



UTSA[®]

The University of Texas at San Antonio

Finance and Budget Modeling Town Hall

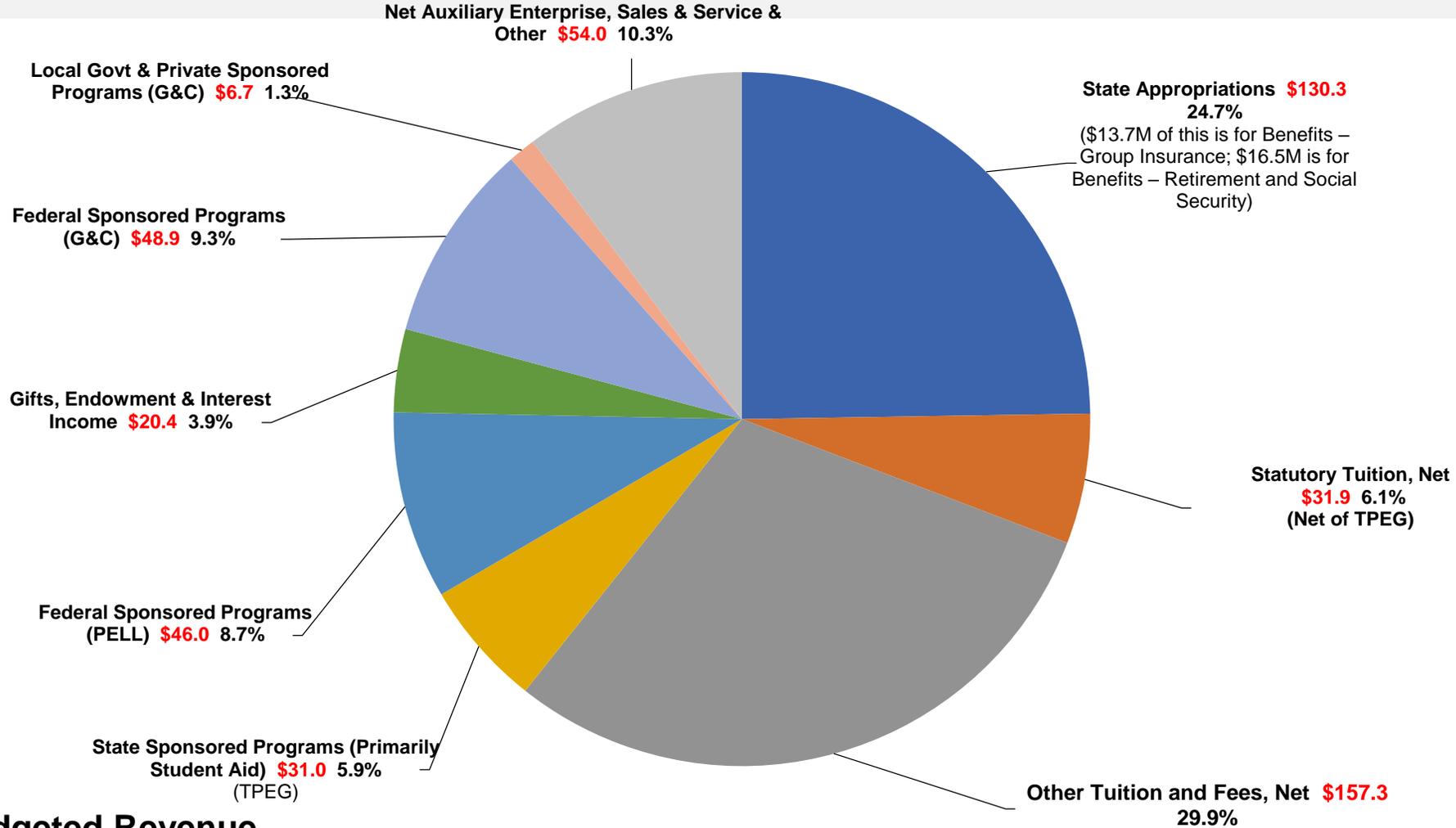
March 27 & 28, 2018

FINANCE AND BUDGET MODELING TASK FORCE

Charge

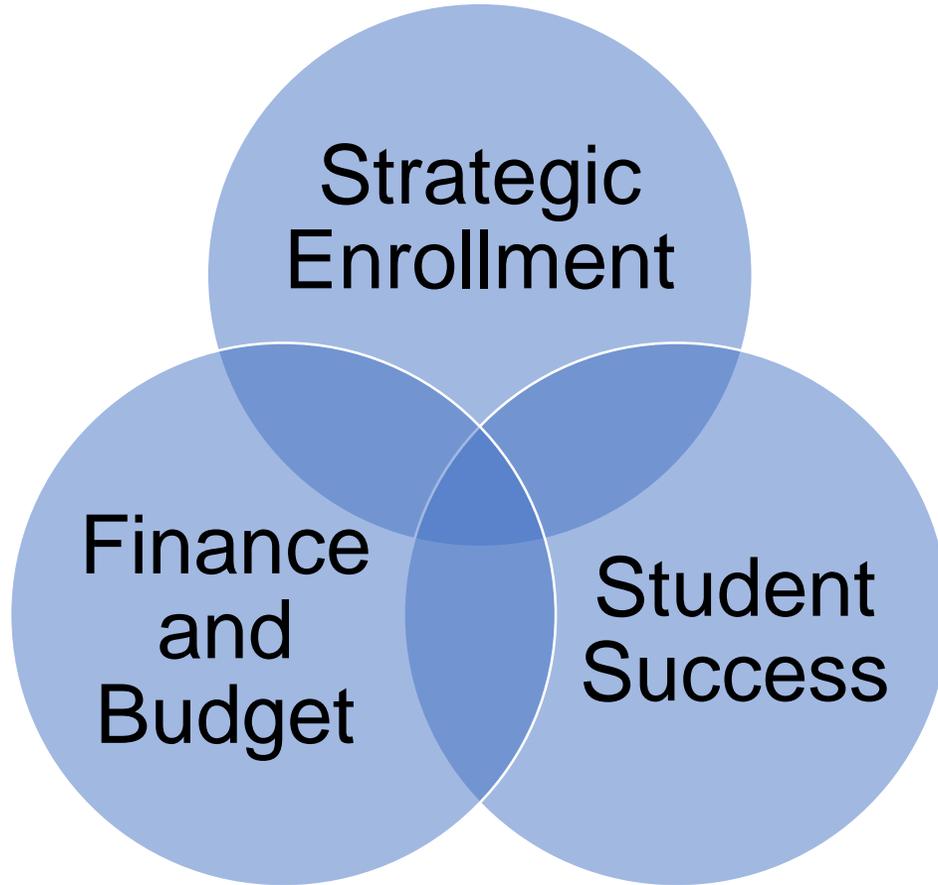
The Finance and Budget Modeling Task Force will create a new budget model that is transparent, data-driven, supports entrepreneurship and innovation, and aligns resources needed for our strategic mission, vision and themes. In addition to assessing our current financial practices, this task force will develop strategies to optimize our financial resources and our expenditures by adopting best financial practices.

Where does our Revenue come from?



FY 2018 Budgeted Revenue

BUDGET TASKFORCE CONNECTIONS TO OTHER TASKFORCES



Given the majority of UTSA revenue available for budget allocation is influenced by Enrollment and Student Success activities (tuition and formula funding), there are significant overlaps

Budget Redesign Began with Diagnostic Review

- **Huron Consulting provided these insights into our current state of our Incremental Budgeting Model**
 - **Opaque budgeting process**
 - **Misaligned incentives**
 - **Systems and reporting challenges**
 - **People resources and capability gaps**

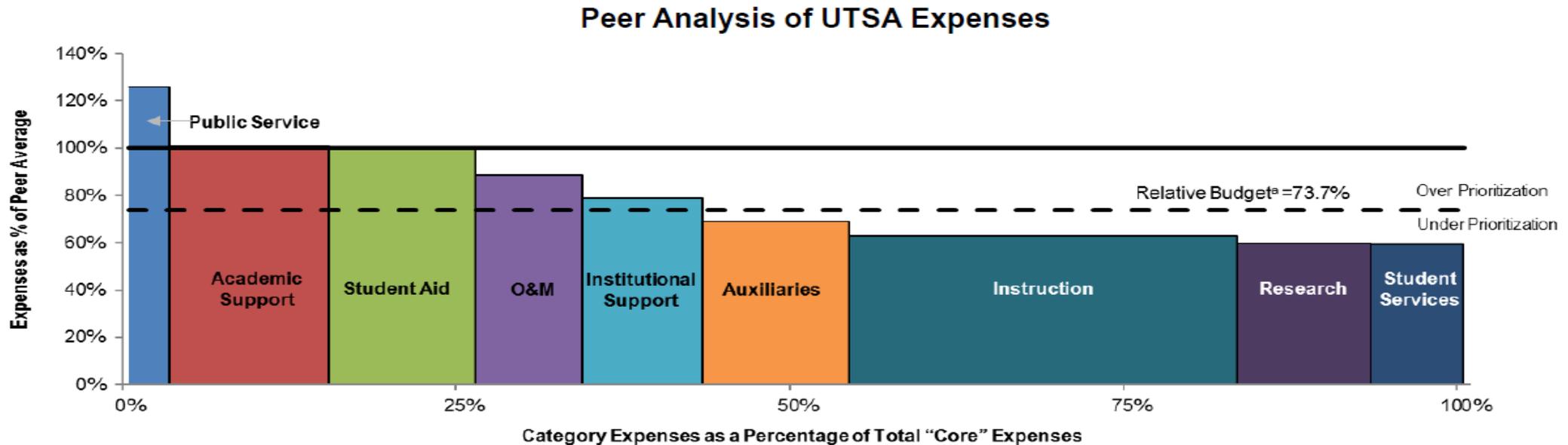
Budget Redesign Began with Diagnostic Review

- **Huron Consulting provided these insights into our current state of our financial operations**
 - **Healthy balance sheet but declining operating performance**
 - **Reserves covering shortfalls**
 - **Weakening financial ratios trending**
 - **Expense analysis to peers – Instructional expenses below peers**
 - **Institutional support cost higher than peers**

Budget Redesign Began with Diagnostic Review

Expense Analysis: Peer Review

An analysis of UTSA's total expenses compared to peers illustrates a higher prioritization of spending in the following areas: public service, academic support, student aid, operations and maintenance, and institutional support.



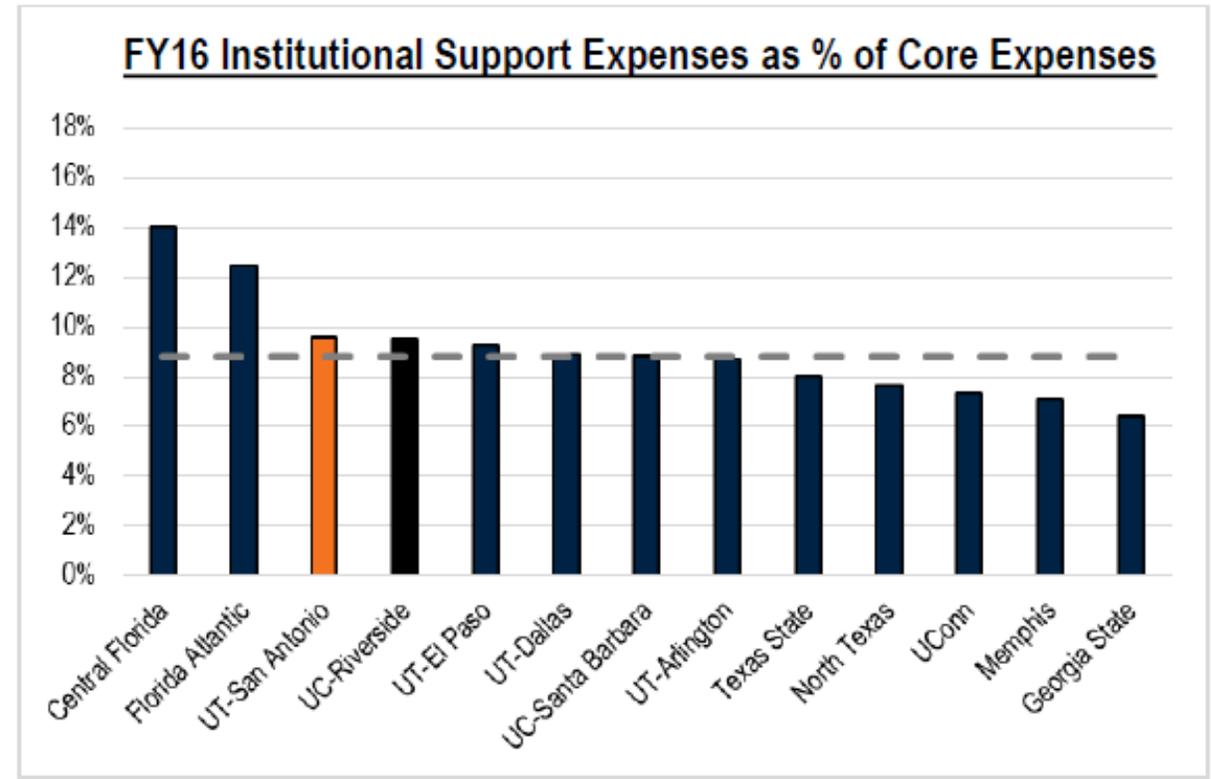
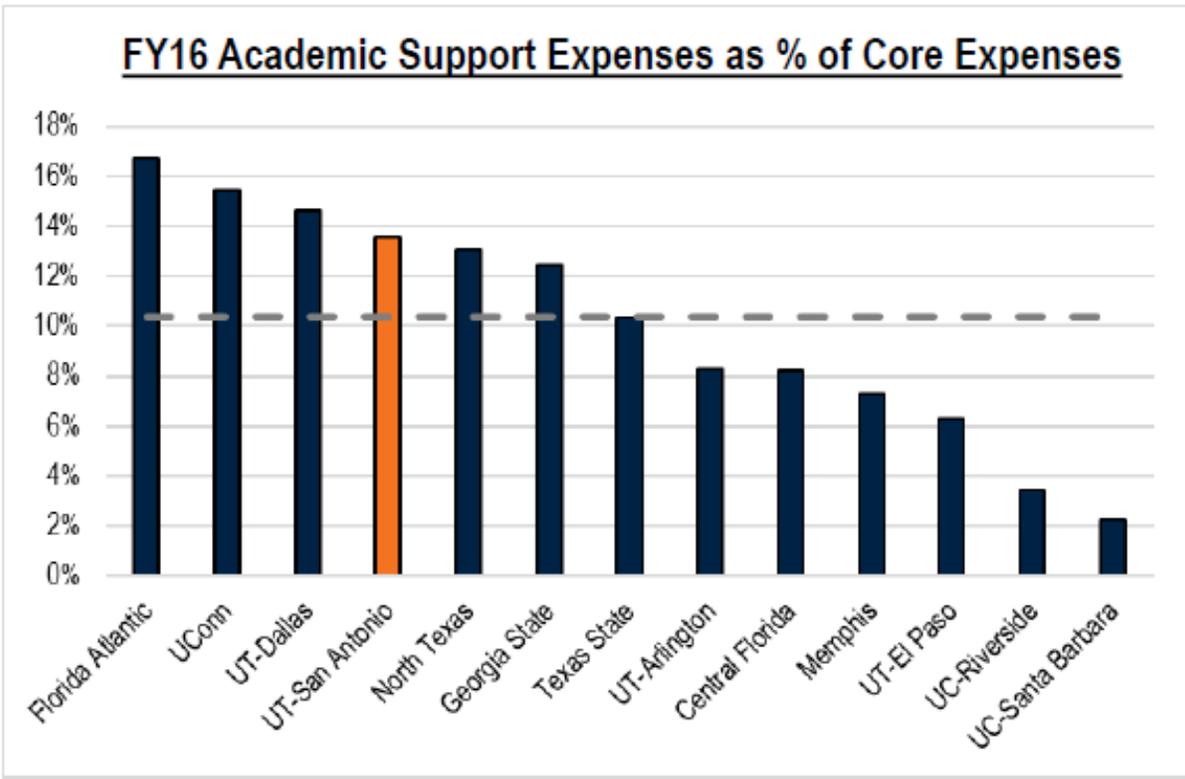
a – UTSA's total expenses as a percentage of the peer average

Note that UTSA's relative budget as compared to the traditional peers and aspirational peers are 99.8% and 55.1%, respectively.

In terms of relative budget prioritizations, UTSA trails its peers in resource allocations to research, instruction, and student services, which indicates an opportunity to assess how the university could reallocate additional resources to mission-critical functions such as instruction and student services

Budget Redesign Began with Diagnostic Review

Expense Analysis: Academic Support and Institutional Support



Common Themes for Redesign - Value Drivers

Change the nature of decision making and increase transparency

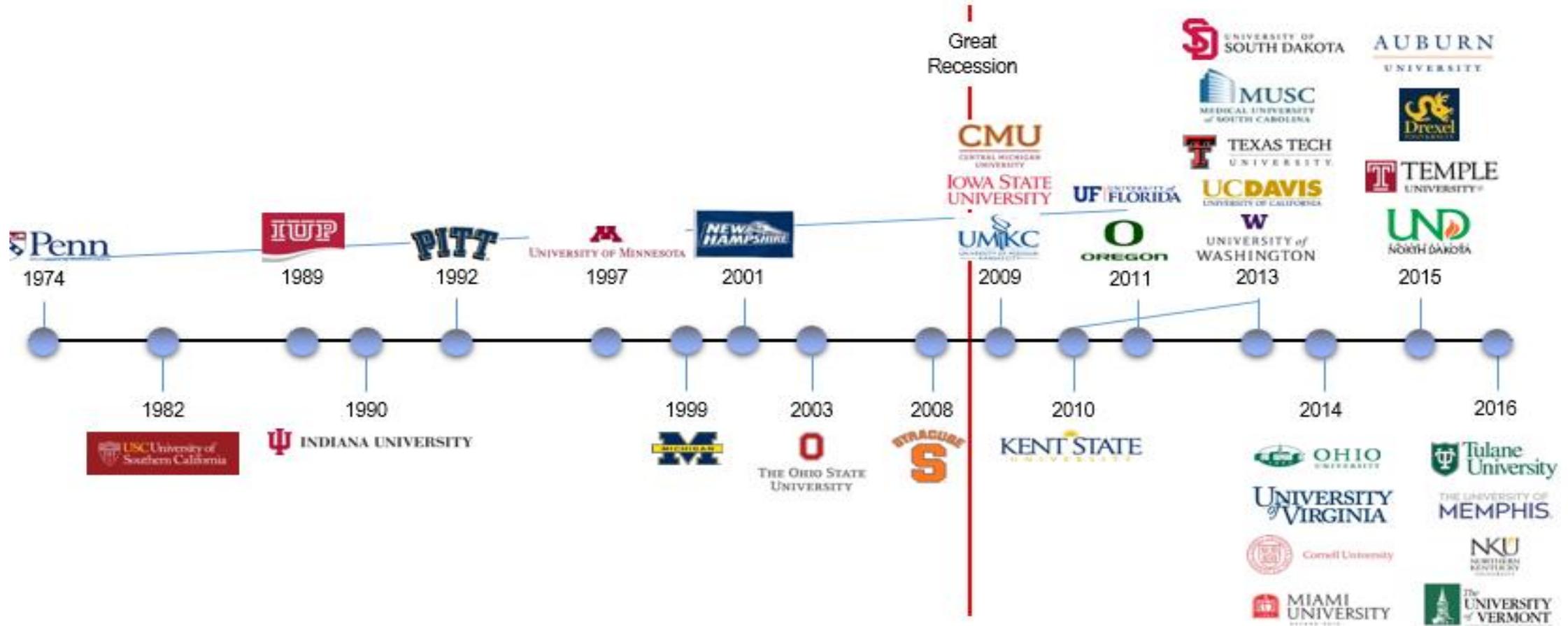
Promote incentives and grow revenue

Move to a data-driven approach

Guiding Principles Developed by UTSA in 2017

- Align resources with institutional priorities (supporting students as that is part of our institutional policies, priorities)
- Support the decision-making process with reliable data and analysis
- Improve budget transparency
- Incentivize revenue growth and cost effectiveness
- Improve fiscal accountability and management of resources
- Evaluate budget process periodically and adjust as necessary

Budget Model Redesigns provided by Huron Consulting



Traditional vs. Strategic Budgeting: Budget Evolution

Traditional Budgeting

- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that **reset annually**



Strategic Budgeting

- **Plan** for developing resources
- **Prioritization** of resource allocations for strategic initiatives
- **Explanation** of the internal economy
- Mechanism to create institutional **incentives**
- Tool to empower departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of **accountability**

UTSA Budget Redesign Timeline

- Budget and Finance Taskforce began in Oct. 2017.
- Huron Consulting partner performed Diagnostic Financial and Budget review. Completed Dec. 2017.
- Huron partners with UTSA to enter redesign phase of budget, working with taskforce, steering committee and deans to gathering design concepts for various models with multiple choices on drivers and allocations.

UTSA Budget Redesign Timeline, cont.

- Holding meetings with stakeholders in spring of 2018 to view alternative models and shape decisions towards a new model.
- FY19 budget year to run parallel budget model (incremental and new model).
 - Evaluate during parallel timeframe for modifications to FY 20.
- Consult with all colleges, other major divisions for effective use of new model, incentivizing revenue and controlling costs.

UTSA Budget Redesign Process

Work with stakeholders and taskforce to review models & concepts



Engage stakeholders, use feedback to refine models



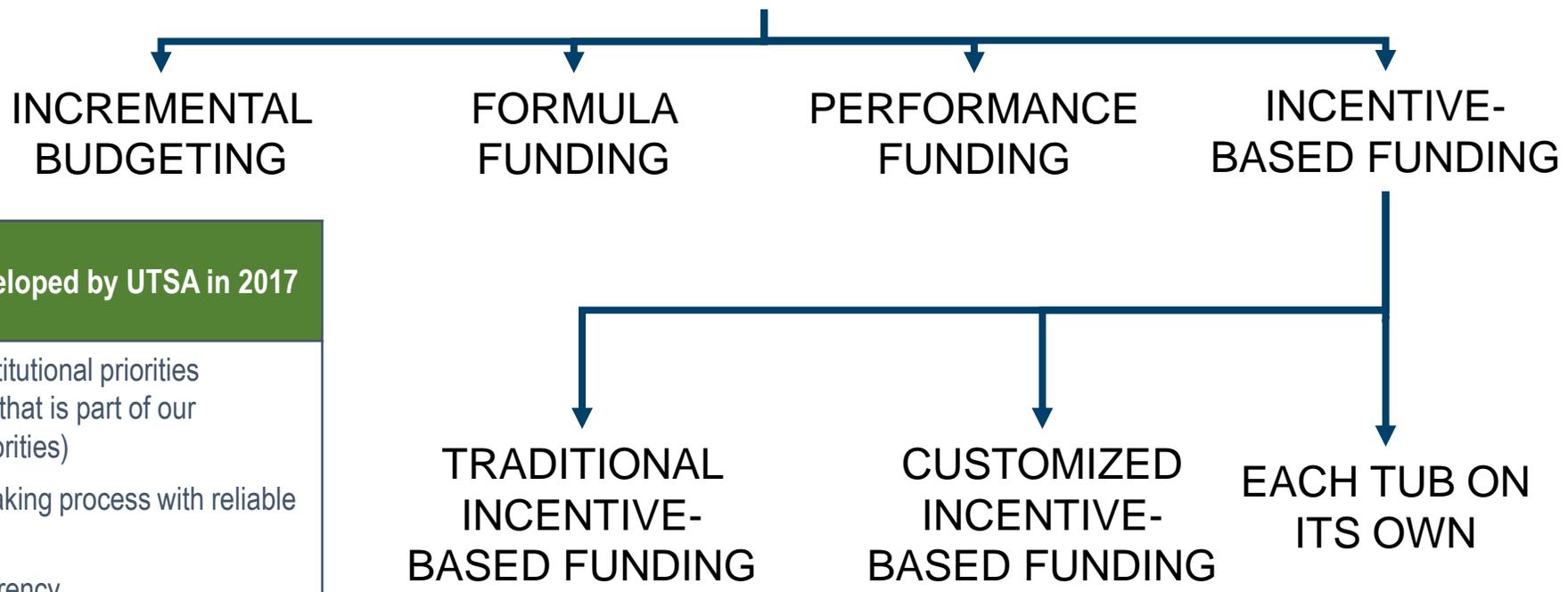
Create infrastructure (system reporting) FY 20 ready



Implement parallel budgets FY19

Model will evolve over time; will base degrees of implementation upon institutional priorities and evaluation of direction/values.

Alternative Budget Models Reviewed – No model selected yet



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To optimally tailor a budget model for a given institution, it is critical to identify and create an appropriate balance of centralized and de-centralized control.

Budgeting Alternatives: Pros and Cons

The use of hybrid models reflects the reality that each model comes with its own set of benefits and considerations.

Common Budgeting Models

	Incremental Budgeting	Formula Funding
Benefits	<ul style="list-style-type: none"> ▪ Consistent treatment of budgets over time ▪ Simple to understand and facilitate ▪ Provides equity across units ▪ Maximizes central flexibility 	<ul style="list-style-type: none"> ▪ Provides an objective method for making budget decisions ▪ Uses readily available data ▪ Easy to understand ▪ Success is easy to measure
Considerations	<ul style="list-style-type: none"> ▪ Requires stability of funding and consistent priorities ▪ Needs periodic “re-basing” to ensure base does not become an entitlement ▪ Encourages spending to maintain budget 	<ul style="list-style-type: none"> ▪ Incentive to increase size, not increase quality ▪ Difficult to differentiate among local unit business models (e.g. student type, research) ▪ Accounting for local unit factors increases model complexity

Institutional culture, organizational complexity, mission, and systems capabilities are all factors that should be considered when determining a university’s optimal budget model.

Budgeting Alternatives: Pros and Cons

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Common Budgeting Models		
	Performance Funding	Incentive-Based Models
Benefits	<ul style="list-style-type: none"> ▪ Focus placed on achievement of university mission ▪ Productivity data is used ▪ Encourages planning ▪ Rewards high-performing units 	<ul style="list-style-type: none"> ▪ Promotes entrepreneurship / revenue growth ▪ Encourages efficient operation of administrative service units ▪ Aligns revenues and costs ▪ Facilitates conversations about priorities
Considerations	<ul style="list-style-type: none"> ▪ Difficult to account for differences in quality of inputs and/or may sacrifice quality of outputs ▪ Poor performance may lead to a “downward spiral” ▪ Units may experience time lag between decision and results 	<ul style="list-style-type: none"> ▪ Requires strong central and local unit leadership ▪ Criticized for replacing academic with financial focus ▪ Without adequate transparency, academic collaboration hampered ▪ May require additional infrastructure to support financial management

Institutional culture, organizational complexity, mission, and systems capabilities are all factors that should be considered when determining a university’s optimal budget model.

Overview of Budgeting Alternatives

Incremental budgeting remains the most common approach to university resource allocation, though adoption rates are a bit misleading, due to the array of alternative and hybrid models.

Common Budgeting Models*			
<p>Incremental Budgeting</p> <ul style="list-style-type: none"> Centrally driven Current budget acts as “base” Each year’s budget increments (decrements) adjust the base Focus is typically placed on expenses Common modifications: <ul style="list-style-type: none"> Block-grant models bucket line-items together to promote local control Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base Approximately 60% of institutions and 79% of public doctoral institutions report using this model 	<p>Formula Funding</p> <ul style="list-style-type: none"> Unit-based model focused on providing equitable funding Unit rates are input-based and commonly agreed upon Annual fluctuations are driven primarily by the quantity of production and not from changes to rates Common modifications: <ul style="list-style-type: none"> Weighting schemes to control for local cost structures Used only for select activities (e.g., instruction) Approximately 26% of institutions and 45% of public doctoral institutions utilize a formula funding model 	<p>Performance Funding</p> <ul style="list-style-type: none"> Unit-based model focused on rewarding mission delivery Unit rates are output based and commonly agree upon Annual fluctuations are driven primarily by changing production and not from changes to rates Common modifications: <ul style="list-style-type: none"> Weighting schemes to control for local unit mission Used only for small portions of overall resources (as little as 1% to 5%) Approximately 20% of institutions and 26% of public doctoral institutions utilize a performance funding model 	<p>Incentive-Based Models</p> <ul style="list-style-type: none"> Focus on academic units Incorporates a devolution of revenue ownership to local units, as generated Allocates costs to revenue generating units Utilizes a centrally managed “subvention pool” to address strategic priorities Common modifications: <ul style="list-style-type: none"> Revenue allocation rules Number of cost pools Participation fee (tax rate) Approximately 14% of all institutions and 21% of public doctoral institutions use an incentive-based model

* Adoption rates from the 2011 Inside Higher Education Survey of College and University Business Officers; Percentages do not add to 100% due to hybrid budgeting models

UTSA’s Finance and Budget Model Task Force kicked off, began assessing current budgeting practices, and initiated discussions for designing a new budget model to meet the university’s priorities and needs.

UTSA Budget Redesign Outcomes expected

- Aligns budgetary authority with responsibility and accountability
- Focuses necessary and proper attention on revenues and revenue development
- Fosters entrepreneurship, and rewards departmental efforts
- Encourages efficient and competitive administrative services
- Identifies the true nature of internal subsidiaries
- Translates strategic goals into management and operating plans
- Optimizes incentives with the potential to create win-win opportunities across entire institution

Questions?

QUESTIONS AND DISCUSSION

After today, we welcome your comments or questions at:

initiatives@utsa.edu



Presidential Initiative Town Halls

Student Success

Monday, March 19 | 4:00 – 5:30 p.m. | Denman Room, UC 2.01.28 | Main Campus

Thursday, March 22 | 4:00 – 5:30 p.m. | Frio Street Building, FS 1.512 | Downtown Campus

Strategic Enrollment

Monday, March 19 | 4:00 – 5:30 p.m. | Aula Canaria, BVB 1.328 | Downtown Campus

Monday, March 26 | 3:00 – 4:30 p.m. | Retama Auditorium, UC 2.02.02 | Main Campus

Finance & Budget Modeling

Tuesday, March 27 | 1:30 – 3:00 p.m. | Retama Auditorium, UC 2.02.02 | Main Campus

Wednesday, March 28 | 3:00 – 4:30 p.m. | Frio Street Building, FS 1.512 | Downtown Campus