

Implementing a Value-Based Financial Model

University Senate
November 12, 2012

A Value-Based Model Starts with Our Mission

The University of Kentucky is a public, land grant university dedicated to improving people's lives through excellence in education, research and creative work, service, and health care. As Kentucky's flagship institution, the University plays a critical leadership role by promoting diversity, inclusion, economic development, and human well-being.

Alternative Budgeting Models Pros and Cons

Budgeting Models		
	Incremental Budgeting	Incentive-Based Models
Benefits	<ul style="list-style-type: none">• Consistent treatment of budgets over time• Simple to understand and facilitate• Provides equity across units	<ul style="list-style-type: none">• Promotes entrepreneurship• Encourages efficient administrative services• Aligns revenues and costs• Facilitates conversations about priorities
Considerations	<ul style="list-style-type: none">• Requires stability of funding and consistent priorities• Needs periodic rebasing to ensure base does not become an entitlement• Encourages spending to maintain budget	<ul style="list-style-type: none">• Requires strong central and local unit leadership• Criticized for replacing academic with financial focus• Can challenge academic collaboration

Components of a New Financial Model for a College

	Value-Based Model	Old Model
Revenues		
Program & Course Student Fees	\$200,000	\$200,000
Clinical Revenue	\$500,000	\$500,000
Gifts and Endowment & Investment Income	\$100,000	\$100,000
Sales & Services	\$50,000	\$50,000
Grants & Contracts (Directs)	\$10,000,000	\$10,000,000
Mandated Appropriations (Federal, State, County)	\$4,000,000	\$4,000,000
Other Income	\$250,000	\$250,000
State/Tuition Base Budget	-	\$20,000,000
Tuition & Fees	\$32,500,000	-
State Appropriations	\$7,000,000	-
F&A	\$3,500,000	-
Gross Revenue	\$58,100,000	\$35,100,000
Direct Expenses		
Salaries & Benefits	\$30,000,000	\$30,000,000
Supplies	\$2,000,000	\$2,000,000
Capital Outlay	\$400,000	\$400,000
Computer Services	\$400,000	\$400,000
Communications	\$500,000	\$500,000
Maintenance & Repairs	\$1,000,000	\$1,000,000
Rentals	\$50,000	\$50,000
Services & Fees	\$200,000	\$200,000
Travel	\$200,000	\$200,000
Debt Service	\$100,000	\$100,000
Other Expenses	\$200,000	\$200,000
Total Direct Expenses	\$35,050,000	\$35,050,000
Allocated Expenses		
Academic Overhead*	\$10,000,000	-
Administrative Overhead	\$4,000,000	-
Campus Affairs	\$2,000,000	-
Research	\$2,000,000	-
Facilities	\$1,000,000	-
Strategic Investment Fund	\$4,000,000	-
Total Allocated Expenses	\$23,000,000	-
Total Expenses	\$58,050,000	\$35,050,000
Net Margin	\$50,000	\$50,000
Fund Balance	\$50,000	-

* Includes centrally awarded financial aid

How Colleges Receive Funding in the New Model

On the “front-end”, revenues will be distributed to Colleges and Units based on known formulas. On the “back-end”, Colleges and Units will have the opportunity to access centrally held strategic investment funds.



“Front-End” Formulaic Allocations

Tuition Allocation Formulas
State Appropriations Allocations
Grants & Contracts
F&A
Sales & Services
Gifts and Endowment

“Back-End” Strategic Resources

Strategic Investment Fund

Potential uses include:

- Re-balancing / subventions
- Reward quality & success
- Start-up funds
- Microfinance

Budget Highlights

Budget Comparison

May vs. November Projections

FY 2012-13 and FY 2013-14 Preliminary Operating Budgets Change in Undesignated Recurring General Funds (In Thousands)				
	FY 2012-13	FY 2013-14 May 2012	FY 2013-14 Nov 2012	Difference
Revenues:				
State Appropriations	(\$19,518)	\$0	\$0	\$0
Tuition	23,688	23,537	35,491	11,954
Other	(1,391)	357	357	0
Total change in Revenues	\$2,777	\$23,894	\$35,868	\$11,953
Expenses:				
Personnel				
Faculty Investments	\$1,108	\$1,138	\$1,100	\$(38)
Merit Salary Increase (5%)	0	21,203	21,276	73
Benefits	(2,928)	1,162	860	(302)
Operating				
Student Financial Aid	10,328	9,270	9,270	0
Strategic Initiatives	5,843	3,407	8,293	4,886
Values-Based Performance Funding for Colleges			3,900	3,900
Utilities / M&O	1,041	1,487	1,204	(283)
Capital Renewal Pool	1,000	1,000	1,000	0
Capital Debt Service Pool	5,000	7,000	2,000	(5,000)
Other	618	1,500	732	(768)
Total Change in Expenses	\$22,012	\$47,169	\$49,635	\$2,468
Funding Gap	(\$19,174)	(\$23,274)	(\$13,787)	\$9,487
Reallocations:				
Academic Units	-3.3%	-4.2%	-2.1%	
Administrative Units	-5.0%	-6.4%	-5.0%	

Reasons for Revenue Increase

FY 2013-14 Preliminary Operating Budget Change in Tuition Revenue		
	FY 2013-14 May 2012 Assumptions	FY 2013-14 November 2012 Assumptions
Rate Increase	3% Resident 6% Non-resident	3% Resident 6% Non-resident
2012 Freshmen Class 2013 Freshmen Class	4,500 4,800	4,645 4,800
2012 Freshmen Class Resident / Non-resident 2013 Freshmen Class Resident / Non-resident	75% / 25% 75% / 25%	69% / 31% 70% / 30%
New Transfer Students	No change: <ul style="list-style-type: none"> • 1,129 students • 24% non-resident 	Increase: <ul style="list-style-type: none"> • 1,169 students • 26% non-resident
Total Tuition Revenue Increase	\$23.5 million	\$35.5 million

Budget Changes

May vs. November Projections

FY 2013-14 Preliminary Operating Budget Change in Expenses

	FY 2013-14 May 2012 Assumptions	FY 2013-14 November 2012 Assumptions
Strategic Initiatives <ul style="list-style-type: none"> • Tuition Incentive Funding • QEP • Software enhancements (HANA; online performance evaluations, etc.) 	\$3.4 million	
Strategic Initiatives <ul style="list-style-type: none"> • Same as above plus the following • e-learning • Police Officers and Safety • Staffing for Counseling Center • Student Transfer Center • North Campus Student STUDY (tutoring) • Libraries 		\$8.3 million
Values-Based Performance Funding for Colleges		\$3.9 million or 1% of base budget

Values-Based Performance Funding Provost's Council on Metrics

- Student Success

- **Earning degree** (e.g., degrees, retention and time to completion, by program/major)
- **Value of degree/program** (e.g., post-graduation placement/employment)
- **Quality of learning** (e.g., learning outcomes measurements and/or UK Core assessments)
- **Engagement** (e.g., student engagement in co-curricular activities)
- **Enhancement** (e.g., student involvement in honors, research activities, service-learning, etc.)

- Collaboration

- **Research** (e.g., numbers of interdisciplinary applications, grants, collaborators and funding)
- **Scholarship** (e.g., publications and creative works with interdisciplinary teams and/or topics)
- **Instruction** (e.g., faculty participation in student enrichment programs (such as Honors, undergraduate research, service learning) involving multiple disciplines)
- **Service** (e.g., number of service and learning activities benefiting other disciplines)

- Impact

- **Recognition** (e.g., faculty awards, fellowships, memberships, consultancies, external rankings, etc.)
- **Publication** (e.g., publication/citation record, digital scholarly activity, and/or creative endeavor in prestigious educational, nonprofit and commercial venues)
- **Outreach** (e.g., contact with citizens of the commonwealth; quality of program-level community engagement)

- Innovation & Entrepreneurship

- **Creation** (e.g., inventory of innovative approaches to teaching, research, and service/outreach)
- **Implementation** (e.g., number new courses offered using novel methods)
- **Dissemination** (e.g., inventory of efforts to transfer and disseminate innovations)

- Diversity/Inclusivity

- **Programs** (e.g., diversity/inclusion-related initiatives, programs, and processes)
- **Outcomes** (e.g., faculty, staff, and students who are members of under-represented groups, relative to previous years and/or population of Kentucky/nation)

Appendix

Examples of Other Universities with Value-Based / RCM / Incentive-Based Models*

University	Year Started
Pennsylvania	Early 1970s
USC	1980s
Vanderbilt	1980s
University of Toronto	1980s
Indiana	1990
Purdue	pre 1995
Minnesota	1996
Michigan	by 1998
Ohio State	by 1998
Duke	by 1998
Auburn	by 1998
Clemson	by 1998
New Hampshire	by 1998
Illinois	by 1998
Iowa	by 1998
UCONN	by 1998
Cal Tech	by 1998
UCLA	by 1998
Southern Illinois	by 1998

University	Year Started
Harvard	1636 / early 2000s
Syracuse	2005
Iowa State	2007
Kent State	2009
Florida	2009
Oregon	2011
Arizona	2012
Texas Tech	2012
University of Washington	2012
UVA	In process
Portland State University	In process
Ohio University	In process
Cornell	
Tulane	
University of Cincinnati	
Washington University	
Virginia Tech	

*Not meant to be an exhaustive list.