

# Implementing a Value-Based Financial Model at the University of Kentucky

September 2013



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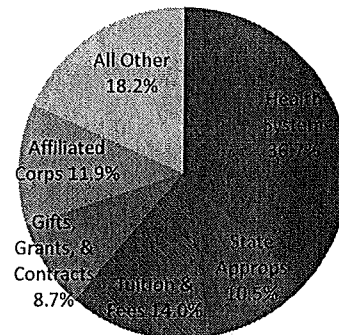
## University of Kentucky

The University of Kentucky is a public, land grant, research university with 16 Colleges + 2 multidisciplinary Schools

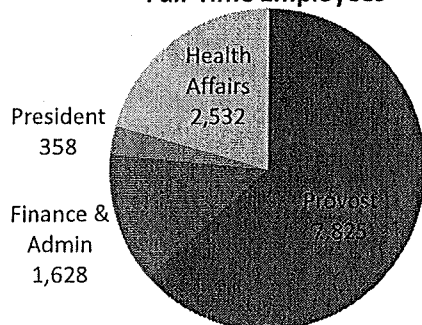
- Enrolls ~29,000 students
- Awards over 5,800 degrees
- Employs over 12,000 FTEs
- Operates a ~\$2.7 billion budget
- Spans over 17.7M gross square feet



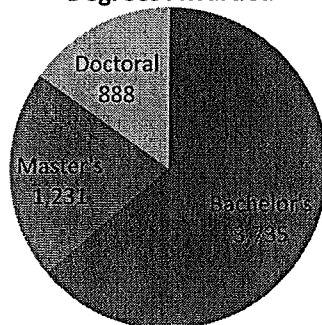
2013-2014 Consolidated Budget



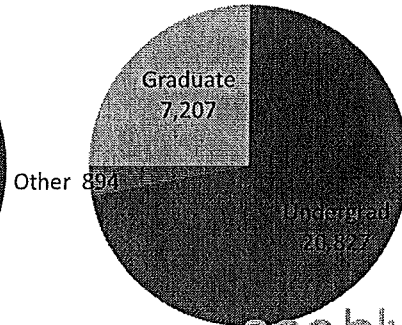
Full-Time Employees



Degrees Awarded



Student Headcount



Sources: 2012-2013 University of Kentucky Fact Booklet and UK Operating and Capital Budget 2013-14 book

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# Why a New Financial Model?



- As Kentucky's flagship University, we must find a way to invest in our strategic priorities
  - Level-to-declining state appropriations
  - Can not and will not keep relying on tuition increases that harm affordability and access
  - Alignment of authority and responsibility at the College level will help promote innovative and entrepreneurial activities
- Transparency
  - Foster an "information-rich" discourse on the budget
  - Academic Administrators will understand financial impacts when making decisions
  - Current maze of cross-subsidies simplified and rationalized
  - Support units subjected to constant scrutiny for efficiency, effectiveness, and proper incentives
- Focus on performance-based measurement and funding
- Our mission deserves it – a value-based model starts and ends with our mission

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## Guiding Principles



Guiding budget principles adopted in May of 2012 by the Financial Systems Accountability Committee:

- MISSION
- STRATEGY
- AUTHORITY / RESPONSIBILITY
- REWARDS / ENTREPRENEURSHIP
- TRANSPARENCY / SIMPLICITY

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# Outreach & Involvement



From January 2012 to May 2013, the Financial Systems Accountability Committee, Financial Model Steering Committee, and Business Officers Work Group met for a total of 27 meetings.

Financial Model Steering Committee	Business Officers Work Group
Deans – 3	College Business Officers – 14
Faculty – 7	Support & Resource Unit Business Officers – 4
Senior Administrators – 6	Auxiliaries Business Officers – 2
College Business Officers – 3	Provost & University Budget Offices - 4
Staff – 4	
Committee Staff – 3	

# Outreach & Involvement



In addition, since August of 2012 the financial model implementation team has held over 165 meetings and sessions, reaching over 1,500 individuals including faculty, Deans, administrative leaders, staff and students. Examples include:

Aug-Sept 2012	Oct-Nov	Dec-Feb 2013	Mar-Jun
<ul style="list-style-type: none"> <li>- Dean and executive / financial leadership team of <u>every College</u></li> <li>- Undergraduate Education</li> <li>- Research</li> <li>- Libraries</li> <li>- Development</li> <li>- Public Health faculty</li> <li>- Communication &amp; Information full faculty</li> <li>- Center for Applied Energy Research</li> <li>- Student Affairs</li> <li>- Arts &amp; Sciences faculty</li> <li>- B&amp;E Associate Deans and Directors</li> <li>- Athletics</li> </ul>	<ul style="list-style-type: none"> <li>- Arts &amp; Sciences Department Chairs (x2)</li> <li>- Centers &amp; Institute Directors</li> <li>- Engineering Department Chairs &amp; full faculty</li> <li>- Education Faculty Council &amp; full faculty</li> <li>- Martin School full faculty</li> <li>- Health Sciences full faculty &amp; staff</li> <li>- Fine Arts full faculty (x3)</li> <li>- UK Core Education Committee</li> <li>- Library Faculty Council</li> <li>- Pharmacy Faculty Council</li> <li>- Town Hall meetings (x2)</li> <li>- Medicine Faculty Council</li> <li>- Deans, small groups (x3)</li> </ul>	<ul style="list-style-type: none"> <li>- Education full faculty</li> <li>- Agriculture full faculty</li> <li>- Honors faculty</li> <li>- Social Work full faculty</li> <li>- B&amp;E full faculty</li> <li>- University Budget Officers</li> <li>- Deans, with Provost (x5)</li> <li>- Human Resources</li> <li>- IPE</li> <li>- CCTS</li> <li>- Research Business Officers</li> <li>- UKHC</li> <li>- Arts &amp; Sciences Dean</li> <li>- Agriculture Dean and staff</li> </ul>	<ul style="list-style-type: none"> <li>- Law full faculty</li> <li>- Deans, with Provost (x8)</li> <li>- “Cabal of Chairs”</li> <li>- Facilities</li> <li>- International Center</li> <li>- Sponsored Projects Administration</li> <li>- Environmental Health &amp; Safety</li> <li>- Public Health faculty</li> <li>- Engineering full faculty</li> <li>- Undergraduate Education &amp; Honors</li> <li>- Martin School faculty &amp; students</li> <li>- IPE</li> </ul>

# Supporting Our Values



Building from our guiding principles, we have sought to support and enhance our values when crafting the major assumptions of the new financial model:

Topic	Value
Tuition	Undergraduates – Primarily, Colleges should be given credit for teaching students, regardless of enrollment Graduate students – Fundamentally needs to support students within their degree program
State Appropriations	Should support the recruitment, retention, and graduation of Kentucky students and help leverage the growth of our research efforts
F&A	Colleges should keep more of what they earn from sponsored grants so they can make decisions about investing those resources
Allocated Expenses	Costs of running the University must be fully transparent and accountable, and Colleges should pay their fair share for these support services
SIF	Some financial resources should remain under the President and his senior leadership team in order to invest in University-wide priorities and strategic investments

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# Support & Resource Units



Net expenses of the University Administrative and Service Units (i.e., non-revenue generating units) will be allocated to the Colleges/Units (i.e., the revenue generating units) based on the following cost allocation metrics:

Category	Metric for Allocation of Costs
Academic Support	Student credit hours
Administrative Support & Campus Resources	FTEs (faculty, staff, and students) and modified direct expenses
Facilities	Gross Square Feet (GSF)
Research	Sponsored research direct expenditures

Baseline budgets for University Administrative and Service Units will initially be projected using an incremental approach (i.e., process remain largely the same)

Administrative leadership (i.e., the President, Provost, and EVPFA) will be accountable for managing expenses and improving efficiency and effectiveness within their areas

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# Accountability for Support and Resource Units



- Administrative leadership (i.e., the President, Provost, and EVPFA) will be accountable for managing expenses and improving efficiency and effectiveness within their respective areas
- A Budget Advisory Committee consisting of College/RGU representatives would review support and resource unit budget proposals, and make recommendations to the President, Provost, and EVPFA
- University support and resource units, at the level of the President, Provost, and EVPFA, will be held accountable to mutually agreed upon performance metrics, which will be transparently tracked and reported

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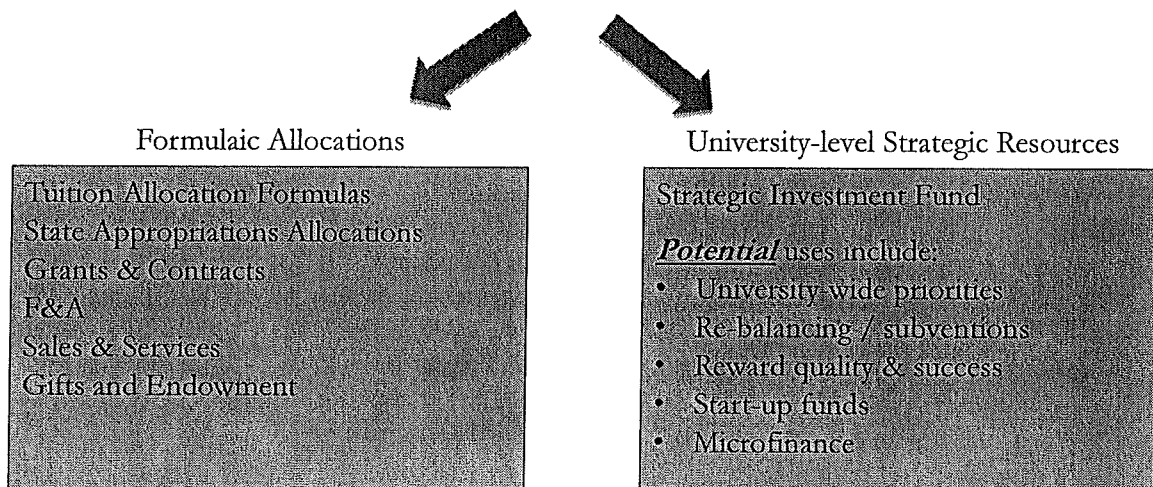
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# Balancing Decentralization & Centralization



Alignment of resources and authority at the College/RGU level must be balanced against the need to retain sufficient resources at the University level to invest in strategic priorities.

Creation of a central Strategic Investment Fund (SIF) also means that Colleges and other RGUs can think about getting resources on the “front end” through formulaic allocations as well as on the “back end” through strategic investment



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# Strategic Investment Fund



A Strategic Investment Fund (SIF), controlled by the President, Provost, and EVPFA will be used to invest in University wide strategic priorities. The SIF will be funded through an assessment on certain College/RGU revenues.

*\*NOTE: Initially, SIF revenues will be used to fund a Value-Based Adjustment. As revenues grow, SIF funds will be available for additional strategic uses.*

Taxable revenues	<ul style="list-style-type: none"> <li>• Net tuition</li> <li>• State appropriations</li> <li>• Fees</li> </ul>
Potential SIF uses	<ul style="list-style-type: none"> <li>• Reward quality and success</li> <li>• Program start-up funds</li> <li>• Collaboration incentive</li> <li>• Microfinance pool</li> </ul>
SIF Funding Decisions	<ul style="list-style-type: none"> <li>• Final decision on use of SIF funds will be made by the President, Provost, and EVPFA</li> </ul>



# Process & Next Steps



Over the past 18 months, we have accomplished a significant amount, including agreement on the concept of an value-based financial and budget model, as well as engaging the campus in a robust outreach and involvement process to inform the design of the model. We are now transitioning into the implementation phase.

Concept	Design	Implementation	Monitoring
<ul style="list-style-type: none"> <li>- Huron Consultants</li> <li>- Financial Systems Accountability Committee</li> <li>- Over 70 campus interviews</li> <li>- Huron reports published</li> </ul>	<ul style="list-style-type: none"> <li>- Steering Committee</li> <li>- Business Officers Work Group</li> <li>- Over 165 meetings and sessions, reaching over 1,500 individuals</li> <li>- Full faculties</li> <li>- Executive Councils</li> <li>- Chairs</li> <li>- Deans</li> <li>- Staff &amp; administrators</li> </ul>	<ul style="list-style-type: none"> <li>- Moving into a partnership year</li> <li>- Focus on infrastructure and resources needed to ensure Colleges are successful</li> <li>- Even as we operate with the existing budget model, the new model will <u>inform each step</u> of the budgetary process for the next fiscal year</li> </ul>	<ul style="list-style-type: none"> <li>- We will continue to reflect on and revise the model where needed, both in response to evolving priorities and a changing environment</li> </ul>





# Lessons Learned

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- Outreach, engagement, and communication
- Leveraging peer experiences while crafting a model that fits our campus
- Importance of good data
- Redefining roles/relationships between Colleges and administration
- Change management / cultural change

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**Questions?**