerations (such as all other available sources of revenue, legal requirements, System mandates, and issues of cost, security, quality and efficiency). Any resulting decisions/actions (e.g., insourcing or outsourcing) will be made by using a University-wide perspective rather than one focused on what is in the best interests of individual academic or support units.

### **3. *University Reserves & Incentives Fund***

The new Budget Model includes the creation and maintenance of a University Reserves & Incentives Fund to be disbursed in a manner that takes into account advice and recommendations from the Provost, the other Vice Chancellors and the UBC. It is anticipated that this Fund will have multiple subparts, such as, for example, (a) a campus-wide general contingency reserve; (b) a reserve to provide funds for equity investments in UMKC improvements projects that might be leveraged through other sources of construction financing to allow UMKC to accommodate the physical and space needs associated with enrollment growth and the University’s master facilities plan; and (c) a fund (“Incentives Fund”) to provide significant performance and new program development incentives, in the form of one-time or planned multi-year funding for academic units, encouraging and recognizing excellence and the attainment of key strategic goals. Criteria for determinations in making resource allocations of the type described in (c) are set forth in [Appendix 6](#). An enhanced Programs Evaluation Committee will serve as an advisory body making recommendations regarding performance measures and resource allocations to academic units out of the Incentives Fund.

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The University Reserves & Incentives Fund will be funded through:

- i. The Institutional Offset and CE Offset charged to auxiliaries and continuing education operations (recently aggregating about \$1.3 million per year);
- ii. Any new outside sources of funds (i.e., funds other than those generated by other UMKC Responsibility Centers or the State Appropriation) that are not otherwise assignable to a Responsibility Center (see B.6 above);
- iii. Funds from Current Unrestricted Expendable Fund Balances (i.e., Operating, Continuing Education, Auxiliary and Service Operations fund balances), but only to the extent determined in accordance with the Current Fund Balances Policy set forth in D. below; and
- iv. After the Twin Oaks Debt is retired, the Priority Allocation of a portion of the State Appropriation that had been earmarked for that purpose.

### **D. Current Fund Balances Policy**

Each leader of a Responsibility Center is required to include in such Center's proposed budget for the upcoming fiscal year a detailed explanation of unit plans, including plans for managing and utilizing the unit's Current Unrestricted Expendable Fund Balances. Absent University financial exigency, the presumption will be that each Responsibility Center will retain 100% of its Current Unrestricted Expendable Fund Balances unless the Chancellor, after receiving recommendations from the Provost, the other Vice Chancellors and the UBC (or an applicable subcommittee), determines that it is appropriate to transfer a portion of one or more of those balances to the University Reserves & Incentives Fund or to other uses.

In making recommendations to the Chancellor regarding possible transfers out of Current Unrestricted Expendable Fund Balances, the applicable advisors shall consider, without limitation: (a) the nature of the reserves represented by such balances (e.g., legal commitments, Research Incentive Funds, equipment replacement, new hire start-up, contingency, etc.); (b) the applicable Responsibility Center's prospects of generating new/increased operating revenues; (c) the applicable Responsibility Center's performance under Appendix 6 criteria/measures; (d) compliance with UM-System requirements; (e) coordination with the work of the Campus Facilities Committee and with other UMKC reserves; and (f) a general rule of thumb that, absent extraordinary circumstances, no Responsibility Center should in any fiscal year be subject to an involuntary transfer of more than 20% of any of its Current Unrestricted Expendable Fund Balances.

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### **E. Budget Process Timetable and New Model Transition Plan**

The Budget Model will be phased in over a three-to-four-year period, beginning with FY2009. During the Winter/Spring semester of 2008, the Chancellor, Interim Provost, Provost and/or Interim Director of Budget will have met with each Dean and with the leader of each other Responsibility Center to begin discussion of a reasonable, individualized transition plan for the applicable unit to pursue. The UBC, Provost, Vice Chancellors and Chancellor will continue to collaborate on such transition planning, with the goals of showing each Responsibility Center leader by June 30, 2008 the transition plan for such unit through FY12.

### **F. Release of Funds Procedure**

In order to implement the above-described resource allocations, and rather than having actual cash transfers to and from multiple units for each step, the Finance/Budget Office will do the computations necessary to implement all of the allocations required by the Budget Model, and then use a “release of funds” approach to actually implement the net results for each Responsibility Center.

### **G. Contingency Plan Re: Significant Changes in Circumstances**

The new Budget Model is based in large part on recent trends in the amounts of various resources available to UMKC and some assumptions about key items, such as the likely level of the State Appropriation for coming years. The UBC recognizes that a variety of circumstances could significantly change over time and necessitate modification of the Budget Model for FY2009 or subsequent years. Accordingly, the UBC will work with the Chancellor on the development of contingency plans to appropriately alter resource allocations to take into account such possible changes as significant reduction or increase in the State Appropriation, legislative earmarking of new State funding, items (such as utilities costs) that may be particularly volatile, or the receipt of major new restricted or unrestricted gifts for UMKC units or programs. Among other things, such plans will adopt an approach in which thoughtful unit-by-unit impact analyses are prepared and considered, and resource allocation modifications made in a targeted manner, consistent with mission enhancement, rather than through across-the-board measures.

### **H. Financial Reports**

A subcommittee of the UBC, with input from the Deans' Council and the Faculty Senate Budget Committee, will work with the UMKC Finance office, unit business and fiscal officers, and other appropriate personnel to create templates for user-friendly financial reports. These templates will facilitate implementation of the new Budget Model and promote transparency in communicating the results of the operation of the Model to UMKC constituencies.

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### III. COORDINATION WITH OTHER CAMPUS INITIATIVES

#### A. Improved Business Infrastructure

The UBC has spent a number of hours studying the financial and budgeting practices of the University as a prelude to constructing the Budget Model it is recommending to the Chancellor. The Committee believes it has designed a viable model that is predicated on sound principles and addresses many of the shortcomings of the past regarding budget and resource allocation policies and procedures.

A budget model, though, is only one tool that managers use in trying to plan, control, and evaluate the performance of a large and complex organization. Some of the most basic tools that create a “supporting cast” have been lacking here at UMKC due to an inadequate financial, reporting, and business practices infrastructure. In the UBC’s opinion, UMKC has not in the past invested the requisite resources in such infrastructure, as evidenced by many examples of data that are too frequently difficult to access and/or unreliable, as well as an absence of systems to generate certain types of information that one would normally expect an operation of UMKC’s size to utilize in making management decisions. In combination with on-going requests to do more with less, it is evident that we are laboring within a deficient business management environment. PeopleSoft will no doubt help to some degree. However, by continuing to operate in this fashion, unit administrators (deans, vice chancellors, directors, and others) are handcuffed when trying to perform their duties.

To address this situation, the UBC *strongly recommends* that in conjunction with adoption of the new Budget Model, UMKC should implement a three-year project to significantly enhance its business processes/infrastructure. This may include making expenditures related to personnel, information systems, business processes/practices, and databases, all of which are designed to improve information, process, and task efficiencies in a financially beneficial manner. The UBC fears that without immediate attention to this situation, UMKC’s future financial and operating health will be severely tested.

While we believe the new Budget Model is definitely a step in the right direction, we caution that the Model cannot work in isolation; it needs an improved infrastructure and various support tools in place if its goals and objectives are to be achieved.

#### B. Comprehensive Review in Context of Coordinated Vision

- The implementation of a new budget model at an institution as large and complex as UMKC will certainly involve some growing pains and consequent need for adjustment to address problems, improve performance incentives or resolve unanticipated issues that may arise. While this process of adjustment will be continual, the UBC recommends that there be a comprehensive review of how the entire Budget Model is working after a reasonable number of years, and suggests that the Chancellor commission such a review sometime between FY2012 and FY2014.

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- The UBC advocates close coordination between UMKC resource allocations and the vision-oriented action plans being developed by the Chancellor, the Provost and other Campus leaders. Periodic review of the Budget Model should be made with a view toward identifying any modifications of the Model that might be in order to keep it well aligned with UMKC strategic planning. When each such periodic, comprehensive review of the operation of the Budget Model is undertaken, a major emphasis of that review should be an assessment of how well the Model is working in relation to UMKC's mission and strategies. In this regard, review of its performance should include tracking/measurement of progress toward the achievement of high-level, campus-wide goals and include, among other measures, consideration of the following questions:
  1. To the extent determinable, did the units that generated the revenues benefit from them? If so, how did they benefit?
  2. Have our reporting systems become more transparent?
  3. Has the model promoted interdisciplinarity? And have we avoided the potential "silo" effects?
  4. What have been the consequences for units that have had a decline in student fees or other revenue?
  5. Has the Model appropriately encouraged creative and concerted efforts to raise University (especially Summer School) enrollment?
  6. Is the apportionment of the bulk of the State Appropriation (via the model's Appendix 4) operating equitably? For instance, have we succeeded in avoiding both double-counting (such as by having weighting that in effect funds instructional costs of an academic unit that are already funded through student fees) and gaps (where legitimate costs are not sufficiently supported)?
  7. Has the model served our external constituencies and enhanced our partnerships?
  8. Have there been any unintended consequences of implementing the model?