Understanding the University of Virginia’s Budget
PRESENTATION TOPICS

• UVa’s Operating Budget
• UVa’s Capital Plan
• UVa’s Relationship with the State
• UVa’s Current Budget Model
• UVa’s New Internal Financial Model
• Terms and Acronyms
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UVa’s CURRENT OPERATING BUDGET CYCLE

Nov: UBO develops preliminary budget instructions and assumptions
Deans and Associate Deans consulted on budget assumptions
Board of Visitors (BOV) approves budget assumptions

Dec: UBO develops targets
UBO estimates unavoidable cost increases
Major Budget Units (MBUs) submit tuition and fee requests

Jan: UBO holds budget kick-off meetings and issues targets
UBO watches developments in state budget
UBO provides updates on expected cost increases for upcoming year
University leadership consulted on tuition proposals

Feb: MBUs enter targeted and sales and services budgets into IS
Vice Presidents (VPs) hold budget meetings
BOV approves non-undergraduate tuition and all fees, housing, and dining rates
UVa’s CURRENT OPERATING BUDGET CYCLE

Mar: VPs approve budgets
MBUs estimate summary budgets
All budget submission items due to UBO
UBO finalizes undergraduate tuition proposal

Apr: BOV approves undergraduate tuition

Jun: President holds budget meeting
BOV approves Budget Summary

Jul 1: UBO uploads targeted and sales & services budgets
2013-14 OPERATING EXPENDITURE BUDGET
(In Millions)

<table>
<thead>
<tr>
<th>Division</th>
<th>Spending</th>
<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Academic Div.</td>
<td>$1,412.5</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Medical Center</td>
<td>$1,215.8</td>
<td>+8.7%</td>
</tr>
<tr>
<td>UVa-Wise</td>
<td>$ 38.6</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Total</td>
<td>$2,666.9</td>
<td>+ 2.4%</td>
</tr>
</tbody>
</table>

Academic Division 53.0%
Medical Center 45.6%
Wise 1.4%
ALL DIVISIONS
History of Employment Levels
(Budgeted FTE)
ALL DIVISIONS
Where the Money Comes From

2013-14 ($2.67 Billion)

- Tuition & Fees: 17.5%
- State Appropriations: 5.9%
- Patient Revenues: 10.7%
- Sponsored Programs: 8.6%
- Endowment Distribution: 5.9%
- Expendable Gifts: 1.3%
- Other: 5.0%
- Sales & Services and Other: 45.1%

2012-13 ($2.60 Billion)

- Tuition & Fees: 17.1%
- State Appropriations: 5.1%
- Patient Revenues: 11.4%
- Sponsored Programs: 5.9%
- Endowment Distribution: 8.4%
- Expendable Gifts: 3.9%
- Other: 5.8%
- Sales & Services and Other: 42.4%
ALL DIVISIONS
Where the Money Goes

2013-14 ($2.67 Billion)

- Instruction: 45.6%
- Research & Public Serv.: 14.2%
- Academic Support: 11.3%
- Student Services: 13.9%
- General Administration: 6.2%
- O&M of Physical Plant: 4.2%
- Financial Aid: 1.7%
- Auxiliaries: 4.6%
- Internal Debt Service: 3.5%
- Transfers: 2.3%
- Patient Care: 4.2%

2012-13 ($2.60 Billion)

- Instruction: 42.9%
- Research & Public Serv.: 12.3%
- Academic Support: 6.2%
- Student Services: 6.3%
- General Administration: 3.5%
- O&M of Physical Plant: 4.6%
- Financial Aid: 2.1%
- Auxiliaries: 1.7%
- Internal Debt Service: 1.7%
- Transfers: 2.4%
- Patient Care: 2.4%
ACADEMIC DIVISION
2013-2014 Available Funds - $1.42 Billion

- Tuition & Fees: 32.9%
- State Appropriations: 13.0%
- Sponsored Programs: 11.1%
- Endowment Distribution: 10.2%
- Expendable Gifts: 9.5%
- Operating Cash Balances: 2.7%
- Sales & Services and Other: 20.6%
ACADEMIC DIVISION
Schools/Units Funded in Different Ways

Darden
Arts & Sciences
VP for Research
ITC
Athletics

- Other
- Auxiliary Services
- Grants and F&A Recoveries
- Gifts/Endowment
- State General Funds
- Tuition & Fees
ACADEMIC DIVISION
2013-2014 Operating Expenditure Budget
$1.41 Billion

By Category

- Non-personal Services: 41.5%
- Faculty Comp.: 28.8%
- Staff Comp.: 23.6%
- GTA/GRA: 1.8%
- Wages: 4.3%

By Activity

- Instruction: 26.0%
- Research & Public Serv.: 21.3%
- Academic Support: 11.1%
- Student Services: 10.4%
- General Administration: 7.2%
- O&M of Physical Plant: 7.8%
- Financial Aid: 5.4%
- Auxiliary Services: 4.5%
- Internal Debt Service: 4.3%
- Transfers: 3.1%
AccessUVa
Sources of Funds

- Tuition
- Gifts & Endowment
- Athletic
- Outside Grants
- State Grants
- Federal Loans
- Federal Grants
- Federal Work Study

Fiscal Year

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Current Approved Capital Plan
Total Value $2.198 Billion
(in millions)

Academic: $1,587
Medical Center: $485
Wise: $111

- Not Yet Initiated
- Planning
- Construction
Historical Capital Plans (in millions)

- **Long Term**
  - 2006-12: $1,092
  - 2008-14: $1,737
  - 2010-20: $2,269
  - 2012-22: $1,562
  - 2014-24: $1,612
  - 2016-26: $1,407

- **Near Term**
  - 2006-12: $800
  - 2008-14: $970
  - 2010-20: $816
  - 2012-22: $1,042
  - 2014-24: $932
  - 2016-26: $800
Near Term Capital Plans by Agency (in millions)

2016-26: $536, Wise: $10, Med Ctr: $61, Academic: $475

Legend:
- Wise
- Med Ctr
- Academic
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Virginia’s Biennial Budget Process

Submit BOV-approved 6 Year Capital Budget Plan (April)

Governor's Budget Bill presented (December)

General Assembly convenes (January)

Submit BOV-approved new operating budget requests (October)

Senate approves amended Budget Bill (February)

House approves amended Budget Bill (February)

Joint Conference Committee approves Budget Bill (March/February)

Governor amends and approves Budget Bill (April/March)

General Assembly - veto session (April/March)

Appropriations Act takes effect (July/March)

Legend:
Yellow box - UVa's action
Red text - applies to 1st year of new biennium, a.k.a. the long session
Blue text - applies to 2nd year of new biennium, a.k.a. the short session
Black text - applies to both 1st and 2nd years of the biennium
REALITY OF BEING A PUBLIC UNIVERSITY IN VIRGINIA

- Each institution is a state agency; assets are owned by the state

- Subject to laws, executive orders, and regulations of the Commonwealth, unless explicitly exempt

- Faculty and staff (classified and university) are state employees

- Academic oversight through SCHEV

- Receive state general fund appropriation
  - Operating
  - Financial aid
  - Capital funding (major maintenance and capital projects)
  - Special research initiatives

- Public mission and responsibility to educate Virginia residents
EVOLUTION OF STATE RELATIONSHIP

• 1980s and 1990s – State Decentralization Pilots

• 1996 – UVa Medical Center granted Codified Autonomy

• 1999 – Base Budget Adequacy Implemented

• 2005 – Restructured Higher Education Financial and Administrative Operations Act

• 2006 – UVa Restructuring Management Agreement

• 2011 – The Higher Education Opportunity Act
STATE’S BASE BUDGET ADEQUACY MODEL GUIDELINES

• Adopted in December 2000 by the General Assembly

• Higher education funding guidelines for instruction and support services
  - Instructional costs calculated using student enrollment by discipline and level, using national student:faculty benchmarks.
  - Support costs derived by applying a standard factor to instructional costs.
  - Guidelines intended to quantify overall funding level, not internal allocations

• What is the appropriate fund split?
  - Provide 67% of the in-state student and 0% for an out-of-state student
  - Translates to 36% general funds and 64% tuition at UVa
  - HOWEVER, UVa’s budget is currently 25% general funds and 75% tuition
Tuition increases have, in part, made up for declines in state support while total resources for an in-state student have declined over the last two decades in inflation adjusted dollars.
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HIGHER EDUCATION OPERATING BUDGET MODELS

• Incremental
• Responsibility center
• Performance or activity-based
• Formula
• Zero-based
• Initiative-based
• Hybrid
UVa’s CURRENT BUDGET METHODOLOGY

A Hybrid of Three Approaches:

– Target Budgets (similar to incremental)

– Sales and Services Budgets (similar to responsibility center)

– Summary Budgets
TARGETED BUDGETS

- State general (SG), state restricted (SR), local general (LG), F&A institutional (FI), endowment institutional (EI), and gift institutional (DI)
- Central (Budget Office) manages revenues and many expenses
- Central provides budget target based on the prior year allocation
- Central makes adjustments for salary/benefit changes and state reductions
- Central covers facilities and central administration costs
- Unit manages operational decisions
SALES & SERVICES BUDGETS

• State sales and services (SS), state auxiliaries (SA), local sales and services (LS), local auxiliaries (LA), and local other (LO)
• Unit manages revenues and direct expenses
• Unit manages impact of salary/benefit changes
• Inconsistent responsibility for indirect expenses:
  – Auxiliary units pay facilities and central administration
  – Law and Darden pay facilities and 10% revenue tax
  – Some activities pay 10%-15% revenue tax
  – Some activities do not pay for facilities or central administration
• Unit manages operational decisions
SUMMARY BUDGETS

- Endowments (ER, EU, EF), gifts (DR, DU), F&A (FA), grants (G*, Z*), and intellectual property (IP)

- Unit manages revenues

- Unit manages impact of salary/benefit changes

- Central covers facilities and central administration, with the federal government reimbursing a portion for grants

- Unit manages operational decisions
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WHY CHANGE?
Concerns with Current Model

• Historically based, not re-aligned for activity changes
• Lacks incentives for innovation and revenue creation
• Does not consider all available funds
• Does not link sources and uses
• Does not align authority, responsibility, accountability
• Desire for a more open decision-making process
• Difficulty in developing multi-year budgets to align with programmatic planning
WHAT WILL NOT CHANGE?

• How most revenue is generated will not change
  – State appropriation
  – Tuition from students
  – Federal funding
  – Philanthropy

• Basic cost structure will remain the same
  – Faculty and staff costs
  – Facilities and support costs
  – Financial aid
WHAT WILL CHANGE?

• Distribution of revenue will reward:
  – Educating more students
  – Developing new programs
  – Maximizing external opportunities

• Allocation of costs will increase:
  – Awareness of consumption
  – Transparency of institutional commitment
  – Encourage efficient and competitive services
CHALLENGES

• Easier to implement when resources are growing
• Encourage and fund strategic priorities and interdisciplinary activities
• Consider hold harmless and subvention needs
• Do not incentivize duplication of services – academic, student, and administrative
• Encourage collaboration, not competition
• Regularly assess performance of revenue centers and cost centers
New Financial Model Timeline

The University will transition to the new financial model in conjunction with budget development cycles

Launched May 18, 2011
By President Sullivan

Stage 1
Conceptual Study - Complete
- President’s statement of purpose
- President’s core principles
- Higher Education benchmarking
- Conduct financial reporting needs analysis
- Reconcile common data set for modeling – 2yr financial actuals
- Support change preparedness assessment - academic & service
- Steering Comm. task force reports on key issues:
  1. Financial reporting, System Preparedness and Training
  2. Communication & Change Management
  3. Revenues & Incentives
  4. Cost and Service Level Architecture
  5. Decision-making, Governance and Policy Making

Stage 2
Design Phase 1:
- Model options for revenue attribution & cost allocation
- Steering Committee decisions on revenue and cost
- Draft required governance, decision-making, and policies
- Develop short term & seek long term data and reporting solutions
- Propose phasing, hold harmless, subvention guidelines

Stage 3
Design Phase 2:
- President decides initial revenue and cost allocation methodologies
- Complete development of tool for scenarios illustrating model; conduct testing
- Set initial processes, policies, reporting, & system solutions
- Begin acquisition processes for long term data and reporting solutions
- Develop scenarios for new financial model according to phasing, hold harmless and subvention guidelines.

Stage 4
Design Phase 3:
- Revise budget process to transition to new model
- Test new model scenarios using historical data with stakeholders
- Adjust model methodology for fairness and consistency
- Complete acquisition of long term data and reporting solutions
- Revise process, policies, and reporting, as needed
- Execute Communication & Change Management strategy:
  - Information cascade-speakers
  - Education on new model

Stage 5
Implement Phase 1:
- Implement in conjunction with FY2014-15 Budget Development cycle
- Finalize process, policies, reporting, & system solutions
- Begin implementing long term data & reporting solutions
- Train impacted personnel
- Adopt new financial model using activity-based budgeting, according to phasing, hold harmless and subvention guidelines
- Continually monitor new financial model for effectiveness and efficiency

FY2013-14 Budget Development Cycle
FY2014-15 Budget Development Cycle
WHAT WILL THE NEW MODEL LOOK LIKE?

• In the simplest sense...
  – Revenue centers (schools, auxiliaries) will generate revenues
  – Revenue centers will pay direct, facilities, and indirect costs
  – Service centers will be funded by charges/assessments to revenue centers
Contact Information

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  - http://www.virginia.edu/budget/

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AWARD TYPES

Tuition and State Funds (SG, SR, SS, SE) - This source of funds is derived from tuition, educational and general fees, appropriations and other miscellaneous revenue sources as authorized by the State for collection. For State General (SG), State Restricted (SR – primarily financial aid), and State ETF (SE) awards, the Budget Office is responsible for monitoring both rates and revenue collection and also administers the allocation of these funds for spending through established budget procedures. These are “targeted” awards.

For State Sales and Services (SS) awards funded from tuition revenues, the Budget Office is responsible for monitoring rates. Other SS awards may be funded from revenue generating activities as approved through established University Procedures (overseen by the Controller’s Office). The responsible unit is responsible for monitoring revenue collection and administering the allocation of these funds for spending. These are “self-supporting” awards.

Sales & Services, Other (IP, LS, SA, LA, LO) - This source of funds is derived through the sale of products and/or services to the University community, and sometimes the public at large. It includes State Auxiliary (SA) and Local Auxiliary (LA) enterprises (examples include Student Housing, Athletics, Parking) which are self-supporting and that primarily serve faculty, staff, and students. It also includes other (non-auxiliary) services established to support the Instruction or Research efforts, usually at the school or department level. Examples include Local Sales and Services (LS), such as copy centers; Intellectual Property (IP) such as lab testing services; and Local Other (LO) student activity fees managed by the students. These other services are usually required to set rates that recover only costs (i.e. break even), rather than generate extra revenue or “profit.”

Agency and Custodial Funds (YY, YA) - This source of funds is derived from funds on deposit with the University by outside agencies/organizations that are not a part of the University, but that have a close relationship to the University. The funds are available for spending BY the depositing entity THROUGH the University’s financial systems. Agency and custodial funds (YY awards) may fund UVA projects.

Source: http://www.virginia.edu/finance/funds/Fr_RevenueProcess.htm
AWARD TYPES

Grants and Contracts (G) - This source of funds is derived from external sponsors who provide funds to the University in response to a proposal for specific instruction, research, or public service activities. Grants and contracts are the legal documents that define the scope of work, set of objectives, and terms and conditions which provide a basis for accountability and sponsor expectations. Grants and contracts are awarded to the University rather than the individual (principal investigator) who is responsible for the conduct of the project. The Office of Sponsored Programs (OSP) has institutional signatory authority for all contracts and proposals and are responsible for negotiation of all terms and conditions. OSP has the authority to legally bind the institution and is responsible for the financial control of awards received. The second letter of the two letter prefix (G*) indicates the external agency funding the grant. For example a “GA” award is from the National Science Foundation.

Facilities & Administrative (FA, FI) - This source of funds is derived from the application of a negotiated indirect cost recovery percentage to grant and contract expenditures. They represent the recovery of the fair share of Facilities and Administrative (F&A) costs of the University in support of sponsored programs activities. The “F” parts of F&A include the costs of the buildings and equipment, utilities, the maintenance of the buildings, and the cost of the University’s libraries. The “A” parts include central administration, school & departmental administration, and the Office of Sponsored Programs. F&A recoveries are distributed to departments and schools based on a formula approved by the academic vice presidents, and administered by Financial Analysis. F&A Institutional (FI) awards are central “targeted” F&A funds, managed by the Budget Office.

Gifts (DI, DR, DU) - This source of funds is derived from donor gifts for either current use or endowments. The use of these funds is subject to any restrictions placed by the donor. The University Development Office is responsible for recording and depositing gifts to the University. Investment and Tax Services (ITS) updates gift award installments monthly. Donor Restricted (DR) indicates restricted gifts; Donor Unrestricted (DU) indicates unrestricted gifts; Donor Institutional (DI) indicates central “targeted” gift funds, managed by the Budget Office.

Investment Income (EU, ER, EI, LC, LG) - This source of funds is derived through investment income earnings, both unrestricted (EU, EI, LC, LG) and restricted (ER, EI). The Investment and Tax Services Office (ITS) is responsible for monitoring, collecting, and distributing earnings to University departments. Upon receipt of the earnings distribution notification from ITS, the specific unit can allocate its funds for spending from the specific award (Endowment Unrestricted (EU) and Endowment Restricted (ER)). The Budget Office is responsible for administering the allocation of central “targeted” investment earnings for spending through the Endowment Institutional (EI), Local General (LG), and Local Chair (LC) awards.

Source: http://www.virginia.edu/finance/funds/Fr_RevenueProcess.htm
DEFINITIONS OF TERMS AND ACRONYMS

Addenda – Annual process for evaluating proposals and allocating new revenues in excess of increased cost requirements to highest priority initiatives

Appropriation – The amount of spending authorized by the General Assembly which enables state agencies to spend money for specific purposes. This includes authorization to spend both state tax monies (general fund appropriation) and university generated revenues (tuition, grants and contracts, F&A recoveries, auxiliary enterprise revenues). Private sources – gifts and endowments – are NOT appropriated.

Auxiliary Enterprise – An entity which exists to furnish goods or services to students, faculty or staff and which charges a fee that is directly related, although not necessarily equal, to the cost of the service. Auxiliary Enterprises are expected to be self-supporting, with revenues fully supporting direct and indirect operating and capital expenditures of the enterprise. Auxiliary Enterprises are assessed a general and administrative fee annually to reimburse the Educational & General programs for support. In 2006-07, the auxiliaries are charged 7.0 percent of their operating expenditures for a total recovery of $4.8 million. Auxiliary Enterprises include dining service, housing, parking and transportation, student health, and athletics, among others.

Biennium – A two-year period used by the state for financial and budget purposes

BOV – Board of Visitors of the University of Virginia

DPB – the state’s Department of Planning and Budget

Educational and General (E&G) – A term used to describe operations which are related directly to the University’s educational objectives. The term educational and general includes primary and support programs of instruction, research, public service, academic support, student services, institutional support, and maintenance and operation of physical plant. Excluded are the programs of student financial assistance (SFA), auxiliary enterprises, and hospitals.

EVP – Executive Vice President
DEFINITIONS OF TERMS AND ACRONYMS

F&A – Financial and Administrative cost recoveries from grants and contracts. Also referred to indirect cost recoveries.

Full-Time Equivalent (FTE) – A term used to quantify full-time and part-time on the basis of a full-time equivalency. Can be applied to employees or students.

General Fund (GF) Appropriation – General tax revenues which are appropriated by the General Assembly for the use of the institution. We have general fund appropriations for E&G and SFA.

GTA – Graduate Teaching Assistant

GRA – Graduate Research Assistant

IS – In-state student is a student who has Virginia residency status for the purposes of tuition charging.

Local General (LG) Awards – LG awards are funded from a combination of distributions from the unrestricted endowment, current fund revenues, and other (licensing, affinity card, etc.) revenues.

Major Budget Unit (MBU) – A group of departments and cost centers having a common organizational relationship, typically that functional unit immediately below a vice president. It may include a large unit such as an entire school (for example, the College of Arts & Sciences) or a single administrative department (for example, the University Budget Office).

NGF (Non-General Fund) Appropriation – Resources which are earned or generated by the University such as tuition, indirect cost recoveries, grants and contracts, auxiliaries, or from private resources. All non-general funds, except for gifts and endowments, are appropriated by the General Assembly.

NIFM (New Internal Financial Model) – process to develop a new financial model at UVa. See http://www.virginia.edu/resourcingthemission/
DEFINITIONS OF TERMS AND ACRONYMS

**O&M (Operations and Maintenance) of Plant** – expenditures related to the operating and maintaining the physical plant, including operations established to provide services and maintenance related to campus grounds and facilities, security, utilities, property insurance and other.

**OoS** – Out-of-state student is a student who does not have Virginia residency status for the purposes of tuition charging.

**OTPS (Other than Personal Services)** – The high level classification of any expenditures not expended for employee salaries, bonuses, or fringe benefits. It will include supplies, materials, office equipment and computer expenditures, travel, etc.

**RCM (Responsibility Centered Budget)** – A higher education budgeting philosophy which allocates revenues and costs to major responsibility centers (primarily schools).

**SCHEV** – State Council of Higher Education for Virginia

**State General (SG) Awards** – Awards are funded from tuition, fee, general fund appropriations, and other state revenues.

**SFA (Student Financial Assistance)** – A term describing student scholarships, fellowships and other forms of student assistance exclusive of student loans, student employment, and service scholarships where service is required of the students receiving the scholarships.

**UBO** – University Budget Office

**VP** – Vice President, typically in regards to an executive-level budget unit

**VPMB** – Vice President for Management and Budget