

# University Budget Model Optimization Effort

Final Report Booklet on Business Case Recommendations

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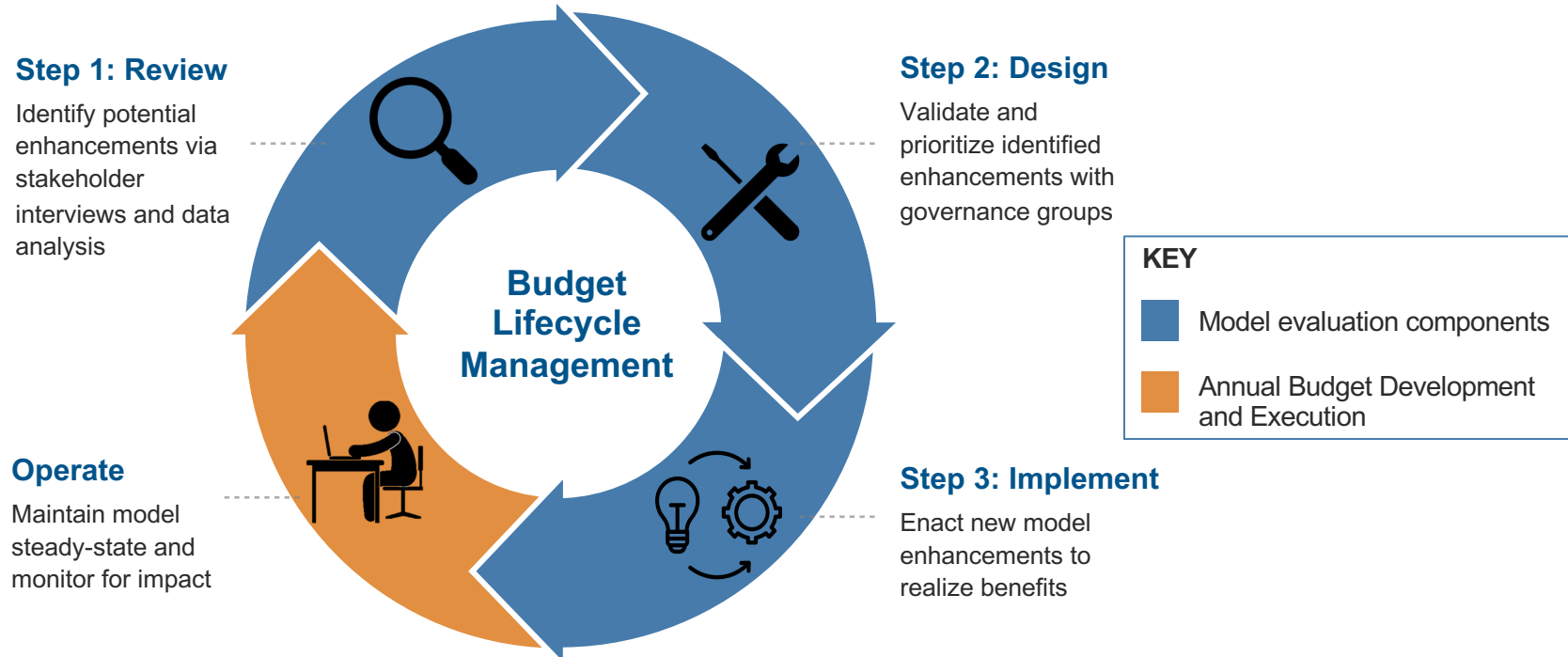
Comprehensive Business  
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- I. All Funds Model
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# 1. Engagement Overview

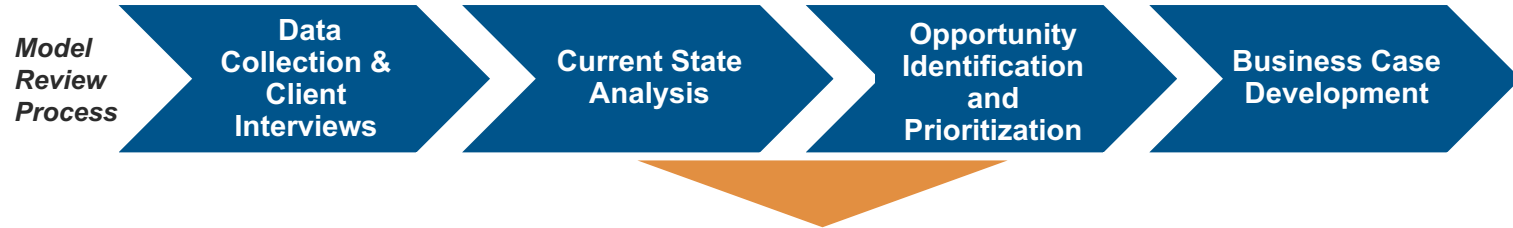
# What Are We Doing? – Enhancing the Budget Model

Industry best practice is to review your institutional budget model every 3-5 years, and the University of Florida is currently undergoing the evaluation of its budget model for the first time since 2016.



# What Have We Done to Date? – Model Review

Over the past 10-weeks, UF has partnered with Huron to conduct a holistic review of the University’s Budget Model; this process surfaced 52 opportunities, 7 of which were prioritized for implementation by Spring 2022.



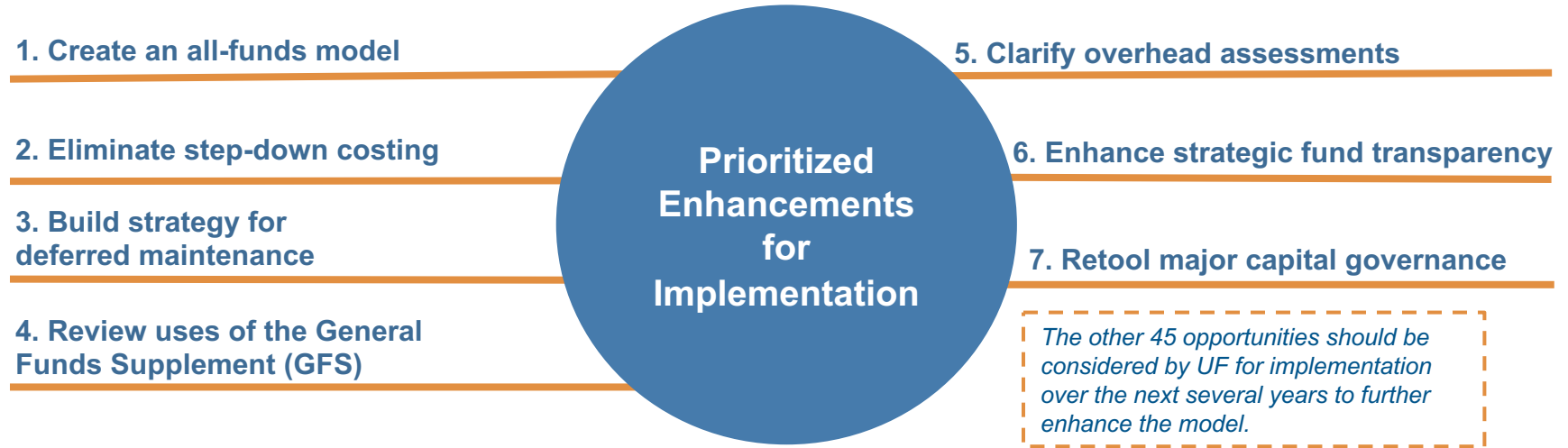
## Future State Outcomes:

- Create **managerial information tools** that include all revenues and expenses into a single comprehensive view
- **Simplify budget model mechanics** to ensure ease of use and understanding across campus
- Implement **new procedures** related to **additional funding requests**, both operational and capital

**Over 40 University stakeholders, including most academic deans, provided input to this process.**

# Selected Opportunities for Budget Model Enhancement

Through Working Group survey results and conversations, the following seven business cases were prioritized out of the 52 identified budget model enhancement opportunities.



**UF's goal is to implement these first seven business cases by the mid-Spring semester of 2022 so that their intended outcome/benefit may be utilized in the FY2023 budget build process.**

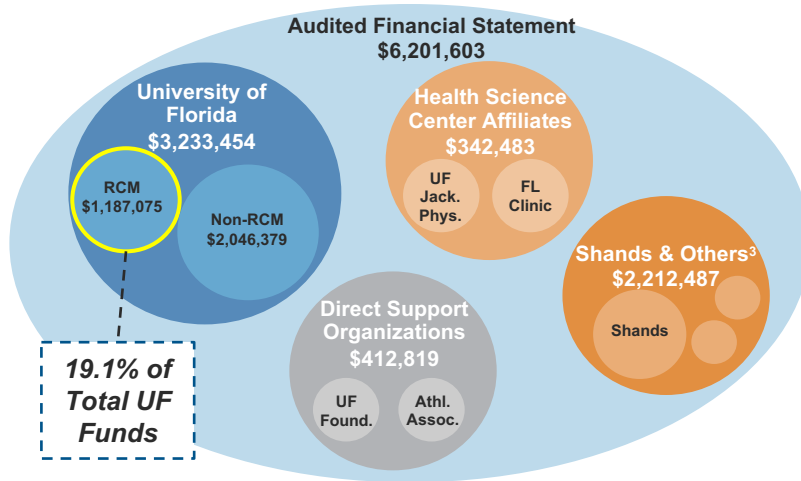
## 2. Executive Summaries of Business Cases



# 1: Create an All-Funds Model

UF's RCM model currently encapsulates only 20% of total UF resources; constructing a comprehensive all-funds view will provide a more holistic understanding of enterprise operations and available resources.

University of Florida Fund Components (FY19)



## Approach:

- Integrate all University of Florida funds into a University-wide **view** by fund type, unit, and account
- Add in component summaries to create a comprehensive view that can be easily understood
- Create a budget template that has a one UF view of operations to be leveraged for reporting needs including consistent reports to the Board of Trustees

## Benefits to Integration:

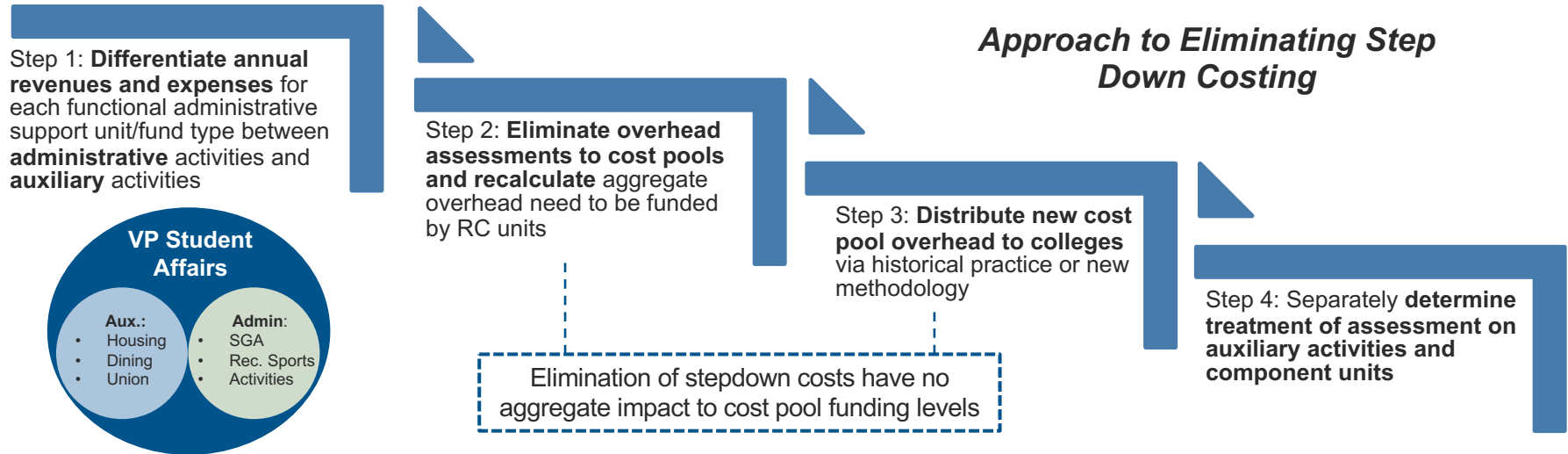
- Common understanding/transparency of financial position
- Promote use and investment of all-funds
- Ability to accurately inform long-range forecasts

An all-funds perspective will allow the University to more effectively mitigate potential funding risks in the near-term and have a more strategic approach to resource utilization in the long-term.



## 2. Eliminate Step Down Costing

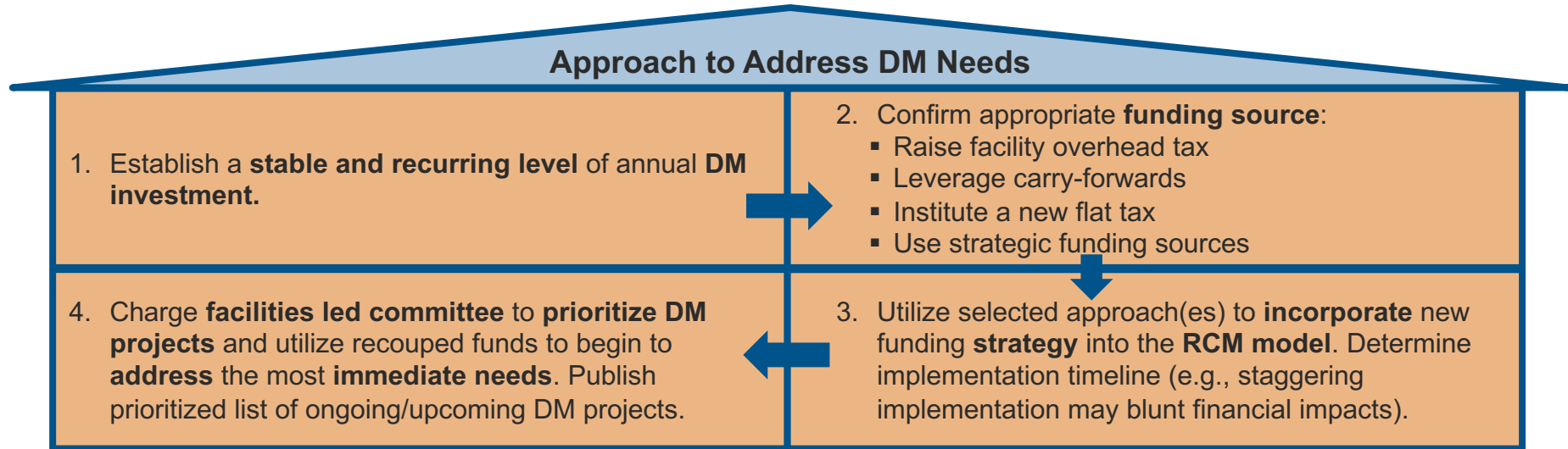
UF could enhance understanding of administrative operations, simplify model mechanics, and clearly delineate auxiliary operations from support functions by eliminating step down allocations.



**Eliminating step down allocations to administrative support units reduces model complexity and avoids potential noncompliance in uses of restricted funds.**

### 3. Build Strategy for Deferred Maintenance

In the absence of new state funding, UF needs to deploy an immediate strategy to address increasing deferred maintenance backlog of over \$1.6 Billion to ensure operational continuity and avoid future risks.

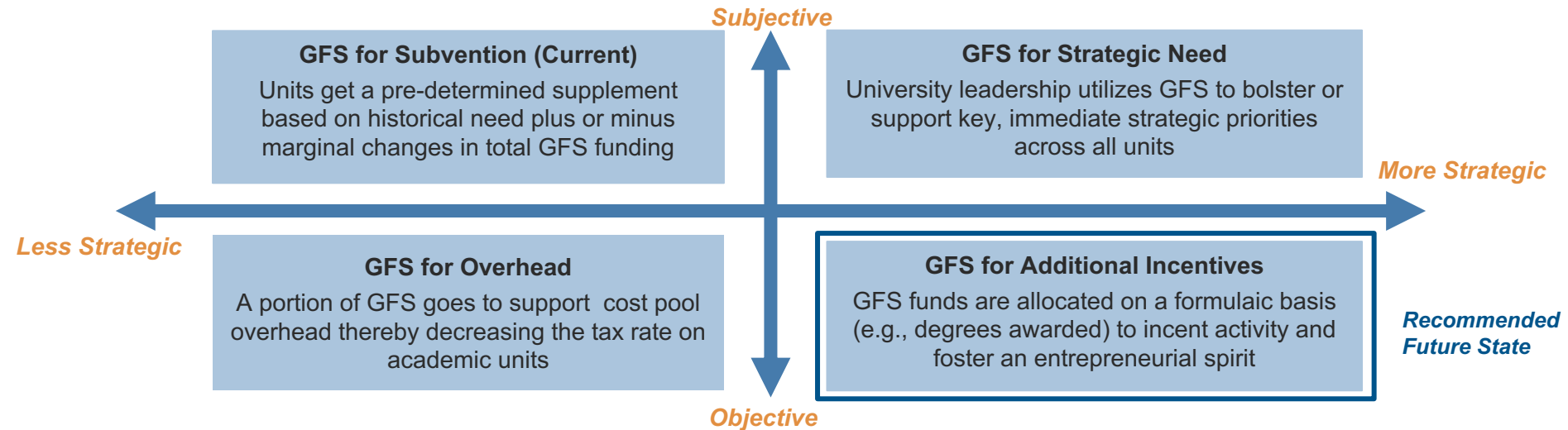


**Creating a proactive strategy to address deferred maintenance allows the University to mitigate against greater operational risks and higher costs (i.e., emergency spend) in the future.**

## 4. Review Uses of the General Funds Supplement

UF will create more dynamic incentives within the budget model by rethinking its utilization of the General Fund Supplement, which accounts for approximately 1/4th of total University operating revenue.

### *Potential Uses of the GFS*



By shifting the uses of the GFS from a historical, static approach to a more forward-looking mindset, the University could incent new behaviors that could further advance UF's mission.

## 5. Clarify Overhead Assessments

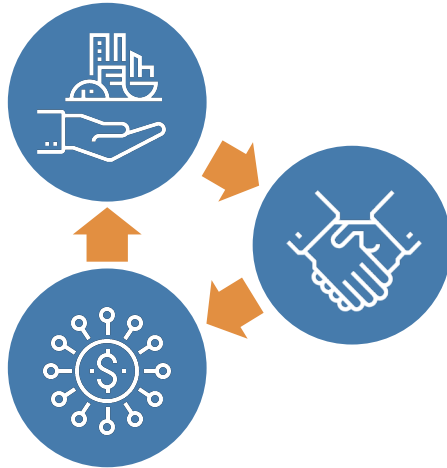
Current overhead structures are not comprehensive of all support unit activities/costs, use a variety of metrics to calculate assessments, and limit clarity of assessment authority.

### 1. Redefine Cost Pool Commitments

Include all support unit operations and associated costs into cost pool allocations

### 3. Publish sources of cost pool funds

Provide transparency into support unit allocations to encourage critical examination



### 2. Identify Consistent Methodology

Rationalize or reduce utilizing multiple 'base metrics' to calculate assessments (e.g., proportionate share of activity or calculated tax rate to cover total costs)

#### Approach:

- Identify all support unit costs to be allocated via a cost pool methodology
- Determine appropriate "base metric(s)" from which assessments should be calculated
- Ensure assessment uses are transparent and traceable

#### Benefits to Adaptation:

- Comprehensive understanding of total cost of administrative support units
- Enhanced clarity and trust between support units and colleges

**Simplifying the mechanisms to generate overhead assessments will promote greater model understanding and enhance predictability.**

## 6. Enhance Strategic Funding Transparency

The current process for allocating strategic dollars is opaque and leads to local units negotiating behind the scenes for additional funding for unit-level initiatives.

### Key Strategic Fund Components



#### Guidance

- Provide direction on the **strategic priorities** of the University through **annual guidance**

#### Transparency

- **Identify** all **sources** of UF **strategic funding**, **publish sources/uses** of these dollars

#### Process

- Implement **formal, standardized process** for **requesting strategic funding**

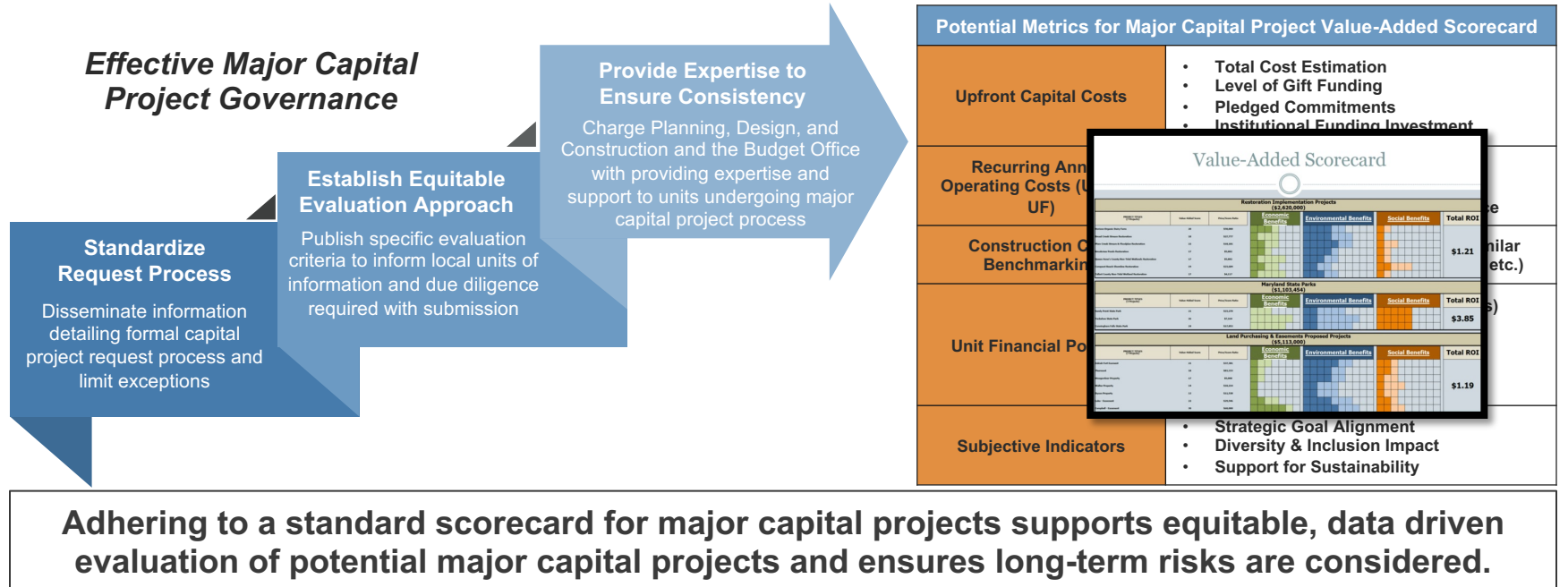
#### Outcomes

- **Publish annual funding commitments** made to each unit complete **with rationale**

**Increasing transparency and adding a process for requesting University strategic dollars allows units to better understand and align themselves to leadership's vision resulting in an enhanced One UF strategy.**

# 7. Retool Major Capital Project Governance

The current governance for major capital projects (>\$2M) lacks a standard, equitable process and approach for evaluation and discounts long-term financial commitment requirements and needs.



# 3. Implementation Considerations



# What is Next? – Enhancement Design and Implementation

Over the next academic year, the University will implement a series of enhancements to the budget model to achieve the identified and desired future state outcomes.

## Implementation Timeline (August – April)

Time Period: Months	August	September	October	November	December	January	February	March	April
I. Create an all-funds model									
II. Eliminate step-down costing									
III. Deferred Maintenance Strategy									
IV. Review uses of the GFS									
V. Overhead Assessments									
VI. Strategic Funding Transparency									
VII. Major Capital Governance									

### Key components of implementation:

- Confirm solution design
- Conduct extensive change management
- Charge working groups to execute identified opportunities based on solution design
- Develop communications materials related to impacts
- Facilitate training to promote understanding of changes
- Establish metrics to track initiative success

**The implementation components have been sequenced to align with the University's budget development timeline for Fiscal Year 2023.**

# What Problems Have Been Prioritized?

The 7 business cases present a unique challenge to the University. Implementing each case will require a dedicated and focused effort to ensure a strategic, comprehensive solution is reached.

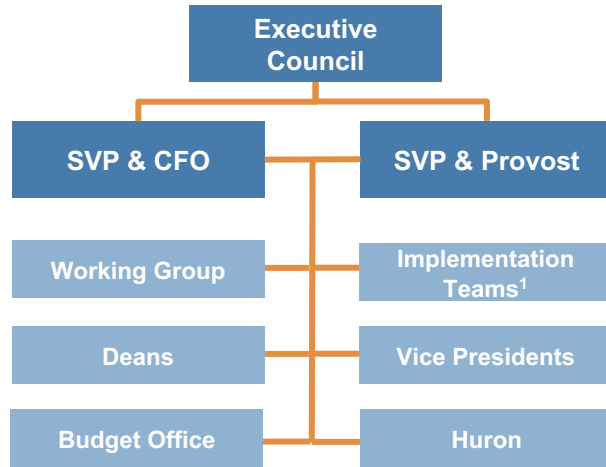
Business Case <sup>1</sup>	Description of the Problem
I. Create an all-funds model	UF <b>lacks a budget model</b> that is <b>inclusive of all sources of funds</b> . This <b>limits transparency</b> into the resources available across the University and into the entire business model of the University.
II. Eliminate step-down costing	The current budget model <b>allocates overhead to cost pools</b> further increasing cost pool deficits while <b>unnecessarily complicating UF's model</b> ; simplification of the model is desired.
III. Deferred Maintenance Strategy	UF currently has over <b>\$1.6 Billion in outstanding deferred maintenance</b> with no consistent strategy to address that balance. <b>Further delay</b> in addressing maintenance <b>presents operational risk to UF</b> .
IV. Review uses of the GFS	The use of the <b>General Funds Supplement lacks tangible incentives</b> , and the current allocations to units are largely static, based on historical precedent, and have unclear rationale for funding levels.
V. Overhead Assessments	<b>Overhead allocations have not been thoroughly reviewed or changed</b> since the original model was implemented resulting in cost pools having to rely on other sources of strategic funding to cover expenses.
VI. Strategic Funding Transparency	Despite being a crucial funding source for many units, <b>strategic fund allocations lack both transparency and a standardized process to allocate these dollars</b> .
VII. Major Capital Governance	The current <b>major capital project budgeting process is disjointed</b> which has <b>inhibited transparency and derailed efficiencies</b> when proposing, building, and managing new projects.

1. Prioritized business cases were sorted by logical implementation timeline. Huron recommends UF starts with tackling the creation of an all-funds model.

# How will we do it? – Concerted Stakeholder Involvement

The following project management structure will be leveraged to ensure University subject matter experts and stakeholders have ongoing input and understanding to this initiative.

## Implementation Structure










Stakeholder	Description & Role
<b>Executive Council</b>	Executive sponsors. Affirm implementation components and report progress to the President and BOT.
<b>SVP &amp; CFO/ SVP &amp; Provost</b>	Day-to-day sponsors who will oversee progress and make key engagement decisions.
<b>Working Group</b>	Continuation of the charged working group from the discovery phase. Will help make key recommendations and decisions during implementation.
<b>Implementation Teams</b>	Groups of subject matter experts, specific to each business case, that will assist with providing subject matter expertise, help make model adjustments, and make initial decisions.
<b>Deans/Vice Presidents</b>	Key stakeholders who will provide localized input around implementation components.
<b>Budget Office</b>	Day to day leaders of implementation who are responsible for ultimate execution.
<b>Huron</b>	Industry subject matter experts who will support all facets of implementation including project management operations.

**In addition to focused stakeholder participation, Huron will support broader campus communications to ensure model modifications are transparent and well understood.**

1. Implementation Team structures can be found in the completed business case document. This also includes engaging the Faculty Senate Budget Council as appropriate.

# Proposed Implementation Timeline

The following outlines a potential approach for UF to implement each of the seven business cases. This timeline will allow many of the identified enhancements to be complete prior to the FY23 budget build.

Time Period: Months	August	September	October	November	December	January	February	March	April
I. Create an all-funds model									
II. Eliminate step-down costing									
III. Deferred Maintenance Strategy									
IV. Review uses of the GFS									
V. Overhead Assessments									
VI. Strategic Funding Transparency									
VII. Major Capital Governance									

# The Road To Implementation...

Over the coming months, the University will need to work with stakeholders from across campus to successfully execute on and implement each completed business case. Key next steps include:



**Confirm.** *Review and make any adjustments to business case approach and confirm the path forward.*



**Collaborate.** *Ensure the right stakeholders have a seat at the table. Identify who will lead the change vs. who will serve in a support role. Clearly outline roles and responsibilities.*



**Carry-out.** *Take action and begin the process of implementing the confirmed business case. Leverage project plans to clearly articulate the path forward and outline any key deadlines.*



**Communicate.** *Talk to stakeholders and the broader campus about the change that is happening and any potential impacts it may have to operations. Summarize results once implementation occurs.*

# 4. Comprehensive Business Case Recommendations



# Business Case: **All Funds Model**



# Contents

1. Overview of All Funds Budget Model
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

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## Overview of All Funds Budget Model



# All Funds Model: Current State Summary

Arriving at a consistent and complete picture of a unit's or the institution's financial position is challenging for UF given the relatively narrow definition of all-funds and the reliance of shadow systems.

Current State	Explanation of Problem / Case For Change
<p><b>UF's RCM model is composed of less than 20% of total UF resources</b></p>	<p>A comprehensive all-funds view will provide a more holistic understanding of operations and available resources for investment at both the unit and institutional level</p>
<p>Units aggregate various sources of information for their own specific needs resulting in <b>numerous shadow systems</b> across UF</p>	<p>Shadow systems hinder the institution from being able to rely on a single source of truth and require inefficient manual effort to maintain</p>

**A true all-funds view is intended to move an organization from a budgetary (fund) control mechanism to a more strategic management focus.**

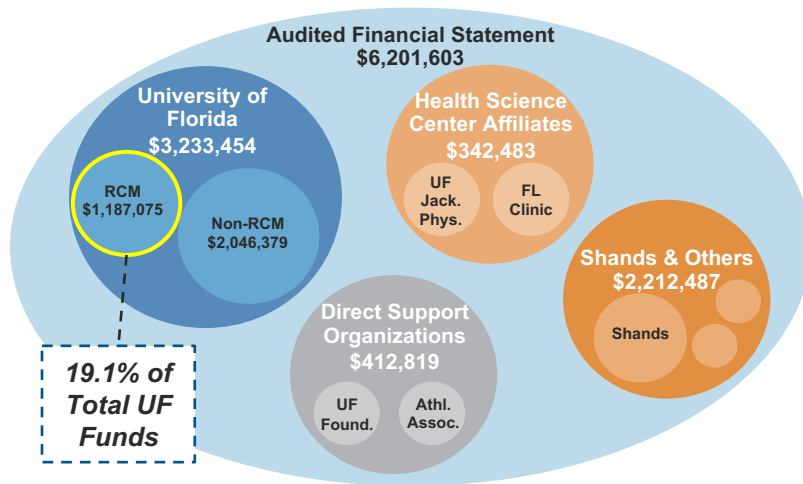
## Funds Excluded from UF's Current Budget Model

UF's RCM model is composed of less than 20% of total UF resources; constructing a comprehensive all-funds view will provide a more holistic understanding of enterprise operations and available resources.

### Observations

- **Tuition, state appropriations, and IDC revenues** are the primary fund types included in the "University Budget Model" yet **only represent roughly 20% of all funds**
- Other funds types such as **sponsored program funds, auxiliary funds, and hospital revenues** are **separately documented** and are not regularly aggregated which limits transparency into total existing UF resources, including reserves
- **Intra-university transfers** in or out of the current RCM model **distort fund balances**

### University of Florida Component Unit Revenues (FY19)



Different perspectives amongst stakeholders around UF's operating margins impact the ability to mitigate funding risks in the near-term and prevents a more strategic approach to long-term resource utilization.


## Prevalence of Shadow Systems

Units with diversified funding portfolios often develop their own shadow systems to manage operations resulting in inconsistent perspectives of financial position, and an inefficient use of resources.

### Observations

- Units develop their own financial reports using numerous systems (i.e., Excel, OneStream, etc.) in order to outline performance depending on unit specific needs and personnel capabilities
- Units aggregate activity data from separate enterprise systems to project overhead assessments, resulting in additional shadow systems and opportunity for error
- Stakeholders noted **significant effort** dedicated to linking historic credit hour production with enrollment projections to **estimate tuition revenues long-term**
- Numerous **shadow systems result in confusion** over a true financial picture as units understand financial operations differently

### Various College Specific Financial Reports

<div> <div>  <div> <div>College of Business Administration</div> <div>2020-21</div> </div> </div> </div>			
<div> <div> <div>Revenues</div> <div> <div>State Resources</div> <div>\$ 43,630,979</div> </div> </div> </div>			
<div> <div> <div>Entrepreneurial Activities Operating Revenues</div> <div>\$ 23,795,362</div> </div> </div>			
<div> <div> <div>Contracts &amp; Grants</div> <div>\$ 379,377</div> </div> </div>			
<div> <div> <div>Endowment Earnings &amp; Gift Transfers</div> <div>\$ 1,247,683</div> </div> </div>			
<div> <div> <div>Miscellaneous</div> <div></div> </div> </div>			
<div> <div> <div>TOTAL Revenue</div> <div></div> </div> </div>			
<div> <div> <div>Expenses</div> <div></div> </div> </div>			
<div> <div> <div>Salaries and Benefits</div> <div></div> </div> </div>			
<div> <div> <div>Other Personnel Service</div> <div></div> </div> </div>			
<div> <div> <div>Operating Expenses</div> <div></div> </div> </div>			
<div> <div> <div>Scholarship &amp; Financial Aid</div> <div></div> </div> </div>			
<div> <div> <div>Waivers &amp; Fellowship</div> <div></div> </div> </div>			
<div> <div> <div>Overhead Tax</div> <div></div> </div> </div>			
<div> <div> <div>TOTAL Expense</div> <div></div> </div> </div>			
<div> <div> <div>NE</div> <div></div> </div> </div>			
<div> <div> <div>Escrow for Facility Commitments</div> <div></div> </div> </div>			
<div> <div> <div>Heavener Hall Principal &amp; Interest</div> <div></div> </div> </div>			
<div> <div> <div>Hough Hall Principal &amp; Interest</div> <div></div> </div> </div>			
<div> <div> <div>TOTAL Escrow for Facility Commitment</div> <div></div> </div> </div>			
<div> <div> <div>NET AFTER ESCROW</div> <div></div> </div> </div>			
<div> <div> <div>College Produced</div> <div></div> </div> </div>			
<div> <div> <div>Budget Office Produced</div> <div></div> </div> </div>			

The proliferation of shadow systems across UF requires an inefficient level of effort to maintain and results in inconsistent perspectives on true unit and University-wide financial performance.

# 2


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## Risk Assessment



# Industry Challenges and Risks of UF Inaction

Should UF choose not to seek a more consistent approach to viewing its financials from an all-funds perspective, variability in the understanding of financial position across units and funds will continue.






Relevant Industry Challenges / Headwinds		How Industry Challenges May Be Exacerbated for UF
Operational and financial <b>reporting requirements</b> to regulatory and governing bodies are becoming <b>more substantial and more complex</b>		Apart from consolidated financial statements and quarterly BoT meetings, the lack of a standard approach to report on the totality of funds available will continue to require substantial staff effort to manage
The spectrum of <b>restrictions on colors of monies</b> presents challenges for units to understand the total operating results of the University in addition to where to readily find dollars for strategic investment		Portions of E&G monies from the state of Florida, typically considered unrestricted, are more frequently being designated with some level of restriction (e.g., AI Initiative)

**Understanding the total resources available for an organization with the size and complexity of UF will support more effective financial and operational management.**



# Risks of Action and Mitigation Approach

While aggregating all funds across component units will provide UF a more informed understanding of its financial position, UF should be aware of three potential risks of implementation.

			
	<b>Data Availability</b>	<b>Perception of Mistrust</b>	<b>More Effort for Units with Little Benefit</b>
<b>Risk</b> 	Collecting data from the various component units in a consistent format will require coordinated effort from financial stakeholders	Requesting and reporting financials into an aggregate view may increase anxiety for component units who perceive this initiative as intrusive	Local units may perceive this initiative as primarily beneficial for executive leadership
<b>Mitigation Approach</b> 	Develop standardized templates outlining format of data requested and leverage budget office resources to aggregate data to the highest extent wherever possible	Partner with component unit reps. to provide explanation of objectives and benefits of One UF financial view and give units an opportunity to be involved in the process where appropriate	Communicate that an all-funds view provides access to better information to support decision-making in local units as well as at the university level

**A centrally driven all funds perspective of financial performance supports enhanced managerial capabilities at all levels of the organization and reduces local unit effort.**

# 3

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## Solution Design and Alignment to Framework



# Solution Design & Enhancement Recommendation Summary

## All Funds Model Executive Summary

### Alignment to Strategy

Develop a standardized all-funds budget view to **better understand current performance and enable 3-5 year planned resource allocation**

### Effective Model Mechanics

Create **comprehensive unit summaries** outlining how distributed units fit into UF's model **and break out revenue-generating auxiliary operations** from other distributed units

### All Funds Integration

Use UF established revenue allocation methodologies and budgeted expenses to **create an all-funds budget view, inclusive of all component units**

### Reliable Reporting

Produce budget to **actuals unit-level operating statements** with the goal of understanding if variances are a result of imperfect budget development or changes in operations

### Model Management

Establish **coordination of budget inputs** from *all* distributed units to develop transparency in financial standing while understanding **and maintaining fund restrictions**

# Use of an All-Funds Budget

Creating a comprehensive view of an all-funds budget at UF provides data and necessary understanding for greater predictability and coordination amongst units at the University-wide and local level.


Tactics of Solution Design	Explanation of Alignment To Framework
Build an <b>all-funds budget view</b> , first in Excel <sup>1</sup> and then within a budget and planning tool, at both the distributed unit and institutional level to <b>gain a strong understanding of current performance</b>	Creates an all-funds budget to help decision-makers understand total investment in operations, outside of allocated revenues, aiding in investment decisions or reprioritization within select operations.
Standardize budget allocation view <b>to better enable trend analysis</b> and forecasting of <b>3–5-year operations</b> based on prior year results and allocations	Eases ability for central leadership and distributed units to provide long-range planning of the sources and uses of funds

**Development of a consistent understanding of UF’s financial standing can enhance leadership collaboration in near-term funding decisions and enable a more strategic approach to resource allocation.**

1. Huron recommends that this view first be created in Excel because it is flexible and widely assessable. After initial creation, UF should transfer the all-funds model to the new budget and planning tool.

# Use of an All-Funds Budget

Huron recommends developing multi-year, all-funds budget allocation worksheets to enhance transparency of institutional investment across component units and aid in forecasting exercises.

		Model Unit A											
Rows Fiscal Year		2019 Actuals			2020 Actuals			2021 Budget			2022 Forecast		
- Fund Type		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
1	ABC												
2	ABC												
3	ABC												
4	ABC												
5	ABC												
6	Change in Net Position												

Illustrative Unit-Level Budget Allocation

Incorporating financial results over multiple fiscal years gives leaders insight into how operations and associated financial results has trended over the last 3-5 years to ultimately help forecast future operations

An all-funds managerial report of financials enhances unit-leaders ability to prioritize operational decisions and provides institutional leadership a window into the comprehensive level of investment in units outside of current RCM allocations

# Distinguish Unit Types and Contributions

Providing a holistic picture of UF, through defined unit types, enhances transparency and helps calibrate contribution expectations for revenue generating units.

Tactics of Solution Design	Alignment Explanation
Create comprehensive <b>summary of unit descriptions</b> as they appear in the view of <b>UF's all-funds model</b>	Provides clarity of unit operations that should be treated as stand-alone units in the model against those that should remain ancillary functions of other component units
Build the ability to provide additional reporting that can summarize views by fund type to further understand unit-level operations where necessary (e.g., <b>auxiliary operations</b> currently incorporated into other units)	Increases university-wide understanding of financial contribution of different fund types, as well as the underlying restrictions of use in certain categories

Huron recommends a standardized, consistent format be leveraged within the all-funds model to further promote transparency and understanding.

# Distinguish Unit Types and Contributions

Like the University did in its initial shift to an RCM model in 2011, UF should review unit descriptions and classifications to ensure clarity and appropriateness, namely within its auxiliary operations.

Department Parent 2	Department Parent 3	Model Unit Classification
Whitney Labs	Senior Vice President for Academic Affairs	State Funded Center
Veterinary Medicine	Senior Vice President for Health Affairs	College
Human Resources	Vice President for Human Resources	Support Unit

Budget allocations are currently **distributed within three organizational classifications**, State Funded Centers, Support Units, and Academic Colleges. Auxiliary Unit Operations are included **within various Departments and Functions or as separate DSOs**

## UF Budget Manual (2011)

Colleges

- College of Agricultural and Life Sciences
- College of Law

**Support Units**

Support Units (SU) are divided into cost pools. The cost pool determines the cost allocation method. Responsibility Centers are not permitted to “opt-out” of services to reduce the service and support expenses allocated to the

Auxiliaries (Major Units)

- Academic Technology
- Animal Care Services
- Baby Gator
- Baughman Center
- Biotechnology Research (ICBR)
- Bookstore
- Bureau of Economic & Business Research (BEBR)
- Business Services
- Center for Epigenetics

UF’s original budget model manual provided detailed descriptions of unit types and components. UF should **define what a self-sustaining auxiliary operation is and group like units** into specific categories (e.g., academic auxiliaries vs. non-academic auxiliaries) in its all-fund model view.



## Develop an All-Funds Model View

Expanding the University’s existing RCM model to incorporate an all-funds view will give decision makers an additional tool to manage operations and effectively allocate resources.

Tactic of Solution Design	Alignment Explanation
Develop an <b>all-unit budget allocation model</b> by fund, unit, and account type that can eventually be easily translated into the University’s new budget and planning tool	Promotes comprehensive discussion of how resources are allocated across the University, including restricted funds
<b>Create a common budget template</b> for use in reporting a One UF view of budget allocations	Provides the ability to clearly communicate UF progress and financial metrics of operations to pertinent stakeholders, including the UF Board of Trustees and key internal constituents

**In addition to comprehensive resource availability, all-fund allocations will minimize distortion of fund balances through numerous existing transfers in and out of RCM fund types.**

# Develop an All-Funds Model View – Illustrative Output

Fund Types/ Restriction													
UNIVERSITY of FLORIDA	ARTS	ARTS	ARTS	DCP	LAS	BUS	Academic Units Total	Auxiliary Units Total	State-Funded Center Total	Support Units Total	DSO Unit Total	University Total	
	Restricted	Unrestricted	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	
Revenues													
Total Undergraduate Tuition													
Total Graduate Tuition													
Other Tuition													
Total Tuition Revenue													
Student Fees													
Gross Tuition and Fees													
Financial Aid & Scholarships													
Net Tuition and Fees													
General Funds Supplement													
State Funded Mandates													
State Appropriation Total													
Grants & Contracts													
Sales & Services													
Private Gifts													
Investment & Loan Revenue													
Other Revenue													
TOTAL REVENUES													
Expenditures													
Total Salaries, Wages, and Benefits													
Total Supplies, Services, and Other													
TOTAL DIRECT EXPENSES													
TOTAL TRANSFERS													
Margin Before Support Unit Cost Allocations													
Margin Before Support Unit Cost Allocation %													
Allocated Support Unit (ASU) Costs													
General Administration													
Information Technology													
Human Resources													
University Libraries													
Student Services													
Sponsored Project Administration													
Total Allocated Support Units													
Total Direct Expenditures + ASU Costs													
Margin After Support Unit Cost Allocations													
Margin After Support Unit Cost Allocations %													

Allocable and Direct Revenues

Unit Organization

Direct Expenditures

This standardized view will ensure University stakeholders have a common understanding of University budgets and correlated commitments.

Support Unit Allocations (Overhead)

Allocable and Direct Revenues

Unit Organization

Direct Expenditures

*This standardized view will ensure University stakeholders have a common understanding of University budgets and correlated commitments.*

Support Unit Allocations (Overhead)

# Create and Publish Reliable, Transparent Reporting

Using the inputs from a comprehensive budget approach, UF should develop reporting tools to understand both budget to actual results during the fiscal year and year-end results of each unit.

Tactics of Solution Design	Alignment Explanation
Generate all-funds, <b>standardized unit-level operating statements</b> to communicate financial and activity-level results from the most recent fiscal year inclusive of unit-level carryforwards	Enhances transparency and understanding of financial position and activity within units and serves as a baseline to adjust the University's resource allocation strategies
Create <b>budget to actuals reports</b> at the unit-level that focus on helping leaders understand drivers behind material differences	Provides UF the ability to clearly communicate UF progress and financial metrics of operations to pertinent stakeholders, including UF Board of Trustees

**Standardized operating procedures and results among units can limit the need for shadow systems at the local unit thereby promoting an agreeable, single understanding of operations**

# Create and Publish Reliable, Transparent Reporting

Varying approaches to depicting unit-level performance can be resolved by tasking the budget office to develop standardized operating and budget to actual statements and requiring the use of those tools.

FY2021	UF UNIVERSITY of FLORIDA	College A
1. All exclusions and other pertinent details	<b>Rows Revenues</b> 1 Total Undergraduate Tuition 2 Total Graduate Tuition 3 Professional Tuition 4 Other Tuition 5 <b>Total Tuition Revenue</b> 6 Student Fees 7 <b>Gross Tuition &amp; Fees</b> 8 GA Support 9 Scholarships & Fees 10 <b>Net Tuition and Fees</b> 11 State Appropriation Total 12 Grants & Contracts	Restricted   Unrestricted <b>Total</b>           

*Illustrative Operating Statement*

Building a **standardized view** of all unit-level operations, inclusive of carryforwards, reduces the need for units to create uncoordinated localized reports to understand operations. This also allows for unit-level comparisons across the enterprise and gives unit leaders additional clarity to make investment decisions

UF UNIVERSITY of FLORIDA	ALL ACADEMIC RESPONSIBILITY CENTERS		
	FY19 Total		
	Budget	Actuals	Variance (Budget - Actuals)
<b>Revenues</b>			
Tuition			
Fees			
Commonwealth Appropriation			
Grants and Contracts			
Gifts			
Endowment Earnings			
Sales and Services			
Other Revenues			

*Illustrative Budget to Actuals Report*

Using standardized **budget to actual reports and other activity-level operating statements** at the unit-level will identify the causes of budget variance

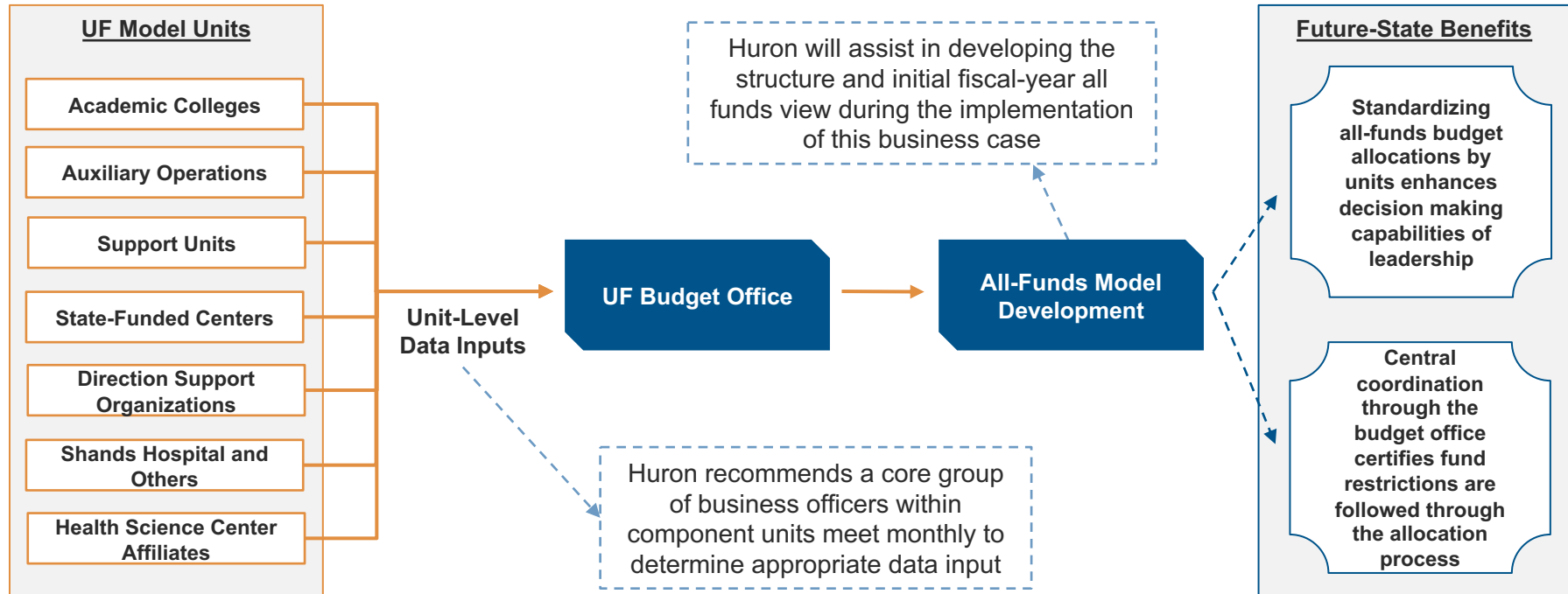
# Effectively Manage to an All-Funds Budget

Creating a collaborative environment between units is essential to facilitate the creation of an all-funds budget model and will eventually reduce local unit effort while also standardizing reporting across UF.

Tactics of Solution Design	Alignment Explanation
Establish <b>regular budget coordination of data inputs</b> between UF budget office, hospital, component units, and other pertinent stakeholders	Incorporates all component unit financials into the University's all-funds budget by ensuring units outside of the current RCM model are providing necessary data
Provide universal guidance around fund use and correlated restrictions to <b>maintain clarity in University-wide budget model</b>	Develops guardrails against incorrect uses of different fund types in the shift to a more comprehensive resource allocation strategy
Create materials for and <b>deliver ongoing education</b> to stakeholders around the <b>benefits of operating in an all-funds model</b>	Develops buy-in around why UF should continue to develop and operate in an all-funds model which will ensure continual creation of this view

# Effectively Manage to an All-Funds Budget

UF component units will need to provide necessary unit-level data to ensure the development of an accurate all-funds. This collection effort should be led by the central UF budget office.



# 4

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## Implementation Roadmap



# Benefits of Successful Implementation

By creating an all-funds budget as identified through Huron's assessment, UF can expect the following outcomes.







	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment / Model Mgmt. /	A more transparent, strategic, and better understood budget model that enhances UF's ability to advance its mission and achieve its priorities by providing new perspectives around how the University invests resources	Gives units and the institution an all-funds comprehensive understanding of how and to what level financial resources are allocated to support institutional objectives and will help clarify resource needs across the enterprise
Model Mechanics / All Funds / Effective Reporting	Greater understanding of all sources of revenue that support unit budgets as all revenues and expenditures are planned and budgeted consistently	Provides data in a unified viewpoint at both the University-wide and unit-level that shows how various activities are funded

**An all-funds budget view can be leveraged immediately upon its completion.**



## Implementation Timeline: All Funds Model

The creation of the all-funds model should start in the near-term as its outcomes can be leveraged for the remaining six business cases.

Time Period: Months	Aug. 22	Sept. 22	Oct. 22
Collect necessary data elements that will be incorporated into the new all-funds view			
Determine appropriate structure and depiction, including carryforwards and reserves, of the all-funds view			
Incorporate all elements and decision points into a new all-funds view based on a recently completed fiscal year			
Construct additional University-wide and local reports (e.g., budget to actuals)			
Share newly created all-funds view with Board of Trustees, University leadership, and other relevant stakeholders			
Translate new all-funds view into a real-time view and incorporate into the new budget and planning tool <sup>1</sup>			

### Key Considerations:

- The collection of all financial data from each University component will be essential in ensuring an accurate all-funds view is created
- Ongoing change management with University stakeholders will be needed as units may have different understandings of sources and uses of funds
- The budget office will be key in ensuring consistent, accessible reports are generated for University leadership and local units

1. Huron assumes that the new all-funds view will help expedite the University's ability to create an all-funds view within the new budget and planning tool

# Implementation Team: All Funds Model

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case is led by the CFO given the position's responsibility for managing all institutional resources
- Divisions with significant activity across all fund types at UF should be actively involved to ensure everyone is aligned with the new approach
- The budget office should be the primary office responsible for compiling financial data from component units to aggregate into a One UF view



# Business Case: **Step-Down Costing**

# Contents

1. Overview of Step-Down Costing
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

# 1

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## Current Step-Down Costing



## Step-Down Costing: Current State

UF currently incorporates three primary step-down costing allocations within its model, which adds limited economic or strategic value and unnecessarily burdens staff responsible for managing budgets.

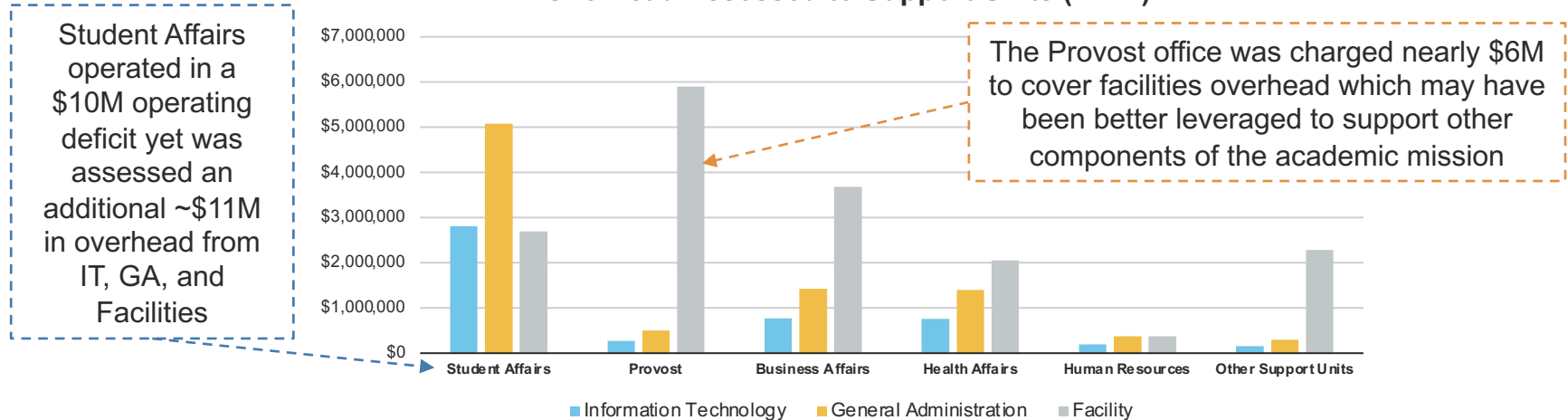
Current State	Explanation of Problem / Case For Change
<b>Separate overhead is assessed to support units for Information Technology (IT), General Administration (GA), and Facilities</b> adding unnecessary complexity and confusion within the model	Support units, by definition, are not intended to generate a positive contribution margin thus assessing support units overhead for other support unit services only increases the necessary contribution they require from responsibility centers (RC)
Assessing overhead to support units <b>muddles direct costs that are then allocated to RC units</b> (e.g., current Facilities overhead allocation includes costs of IT/GA assessments)	Understanding the direct cost of operations for each functional unit is the first step in understanding if support unit efficiencies can be gained and resources redirected toward mission activities
In some cases, support units have <b>instituted fees to help generate margin to cover costs</b>	Support unit service specific fees – separate from overhead – add unnecessary transaction volumes, leads to inefficient and ineffective use of personnel resources, and distorts total costs of support units

**While eliminating step-down allocations will not directly reduce costs or generate new funds, a less complex model which takes less resources to operationalize will lower administrative burden.**

# Unnecessary Model Complexity

Apart from auxiliary activities, which should be assessed separately, minimal to no external revenues are generated directly from support unit operations.

Overhead Assessed to Support Units (FY21)

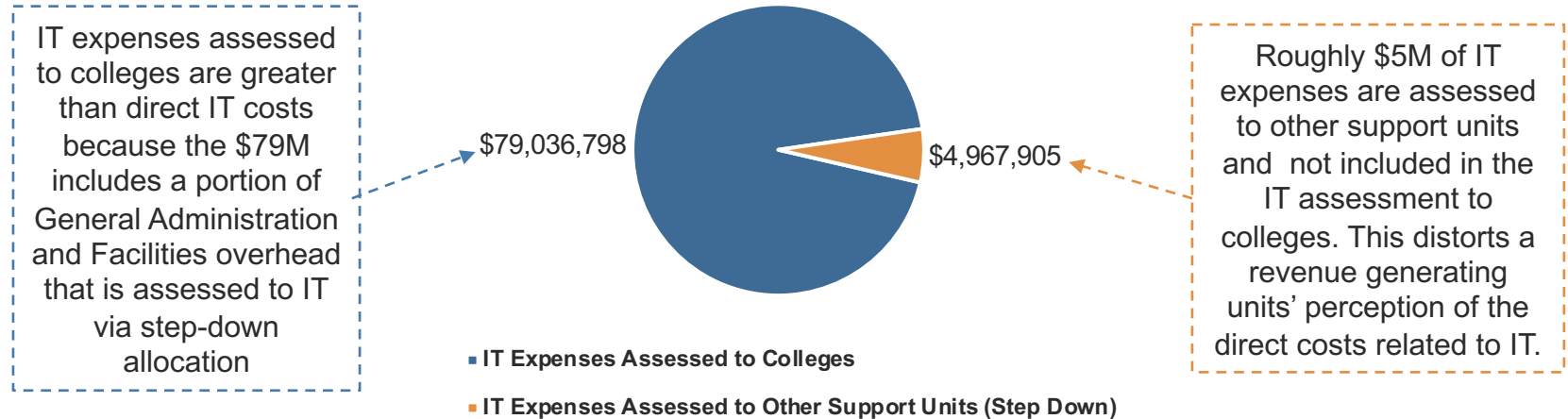


**Step-down allocations result in unnecessary transfers of funds between units with limited ability to cover the associated costs.**

# Transparency of Direct Support Expenses

At its core, step-down costing mixes direct expenses with additional overhead allocations which limits a college's ability to evaluate the direct cost of services accurately.

**Comprehensive IT Operating Expenses (\$84.0M)**



**Evaluating the efficiency of support unit operations is challenging given the impact step-down allocations have on estimating a clear view of support unit direct costs.**



# 2


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## Risk Assessment



## Industry Challenges and Risks of UF Inaction


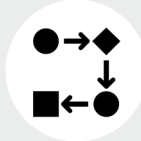

Step-down allocations muddle direct costs of individual support unit operations and hinder the ability for responsibility centers to accurately assess services being provided for overhead contributions made.

Relevant Industry Challenges / Headwinds		How Industry Challenges May Be Exacerbated for UF
<b>Reporting requirements</b> from the state and other regulatory bodies <b>have increased</b> in recent years <b>adding administrative burden</b>		Effort to manage step-down costing and state reporting requirements are significant based on stakeholder input
<b>Administrative efficiency</b> and effectiveness <b>initiatives</b> are becoming <b>more frequent and are needed to ensure fiscal sustainability</b>		Step-down costing hinders model transparency and limits the ability to quickly understand the total cost of a support unit's services thus making the baseline for administrative efficiency initiatives less clear

**Eliminating step-down costing reduces user confusion and creates administrative capacity that can be redeployed more effectively.**

# Risks of Action and Mitigation Approach

Eliminating step-down allocations will simplify the model, but UF should be aware of three potential risks of implementation.

			
	<b>Support Unit Cost Pool Consumption Accuracy</b>	<b>Lack of Direct Incentives for Support Units</b>	<b>Redistribution of Cost Pool Allocations to Colleges</b>
<b>Risk</b> ➔	The absence of overhead allocations to support units limits insight into the entire university and focuses on RC Units only	Step-down costing ensures all units have 'skin in the game' to utilize support services efficiently	Eliminating allocations to support units may lead to increased overhead charges for certain units
<b>Mitigation Approach</b> ➔	Prioritize simplicity over economic reality based on the level of effort required to manage step-down costing allocations	Recommend each support unit regularly (every 3-5 years) undergoes operational reviews to ensure optimal service delivery	Distribute report connecting a college's cost pool overhead charge with that college's share of the applicable activity metric

**Despite blunting some incentives for support units, the elimination of step-down costing practices will provide enhanced transparency and simplification.**

# 3

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## Solution Design and Alignment to Framework



# Solution Design & Enhancement Recommendation Summary

## Recommendations to Eliminate Step-Down Costing

### Alignment to Strategy

Reaffirm the intent of a support unit within UF's model and the expectations of support units in achieving priorities. Do not tax support units for administrative overhead.

### Effective Model Mechanics

Eliminate all overhead assessments to administrative support units and recalculate support unit base budgets to only include direct costs

### All Funds Integration

Ensure funding types and restrictions are maintained through allocations, transfers, and direct service charges

### Reliable Reporting

Develop and distribute management report outlining direct expenses of support units to aid in discussion of service levels, value, and efficiency

### Model Management

Draft policy restricting a support unit's ability to charge fees to other support units for routine, fundamental services solely for the purpose of generating additional funding authority

# Reaffirm Model Unit Purpose and Responsibility

Confirming the expectations of support units in advancing UF's missions reduces pressure to prop up financial results and instead focus on successfully achieving their core support objectives.

Tactics of Solution Design	Explanation of Alignment To Framework
<b>Solidify purpose and objective</b> of each unit 'type' existing within University's Budget Model (i.e., administrative support units vs. auxiliary units vs. RC units)	Establishes clear expected contribution (e.g., mission-critical, financial contributor, or operational/mission support) and provides justification for treatment in model

**Auxiliary operations will need to be split out from support units to ensure appropriate overhead costs are charged to auxiliary services.**

## Reaffirm Model Unit Purpose and Responsibility

Classifying non-academic functions into either an auxiliary or support focused function will help eliminate the need for step-down costing.

Level II	IT				General Admin			
	Auxiliary/Svc Ctrs Cost Pool	Incntl_Misc Cost Pool	Clinical Practice Cost Pool	Total IT	Auxiliary/Svc Ctrs Cost Pool	Incntl_Misc Cost Pool	Clinical Practice Cost Pool	Total General Admin
Audit & Compliance Review	-	-	-	-	-	-	-	-
BOT	-	-	-	-	-	-	-	-
Business Affairs	750,677	18,755	-	769,432	1,393,634	34,819	-	1,428,453
Business and Economic Development	-	10,539	-	10,539	-	19,565	-	19,565
CFO	12,264	427	-	12,691	22,769	794	-	23,563
DOCE	14,098	-	-	14,098	26,172	-	-	26,172
Enrollment Management	9,634	-	-	9,634	17,886	-	-	17,886
General Counsel	-	-	-	-	-	-	-	-
Graduate Program	-	97	-	97	-	180	-	180
Health Science Center	2,679	130,763	477	133,919	4,974	242,760	773	248,507
Human Resources	166,230	33,416	580	200,226	308,607	62,036	941	371,584
Information Technology	1	1,256	-	1,257	-	2,333	-	2,333
Institution Activity	-	-	-	-	-	-	-	-
International Center	213,492	149	-	213,641	396,347	276	-	396,623
Library	2,644	9,180	-	11,824	4,908	16,230	-	21,138
President's Office	-	16,880	-	16,880	-	31,338	-	31,338
Privacy Office	-	-	-	-	-	-	-	-
Provost Office	26,917	7,725	-	34,642	49,971	14,341	-	64,312
Research	575	586	-	1,161	1,066	1,088	-	2,154
Senior Vice President and COO	-	21,977	-	21,977	-	40,800	-	40,800
Student Affairs	2,178,885	635,137	-	2,814,022	4,045,093	1,030,144	-	5,075,237
Student Health Center	619,288	-	-	619,288	1,149,704	-	-	1,149,704
University Relations	-	26,215	-	26,215	-	48,668	-	48,668
Strategic Communications	1,625	54,730	-	56,355	3,017	101,606	-	104,623
Total	3,999,009	967,832	1,057	4,967,898	7,424,148	1,646,978	1,714	9,072,840

Significant auxiliary operations housed within the University's different functional VP offices should be split out

Unit Breakdown		
	Auxiliary Units	Support Units
Intent	Self-supporting, revenue generating units contributing to University operating results	Essential units providing mission or operational support to UF
Examples (Student Affairs)	Housing & Residence Life	Career Connections Center
Proposed Treatment	Auxiliaries are assessed a calculated overhead contribution	Step-Down Costing is eliminated, and net expenses are allocated to RCs

# Eliminate Support Unit Overhead Assessments

Rationale for step-down costing stem from model accuracy. Model simplification and transparency of functional support costs may provide more tangible operational benefits to UF stakeholders.

Tactics of Solution Design	Alignment Explanation
<b>Eliminate all overhead assessments</b> charged to support units including IT, facilities maintenance, and general administration	Simplifies overall model mechanics and provides enhanced transparency and visibility into the direct operating expenses of cost pools
Inventory and reduce similar practices of step-down costing <b>outside of standardized overhead assessments</b> , such as <b>service specific fees</b> <sup>1</sup>	Builds trust and collaboration between RCs and support units regarding the scope and accuracy of support unit services as well as diminishes perceptions of being ‘nickel and dimed’






**As incentive-based models have evolved, expending resources to manage step-down structures has become increasingly less common as universities drive towards simplification.**

1. This does not include drafting Service Level Agreements (SLAs) for Support Units which should be a separate process



# Eliminate Support Unit Overhead Assessments

In addition to step-down costing, other support unit charges for what could be considered core services adds complexity and burden with little economic benefit.

Step-Down Overhead Allocations		Example Service Level Charges	
	Information Technology		<b>PDC Project Funding</b> 1% tax levied on units for subject matter expertise in development of major capital project proposals
	General Administration		<b>Advancement Gift Charge</b> 5% administrative charge passed on to units in order to partially fund operations
	Facilities Services		

Eliminating step-down costing and reducing or eliminating service specific charges provides greater transparency to responsibility center units

# Maintain Fund Type Through Allocations

Reducing one-off support unit service fees, in addition to eliminating overhead assessments, gives RC units greater predictability in overhead allocations, which will aid in resource management.

Tactics of Solution Design	Alignment Explanation
Ensure the <b>color of money</b> is continually <b>maintained through model allocations</b>	Multiple allocations and direct service charges in UF's current model may dilute the clarity of original fund restrictions

**Reducing the number of interdepartmental transfers for step-down allocations or direct service charges increases the ability to monitor fund restrictions as monies flow across UF.**

# Communicate Impact of Step-Down Costing Elimination

As UF transitions away from step-down costing within its model, the University should communicate the impacts and benefits to pertinent stakeholders.

Tactics of Solution Design	Alignment Explanation
Develop report, led by the budget office, <b>defining total support unit expenses by functional area (e.g., IT)</b> for distribution to RC units	Provides detail on support unit specific expenses which in turn promotes dialogue between RCs and support units around service levels

Support Unit Expense Allocations			
Support Unit	Allocation Total	College X Total	College X Allocation
President	10,000,000	10.0%	1,000,000
Senior Vice President and Chief Financial Officer	35,000,000	10.0%	3,500,000
Senior Vice President for Academic Affairs and Provost	57,000,000	10.0%	5,100,000
Senior Vice President for Administration	4,000,000	10.0%	400,000
Senior Vice President for Health Affairs	12,000,000	10.0%	1,200,000
Vice President and Chief Information Officer	14,000,000	10.0%	1,400,000
Vice President for Business Affairs and Economic Development	11,000,000	10.0%	1,100,000
Vice President for Human Resources	10,000,000	10.0%	1,000,000
Vice President for Student Affairs	75,000,000	10.0%	7,500,000

Providing colleges a summary of assessments, free of step-down allocations, enables a more direct evaluation of support unit cost

**While aggregate overhead assessments to RC units will remain unchanged, highlighting new cost pool allocation totals will enhance clarity in the cost of direct operations.**

# Maintain New Allocation Structures

After elimination, the University must have structures, policies, and procedures in place to ensure continuation of effective practices and maintain simplicity in support unit allocations.

Tactics of Solution Design	Alignment Explanation
Develop policy <b>preventing future step-down allocations between support units</b>	Ensures model simplicity is maintained
<b>Enhance scrutiny</b> , through a rigorous approval process, for cost pools <b>to establish new service specific fees</b> to other units within UF's model	Holds support units accountable for providing base-level services funded via existing overhead assessments to RC units and reduces processing and transactional burdens

**With the elimination of step-down costing, support unit service fees should be governed via model management structures recommended in the overhead assessment business case.**

# 4

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## Implementation Roadmap



## Benefits of Successful Implementation







By addressing the identified barriers and frustrations identified through Huron’s current state assessment with recommended tactics for a more effective practice, UF can expect to see the following outcomes.

	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment/ Model Mechanics/ All Funds	Enhanced transparency from <b>eliminating complex step-down costing/chargeback model</b> will <b>give University stakeholders</b> a <b>clearer understanding of support unit direct expenses</b>	Gives University leadership a straight-forward picture of the holistic funding needed to operate and maintain each support unit.
Model Mgmt./ Effective Reporting	<b>Elimination of step-down allocations</b> will <b>simplify the model and reduce effort</b> in managing and reporting on the budget model	Reduces the administrative burden of managing a complex set of administrative transactions. Regained effort can be redeployed to focus on more mission-critical or strategic objectives.

**Simplifying UF’s budget model by eliminating step-down costing will enable units to more easily predict overhead charges related to a direct support operation.**

## Implementation Timeline: Step-Down Costing Rationalization

Huron recommends step-down costing elimination as one of the first business cases to be implemented well in advance of the FY23 budget build.

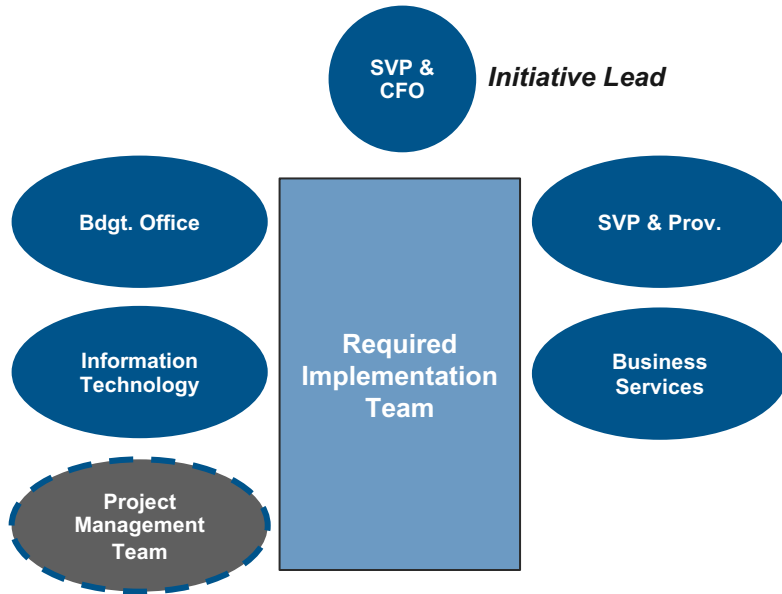
Time Period: Months	Aug. 21	Sept. 21	Oct. 21
Identify and document all step-down allocations and additional cost pool fees that could be subject to elimination			
Confirm elimination of identified step-down allocations and obvious, unnecessary cost pool fees as identified by stakeholders			
Model impact of elimination of step-down allocations and previously identified select cost pool fees – outline results			
In tandem with clarifying overhead assessment structure, incorporate net impacts of eliminating step-down allocations into the University Budget Model			
Create new policies restricting future use of step-down allocations and cost pool fees			
Build and distribute change management communications detailing the unit-level impacts from elimination of step-down allocations			

### Key Considerations:

- Elimination of step-down costing and select chargebacks represents a significant shift in the composition of Support Unit budgets which may require additional change management with Support Unit Leadership
- The net impact to the University Operating Margin is zero despite potential shifts in funding across RC units
- This business case is directly correlated with the overhead assessment structure, and both should be tackled in tandem

# Implementation Team: Step-Down Costing Rationalization

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case is led by the SVP & CFO given the large amount of support unit funding that rolls up to their purview
- The SVP & Provost or designee is a key contributor to this business case as the elimination of step-down costing will impact how support unit overhead is viewed
- Each major cost pool should be represented in the process to ensure all step-down costs are appropriately identified and eliminated





# Business Case: **Deferred Maintenance Strategy**

# Contents

1. Overview of Deferred Maintenance
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

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UF Deferred  
Maintenance  
Current State



## Deferred Maintenance Strategy: Current State Summary

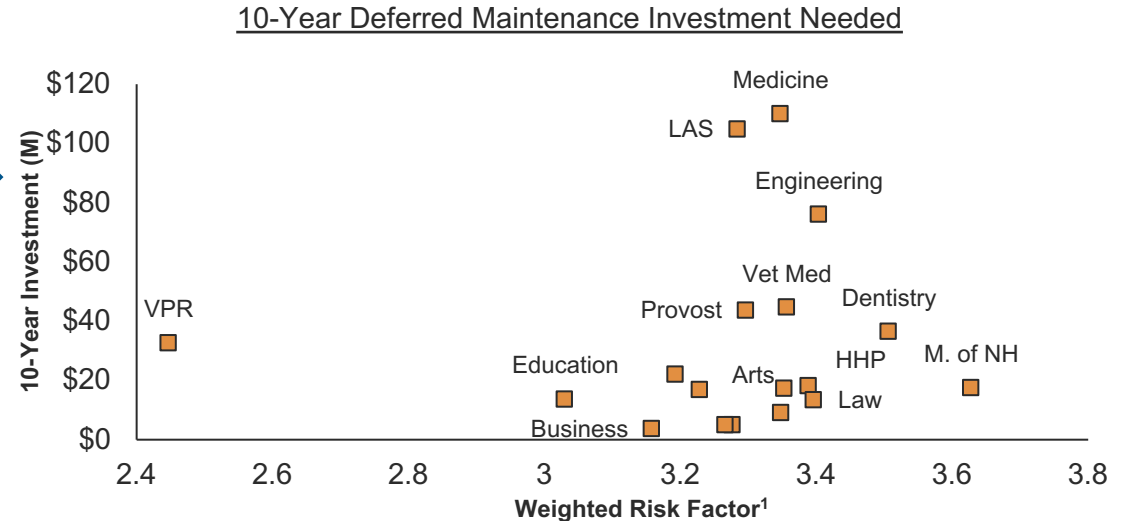
Common across many institutions, UF does not have a well-defined annual investment strategy to combat deferred maintenance (DM) leading to an escalation of DM needs.

Current State	Explanation of Problem / Case For Change
<b>Current collective deferred maintenance need across the enterprise totals \$1.6B</b> over the next 10 years with \$466M of this already past its useful life	<b>A significant portion of UF infrastructure is past useful life</b> signaling that critical failures which will impact operational continuity are imminent
UF's <b>average annual investment in deferred maintenance has been roughly \$38M</b> over the last 10 years representing roughly 70% of the estimated investment amount required to curb backlog growth	<b>Delaying</b> deferred maintenance priorities because of insufficient funding levels <b>exacerbates physical plant issues</b> and <b>increases operational maintenance costs</b>
UF's strategy for DM <b>is overly reliant on available funding</b> blurring the ancillary <b>need to understand the optimal execution approach</b> (i.e., by building or by core infrastructure)	<b>Understanding the risk and impact to operations</b> associated with each approach or a hybrid approach <b>may allow more flexibility in the funding needed in any given year</b> while still maintaining operations
<b>While UF has a comprehensive assessment and understanding of deferred maintenance needs, a cohesive One UF strategy and mechanism to fund and reduce its backlog does not exist.</b>	

## Deferred Maintenance Backlog by College

One view of UF's DM need evaluates building backlogs based on both a weighted risk factor as well as total investment needed to help prioritize buildings with the most critical needs.

Entity	Identified DM Needs
E&G and Health Science Center	\$888,000,000
Housing	\$320,000,000
UF/IFAS	\$387,158,372
<b>Total</b>	<b>\$1,595,158,372</b>



**While UF has a comprehensive understanding of total deferred maintenance need across component units and buildings, without a consistent mechanism to fund the most critical needs, backlogs will continue to grow.**

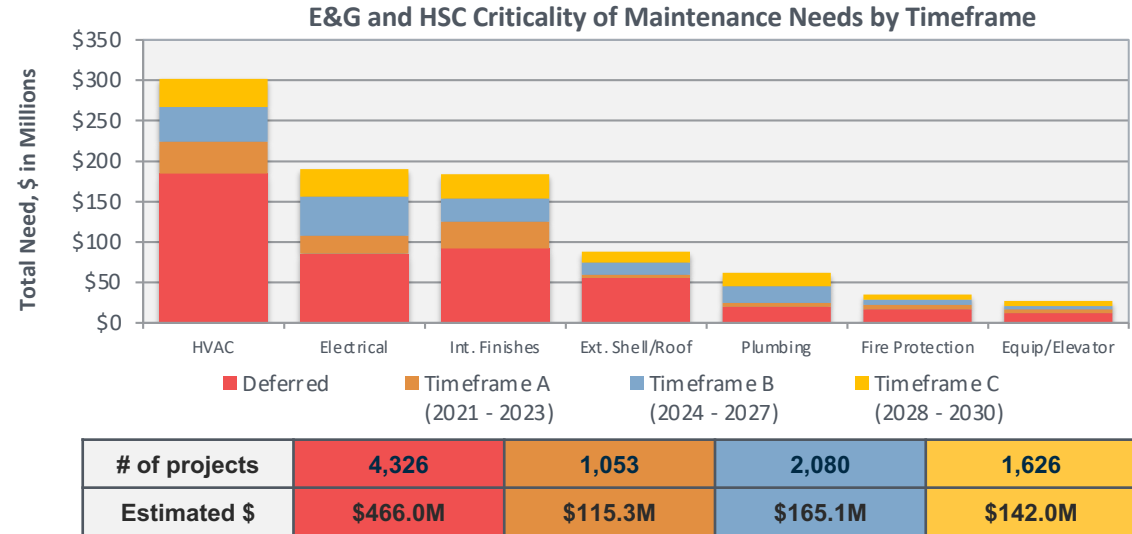
Source: 2020 Sightlines Report on Space Regeneration

1. Weighted risk factor includes assessment of timeframe, reliability risk, safety/emergency systems, asset preservation, sustainability, and user improvement

## Deferred Maintenance Backlog by Core Infrastructure

A second view of UF's DM need is building agnostic and focuses instead on core infrastructure across all buildings and deferral timeframes to help prioritize criticality.

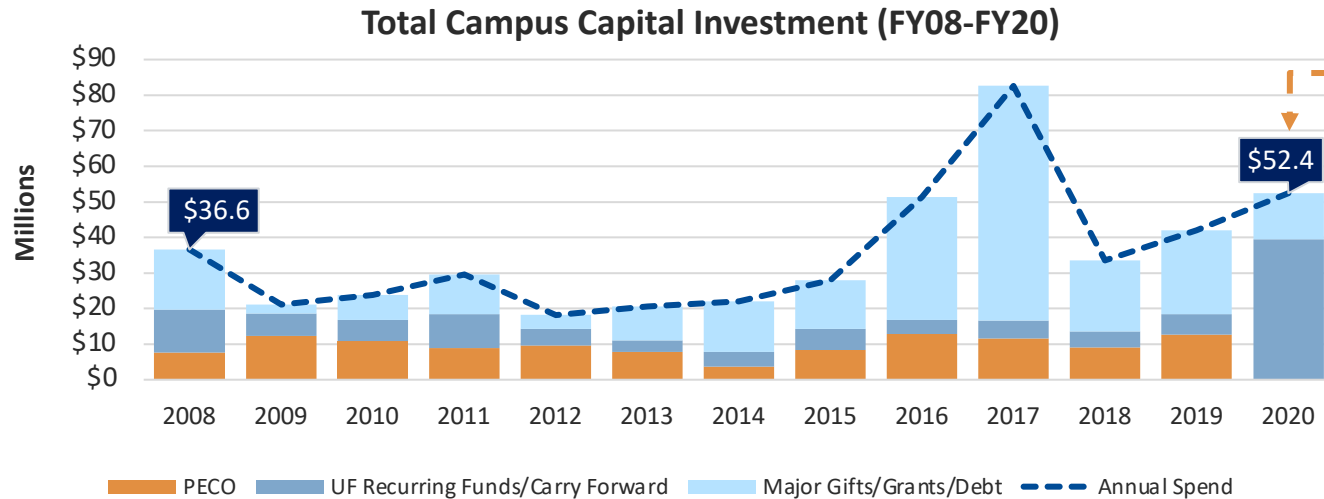
Entity	Identified DM Needs
E&G and Health Science Center	\$888,000,000
Housing	\$320,000,000
UF/IFAS	\$387,158,372
<b>Total</b>	<b>\$1,595,158,372</b>



**UF's current strategy to address DM needs based on building vs. core physical asset (e.g., HVAC) is unclear, which may result in more costly critical failures of core infrastructure within buildings.**

## Historical DM Investment Levels

Over the past 12 years, UF has invested \$35M annually in DM needs having relied on a variety of funding sources combined with inconsistent funding levels to address the most pressing needs.



Changes to state provisions in PO&M funding and recent lapses in PECO funds demonstrate the need for an alternative and reliable funding source to replace historic state distributions

**Given a recent push to spend down carryforwards and limited annual predictability of gift, grant, and debt funding, UF needs a consistent source of funds to prevent further backlog growth.**

# 2

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## Risk Assessment





## Industry Challenges and Risks of UF Inaction






Financial and enrollment challenges related to the COVID-19 pandemic created difficult short-term decisions for leaders, while also influencing long-term facility strategies across higher education.

Relevant Industry Challenges / Headwinds		How Industry Challenges May Be Exacerbated for UF
Deferred maintenance backlogs are often inappropriately attributed to poor leadership instead of resource reprioritization to mission activities		While sentiments from <b>UF leaders don't suggest unfounded blame toward leadership for backlog growth</b> , stakeholders with less intimate knowledge of DM may feel differently
As state support for DM has lagged and financial burden is shifted to universities, the <b>backlog of capital renewals has increased 35%</b> since 2007 to \$106/GSF nationally		<b>\$1.6B in DM backlog over the next 10 years is difficult to comprehend</b> and overwhelming for stakeholders to think about addressing given other near-term issues
New construction has not coincided with asset reinvestment, and <b>the percentage of university owned buildings unrenovated in the last 50 years continues to grow</b>		<b>Significant new construction growth</b> over the past decade at UF has been prioritized over deferred needs which will result in future investment strains to renew space

**As the demand for university resources becomes more diversified and pronounced, physical infrastructure is commonly the first investment to be deferred until sufficient funding is identified.**

## Risks of Action and Mitigation Approach

While developing a One UF strategy and mechanism to address DM will improve physical plant longevity, reduce liabilities, and avoid long-term costs, UF should be aware of three potential risks.

			
	<b>Resource Redirection</b>	<b>Capacity to Operationalize</b>	<b>Favoritism/Long Term Improvements</b>
<b>Risk</b> 	Directing scarce resources toward deferred maintenance needs inherently requires reduced investment elsewhere - potentially including mission activities	Targeted deferred maintenance funding levels can be generated by UF, but facilities services may not have the capacity to deliver on maintenance priorities	An annual funding contribution is a short-term approach to addressing a long-term problem, and units not immediately benefitting from increased DM investment may waiver in support
<b>Mitigation Approach</b> 	Incorporate consistent communication of comprehensive DM needs and risks to missions if not addressed into overall change management approach	Ensure internal facilities services organizational capacity for specific projects is known and develop a plan for contracted services to execute on the remainder	Establish regular cadence for UF space assessment to ensure DM priorities are updated and communicate multi-year anticipated timelines for projects

**Most stakeholders understand the implications of deferred maintenance at UF; however, communication to explain why significant physical plant investments are prioritized over others will aid change management.**

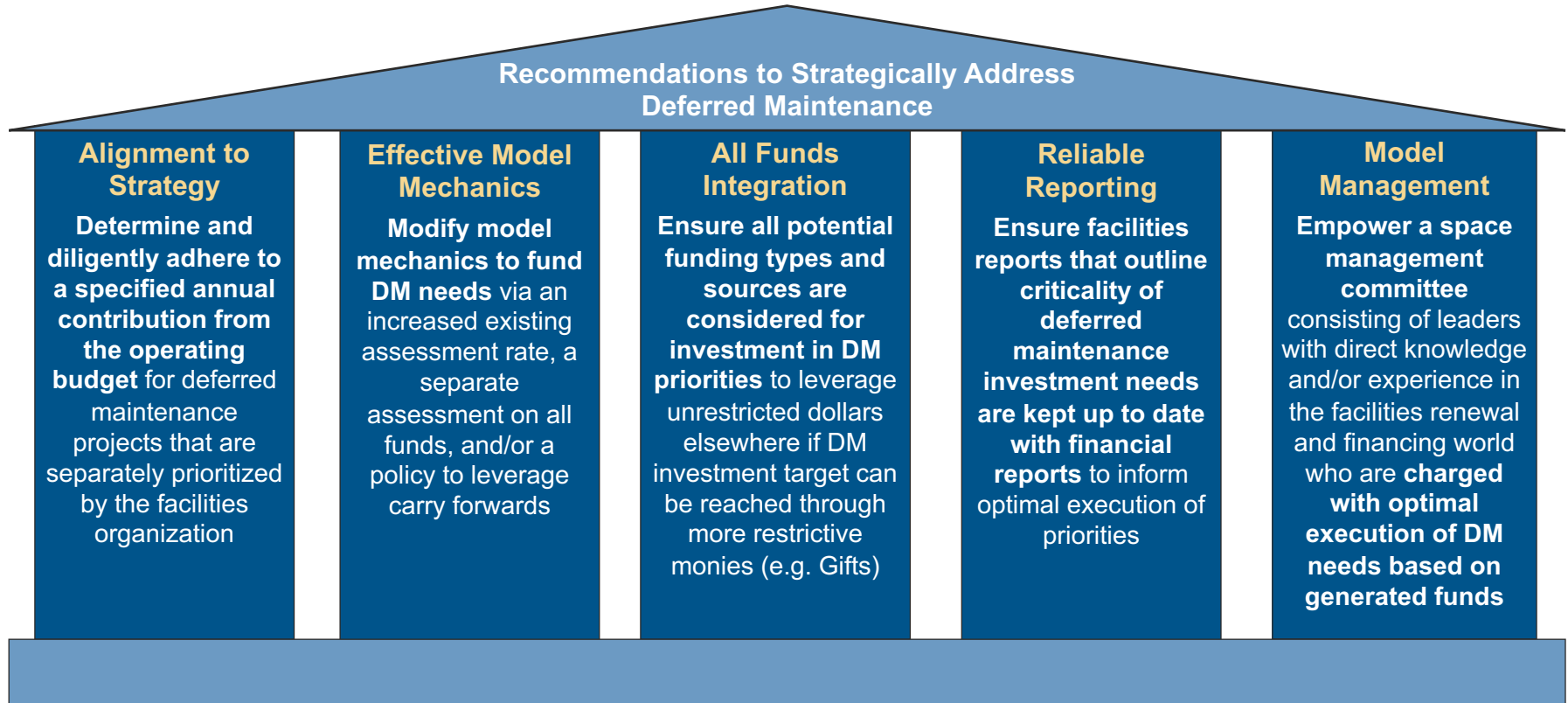
# 3

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## Solution Design and Alignment to Framework



# Solution Design & Enhancement Recommendation Summary



# Solidify DM into One UF Strategy

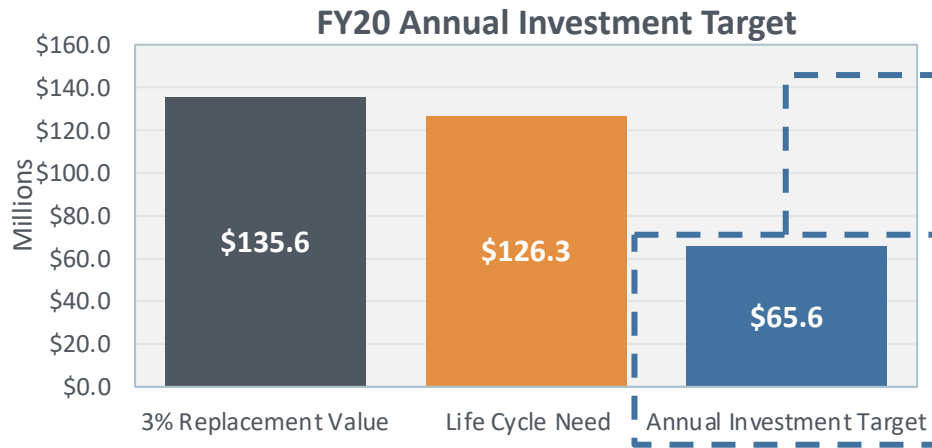
Defining a strategy to appropriately fund annual DM investment targets will stem the growth in backlog in the near-term while policies for new construction O&M funding are finalized.

Tactics of Solution Design	Explanation of Alignment To Framework
<b>Establish a minimum annual deferred maintenance investment level</b> from operating funds	Provides funding to prevent growth in the university's backlog which, if unaddressed, will lead to critical failures and hinder other strategic or mission-critical operations
Mandate a separate O&M funding source <b>to cover future maintenance</b> costs of new buildings	Prevents new construction from adding to future deferred maintenance backlog and serves as a mechanism to fund high-priority projects' long-term O&M costs
<b>Incorporate DM projects directly into strategic priorities each year to elevate importance</b>	Ensures physical plant supports UF's goal of achieving top 5 status

**UF should not expect to address all deferred maintenance needs in the short to mid term; rather, the University should establish a structure that prevents the need from growing larger.**

# Solidify DM into One UF Strategy

In the short term, UF should aim to generate funding levels nearer to its estimated annual investment target of \$65.6M, which only represents the funding necessary to curb its growth in DM backlog.



## Annual Target Setting

- **The space management committee** should be responsible for **calculating the deferred maintenance investment target** based on the Sightlines space regeneration report
- Before the budget build each year, the **executive committee should determine the level of DM investment** based on resource availability and DM target
- The university could **consider basing total annual DM investment needs on a percentage of depreciation expense** from historic audited financial statements

**In the long-term, UF should seek to increase its contribution to deferred maintenance beyond the annual investment target to begin addressing backlog.**

Source: 2020 Sightlines Report on Space Regeneration

1. Composition is outlined in Dedicated Management Structures

# Create Consistent Funding Mechanisms

The two options below are near-term approaches for UF to consider to establish a mechanism to sequester more predictable funds to sufficiently address deferred maintenance.

Tactics of Solution Design	Alignment Explanation
<u>Option 1:</u> Raise the <b>facilities overhead assessment rate</b> to increase the resources available <b>to meet annual deferred maintenance investment targets</b>	Creates a stable and predictable funding source for UF to immediately begin to address DM priorities
<u>Option 2:</u> Develop policy that <b>repurposes carryforward balances from units with uncommitted balances above a predetermined level</b> to address the most urgent deferred maintenance priorities	Provides a funding mechanism for subsequent year DM needs while avoiding the use of operationally committed funds and preserving unit-level flexibility to address other local priorities

**The above model adjustments will help avoid more significant near-term investment needs and reduce risk of critical failures which jeopardize mission and revenue generating operations.**

# Create Consistent Funding Mechanisms

Adjusting the facilities overhead assessment to include funding earmarked for DM can generate the necessary resources to meet the University's annual investment target.

	Budget Model Report Line Item	Purpose	Allocation Calculation	FY21 Estimated Costs
Facilities Overhead Assessment (Option A)	Operational Cost Pool (Current Assessment)	Operational cost allocation to fund utilities and plant operations and maintenance based on occupied weighted square footage	Weighted Square Footage	\$81.4M
	DM Cost Pool (New Assessment)	Creation of DM assessment totaling the annual investment target and allocated proportionally to RC units based on occupied weighted square footage	Weighted Square Footage	\$65.6M <sup>1</sup>

**Expenditure authority of the two pools should remain separate to ensure appropriate use of deferred maintenance funding and provide supporting units visibility into assessment utilization.**

1. Annual assessment generated for DM should be phased into overhead assessment structure over the course of multiple fiscal years



## Identify Optimal Resources for DM Priorities

Two additional options are based on UF positioning DM as an institutional strategic priority that requires support from the collective enterprise to address.

Tactics of Solution Design	Alignment Explanation
<p><u>Option 3:</u> <b>Institute a flat tax rate on all-funds across RC units</b> in place of adjusting existing overhead assessments allocated based on weighted square feet</p>	<p>Increases flexibility in funding sources eligible for use in DM assessment</p>
<p><u>Option 4:</u> <b>Leverage existing institutional discretionary dollars across all component unit leaders</b> to fund priorities recognizing that all component units likely required DM investment</p>	<p>Addresses DM from component units who have access to a variety of fund types to ensure not one resource pool is unfairly drained</p>

**Given the breadth of DM needs, no one funding type, source, or authority has the means to consistently make meaningful progress without complete disregard for other strategic priorities.**

## Identify Optimal Resources for DM Priorities

Incorporating an all-funds tax standardizes contributions based on unit size and disregards space type, weight, and perceptions of building age in assessing funds to be used for DM priorities.

	College of the Arts	College of Design, Construction, and Planning	College of Liberal Arts & Sciences
<u>Revenues: RCM Allocations</u>			
Total Tuition Revenue	\$ 8,021,401	\$ 9,261,531	\$ 78,873,192
Total State Revenue	\$ 19,115,700	\$ 9,965,518	\$ 107,549,840
<u>Revenues: Direct (Non-State Fund)</u>			
SALES OF GOODS/SERVICES OUTSIDE STATE GOVT	\$ 193,156	\$ 313,861	\$ 4,174,070
FEES	\$ 3,016,005	\$ 2,697,744	\$ 3,434,985
DONATIONS/CONTRIBUTIONS GIVEN TO THE STATE	\$ 1,747,476	\$ 2,081,025	\$ 4,894,622
MISCELLANEOUS RECEIPTS	\$ -	\$ -	\$ 21,637
RENT	\$ 150	\$ -	\$ -
OTHER GRANTS AND DONATIONS	\$ 390,645	\$ 2,972,972	\$ 24,229,714
ROYALTIES	\$ -	\$ -	\$ 12,140
PENALTIES	\$ -	\$ -	\$ -
<b>Total Revenues</b>	<b>\$ 32,484,533</b>	<b>\$ 27,292,551</b>	<b>\$ 223,190,199</b>
<b>Total Operating Expenses</b>	<b>\$ 23,681,298</b>	<b>\$ 23,508,129</b>	<b>\$ 174,225,189</b>
<u>Non-Operating Expenses: Overhead Allocations (State Funds)</u>			
IT and General Admin	\$ 2,509,207	\$ 1,763,974	\$ 16,437,972
HSC Admin Overhead	\$ -	\$ -	\$ -
Facility Overhead	\$ 2,954,256	\$ 1,979,258	\$ 16,416,954
<u>Non-Operating Expenses: Direct (Non-State Funds)</u>			
ADMIN OH-GENERAL ADMIN	\$ 68,858	\$ 188,727	\$ 388,958
ADMIN OH-INFO TECH	\$ 37,397	\$ 101,699	\$ 209,512
ADMIN OH-HSC ADMIN	\$ -	\$ -	\$ -
ADMIN OH-SPON PROJ ADMIN	\$ -	\$ -	\$ -
ADMIN OH-FACILITIES	\$ -	\$ 180	\$ 116,137
<b>Total Non-Operating Expenses</b>	<b>\$ 8,269,276</b>	<b>\$ 6,757,156</b>	<b>\$ 71,890,542</b>
<u>Beginning Balance from Prior Year Carryforward</u>			
State Funds Carry Forward	\$ 2,729,775	\$ 816,740	\$ 8,704,765
Non-State Carry Forward	\$ 3,705,966	\$ 7,583,739	\$ 51,597,883
<b>Carry Forward Over 10% Threshold</b>	<b>\$ 500,000</b>	<b>\$ 800,000</b>	<b>\$ 2,700,000</b>

### Option A

UF may consider incorporating an **additional facilities assessment** roughly equal to the annual DM investment target to be allocated **based on weighted square footage**. This should be separate from operational facility assessment funds in spending authority, use, and visibility in unit-level statements.

### Option B

UF may consider a **flat tax on RC units across all revenues** to create a mechanism to generate funding needed for annual DM investment targets. This method does not account for current space utilization which may or may not be a more equitable approach.

### Option C

UF may consider **developing policies around carryforward funds** and limit the amount of carryforwards able to be retained at the local unit level to an agreed upon percentage of total resources each year. Policies can be customized to allow a different percentage for different fund types.

Note: Option D requires no change to model mechanics and instead commits UF to utilizing discretionary funds historically leveraged for other institutional investments for DM needs.

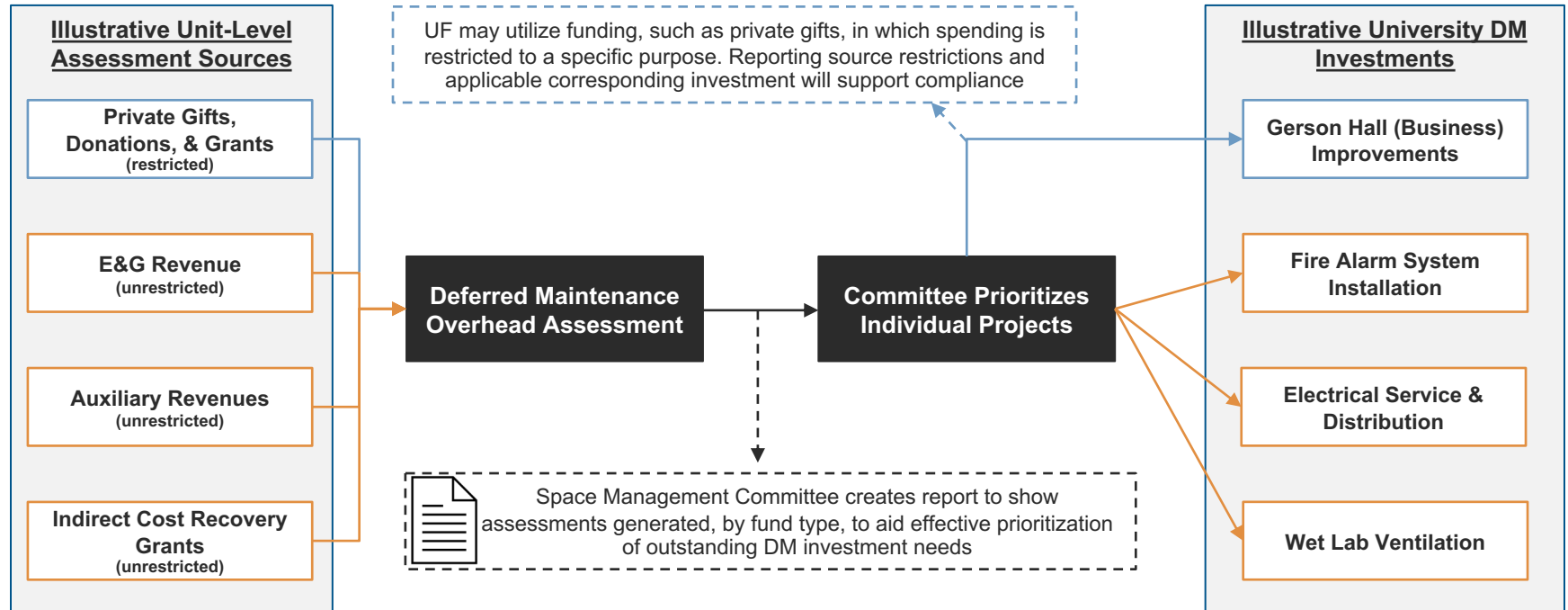
# Strengthen Understanding of DM Magnitude

Regular dissemination of information related to DM needs, priorities, and funding requirements will promote broad campus understanding of DM scale and the magnitude of effort required to amend.

Tactics of Solution Design	Alignment Explanation
Regularly <b>update and broadly distribute report detailing infrastructure investment needs</b> by type, building, and occupant	Ensures UF stakeholders are well-informed of the magnitude of infrastructure investment need and urgency of certain critical infrastructures
Design a <b>consolidated report aligning individual project costs with colors of money</b> best suited for utilization based on overhead assessment inflows	Creates a mechanism to optimally leverage funding generated and enhance compliance
Utilize results from FY20 space assessment to <b>communicate estimated multi-year schedule of projects to be addressed</b> , which is informed by more predictable funding levels	Conveys scope of DM needs and anticipated completion timeframes to units utilizing an informed, objective, and data driven rationale

# Strengthen Understanding of DM Magnitude

Understanding the potential sources of deferred maintenance overhead assessment dollars will support effective investments within distributed units and ensure fungible dollars are optimized.



# Establish Dedicated DM Management Structure

Charging a dedicated group with prioritizing DM projects, monitoring investment needs, and regularly evaluating funding strategies is paramount for the University to achieve its broader strategic priorities.

Tactics of Solution Design	Alignment Explanation
<b>Charge a committee</b> comprised of finance and facilities subject matter experts <b>dedicated to prioritizing and managing the optimal execution of DM needs</b> given generated funding levels	Establishes a dedicated group responsible for the optimal alignment of resources to the most urgent priorities
<b>Empower committee</b> with responsibility and authority <b>to regularly inventory/assess space, monitor investment need, and evaluate efficacy</b> of generated funding levels	Ensures a cohesive group of subject matter experts is engaged throughout all aspects of DM while keeping authority to change funding structures separate

**Allowing facilities and central finance teams to lead the prioritization of DM needs promotes decisions being made by subject matter experts with an institution-wide lens.**

# Establish Dedicated DM Management Structure

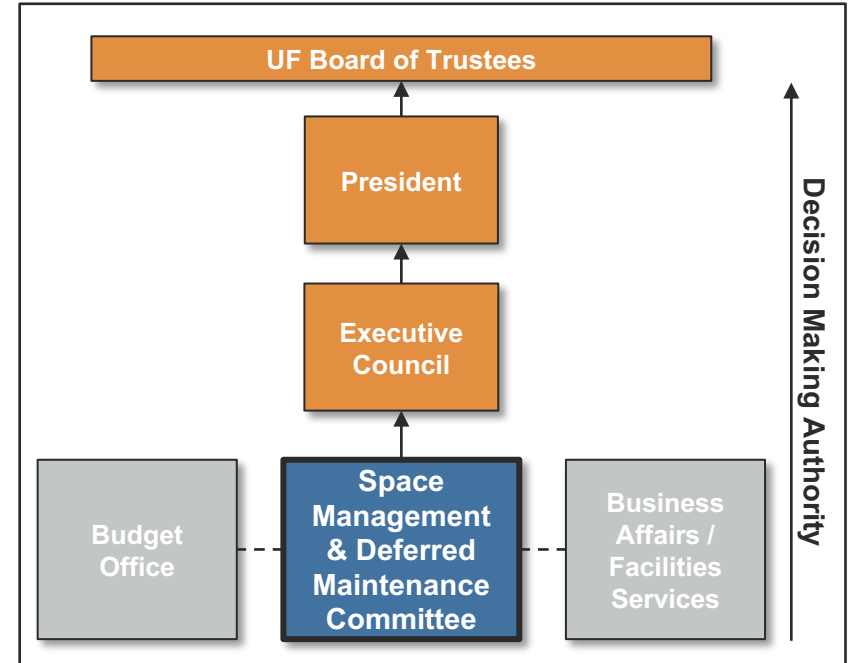
UF should establish a space management and deferred maintenance committee to act upon deferred maintenance prioritization and ensure funding sources for projects are optimally leveraged.

## Space Management Committee Responsibilities

- **Responsible for regular space utilization and space condition assessments** for the broader University
- Develop annual list of **prioritized projects** and **necessary investment for each**
- **Recommend appropriate funding levels** to address DM needs based on annual maintenance target and elevate recommendations to Executive Council

## Suggested Membership

Associate Provost for Academic & Faculty Affairs	AVP of Facilities Services
Director, University Budgets	AVP of PD&C
AVP, Financial Analysis & Budget	AD of Budget & Finance (Business Affairs)



## Innovative Long-Term Options

Should UF seek to be at the leading edge of industry change, the below solutions can help address deferred maintenance backlogs, but successful implementation is more difficult.

Innovative Solution	Considerations
Transition certain job functions to remote, consolidate on campus workspace, and <b>decommission underutilized buildings</b>	<ul style="list-style-type: none"> <li>• Remote work requires different, but real expenses</li> <li>• Significant physical relocation of employees will be required to realize any sizable impact to DM backlog</li> <li>• Decommissioning buildings requires up front costs and navigating the sale of state funded buildings will be tedious</li> </ul>
<b>Invest in a sustainable utility producing plant</b> (e.g., wind/solar) and equipment to generate commodities which can be resold externally with proceeds earmarked for facility renewals	<ul style="list-style-type: none"> <li>• Operational skillsets may not exist at UF currently</li> <li>• State restrictions and local zoning rules may impact UF's ability to pursue this as a revenue generating mechanism</li> <li>• Significant upfront investment is required</li> </ul>
Establish agreement to <b>leverage the hospital's ability to issue debt</b> to fund deferred maintenance needs	<ul style="list-style-type: none"> <li>• Given low interest rates, UF needs to calculate if exchanging maintenance deferrals for interest payments provides a financial benefit in the long term</li> </ul>

**Despite tackling deferred maintenance funding limitations head on, the above solutions will require extensive change management to gather buy in and may be unrealistic in the short term.**

# 4

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## Implementation Roadmap





## Benefits of Successful Implementation

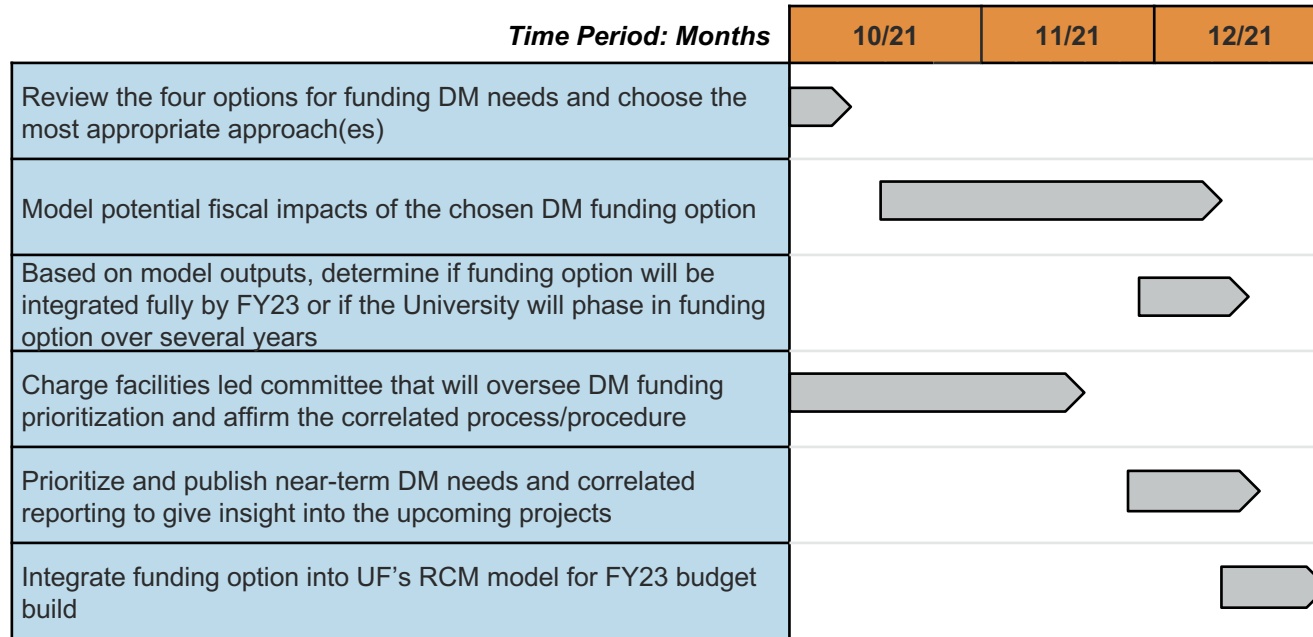
Through successfully adopting an institutional strategy to address deferred maintenance needs, UF can expect to see the follow outcomes.

	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment/Mode I Mechanics	<b>Agreed upon</b> , pro-active <b>practice</b> to <b>consistently address</b> and <b>fund</b> ongoing <b>deferred maintenance needs</b> across campus	Supplies facilities with a consistent, reliable, and predictable source of funding to address University deferred maintenance needs which in turn reduces the long-term operational risk from occupying and using buildings with high DM needs
Model Mgmt./Effective Reporting	Formalized <b>governance structure</b> to <b>lead</b> the <b>prioritization</b> and <b>funding</b> of <b>deferred maintenance needs</b> in tandem with <b>strong reporting</b> to <b>understand magnitude</b> of deferred maintenance	Leverages subject matter experts to dictate where and when funding should be applied to DM needs and gives University stakeholders transparency into DM investments and the time horizon to complete outstanding projects

**Huron has outlined implementation infrastructure needs and a roadmap for UF to follow to better position itself to address deferred maintenance needs in the long term.**

## Implementation Timeline: Deferred Maintenance Strategy

Huron recommends UF start the implementation of this case in the Fall to ensure a new strategy is in place prior to the FY23 budget build.

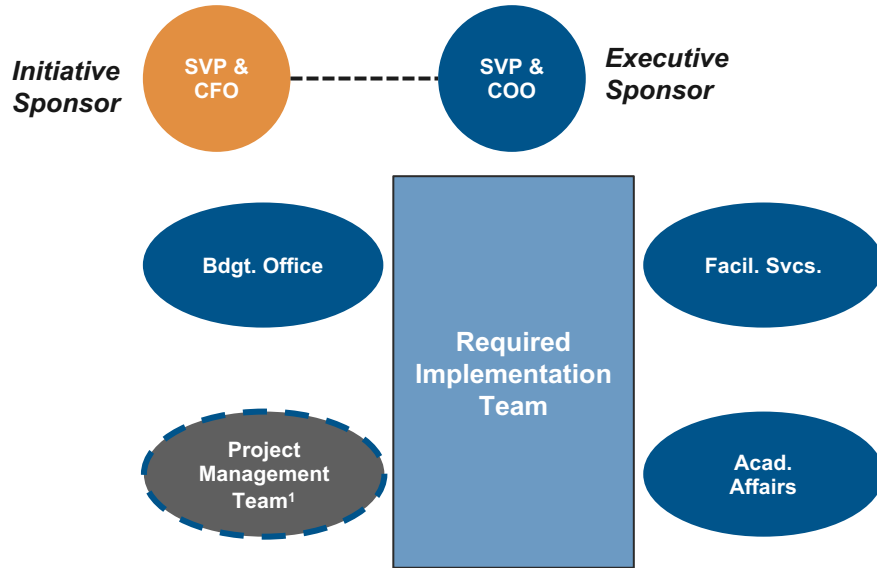


### Key Considerations:

- Funds needed for DM will be a tangible, high-cost commitment with real implications to the operating models of most units – extensive change management will be needed
- With increased transparency, local units may put more pressure on facilities to address long-known DM demands
- An influx of new funding for DM needs means that facilities services will need to plan for additional workload to address maintenance needs

# Implementation Team: Deferred Maintenance Strategy

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case is led by the SVP & COO given the position's responsibility over facilities and deferred maintenance management
- It is key to include representation from academic units and facilities to ensure stakeholders are aware of any potential changes to the University Budget Model's funding methodology
- Facilities services will ultimately lead much of the effort of this business case to ensure they can design an effective solution execute on the future state process

1. While not required, Huron can assist this effort by coordinating University-wide progress, taking on workload, drafting communications, and ultimately expediting the implementation process.

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## Appendix



## Select Detailed Stakeholder Input on Deferred Maintenance

Huron heard numerous references to the growing deferred maintenance backlog at UF, with a few of the most impactful paraphrased below.

The variety of individuals, outside of the facilities realm, involved in DM conversations makes it hard to have targeted conversations around priorities

We know legitimate DM needs exist across all colleges, but the numbers are so drastic they are perceived as unachievable

UF do not have a pool of money we can rely on annually for DM needs

Run rate for ongoing DM backlog is growing because of our suboptimal investment levels

Our annual investments is far below the targeted amount needed to just stop the bleeding

Recent changes to PO&M funding from the state has pushed additional DM accountability to the institutions when funding was already scarce

General maintenance costs infrastructure past its useful life is often the financial responsibility of the unit and is more expensive. A sufficient DM fund may be more cost efficient.



# Business Case: **General Funds Supplement**

# Contents

1. Overview of General Funds Supplement
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

# 1

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## Current State of General Funds Supplement





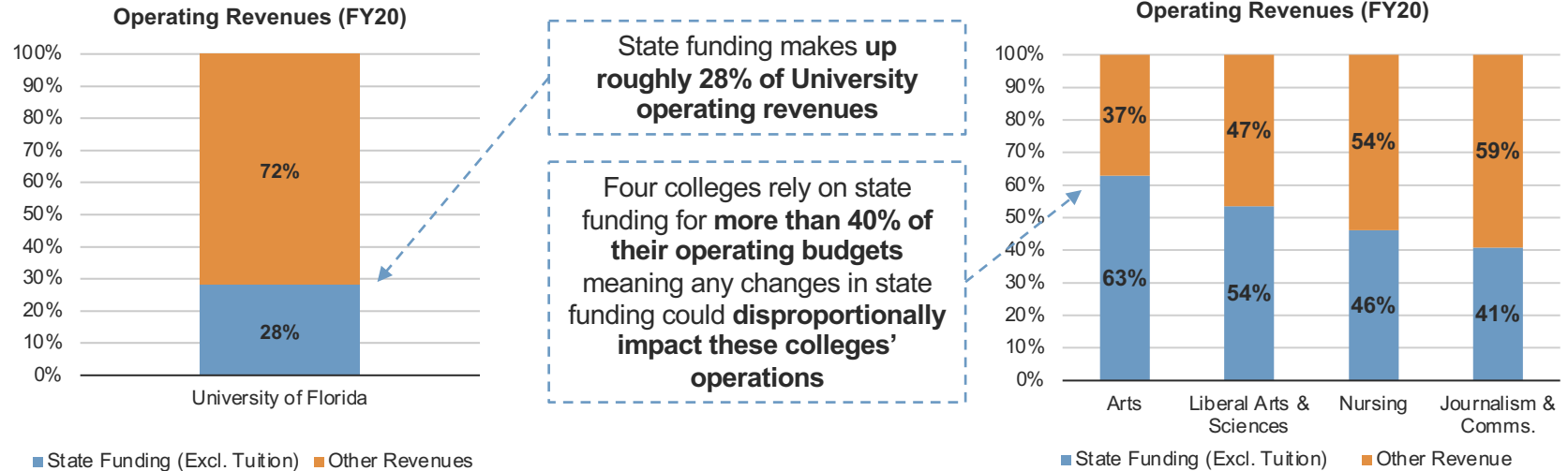
## General Funds Supplement (GFS): Current State Summary

The GFS was originally designed as a mechanism to hold units harmless upon implementation of the model in 2011 but has not been reevaluated for appropriateness since its inception.

Current State	Explanation of Problem / Case For Change
The General Funds Supplement is partially <b>based in historical subvention need</b> plus or minus any incremental changes to state appropriations and other Provost commitments since 2011	Operating environments have changed in the last decade and subsidization levels may no longer be appropriate or optimal
Responsibility centers have <b>limited ability to influence their allocation</b> despite state appropriations representing 66% of University RCM resources	Not having incentives for state appropriation (GFS) allocations blunts the overall impact on the model to spur unit-level behavior in a manner that helps UF achieve its strategic goals
Over the last seven years, <b>GFS funding has grown at a faster rate than tuition revenues but still lags expense growth</b>	GFS is critical to support cost of instruction and academic support activities that tuition revenues alone do not fully fund
<b>Restructuring the allocation methodology of the GFS reduces the incremental nature of the current model and could expand incentive structures to all fund types and encourage behaviors aligned with UF priorities.</b>	

## Limited Incentives for the General Funds Supplement

Funding from the state of Florida makes up a significant portion of operating funds, yet limited incentives exists for these funds. The total state appropriations received from the state in FY20 was \$788 M.



**State appropriations are a common funding source institutions with incentive-based budget models use to encourage growth or strategic priorities.**

## Historic Subvention Levels with Incremental Changes

The GFS was originally intended to make college budgets whole. While the GFS has increased funding predictability at the unit-level, the current distribution approach locks up a large amount of dollars.

### General Funds Supplement Distributions

The core amount of **GFS each college receives has not been reevaluated or recalculated since 2011** when it was instituted as a hold harmless mechanism

**Increases in GFS (state appropriation) – are distributed to units based on President, Provost, and SVP discretion**

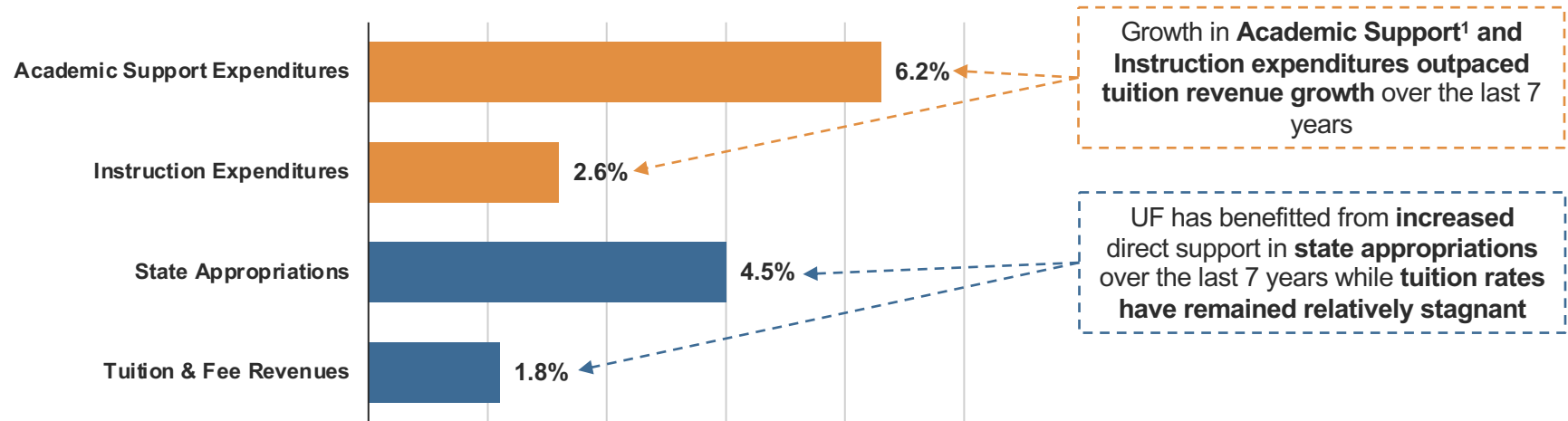
FY19 General Fund Supplement	FY19 General Fund Supplement					FY20 General Fund Supplement	FY20 General Fund Supplement					
	FY19 Recurring Legislative Specials (O)	FY18 College Faculty and Staff Raises (P)	FY19 Provost Funding (Q)	FY18 Market Equity (R)	FY19 Graduate Stipend Increase (S)		FY20 Recurring Legislative Specials (U)	FY20 Provost Funding (V)	FY20 Graduate Stipend Increase (W)	Faculty Promotion	FY19 Min Wage	FY19 GA Salary Increase
Total						Total						
14,403,170		494,294	-	590,981	133,785	15,622,230		-	133,785	8,262		45,204
6,917,881		405,110	32,009	85,358	18,470	7,458,828		-	18,470	38,718		10,438
79,135,173		3,440,760	(130,084)	2,558,841	423,080	85,427,770		544,171	423,080	293,599	798	245,456
8,427,946		909,331	-	114,660	50,000	9,501,937		-	50,000	83,800		12,384
9,121,756		605,112	(64,596)	103,067	168,160	9,933,499	(200,000)	-	168,160	10,451		20,629
50,960,341		2,302,370	-	790,292	632,000	54,685,003		13,655	632,000	178,065		69,107
7,147,198		389,863	-	70,326	148,680	7,756,067		68,111	148,680	3,746		14,009
8,930,218		636,763	1,000,000	-	-	10,566,981		-	-	17,713	1,953	1,575
5,521,295		377,533	-	113,169	44,960	6,056,957		-	44,960	10,234		15,778
21,640,779		835,895	-	-	-	22,476,674		-	-	88,160	3,115	7,056
64,625,860		1,883,761	-	-	-	66,509,621		-	-	106,175		17,989
5,856,123		271,863	-	-	-	6,127,986		-	-	-		877

The current General Funds Supplement created in 2011 fails to incorporate programmatic shifts or changes in cost structures over the last decade.

## State Funding and Expenditure Trends

Tuition rate freezes have restricted UF's ability to leverage tuition and fees as a source of revenue growth to help sustain academic or mission-critical operations.

### Seven Year Compound Annual Growth Rate (FY14 to FY20)



**As academic support and instructional costs continue to outpace tuition revenue growth, other sources of revenue, including appropriations, will need to be increasingly leveraged as a subsidy to academic operations.**

Sources: UF Audited Financial Statements

1. Funds expended primarily to provide support services for the institution's primary missions (instruction, research, and public service) including: (1) the retention, preservation, and display of educational materials (e.g., libraries, museums and galleries); (2) the provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education; (3) media such as audiovisual services and technology such as computing support; (4) academic administration (including academic deans but not department chairmen) and personnel development providing administrative support and management direction to the three primary missions; and (5) separately budgeted support for course and curriculum development.

# 2

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## Risk Assessment



## Industry Challenges and Risks of UF Inaction

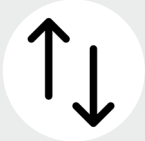




The current approach to allocating GFS is static, restructuring the allocation methodology will create additional focus areas for investment while retaining some funding for central flexibility.

Relevant Industry Challenges / Headwinds	How Industry Challenges May Be Exacerbated for UF
State support for Higher Education is <b>unpredictable</b> and by themselves, insufficient to fully support operations	Uncertain future state funding levels places additional pressure on other revenue streams and for UF some of those options are limited (e.g., tuition)
State legislatures and other external stakeholders are <b>increasingly placing more scrutiny on appropriation allocations</b> to public universities	Larger distributions of state funding are being restricted for specific uses in the state of Florida
Administrative <b>operating costs are increasing</b> with inappropriate means to control future growth coupled with limited direct funding to support these costs	While state funding is robust in Florida, increased competition from other institutions for appropriated dollars may inhibit UF's ability to rely on GFS for college-level operations

**Establishing clear incentives for the General Funds Supplement can restructure state appropriation allocations and direct funds towards units that have aligned operations to the broader University mission.**

## Risks of Action and Mitigation Approach

While the recommendation is for the General Funds Supplement to be more effectively leveraged to incentivize high priority activities, UF should be aware of three potential risks of implementation.

			
	<b>Rebased GFS Levels</b>	<b>Changing in Priorities</b>	<b>Reduced Overhead Support</b>
<b>Risk</b> 	Recalculating subvention needs via a more formulaic allocation methodology will result in changing operating margins for select units	Directly linking the GFS to unit performance may result in incentives that don't fully align with college specific goals but should, however, align to University priorities	Distributing a larger portion of the GFS to colleges will leave support units unfunded assuming there isn't a backup mechanism to provide the funding ( <i>reference overhead allocations business case</i> )
<b>Mitigation Approach</b> 	A hold harmless period can allow units to understand how changes will impact operations without immediate penalty, strategic funds may be leveraged as well in the short term to mitigate impact	Ensure a portion of the GFS remains at the discretion of executive leadership to fill unintended gaps via a subvention mechanism	Implement the GFS recommendations in tandem with the overhead assessment recommendations to understand net changes and implications

**UF should calculate the net affect of changes across multiple implementation recommendations and leverage discretionary dollars to smooth out drastic variations in the short term to support stabilization.**

# 3

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## Solution Design and Alignment to Framework





# Solution Design & Enhancement Recommendation Summary

## General Funds Supplement Executive Summary

### Alignment to Strategy

**Establish optimal level of GFS uses** among subvention funding, incentive-based funding, and the level of central authority over GFS distributions

### Effective Model Mechanics

Reappropriate GFS using agreed upon allocation methodologies and levels

### All Funds Integration

Leverage the GFS in a manner that **reduces the need for colleges to rely on off-book program revenues to subsidize education related activities**

### Reliable Reporting

Create a **cross-walk of pre and post GFS funding levels** - new funding levels should be **backed** by **activity data** to increase transparency. **Communicate calculations** behind incentive-based distributions annually

### Model Management

Ensure UF's model is transparent and **aligns with state intended uses** of the GFS by creating ongoing summaries of the **sources and uses of the GFS**

# Confirm Appropriate Uses of the General Fund Supplement

The University's allocation of the GFS is largely based on historical precedent and under central control; adding incentive-based aspects to the RCM model can promote entrepreneurialism at the unit-level.

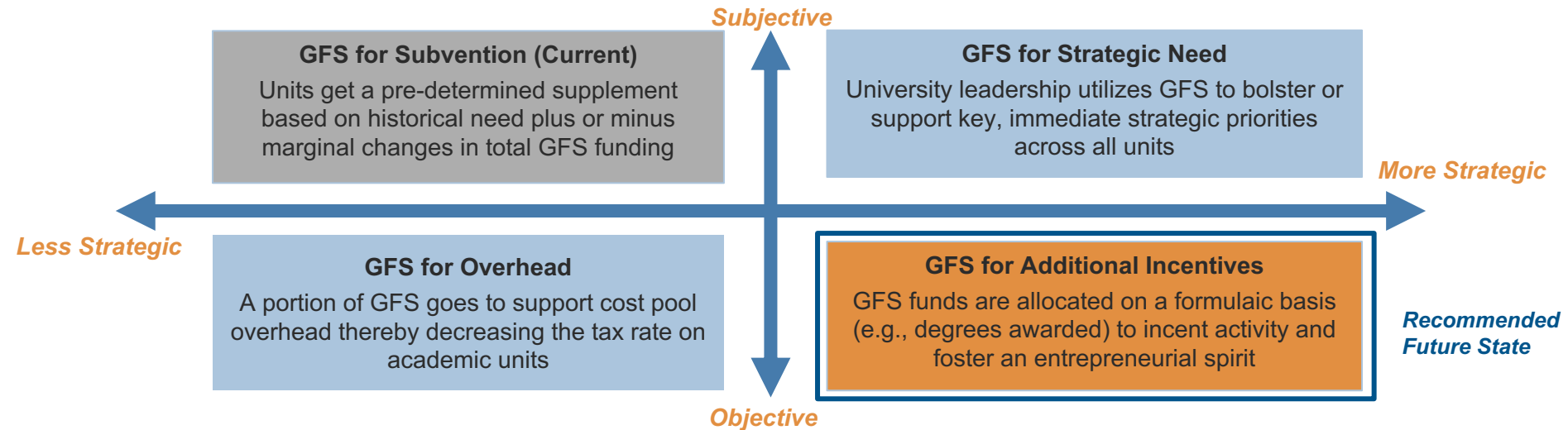
Tactics of Solution Design	Explanation of Alignment To Framework
Determine <b>portion of GFS to distribute objectively</b> via activity metrics <b>vs.</b> more <b>subjectively</b> based on leadership direction	Adjusts the University's resource allocation methodology to fit University priorities and gives leadership authority where appropriate
<b>Re-base subvention amounts</b> to initially reflect current differences in the cost to educate and operate different programs/colleges	Develops improved accuracy in GFS allocations and identifies necessary subsidization of mission-critical programs

**Modern, public incentive-based models often utilize state support as another way to incent certain dynamic behavior across the enterprise.**

# Confirm Appropriate Uses of the General Fund Supplement

UF will first need to confirm the appropriate approach for allocating the GFS to different University units via one or a combination of the options outlined below.

## Potential Uses of the GFS



By shifting the uses of the GFS from a historical, static approach to a more forward-looking mindset, the University could incent new behaviors that could further advance UF's mission.

# Modify Allocation Methodology

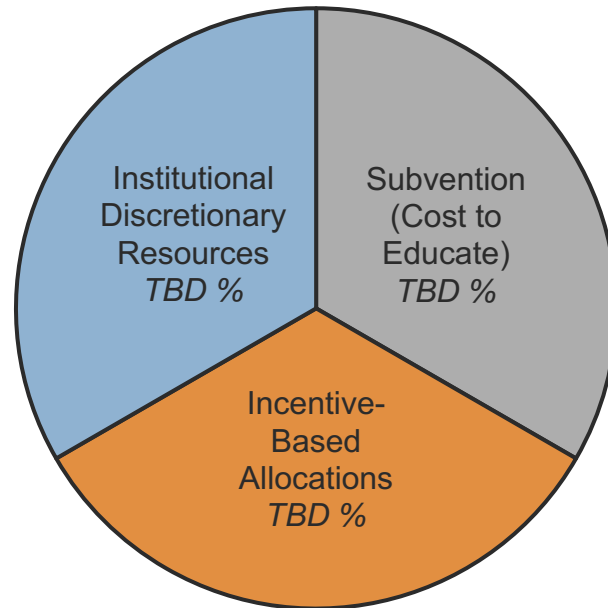
The University should adjust its allocation methodology to reflect a more current understanding of college specific subvention needs and to provide clearer incentives for colleges to access these funds.

Tactics of Solution Design	Alignment Explanation
<b>Recalculate college-level margins</b> to inform more current subvention needs	Roots the University's GFS allocations in a more current state of operations
<i>Option A:</i> Devote a specified percentage of the GFS to subvention need, but give <b>executive leadership authority</b> over the remaining portion to support immediate priorities	Gives executive leadership increased ability to fund near-term institutional priorities while minimizing financial risk at the unit-level
<i>Option B:</i> Devote a specified percentage of the GFS to subvention while <b>incorporating a formulaic methodology</b> to allocate funds based on select drivers	Establishes objective financial incentives that supports alignment to and execution of the University's strategic goals

# Modify Allocation Methodology – Define Approach

UF should leverage a mix of different allocation methodologies. Potential approaches include devoting a (to be quantified) portion to unit subvention, creating incentive-based objectives, and additional strategic funding.

## Illustrative GFS Utilization<sup>1</sup>



### Proportional Weighting

**UF leadership should determine the proportion of General Funds Supplement to be distributed to units based on three common allocation methodologies outline to the left.**

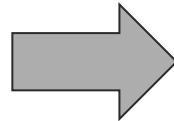
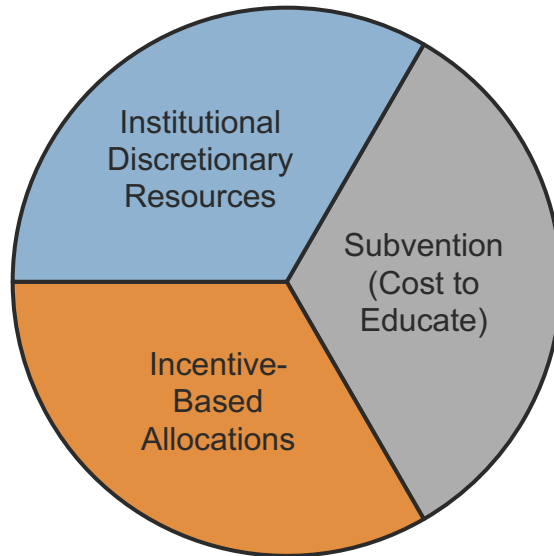
*Note: not all 3 approaches need to be used in a future state*

1. Proportional representations are illustrative. Analysis and guidance needed to determine appropriate levels for each category.

# Modify Allocation Methodology – Subvention

The GFS allocation was originally intended to be a subvention mechanism in the University's initial model, though transparency of this allocation has eroded over time as UF has continued to evolve.

## Illustrative GFS Utilization

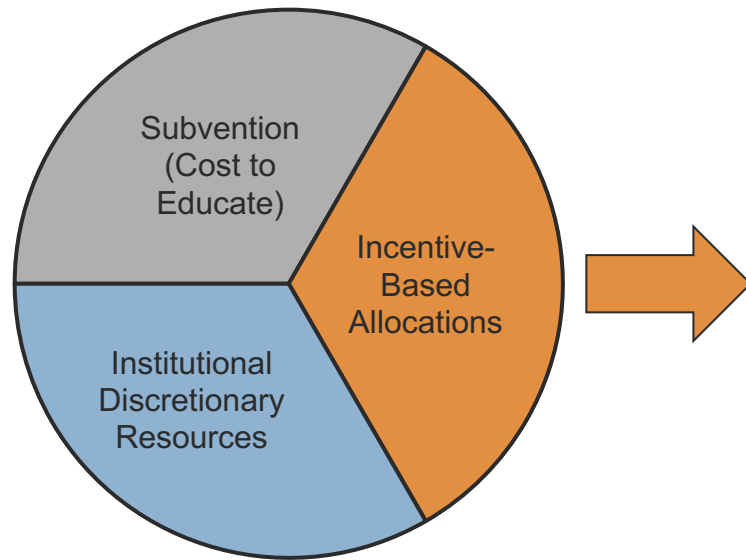


Illustrative Subvention (Cost to Educate) Calculations for GFS	
Calculation Methodology	Potential Benefit
Cost per credit hour	Credit hour granularity provides the most accurate costs across various programs and colleges
Functional expense classifications	Instructional and Academic Support expenditures serve as a proxy to cost to educate
Historic GFS as a % of total expenses	Historic allocations will reduce large fluctuations that are difficult to manage in the short term

# Modify Allocation Methodology – Incentive-Based Allocations

The University should consider creating an incentive-based allocation strategy for a portion of the GFS while potentially maintaining a determined level discretionary and subvention funding.

## Illustrative GFS Utilization



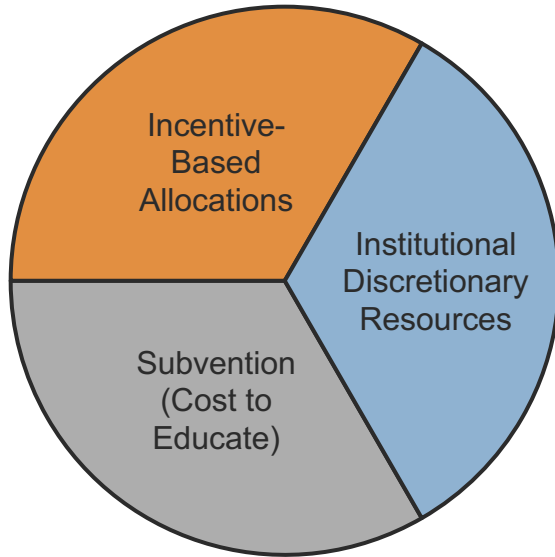
Illustrative Incentive-Based Uses for GFS <sup>1</sup>		
Mission Category	Example Allocation Metric	Potential Benefit
Research Enterprise	Research Revenue	Incentivizes research productivity in pursuit of becoming a top-5 comprehensive institution
Student Progression/Retention	Total Six-Year Graduation Rate / Degrees awarded	Aligns UF incentives with Board of Trustees/Governors statewide priorities
Curriculum Delivery	Percentage of degrees awarded within STEM fields	Devotes resources to high-growth programs and system-wide priorities established by the BOG

1. The university should utilize 3-5 metrics within its incentive-based allocation methodology that align with both state and UF priorities © 2021 Huron Consulting Group Inc. and affiliates.

# Modify Allocation Methodology – Discretionary Resources

UF could leverage a portion of the general funds supplement as a discretionary pool to direct resources toward strategic initiatives that benefit University units.

## Illustrative GFS Utilization



Illustrative Discretionary Uses for GFS	
Distribution Methodology	Potential Benefit
Request to Leadership <sup>1</sup>	Requests and funding approvals should align with both unit and UF strategic goals and should follow a similar process to other strategic funding allocations

1. Request processes should follow recommendations included in the Strategic Funding Transparency Business Case for more detail on how to operationalize



# Optimize Uses of State Funds

The GFS is already incorporated into UF's RCM model; however, to provide additional clarity around total leverageable funds, UF should give colleges more tangible access to state resources.

Tactics of Solution Design	Alignment Explanation
Recalibrating the subsidy allocated to cover academic deficits via the General Funds Supplement	Provides additional guidance around how the University is activity supporting college-level operations
Create a portion of the GFS for an <b>incentive-based pool of funds</b> allocated on an activity-level metrics to align with <b>UF goals</b>	Increases unit-level access and control over unrestricted funds providing additional flexibility

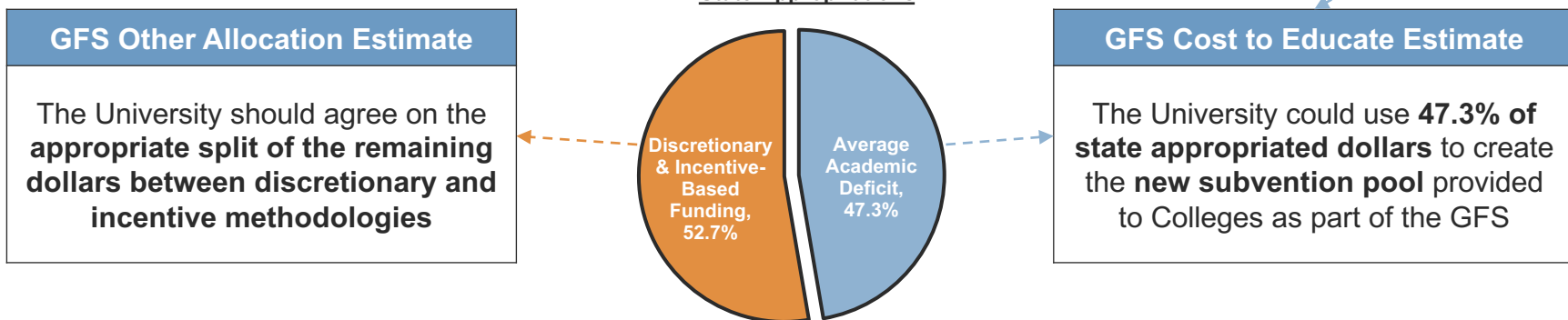
**Giving unit leaders more influence over the allocation of unrestricted funds provides more flexibility to advance local priorities.**

# Optimize Uses of State Funds

Estimating the amount of funding needed to supplement the University's educational mission can serve as a proxy for the percentage of the GFS that should be allocated to covering academic expenses.

	Gross Tuition & Fee Revenue	Instruction Expenses	Academic Support Expenses	Academic Deficit	State Appropriations	Academic Deficit % of State Appropriations
FY18 <sup>1</sup>	\$603.9 M	\$734.6 M	\$185.9 M	\$344.4 M	\$766.1 M	45.0%
FY19 <sup>1</sup>	\$599.7 M	\$770.5 M	\$213.7 M	\$393.5 M	\$790.4 M	49.8%
FY20 <sup>1</sup>	\$667.3 M	\$799.0 M	\$239.6 M	\$371.3 M	\$788.6 M	47.1%

FY18 – FY20 Average Academic Deficit as a % of State Appropriations



# Publish Allocation Decisions

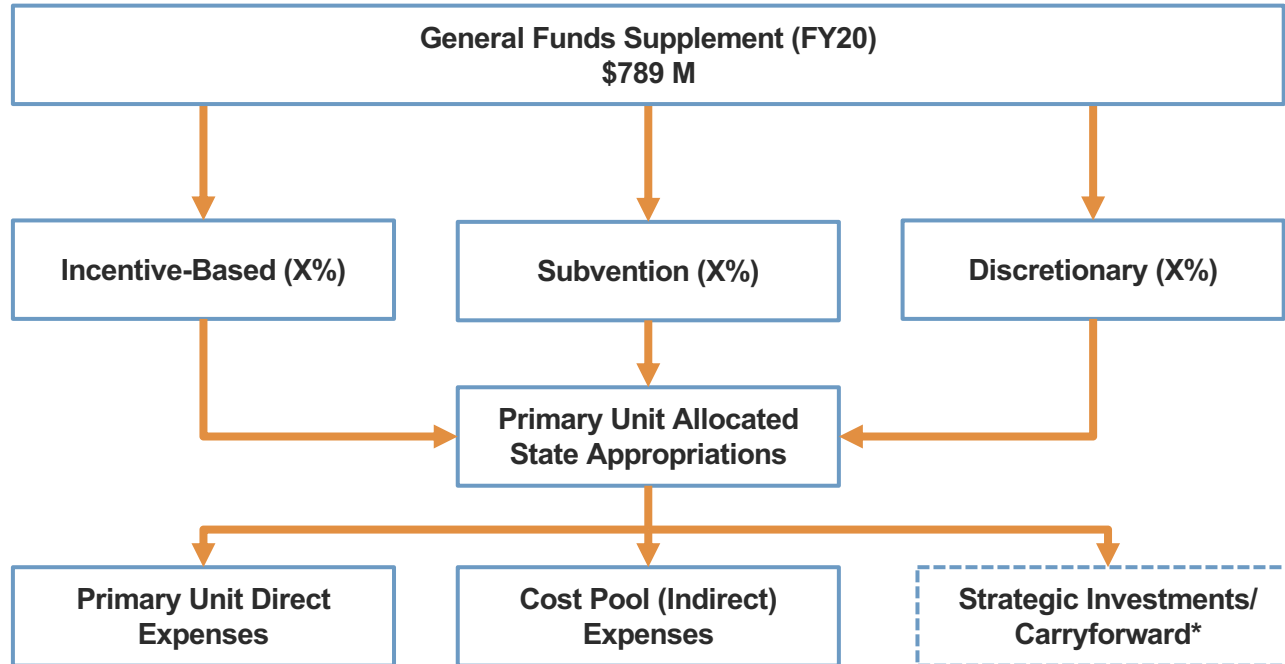
As the University shifts methodologies, UF should leverage ongoing reporting mechanisms to assist in the understanding of model changes which will help build trust across the enterprise.

Tactics of Solution Design	Alignment Explanation
<b>Develop a one-time (transition) report showcasing responsibility centers subvention changes</b>	Provides units a reference to help understand magnitude and rationale for model changes at implementation
Utilize new budget tool to develop an ongoing report detailing <b>underlying calculations and distribution methodologies</b> for General Funds Supplement as well as tuition allocations <sup>1</sup>	Displays comprehensive view of state funding distributions to Colleges and enhances discussion of appropriateness of funding levels

1. Discretionary Leadership distributions should follow reporting process outlined in the Transparency of Strategic Funding business case

# Publish Allocation Decisions

The below chart outlines a potential future state flow of the GFS. Reporting will be necessary to ensure Colleges have a good understanding of model mechanics and are able to predict future funding levels.



\*Up to 7% can be carried forward to offset future commitments.

# Correlate GFS Allocations to State & Local Priorities

Adding additional clarity by tying the University’s allocations to state and UF priorities helps address stakeholder frustrations with the current process while building a more objective process.

Tactics of Solution Design	Alignment Explanation
<b>Align Florida’s internal incentive-based distributions</b> of the GFS more closely to the <b>state’s performance-based funding model</b>	Defines a select number of metrics for UF to coalesce around that align with the state’s expectations and funding distribution methodology
<b>Correlate discretionary distributions, centrally controlled, to established university-wide priorities</b> to allow units to be eligible for more funding	Creates a OneUF approach from the ground up and gives colleges additional clarity in how funding decisions are made

## Correlate GFS Allocations to State & Local Priorities

Leveraging select metrics outlined in the State's performance funding model for GFS distributions supports a case for future increases in funding relative to other SUS institutions.

2021 Performance-Based Funding Model Final Metric Score Sheet												
Scores in black are based on Excellence. <span style="float: right;">Scores in orange are based on Improvement.</span>												
Metric	FAMU	FAU	FGCU	FIU	FL Poly	FSU	NCF	UCF	UF	UNF	USF	UWF
1	8	9	9	9	10	8	0	8	10	9	9	10
2	7	10	9	10	10	10	10	10	10	10	10	10
3	10	10	10	10	10	10	10	10	10	10	10	10
4	10	10	10	10	0	10	10	8	10	8	10	3
5	10	3	3	10	10	10	2	10	10	3	9	3
6	8	10	10	10	10	7	10	10	10	10	10	10
7	10	9	7	10	8	6	6	8	5	7	9	8
8.a	3	10	10	10		9		10	10	6	10	10
8.b					10		5					
9.a	2	4	3	5	0	5	0	1	2	4	5	5
9.b	1	4	3	3		5	1	3	5	0	3	5
9.b.1					5							
10.a	Metric 1 - Percent of Bachelor's Graduates Employed and/or Continuing their Education Further 1 Yr after Graduation											
10.b	Metric 2 - Median Average Wages of Undergraduates Employed 1 Yr after Graduation											
10.c	Metric 3 - Net Tuition & Fees per 120 Credit Hours											
10.d	Metric 4 - Four Year Graduation Rates (Full-time FTIC)											
10.e	Metric 5 - Academic Progress Rate (2nd Year Retention with GPA above 2.0)											
10.f	Metric 6 - Bachelor's Degrees Awarded in Areas of Strategic Emphasis (includes STEM)											
10.g	Metric 7 - University Access Rate (Percent of Undergraduates with a Pell Grant)											
10.h	Metric 8a - Graduate Degrees Awarded in Areas of Strategic Emphasis (includes STEM)											
10.i	Metric 8b - Freshmen in Top 10% of Graduating High School Class											
10.j	Metric 9a - Two-Year Graduation Rate for FCS Associate in Arts Transfer Student											
10.k	Metric 9b - Six-Year Graduation Rate for Students who are Awarded a Pell Grant in their First Year											
Total Score	Metric 9b1 - Academic Progress Rate, 2nd Year Retention for FTIC with a Pell-Grant											
2020 Score	Metric 10 - Board of Trustees' Choice (see detailed sheets)											

**Incorporating select metrics** (e.g., degrees awarded in areas of strategic emphasis) to incentivize mission-critical activity from a portion of the GFS is a strategy to improve UF's relative performance ranking among **State System** institutions

**Incorporating UF BOT metrics** may better align the University with the board's priorities while also strengthening future requests for increased funding at the State level

# 4

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## Implementation Roadmap



## Benefits of Successful Implementation

By addressing the transparency and lack of incentives identified through Huron's current state assessment of the General Funds Supplement, UF can expect to see the below outcomes.







	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment/ Model Mechanics	<b>Incorporates an incentive-based methodology</b> for distributing state appropriations to colleges in return for demonstrated mission advancement that aligns with State, FLBOG, UF, and/or unit priorities	Gives colleges the opportunity to influence their annual GFS distribution
Model Mgmt. / All Funds	<b>Equitable distribution</b> of state appropriations to all colleges <b>based on the current balance of unfunded academic expenses</b> enables flexibility for local investments	Ensures changes in cost to educate or programmatic shifts between colleges over the past decade are appropriately reflected in the GFS base allocation
Reporting	Enhanced management reports to <b>enable deeper understanding of unrestricted E&amp;G distribution</b> methodologies	Provides units rationale behind state appropriation distributions between subvention funding, incentive-based, and discretionary decisions

**Establishing clear methodologies and incentives for units to gain access to general funds supplement dollars helps direct local unit leader decision-making towards a consistent University-wide goal.**



## Implementation Timeline: General Funds Supplement

This business case will require extensive stakeholder engagement and needs to be implemented in tandem with the Overhead Allocations business case recommendations to enhance model alignment.

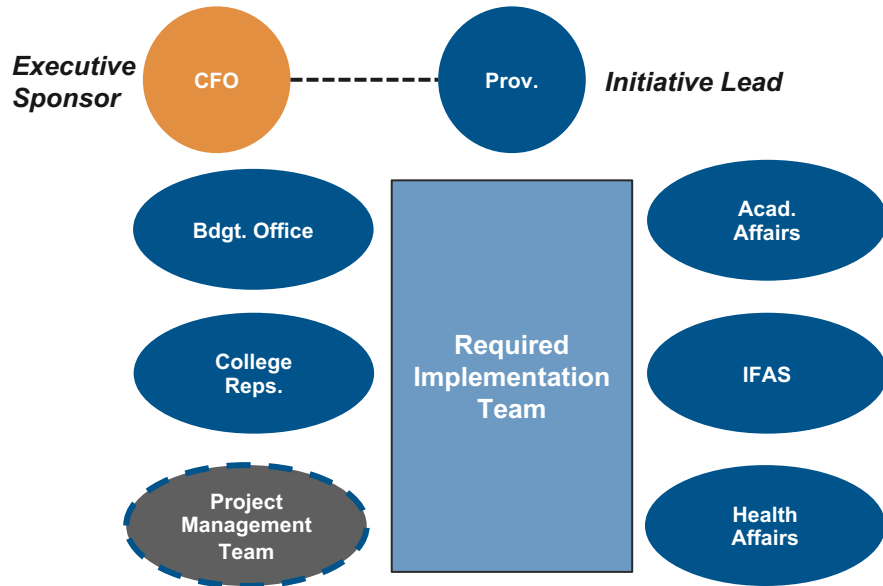
<i>Time Period: Months</i>	Oct 21	Nov 21	Dec 21	Jan 22
Identify and compile all sources and uses of the GFS in the current model				
Confirm approach for future use of GFS (e.g., for subvention, for incentives, etc.) dollars with engagement working group				
Run scenarios to test impacts of new GFS allocation strategies				
Finalize new uses of GFS fund and communicate changes to College leadership				
Determine if changes will be fully incorporated by FY23 or if a hold harmless period is needed to ease the burden of changing approaches				
Implement components of the new GFS funding approach for FY23 budget build				

### Key Considerations:

- Changing the allocation methodology for the GFS may have significant impacts to College funding levels and extensive change management will be needed to secure understanding and buy-in
- It is key to utilize the Engagement Working Group to help think through and recommend new approaches to avoid potential biases
- Any changes in funding approaches should ensure there is no legislative risk from allocating dollars in a certain manner across the University

# Implementation Team: General Funds Supplement

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case is led by the Provost given the position's responsibility for managing the academic enterprise
- Each of the main divisions where state funds are appropriated to should be actively involved to ensure everyone is aligned with the new process
- The budget office should take a proactive role in helping to compile data required to recalculate subvention needs across campus as well as activity metrics to be utilized for the incentive-based portion

# 5

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## Appendix



## Select Stakeholder Input on General Funds Supplement

Huron consistently heard that units are unclear of their ability to influence its GFS allocation and that the general methodology is historical and non-strategic. A few of the most impactful are paraphrased below.

General Funds Supplement is somewhat murky on calculation, but at least it is consistent year over year

Some of the state funding is restricted to very specific uses and is almost challenging to spend

It is unclear how historic cost to educate subsidization calculations were calculated

The metrics used in the state's performance funding model have limited basis in college specific GFS distributions

Despite the name and intent, GFS does not provide a sufficient supplement to tuition, so my college utilizes off-book revenues to cover budget gaps

Support units submit optimal budget requests which are occasionally funded via state funds

Using hard metrics for GFS distribution is not equitable for every college as some produce intangible value more than others

Dean's see less incentive in the GFS distribution because of the one-year delay in receiving funding benefit

The GFS pot is relatively fixed and thus harder for an individual college to substantially influence



# Business Case: **Overhead Allocation Structure**

# Contents

1. Overview of Overhead Allocations
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

# 1

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## Overview of Current State



## Overhead Allocations: Current State

Current overhead structures do not include all support unit costs, do not utilize a consistent assessment approach, and do not provide transparency into how funds are utilized.

Current State	Explanation of Problem / Case For Change
Overhead allocations <b>do not represent total costs of support units</b> as some support units (i.e. Libraries, Student Health Center, etc.) are not included in overhead assessments	Supplementing support unit budgets creates issues for finding additional funding for sources that get covered off the top
Over 40 <b>exceptions, different allocation methodologies</b> (current year revenues vs. historical 12-month expenses), and <b>different rates</b> on fund types/units exist	Simplifying overhead assessment structures will support a more stable and predictable model
<b>Responsibility Center (RC) units have little insight or influence</b> into how cost pool assessments are leveraged to fund support operations	Overhead structure lacks a mechanism for RC units to provide input and feedback related to support unit operations

**Transparent overhead allocation structures as well as clear detail around how funds are used across support unit activities will help build trust across units.**

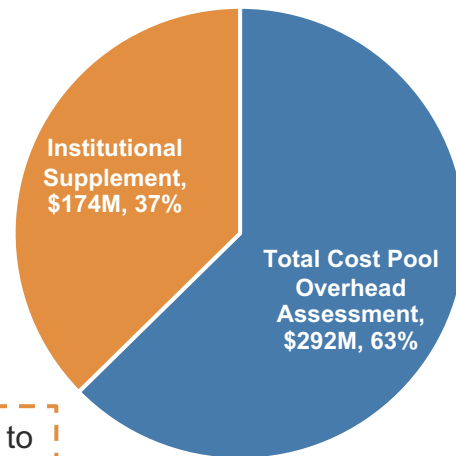


## Opaque Cost of Support Units

Current overhead assessments are not structured in a way that generates sufficient funding to cover actual cost pool needs.

Sources for Cost Pool Budgets <sup>1</sup>	Amount (FY21)
College Overhead	\$161,915,122
College Auxiliary Overhead	\$31,505,179
State Funded Center Overhead	\$14,895,159
Support Unit Overhead	\$14,287,897
Sponsored Program Admin Overhead	\$47,739,071
Other Overhead	\$21,351,286
<b>Total</b>	<b>\$291,693,714</b>

**FY21 Support Unit Expenditures (\$466M)**



Supplementing support unit budgets with state appropriations reduces the ability to use these funds to incentivize activity within the colleges

**The discrepancy between cost pool funding sources and support unit expenditures isn't abundantly clear from a responsibility center's perspective.**

1. FY21 Support Unit Funding Sources (Budget Office Report)

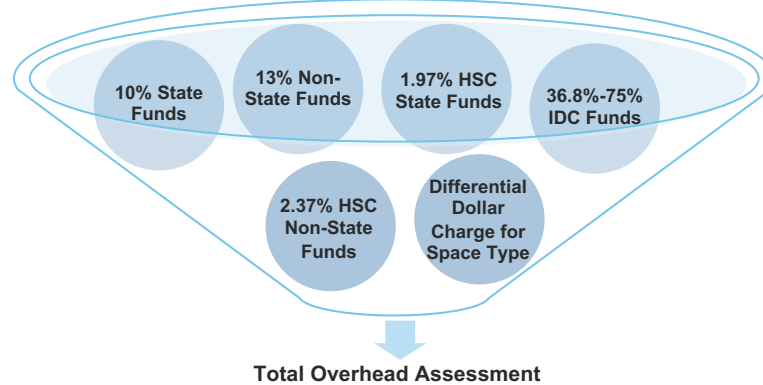
## Inconsistent Assessment Structures

The current overhead assessment structure incorporates over 40 exceptions, differentiated rates based on fund or unit, and various calculation methodologies.

### Overhead Exceptions

Overhead Exceptions	
Not all expenditures are subject to overhead assessment. Below listed the exceptions made in the HCM methodology.	
1. Construction funds, Agency funds, Welfare, Financial Aid, Scholarship, Loan (Fund 36), fund fee, Fee and UF Foundation fund are excluded from overhead assessment.	
2. Subcontract assessment, for	
3. Training grants after the funds	
4. All transfers to	
5. Internal sales	
6. Pass through to	
7. Clinical Practice	
8. 15% for IT and	
9. VHSO Program assessed at 5%	
10. Self Insurance	
11. Seed Producer based at gross	
12. PAC 121-A XXX	
13. Veterinary Med	
14. OSU-UF Found	
15. Research & Dev	
16. Depreciation	
17. Beneficiary	
18. OSU-UF Found	
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### Assessment Rates



### Calculation Methodologies

Metrics
Current Year Revenues
Historic 12-Month Expenses
Square Footage
IDC Returns

The complexity of current overhead structures requires significant effort for units to reconcile charges and limits a unit's ability to forecast overhead assessments long-term.

## Limited Transparency into Assessment Utilization

Apart from aggregate cost pool charges, units have limited insight into how their contributions are being used across the administrative enterprise.

FY 2020-21 RCM Revenues and Costs Allocation	
<b>Overhead To State Revenue</b>	
1 IT and General Admin 2	75,896,961
HSC Admin Overhead	4,592,755
Facility Overhead 3	81,425,406
<b>Total Overhead on State Revenue</b>	<b>161,915,122</b>
<b>Overhead To Other Resources</b>	
Info Technology and General Admin	18,749,325
HSC Admin	11,447,178
Facility	1,308,676
<b>Total Overhead on Other Resources</b>	<b>31,505,178</b>

- 1 Based on budget control reports provided to colleges, understanding how the General Admin cost pool assessment flows to support units is difficult
- 2 The IT assessment lacks clarity and leads to confusion over the optimal service delivery approach between UF IT, UF Health IT, and local unit IT resources
- 3 Unchanged assessment rates paired with increasing costs of operations may result in unsatisfactory support unit service levels

**Without sufficient detail into how assessments are distributed and utilized for various support unit operations, trust between University support units and colleges is difficult to build and/or sustain.**

# 2

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## Risk Assessment



## Industry Challenges and Risks of UF Inaction

Should UF choose not to re-evaluate its overhead allocation structures, its ability to achieve efficient support unit operations and direct discretionary dollars toward priorities will be hampered.

Relevant Industry Challenges / Headwinds	How Industry Challenges May Be Exacerbated for UF
<b>Critical operational costs</b> (i.e. IT security, student health, deferred maintenance, etc.) more prevalent in the last decade are further constraining university resources	Limited direct state support and restrictions on tuition rate increases limits UF's options to generate more revenues to offset these expenses
Rapid expenditure growth relative to revenue growth <b>heightens the need to tighten administrative expenses</b> to spare mission-critical operations	Undocumented uses of overhead assessments makes efficiency initiatives more difficult to successfully conduct as there is little awareness around appropriate funding levels for Support Units
<b>Underfunding support units can have reputation risks</b> on the higher education experience	Complex funding structures limit supporting operations from evolving with UF's needs and market realities potentially hindering One UF priorities



**Simple and transparent overhead allocation structures will help build understanding and trust between units.**

## Risks of Action and Mitigation Approach

While simplifying overhead assessment structures will support a more predictable model for units, UF should be aware of three potential risks of implementation.



### Increased Overhead Assessments

Ensuring cost pools are inclusive of all support units will increase assessments allocated to RC units

GFS and other discretionary dollars currently subsidizing support units should be redirected to RC Units to mitigate significant impacts<sup>1</sup>



### Heightened Support Unit Scrutiny

Transparent and comprehensive support unit costs to RC units will intensify dialogue around administrative efficiency

Support units should be required to undergo zero-based budgeting or other efficiency assessments regularly to ensure mission-based resource needs are prioritized



### Increased Demand for Support

Higher assessment rates may result in more requests for institutional funding support

The majority of funding tied to mission-activities should be allocated to colleges to allow colleges to control their destiny without overwhelming the funding request processes<sup>1</sup>

**Despite no change in the aggregate level of administrative expenditures, achieving a more simplified overhead structure may result in changes in unit specific assessments.**

1. See General Funds Supplement business case recommendations for additional detail

# 3

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## Solution Design and Alignment to Framework



## Solution Design & Enhancement Recommendation Summary

### Recommendations to Evaluate Overhead Assessments

#### Alignment to Strategy

Calculate an appropriate ‘tax’ rate(s) levied to Responsibility Centers representing **all support unit expenditures**, including those currently funded through discretionary resources

#### Effective Model Mechanics

Adjust the University’s methodology for allocating costs and/or **consolidate the university’s current assessment structure** to aid unit-level calculation

#### All Funds Integration

Ensure services provided by RCM overhead are **not duplicated across UF**, while also providing flexibility in **fund types available** for overhead contribution

#### Reliable Reporting

Provide **greater detail around how assessments are used** and create documentation of **operational projects completed by support units** during the prior fiscal year

#### Model Management

Require a **more formal approval process** for support unit budget increases, aligned with the strategic fund request process for RC units. **Justify current overhead assessment exclusions** by fund and unit



# Incorporate All Support Unit Expenses

In the University’s model, existing tax mechanisms are not sufficient to cover total support unit operating expenses, which requires additional funding that stakeholders assume are available for strategic use.

Tactics of Solution Design	Explanation of Alignment To Framework
<b>Incorporate Library, Student Health Center, and all other support unit</b> expenditure needs into the total funds generated via an assessment	Enables more resources to be distributed to the RC units to help fund the increased assessments
<b>Calculate the total tax rate need to generate sufficient dollar amount to cover support unit expenses</b>	Provides a baseline for how well-equipped Responsibility Centers are to cover the true expenses of support units and determines level of additional funding necessary

**Ensuring assessments are sufficient and include all administrative costs allows leaders to more effectively leverage discretionary funds to achieve strategic priorities.**

# Incorporate All Support Unit Expenses

Identifying the pool of resources required to support administrative units enhances transparency of funding levels and gives responsibility centers additional input into budget development.

Support Unit Funding Sources	
College State Overhead	161,915,122
College Aux. Overhead	31,505,179
SFC Overhead	29,183,056
DSO Overhead	1,063,893
UFOonline IT/GA	1,514,158
Direct Bill Funding	1,720,210
Sponsored Project Admin (SPA) SU Funding	42,102,717
SPA Stepdown	5,636,354
Concession Funding	706,508
IFAS IT/GA	2,577,169
UFOonline SU Budget	4,414,161
Provost OOS UG Fees	25,850,575
Other Provost Funding	26,814,279
Enrollment Mgmt OOS Support	1,500,000
SFA Financial Aid	9,722,965
CFO-Gator Grad Care Program	5,136,055
CFO-Central	17,577,619
SU Raise Covered in State	15,230,251
Student Service	26,130,703
Libraries	28,344,484
Stu Serv Overhead	7,824,000
Libraries Overhead	5,945,348
PO&M to Support Unit	13,357,717
<b>Total</b>	<b>465,772,523</b>

Currently Generated from  
Overhead Assessments

**\$291.7M**

In UF's FY21 model, overhead assessments accounted for **~63% of total support unit expenditures**

Incremental Funding  
Required to Fund Support  
Unit Costs  
**\$174.0M**

Lack of coverage from standard overhead assessments results in **distributions from discretionary funding**

## Future State Recommendation

UF should **increase its tax rates to cover the incremental need (\$174.0M)** and utilize institutional discretionary resources to fund comprehensive priorities, which have the possibility to include support units.

# Simplify and Consolidate Overhead Assessments

UF has two options to better align its overhead assessments to industry best practices, which will in turn provides a mechanism to incorporate the true cost of support unit cost pools into allocations.

Tactics of Solution Design	Alignment Explanation
<u>Option A:</u> Allocate the net expenses from each cost pool to responsibility centers <b>based on other activity metrics/drivers</b> rather than imposing a tax rate on revenues or expenses	Eliminates confusion of unit-level taxable base, fund specific taxes, and reduces employee effort through a more accurate representation of what is driving costs
<u>Option B:</u> <b>Consolidate existing taxes</b> (overhead) <b>on state and non-state funds to a single tax</b>	Eliminating fund exclusions reduces ability of units to bypass the overhead assessment (i.e., through transfers) and simplifies process to refresh inputs when compared to allocating on an activity metric

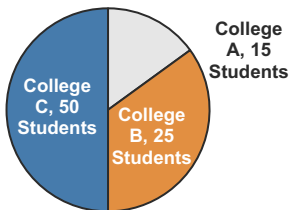
## Simplify and Consolidate Overhead Assessments

The option set below would simplify the University's overhead assessments, while building upon Huron's previous recommendation to incorporate all unit support unit expenditures

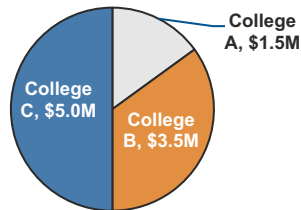
### Option A: Activity Metric Allocation

Student Affairs (Illustrative)	
Student Affairs Net Allocable Expense	\$10M
Activity Metric for Allocation	Student Headcount (100 Students)

#### Proportion of Student Headcount



#### Allocation of Student Affairs Expense



### Allocate Costs on Selected Activity Metric

Allocating support unit expenditures on an **activity level metric** establishes a simple tactic to incorporate total support unit expenditures. This will also better **align support unit costs with activities and services** provided to responsibility centers in the long run

### Option B: Streamlined Tax Rate for University Units

	College of the Arts	College of Design, Construction, and Planning	College of Liberal Arts & Sciences
Non-Operating Expenses: Overhead Allocations (State Funds)			
IT and General Admin	\$ 2,509,207	\$ 1,763,974	\$ 16,437,972
HSC Admin Overhead	\$ -	\$ -	\$ -
Facility Overhead	\$ 2,954,256	\$ 1,979,258	\$ 16,416,954
Non-Operating Expenses: Direct (Non-State Funds)			
ADMIN OH-GENERAL ADMIN	\$ 68,858	\$ 188,727	\$ 388,958
ADMIN OH-INFO TECH	\$ 37,397	\$ 101,699	\$ 209,512
ADMIN OH-HSC ADMIN	\$ -	\$ -	\$ -
ADMIN OH-SPON PROJ ADMIN	\$ -	\$ -	\$ -
ADMIN OH-FACILITIES	\$ -	\$ 180	\$ 116,137
ADMINISTRATIVE OVERHEAD	\$ -	\$ -	\$ 997,393
ADMIN OH-BOND PAYMENT	\$ -	\$ -	\$ 766,820

### Consolidate Tax Rates

UF could **consolidate overhead taxes** on state revenues and non-state expenses to create one standard tax rate. This will simplify assessments and **enhance predictability of necessary contribution at the unit level**

# Increase Assessment Payment Flexibility


Standardizing overhead assessments across all fund types as well as eliminating off-the-top holdbacks (10% of state appropriations) will provide colleges more flexibility in how assessments can be funded.

Tactics of Solution Design	Alignment Explanation
<b>Modify off-the-top state revenue overhead assessments</b> and rebase the charge colleges are assessed to paint a more accurate picture of cost	Gives responsibility centers greater clarity in total resource authority and increases flexibility of funding sources eligible to pay assessments
<b>Review funds excluded or with different assessment rates</b> and justify rationale while allowing units to pay assessments with any fund type	Results in fewer exclusions and in less effort to customize explanations of model mechanics based on fund-to-fund variability

**In the spirit of an all funds budgeting approach, simplifying the overhead structure to be consistent across all funds will increase predictability and support long term planning efforts.**

# Increase Assessment Payment Flexibility

The current assessment structure on state funds effectively holds back 10% of each colleges appropriation to pay for its assessment.

		College of the Arts	College of Design, Construction, and Planning	College of Liberal Arts & Sciences
<u>Revenues: RCM Allocations</u>				
Total In-State Tuition	\$ 5,910,523	\$ 6,601,026	\$ 56,113,297	
Total Out-of State Tuition	\$ 65,846	\$ 1,073,191	\$ 716,589	
Out of State Fee-Under Grad	\$ 2,045,032	\$ 1,587,313	\$ 22,043,307	
Total Tuition Revenue	\$ 8,021,401	\$ 9,261,531	\$ 78,873,192	
General Funds Supplement	\$ 15,809,481	\$ 7,526,454	\$ 86,934,873	
Miscellaneous Provost Allocation	\$ -	\$ 12,970	\$ 200,000	
FY21 Legislative Specials	\$ -	\$ -	\$ -	
FY20 Faculty Staff and GA Raises/FY21 GA Stipend Increases	\$ 585,176	\$ 420,477	\$ 3,734,893	
PO&M	\$ 7,250	\$ -	\$ 73,192	
Preeminence	\$ 2,322,100	\$ 2,005,617	\$ 16,462,701	
World Class Faculty	\$ 391,694	\$ -	\$ 144,180	
Total State Revenue	\$ 19,115,700	\$ 9,965,518	\$ 107,549,840	
<u>Non-Operating Expenses: Overhead Allocations (State Funds)</u>				
IT and General Admin	\$ 2,509,207	\$ 1,763,974	\$ 16,437,972	
HSC Admin Overhead	\$ -	\$ -	\$ -	
Facility Overhead	\$ 2,954,256	\$ 1,979,258	\$ 16,416,954	

Current State	Future State Recommendation
10% overhead assessment on state revenues is <b>assessed as a lump sum and taken off-the-top without colleges having authority over these funds</b>	Allocate <b>100% of allowable state funds to RC units</b> and generate amount for colleges to cover, which will <b>allow units to pay for assessments through any unrestricted fund types</b>

**Allowing colleges to utilize a variety of funding sources to pay for their overhead assessment increases local investment flexibility<sup>1</sup>.**

1. A budgeting and planning tool is critical to manage this process effectively

# Compile Detail of Overhead Distributions

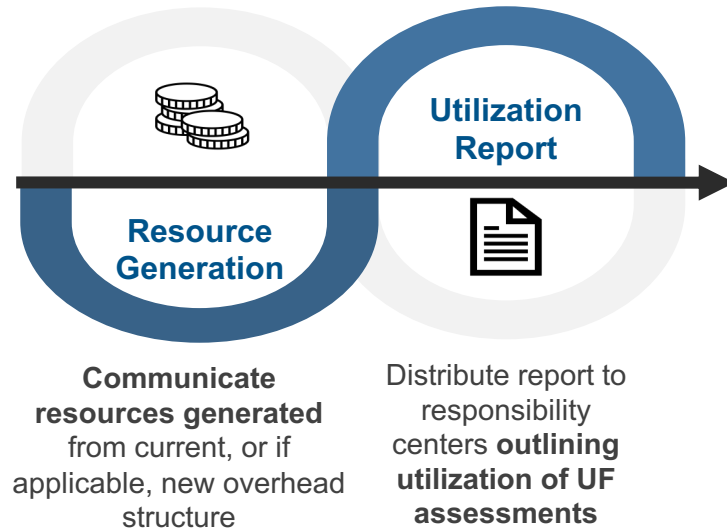
Providing a level of detail beyond aggregate cost pool amounts for how assessment dollars are spent will help rationalize some charges.

Tactics of Solution Design	Alignment Explanation
Develop report <b>outlining distribution of funds generated through different overhead assessments</b> to Responsibility Centers by support unit function	Enables RC units to accurately follow charges and determine reasonableness of funding contributions
Require each support unit to <b>develop an annual summary of operations and spending activity</b> for distribution to Deans and other RC leads	Serves as justification for assessment amounts and provides information to RC units around how support units advance collective UF missions

**Tasking the University to publish a detailed list of support unit funding levels and year-to-year adjustments facilitates greater understanding of operational need and value.**

# Compile Detail of Overhead Distributions

Communicating more granular details of overhead assessment uses facilitates dialogue around service level expectations and gives responsibility centers more input and transparency.<sup>1</sup>



Support Unit Expense Allocations			
	College X Share of Activity Metric	Support Unit/Cost Pool Expense	College X Support Unit/Cost Pool Allocation
Academic Affairs	10.0%	50,000,000	5,000,000
Academic Health Sciences Center	10.0%	-	-
Academic Support	10.0%	57,000,000	5,700,000
Administration	10.0%	4,000,000	400,000
Communications and Marketing	10.0%	11,000,000	1,100,000
Facilities	10.0%	88,000,000	8,800,000
Finance	10.0%	10,000,000	1,000,000
Compliance	10.0%	13,000,000	1,300,000
Human Resources	10.0%	7,000,000	700,000
Information Technology	10.0%	75,000,000	7,500,000
Office of Research	10.0%	55,000,000	5,500,000
President and Govt. Relations	10.0%	39,000,000	3,900,000
Public Safety	10.0%	20,000,000	2,000,000
Student Development & Enrollment Services	10.0%	60,000,000	6,000,000
University Development	10.0%	12,000,000	1,200,000
University Libraries	10.0%	15,000,000	1,500,000
<b>Total Support Unit Allocations</b>	<b>10.0%</b>	<b>\$516,000,000</b>	<b>\$ 51,600,000</b>

Developing a summary document customized for each college will help colleges gain better clarity into how unit-specific contributions are leveraged by support units.

1. UF should first start these reports at a high-level and then provide more detailed outputs once a budget and planning tool is fully implemented.



# Manage Funding Requests and Overhead Exclusions

Encouraging RC unit input into support unit funding requests ensures the administrative needs of colleges are identified in tandem with broader institutional priorities and requirements.

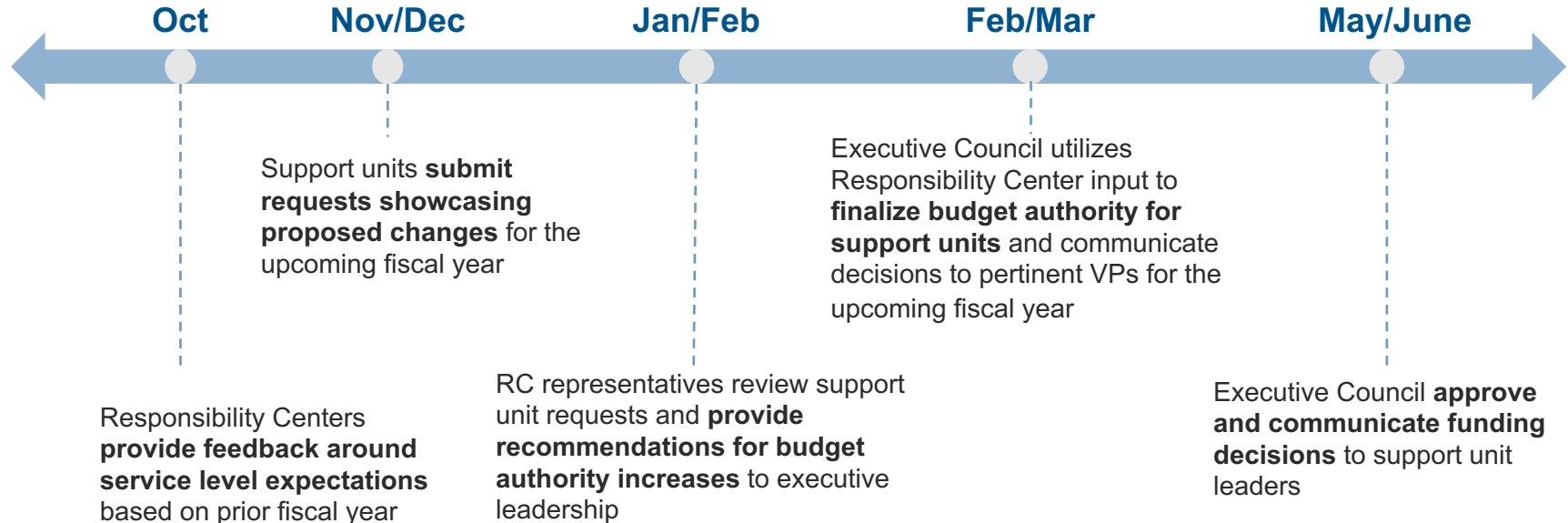
Tactics of Solution Design	Alignment Explanation
Mandate support units <b>follow standardized funding request process</b> <sup>1</sup> when requesting an increase in budget authority to be reviewed by a relevant committee composed of a broad swath of responsibility center and support unit representatives	Provides RC units a voice in funding increases for support units and prevents budget increases for support unit activities not deemed critical by colleges
<b>Review 50 departments excluded from assessments</b> to justify rationale and avoid appearance of favorability or historic agreements	Results in fewer exclusions and in less effort to customize explanations of model mechanics based on unit-to-unit variability
<b>Leveraging a standardized timeline and process for support unit funding requests will enhance expense management and help to calibrate funding across support units.</b>	

1. See Strategic Funding Transparency business case for additional process details for strategic and discretionary funding requests

# Manage Funding Requests and Overhead Exclusions

Support unit budget requests should be rooted in service expectations and align closely to the process for distributing discretionary resources.

## Illustrative Overhead Budget Development Timeline



# 4

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## Implementation Roadmap



## Benefits of Successful Implementation

By addressing the identified barriers and frustrations identified through Huron's current state assessment with recommended tactics for a more effective practice, UF can expect to see the below outcomes.


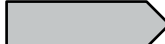




	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment/ / All Funds	<b>Improved understanding</b> of comprehensive support unit activities and costs to support UF	Increases the level of institutional discretionary dollars leveraged for strategic priorities instead of subsidizing operational costs
Effective Reporting	<b>Increased transparency</b> through more granular detail into how assessments are leveraged by support unit operations and priorities	Builds trust and accountability between RC units and support units into how assessment dollars are utilized
Model Mgmt./ Mechanics	<b>Simplified assessment structures</b> with limited exceptions and variations	Enhances RC units' ability to accurately forecast overhead expenses to promote predictability and enable long-term planning

**An optimal overhead assessment structure with feedback avenues will help facilitate a healthy partnership between colleges and support units in deciding how to best distribute scarce resources.**

# Implementation Timeline: Overhead Allocation Structure

This business case will require extensive stakeholder engagement and needs to be implemented in tandem with the General Funds Supplement business case recommendations.

## Time Period: Months

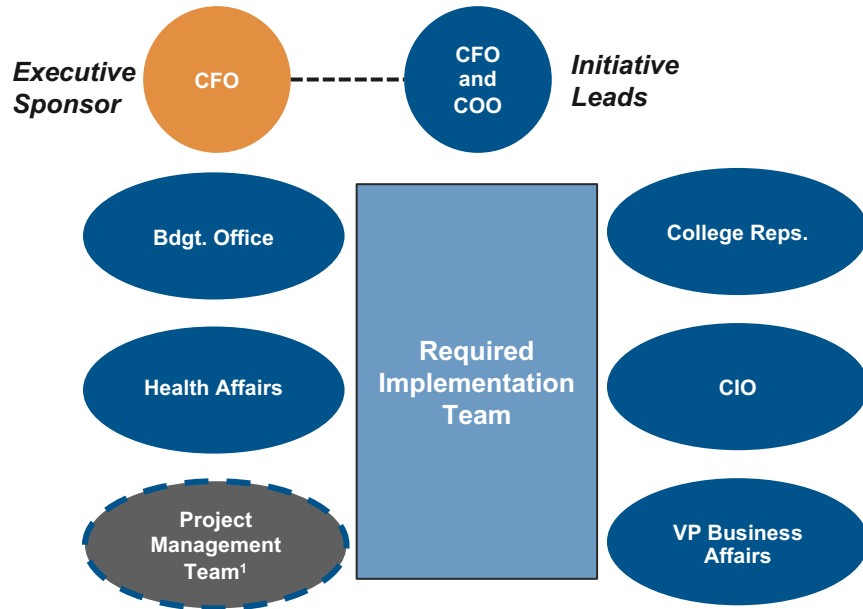
	Oct. 21	Nov. 21	Dec. 21	Jan. 22
Incorporate outcomes from the elimination of step-down costing and DM strategy into new overhead allocation design/structure				
Incorporate new support unit net expenses (e.g., libraries) into the overhead allocation structure				
Calculate new total overhead funding levels needed to support operations				
Identify and confirm appropriate approach for allocation overhead costs to primary units				
Create and publish reports relating to the sources and uses of support unit funding				
Implement overhead allocation structure for FY23 budget build				

## Key Considerations:

- Allocating the true costs of support unit operations to academic units will increase overhead costs
- The increased costs along with increased levels of transparency may put increased short-term scrutiny on support unit service levels
- Discretionary funds may need to be re-directed in the short-term to cover the increased costs that will be allocated to colleges. Eliminating the use of discretionary dollars to fund support units should allow for this

# Implementation Team: Overhead Allocation Structure

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case is led by the CFO and COO given their responsibility for managing the university budget and connection to administrative support units
- Each of the organizations with an overhead assessment should be actively involved to ensure everyone is aligned with the new process
- The budget office should take a proactive role in helping to compile the comprehensive need of support unit funding across cost pools

1. While not required, the project management team can assist this effort by coordinating University-wide progress, taking on workload, drafting communications, and ultimately expediting the implementation process.

# 5

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## Appendix



## Overhead Allocations: Detailed Stakeholder Feedback

Huron heard general confusion related to the overhead assessment structures and how these funds are utilized by support units. A few of the most impactful are paraphrased below.

A tool or report to understand what overhead assessments are supporting would help inform what local resource need exist

State overhead assessment calculation methodologies are not terribly opaque

College business officers have to manipulate multiple data sets from multiple systems to get to a comprehensive assessment view

Assessments made to colleges based on online students do not make sense given utilization of campus services

Communication between central units and the colleges has deteriorated resulting in no way for colleges to provide input on support unit services or priorities

My colleges doesn't receive support from a few admin areas, yet are contributing to their budgets

It is difficult to reconcile overhead allocation charges with the metrics used to calculate

Transparency of support unit funding needs to be paired with actionable governance or units may feel funding is inequitable

Increases in taxes are difficult to manage over one year without institutional support





# Business Case: **Strategic Funding Transparency**

# Agenda

1. Overview of Strategic Fund Transparency
2. Risk Assessment
3. Solution Design and Alignment to Framework
4. Implementation Roadmap

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## Overview of Strategic Funding Transparency



## Strategic Funding Transparency: Current State Summary

Local unit understanding of institutionally funded investments is very inconsistent, resulting in uncoordinated local unit investments.

Current State	Explanation of Problem / Case For Change
Discretionary <b>funding allocations are perceived</b> as being <b>opaque</b> , rooted in <b>historical allocations, incremental</b> in nature, and having <b>unclear alignment to UF strategic priorities</b>	Discretionary funding decisions should be tracked and shared among university leaders on an annual basis to enhance transparency of leadership decision making and to provide broader understanding of potential support available to component units who align their priorities to those of the institution
A comprehensive <b>One UF picture of discretionary, strategic dollars available and commitments made</b> against funding sources is not available	Understanding annual funding availability and multi-year strategic commitments will allow UF to leverage resources optimally when investment needs arise within any component unit
<b>No standardized process exists for</b> units to request <b>strategic funding support</b> from the institution	The absence of a standardized process results in confusion for requesting units, the appearance of inequitable funding decisions, and informal agreements that are questioned as a result of limited documentation

**While increasing transparency and standardizing the strategic allocation process will not create new resources, it will enhance coordination and provide better incentives for aligned strategic investments across the University**

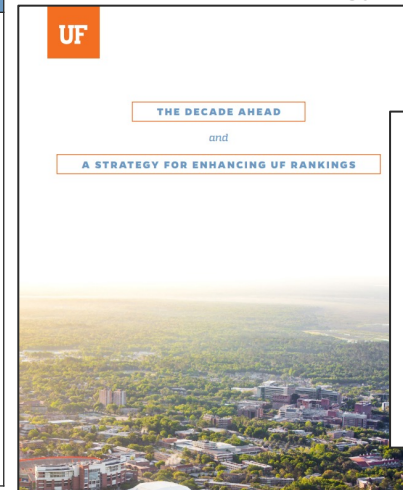
## Unclear Alignment of Resources to Strategic Priorities

Unit leaders are challenged to translate unclear institutional strategic priorities into unit level strategies and tactics to advance their operations in alignment with the broader enterprise.

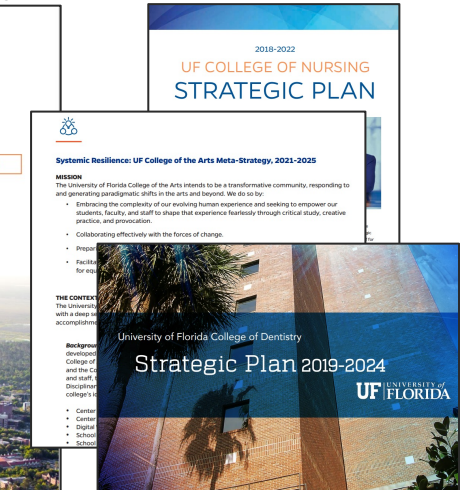
### Observations

1. Institutional **strategic resourcing decisions** to supplement unit level priorities **are not shared widely** and are viewed as limiting transparency
2. Existence of **college specific strategic plans** is **inconsistent** and **developed with limited executive leadership engagement** to ensure appropriateness with broader University goals
3. **Absence of specific strategic priorities** for the institution to coalesce around **provides limited direction** for how colleges should advance their missions to **ensure effective use of time and resources**

### UF Ranking Enhancement Strategy



### College Strategic Plans



The current model and approach to strategic funding results in isolated college investments and disincentivizes interdisciplinary coordination due to lack of institutional subsidization.

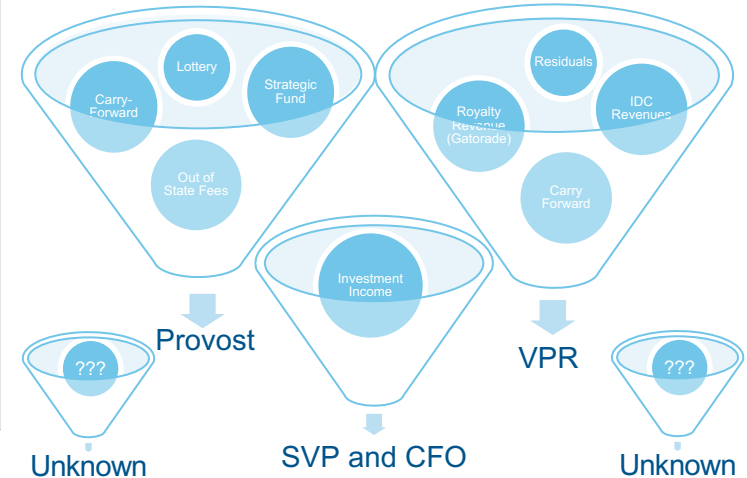
## Limited One UF Perspective of Committable Funds

Understanding the totality of discretionary dollars available to UF is challenging because of the decentralized nature of these funds and absence of a coordinated effort to aggregate funding sources.

### Observations

1. Within the current RCM model view, **numerous funding sources are leveraged** for commitments with **no clear rationale for which funds should be leveraged for various types of investments** (e.g., student fees, investment income, IDC returns)
2. Outside of the RCM model view, **additional discretionary dollars likely exist**, yet **are less visible to collective executive leadership** potentially resulting in **suboptimal investment decisions** and unnecessary allocation to units with local resources
3. **Holistic visibility of available committable funds may allow added flexibility** and discretion for both local and University-wide leaders when making funding decisions

### Sources and Authority of Strategic Commitment Funds



**Absent a One UF perspective into committable funds, significant manual reporting to support coordination is required by executive leadership to ensure strategic dollars are leveraged optimally.**

## Limited One UF Perspective of Pledged Commitments

While delegating investment authority to multiple units can aide in managing the volume of annual requests, the types of investments supported by each unit is unclear and potentially duplicative.

### Observations

1. Three core units have **separate authority over discretionary funding**: Provost, VPR, and CFO
2. There is **no guidance or parameters** for what types of commitments should be requested or **made from each funding pool, preventing optimal investment strategies** (e.g., OOS fee supplementing SU budgets)
3. Despite separate authority for the use of these three discretionary funds, **offices make commitments to each other** (e.g., \$8M annual transfer from CFO to VPR), illustrating the need for a **more cohesive approach** to managing UF's commitments

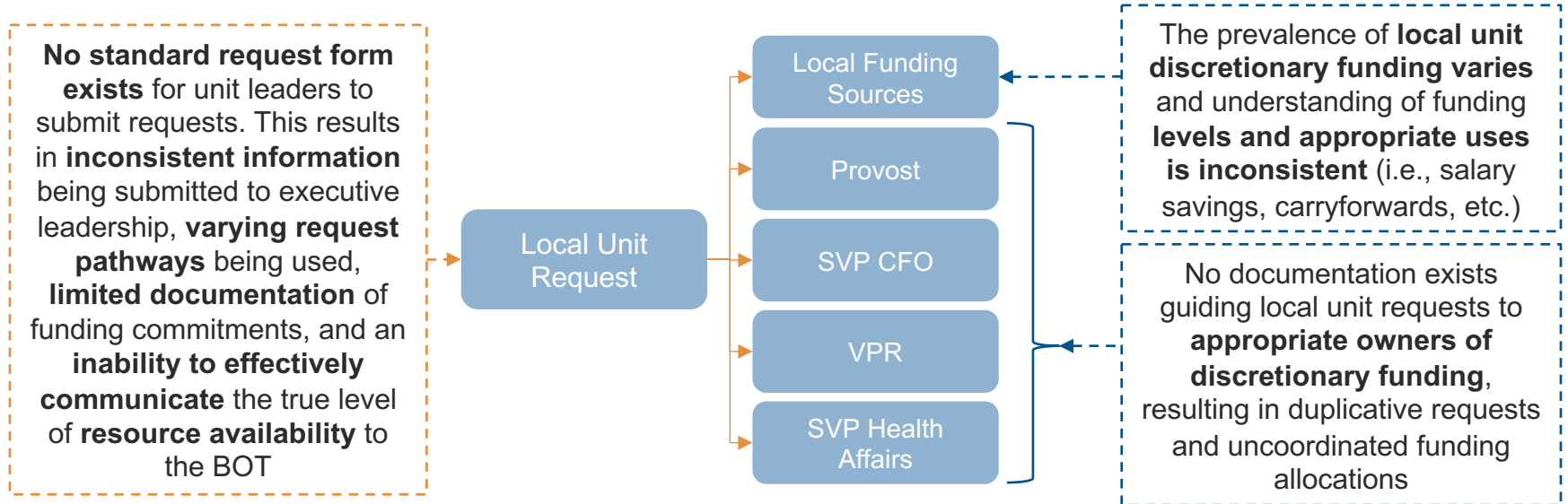
### Various Commitment Schedules

Commitment	Year	Amount	Unit	Total
Commitment	2020-21	\$1,000,000	VPR	\$1,000,000
Commitment	2020-21	\$1,000,000	Provost	\$1,000,000
Commitment	2020-21	\$1,000,000	SVP CFO	\$1,000,000

Units with authority over discretionary dollars track commitments adequately, though inconsistently and somewhat simplistically. A One UF picture of commitments will enhance coordination of an enterprise-wide investment strategy.

# Nonstandard Strategic Funding Request Process

How local units request and receive discretionary, institutional funding support is inconsistent, unclear, and perceived as inequitable.



The opaque and disjointed nature of strategic funding requests and commitments results in inefficient use of numerous administrative FTEs and results in frustration among process participants.



# 2


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## Risk Assessment






## Industry Challenges and Risks of UF Inaction

Should UF choose not to address the current approach to strategic funding decision making, significant manual effort required to manage the process will continue.

Relevant Industry Challenges / Headwinds		How Industry Challenges May Be Exacerbated for UF
Operational and financial <b>reporting requirements</b> to regulatory and governing bodies are <b>becoming more substantial and more complex</b> requiring additional resources to keep up and remain compliant		The UF BOT is heavily involved in institutional strategic direction setting and investment strategies which, in addition to state reporting requirements, adds incremental administrative effort
As state support flat-lines and net tuition revenues decrease, <b>a larger percentage of university operating budgets become restricted</b> requiring increased diligence into how unrestricted monies are leveraged		In real dollar terms, UF has experienced only minor increases in unrestricted state funding. Similarly, tuition rate freezes have constrained growth, thus its relative portion of unrestricted resources has likely outpaced industry trends
Complex initiatives, such as student recruitment, <b>are becoming more frequent and substantial</b> , require specialized skillsets, and are <b>increasingly unfeasible for a single unit</b> to make, requiring an institution-wide execution strategy		Capital investments, growing deferred maintenance backlogs, and other large-scale strategic decisions to grow prestige and achieve Top 5 ranking compound an increasing strain on fungible resources
UF is in a similar, and potentially more precarious, position compared to industry peers as additional reporting requirements are paired with investment decisions and demand for limited discretionary dollars.		

## Risks of Action and Mitigation Approach

Even though increasing transparency and eliminating inconsistencies in request approaches will support better coordination of discretionary funds, UF should be aware of three potential risks of implementation.

			
<b>Risk</b> ➔	<b>Request Volume Increase</b> Transparency of strategic funding decisions may increase the demand for the same strategic pool of resources, requiring more prioritization effort for leadership.	<b>Perception of Favoritism</b> Enhancing transparency of allocations may create perceived favoritism based on decisions made by executive leadership	<b>Reprioritization of Mission Activities</b> Potential shifts in funding decisions as a result of increased transparency, new processes, and a focus on fungible monies may result in a reallocation of long-term strategic investments to different priorities.
<b>Mitigation Approach</b> ➔	Limit enterprise-wide strategic funding requests to once per year (minimal exceptions) and create stronger guidelines of submission requirements to aid prioritization decisions.	Ensure standardized request timeline, process, and submission requirements are consistently followed. Provide brief explanations for requests not approved.	Communicate the need for the shift and criteria for institutional strategic funding support. Reiterate college specific strategic goals are eligible to be funded via local resources.

**Providing an avenue for reverse feedback through upfront communication to budget stakeholders before changes are rolled out will help reduce risk to an acceptable level.**

# 3

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## Solution Design and Alignment to Framework



## Solution Design & Enhancement Recommendation Summary

### Strategic Fund Transparency Executive Summary

#### Alignment to Strategy

Compile and communicate comprehensive UF strategic commitment report on an annual basis to demonstrate UF initiatives executive leadership are funding in support of broader strategic goals

#### Effective Model Mechanics

Differentiate the general funds supplement between base budget subsidization (subvention) and intentional strategic investments for specific purposes within the model and provide separate supplemental detail

#### All Funds Integration

Incorporate all component unit funding sources (restricted and unrestricted) into the conversation around strategic investment decisions to leverage the full funding authority of UF, not only E&G funds

#### Reliable Reporting

Create one executive leadership report outlining all fund types and balances available for start of the fiscal year strategic commitments and update throughout fiscal year to support ad-hoc funding feasibility decisions

#### Model Management

Establish standardized annual strategic funding request process to ensure local resources have been appropriately leveraged prior to requesting institutional support

# Strengthen Transparency of Funding Allocations

The university has immediate opportunities to better communicate the current state of discretionary, strategic resource allocation to optimize the use of University dollars.

Tactics of Solution Design	Explanation of Alignment To Framework
Compile and share with University leaders a comprehensive current state <b>sources and uses of discretionary funding allocations</b> by funding type and purpose	Creates a simplified, more transparent process and helps to eliminate one-off agreements and perceived back door deals between leadership and academic units in lieu of alignment to strategic priorities
<b>Ensure more effective utilization and investment</b> of the university's <b>most fungible resources</b> , such as investment returns, F&A, and out-of-state undergraduate fees	Delivers maximum leadership discretion to fund high priority activities as opposed to recurring expenses and other investments which can be funded through a wider variety of mechanisms

**Documenting the availability of discretionary, strategic resources will support the collective University's understanding of which revenues can be utilized locally vs. require a request to leadership.**

# Strengthen Transparency of Funding Allocations

Communicating detailed sources and corresponding distributions at the unit-level is a simple tactic to strengthen transparency within the University's different strategic funding pools.

Sources of FY21 Out-of-State Undergraduate Fee		Distributions		
Source	Funding Availability	Initiative A Year 1	Initiative A Year 2	Initiative B Year 1
Arts	\$ 2,045,032	\$ -	\$ -	\$ -
Design, Construction, and Planning	\$ 1,587,313	\$ -	\$ -	\$ -
Liberal Arts and Sciences	\$ 22,043,307	\$ -	\$ -	\$ -
Business Administration	\$ 7,989,590	\$ -	\$ -	\$ -
Education	\$ 1,366,302	\$ -	\$ -	\$ -
Engineering	\$ 5,008,262	\$ -	\$ -	\$ -
Journalism and Communication	\$ 3,286,452	\$ -	\$ -	\$ -
Law	\$ -	\$ -	\$ -	\$ -
Health and Human Performance	\$ 3,898,312	\$ -	\$ -	\$ -
Veterinary Medicine	\$ 9,844	\$ -	\$ -	\$ -
Medicine	\$ 290,245	\$ -	\$ -	\$ -
Nursing	\$ 668,088	\$ -	\$ -	\$ -
Pharmacy	\$ 45,352	\$ -	\$ -	\$ -
Public Health and Health Professions	\$ 836,180	\$ -	\$ -	\$ -
Dentistry	\$ -	\$ -	\$ -	\$ -
IFAS	\$ 4,685,091	\$ -	\$ -	\$ -

## Current State

The University quickly and accurately produces sources and detail behind other university investments, such as the funding mechanisms of support units within its model

## Future State

UF should develop mechanisms to publish similar reports on the sources and uses regarding its strategic fund sources to provide visibility into strategic allocations and create dialogue regarding priorities

**Core to incentive-based models, strategic funds provide a mechanism to steer the enterprise. Ensuring units understand the magnitude and allocations of these funds supports local unit strategic alignment.**

# Clarify Funding Distributions

Providing additional line-item breakdowns and detailing funding purposes for strategic allocations will help units better manage to budgets and expand knowledge of correlated timelines.

Tactics of Solution Design	Alignment Explanation
<b>Delineate general fund supplement distributions</b> between base budget allocations (subvention) and actual strategic funding provided for specific purposes	Provides detail to facilitate discussion between academic leadership and strategic funding decision-makers on relative funding levels between units
Provide each unit with a separate report <b>detailing breakdown</b> of strategic commitments, <b>length of commitment</b> , and any <b>pertinent restrictions on allocated funds</b>	Clarifies and documents funding decisions, rationale, and timeline without complicating actual model
Differentiate revenue funding source between <b>strategic commitments</b> and <b>encumbered funds</b> (e.g., AI initiative) in future budget allocations	Provides a comparative picture of funding available for specific uses vs. real-time funding authority to ensure unspent state-funded initiative dollars are not misinterpreted into a unit's general budget



# Clarify Funding Distributions

Unit specific income statements should be simple and aggregated to an appropriate level based on the audience. Additional detail for strategic funding levels should be **supplementally** provided to each unit.

	College A
General Funds Supplement	\$ 10,000,000
① Base Budget Allocation	\$ 9,000,000
① Strategic Funding Distribution (FY22 Authority)	\$ 1,000,000
FY22 Legislative Specials	\$ 100,000
FY22 Faculty Staff and GA Raises	\$ 100,000
PO&M	\$ -
State Funded Mandate Authority ②	\$ 150,000
State Funded Mandate Encumbered ②	\$ 100,000
State Funded Mandate (Open Lines) ②	\$ 50,000
Total State Revenue	\$ 10,350,000

- ① Budget allocations distributed to local units should clearly differentiate targeted strategic funding distributions from general purpose base budget allocations

College A General Funds Supplement (\$10.35 M)	
Base Budget Allocation	Strategic Funding Distribution (FY22 Authority)
\$10.0 M	\$350 K

- ② University budget office should **communicate state funded mandate spending authority** and **amount encumbered** at the beginning of the fiscal year as well as when requested by college budget officers

**UF should differentiate the general funds supplement by base budget allocation (i.e. educational cost supplement) and intentional strategic funding distributions to enhance clarity.**

# Broaden Sources of Strategic Funds

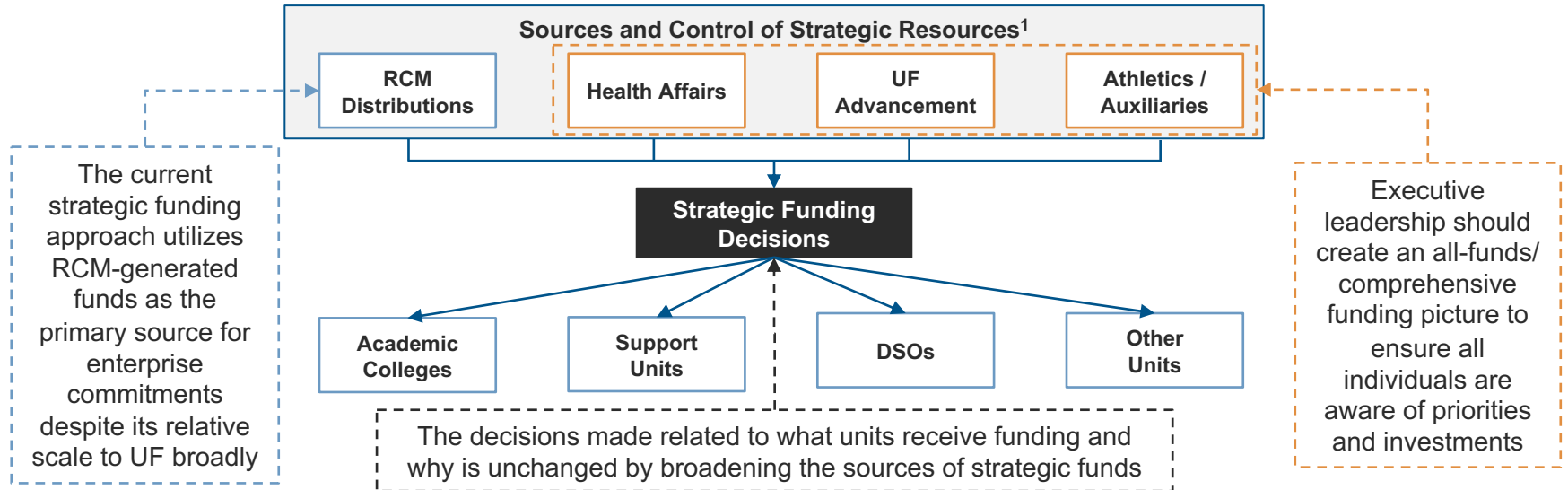
UF should broaden its RCM funds approach to strategic investments to a true all funds model and incorporate all component unit discretionary funding.

Tactic of Solution Design	Alignment Explanation
<b>Incorporate enterprise-wide discretionary sources into investment decision process</b> , inclusive of Health Affairs, UF Foundation, Athletics, and all other applicable funding pools	Provides university a comprehensive view of available strategic funding and reduces risk of overinvestment in select units or duplication of funding subsidies across component units
<b>Provide guidelines and parameters</b> for why and when units should leverage <b>institutional strategic funding sources vs. local unit discretionary funds</b>	Ensures local discretionary dollars (potentially restricted to the department) are considered in tandem with utilization of institutional funds

**While it is critical to adhere to fund restrictions, establishing a broader view of all funds including those earmarked for specific purposes (restricted) promotes enhance investment coordination.**

# Broaden Sources of Strategic Funds

A large majority of UF resources reside outside the current RCM model (i.e., E&G Funds). Broadening UF's perspective of discretionary resources will increase better inform decision-making.



**UF should combine non-RCM strategic dollars with strategic dollars sourced through E&G resources to provide leadership the ability to optimally direct the full availability of strategic resources across UF.**

# Promote Visibility of Funding Sources & Unit Priorities

Establishing a One UF report on commitments and funding sources will help inform the feasibility of funding additional ad-hoc requests throughout the fiscal year based on balances.

Tactics of Solution Design	Alignment Explanation
Create <b>executive report outlining uncommitted funds by source and control</b> to give executive leadership real-time understanding of discretionary fund balances during the fiscal year	Provides executive decision makers with a summary report to understand balances and feasibility to provide additional fiscal support throughout the year
<b>Maintain and communicate unit level reports of comprehensive commitments</b> , inclusive of length, based on a unit's prioritized requests	Provides local units with formal documentation of approved commitments and funding levels in summary report

**A single source of truth that reflects all commitments and funding sources will help alleviate confusion, increase transparency, and encourage data driven future decision-making.**

# Improve Management of Discretionary Funding

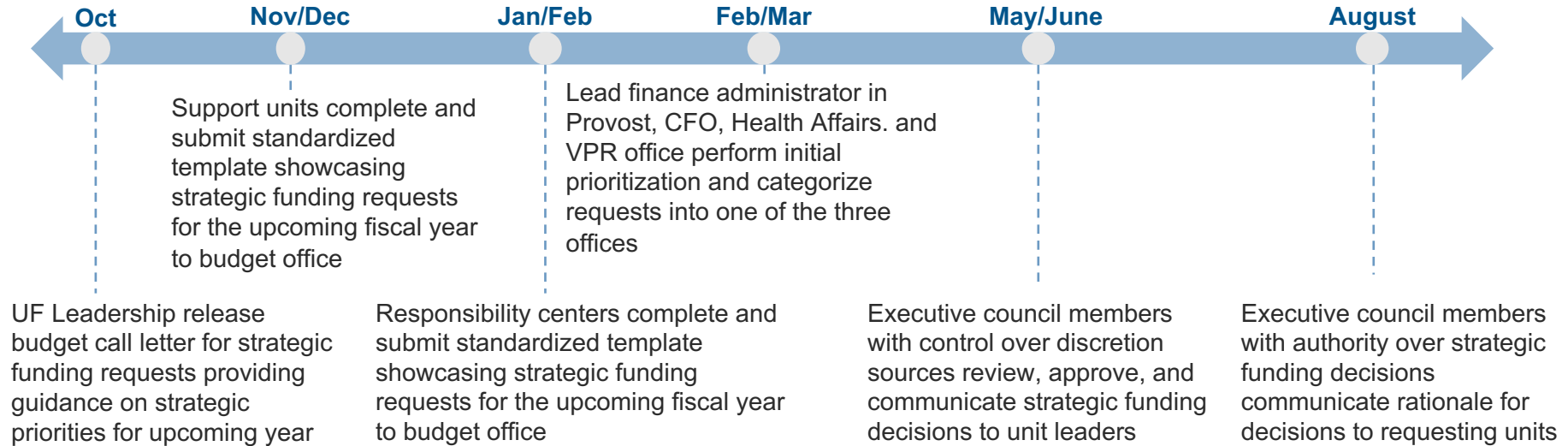
Creating a standard annual timeline of events related to discretionary funding paired with establishing requirements for one-off funding requests will support an equitable process and promote transparency.

Tactics of Solution Design	Alignment Explanation
Establish a <b>standardized annual timeline</b> of when and how units may request funding and publish guidelines on <b>when ad-hoc requests can be submitted</b>	Enables leadership to understand the true scope and monetary value of unfunded unit-level priorities at the outset of each budget cycle
Request <b>prioritized list of unit-level strategic priorities and projects</b> for upcoming fiscal year to be submitted annually and within budget office provided template	Enables leadership to obtain a more holistic view of individual unit priorities and direct limited strategic funds to the highest and best use
Communicate approved <b>commitments as well as funding level and runway</b> within each pool of strategic dollars and rationale for unapproved commitments	Mitigates perceived favoritism that exists on campus and hold leadership accountable to stakeholders in allocation decisions

# Improve Management of Discretionary Funding

Establishing an annual timeline and guidelines for unit-level submissions will aid in standardizing strategic initiative submission, evaluation, and distribution.

## Proposed Future State Timeline



**Local units** should be **responsible** for the **management of prior year commitments** to ensure effective use of funds

Local unit **ad-hoc requests** may be submitted throughout the year but **should follow a more stringent request exception process**

## Innovative Long-Term Options

While successful implementation may be more challenging, the below options could result in broader involvement in strategic investment decisions and thus enhance transparency.

Innovative Solution	Considerations
<b>Provide guaranteed one-time institutional funding supplement</b> to local units who engage and demonstrate success in a <b>zero-base budgeting exercise or other efficiency initiatives</b>	<ul style="list-style-type: none"> <li>Units may have an incentive to direct already scarce resources toward efficiency initiatives and thus away from advancing core missions</li> <li>Achieving efficiencies will result in shifting activities potentially disrupting students, faculty, staff, and the community</li> </ul>
Skew <b>future strategic investment allocations on the success of historic investments from institutional funds</b> to require local units to demonstrate success prior to receiving future institutional support	<ul style="list-style-type: none"> <li>Given revenue limitations tied to tuition, education-oriented colleges may be disadvantaged in ability to generate local start up monies</li> <li>Many mission-based initiatives in higher education are difficult to track, are subjective, or have an intangible value tied to them, making defining 'success' difficult</li> </ul>
<b>Create business cases to illustrate how committed funds have improved UF standing</b> in areas that may include quality of education, rankings, student experience, etc.	<ul style="list-style-type: none"> <li>Establishes opportunity to work with the UF Foundation to enhance conversations and pitches for external funding</li> </ul>

**While they address transparency concerns directly, the above solutions will require extensive change management to gather buy in and may be unrealistic in the short term.**

# 4

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## Implementation Roadmap





## Benefits of Successful Implementation

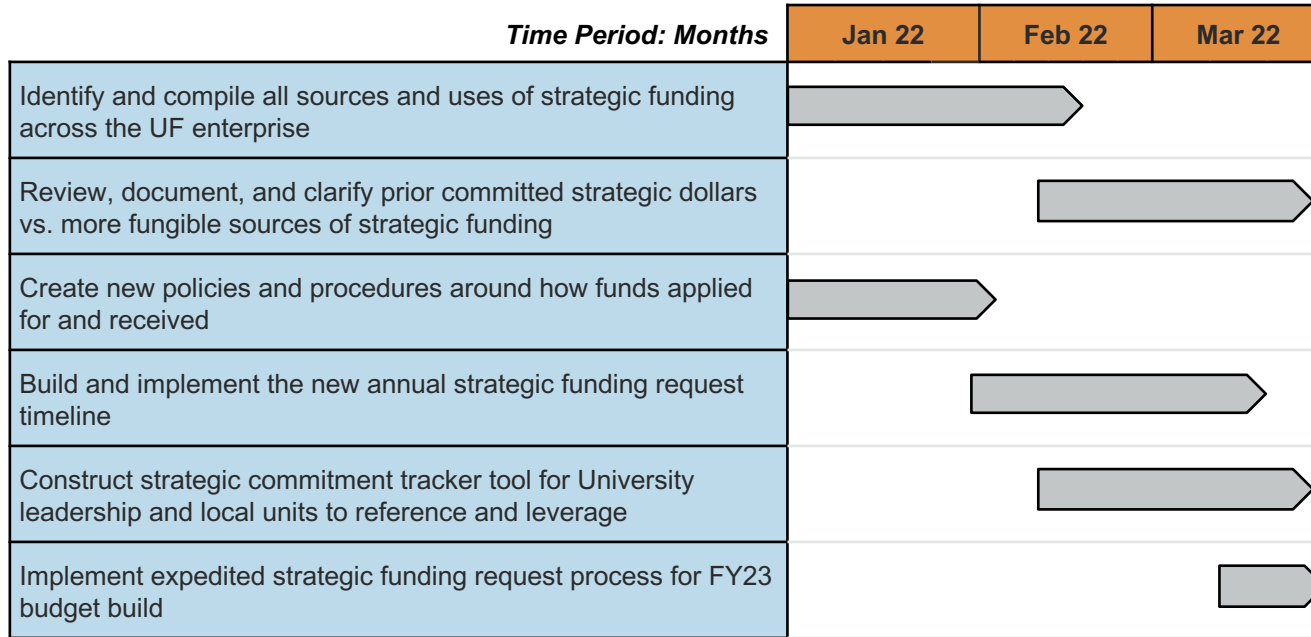
By addressing the identified barriers and frustrations identified through Huron's current state assessment, UF can expect to see the follow outcomes.

	Benefit / Expected Outcome	How Does this Address the Current Problem?
Strategy Alignment/ Effective Reporting/ All Funds	<b>Unified approach to understanding and leveraging unrestricted, fungible University dollars</b> to apply towards strategic needs on an annual and multi-year basis	Provides enhanced transparency and a single source of understanding around strategic funds available thus helping University stakeholders better understand commitments, make funding decisions and potentially pre-empt unanticipated funding requests
Model Mgmt./ Mechanics	<b>Standardized process for local units</b> to formally <b>request, track, and leverage</b> University strategic dollars on an on-going basis	Gives units a better understanding of how to request additional dollars to fund strategic needs in addition to giving University leadership more transparency into how units are leveraging local funds

**Huron has outlined implementation infrastructure needs and a roadmap for UF to follow to immediately realize these benefits upon successful implementation.**

## Implementation Timeline: Strategic Fund Transparency

Out of the seven business cases prioritized for implementation, Huron sees this case as the final element to complete as components of this case may rely on benefits achieved from the prior six cases.

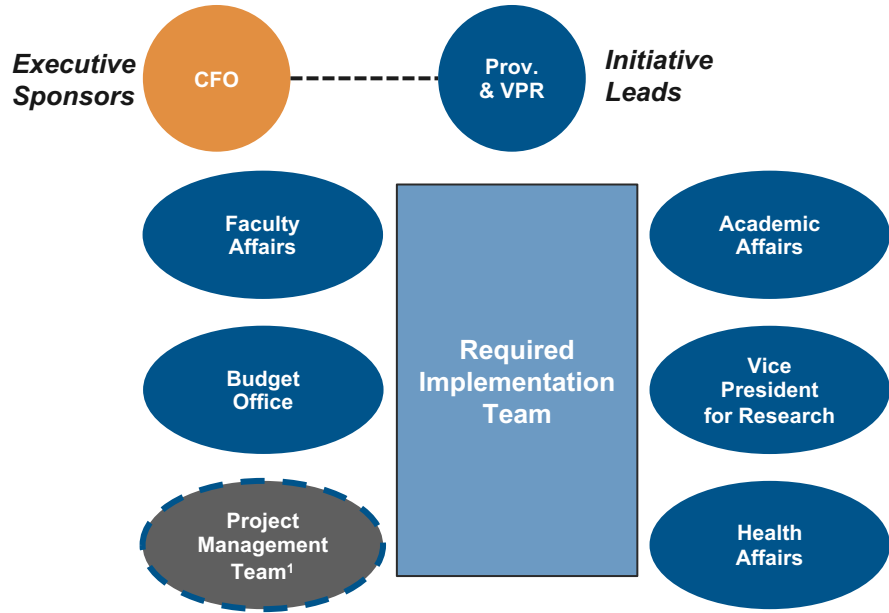


### Key Considerations:

- Units may be hesitant to share unit-level sources and uses funding detail
- There may be a flurry of submissions in the first year of implementing this process, many of which could be subpar. Units should develop a more stringent approach to creating requests as this process matures
- Generating buy-in and commitment from University leadership will be key in ensuring a unified approach to managing University strategic investments

# Implementation Team: Strategic Fund Transparency

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends the implementation of this case be led by the Provost and VPR given their authority and responsibility for much of the strategic funding today
- Each of the main divisions with significant strategic funding should be actively involved to ensure everyone is aligned with the new process
- The budget office should take a proactive role in helping to compile a comprehensive listing of all strategic funding available and leveraged across UF

1. While not required, Huron can assist this effort by coordinating University-wide progress, taking on workload, drafting communications, and ultimately expediting the implementation process.

# 5

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## Appendix



## Select Stakeholder Input on Strategic Funding Transparency

Huron heard numerous frustrations and general confusion related to the strategic, discretionary funding allocation decisions and process at UF, with a few of the most impactful paraphrased below.

My college does not request strategic funding support as prior communication has required colleges fund future endeavors and operational expansion with entrepreneurial activity

The current model taxes colleges into poverty and requires provost support to be financially viable

Establishing a tool to effectively track commitments has been challenging

Historic budget committee, while not a decision-making body, was able to provide input into which support unit investments would benefit colleges

Strategic investments can be duplicative because of unique needs and desires of colleges and relationships to leaders with access to funds

Strategies for 'optimal budget requests' submissions by support units are inconsistent and the necessary leaders or college perspectives aren't always incorporated

Deans are afforded complete autonomy to set strategic direction even if counterproductive to another college's goals

Deans are focused on increasing college prestige, but some criteria require interdisciplinary collaboration which is not always supported by UF investments, despite top 5 push

Support units don't always follow hierarchical lanes when requesting strategic funds



# Business Case: **Major Capital Governance**

# Contents

1. Current State Assessment (What is the problem? Why is it a problem?)
2. Risk Assessment (What are implications of inaction in addressing problem?)
3. Solution Design (What are tactics to resolve problem?)
4. Implementation Roadmap (How should UF implement tactics?)

# 1

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Major Capital  
Governance  
Current State





## Capital Budgeting: Primary Recommendation

Huron's main recommendation to recharge CPPEC and the university's capital budgeting process centers on evaluation and prioritization of major capital projects over \$2M.

### Current State Problem Statement



**Capital project requests are typically evaluated independently from one other.** In some cases, where private, state, or other funding sources are provided and restricted toward a single project, this makes sense. However, for capital projects supplemented with institutional funds, **a mechanism to evaluate the totality of potential capital projects to optimally leverage resources is warranted.**

### Recommendation for Solution Design



**Recharge CPPEC<sup>1</sup>** and other capital governance committee charters **to focus on comparison and prioritization** of capital project proposals and **develop formal evaluation criteria and scorecards** to support optimal use of resources, recognizing resource availability often drives timing and sequencing of projects

1. Construction Project Planning Executive Council

## Capital Budgeting: Current State Assessment Summary

Detailed stakeholder themes fit broadly into the below four categories, which help inform areas for continued improvement in the university's budgeting process.

Current State			
Capital Prioritization, Coordination, and Governance	Proposal Request Process and Timeline	Financial Analysis and Reporting	Sources and Uses Reporting
<ul style="list-style-type: none"> <li>Criteria for the prioritization of capital project proposals is <b>not documented</b>, not widely known, and is perceived as disconnected from strategic priorities.</li> <li>Funding availability drives <b>investments</b> instead of investment needs being supported by available resources.</li> <li>Lack of connection between <b>operational and capital</b> budgeting hinders strategic use of institutional resources and results in <b>uncoordinated decisions</b> as component units make siloed investments that may conflict with or be duplicative to other units.</li> </ul>	<ul style="list-style-type: none"> <li>A <b>standardized process and timeline</b> for submitting a capital request is unclear and not strictly followed resulting in units partaking in ad hoc conversations and <b>limiting ability</b> for Executive Leadership to <b>efficiently evaluate comprehensive capital needs</b>.</li> <li>Ineffective and unclear data submission requirements for capital proposals results in confusion for requesting units and <b>inconsistent information</b> submitted to Executive Leadership - <b>hindering the ability to effectively compare and prioritize investment options</b></li> </ul>	<ul style="list-style-type: none"> <li>Initial capital project <b>cost estimates</b> provided to CPPEC are <b>cursory in nature and lack rigor</b>. Likewise, return on investment analyses are inconsistently leveraged and not formally incorporated into the project prioritization and decision-making process.</li> <li>Comparing actual project costs to frequently amended project budgets as opposed to initial project estimates or the approved project budget <b>dilutes accountability for capital project financial variances</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Based on historical precedent, requesting units who secure partial funding expect the institution to also contribute; however, cursory cost estimates used to secure private funding, are frequently inaccurate and force <b>project cost variances to be covered by UF resources</b>.</li> <li><b>No comprehensive view into funding availability</b> for capital investment (or strategic investments in general) exists - <b>hindering the ability to optimally leverage enterprise-wide resources</b> toward the highest and best use.</li> </ul>

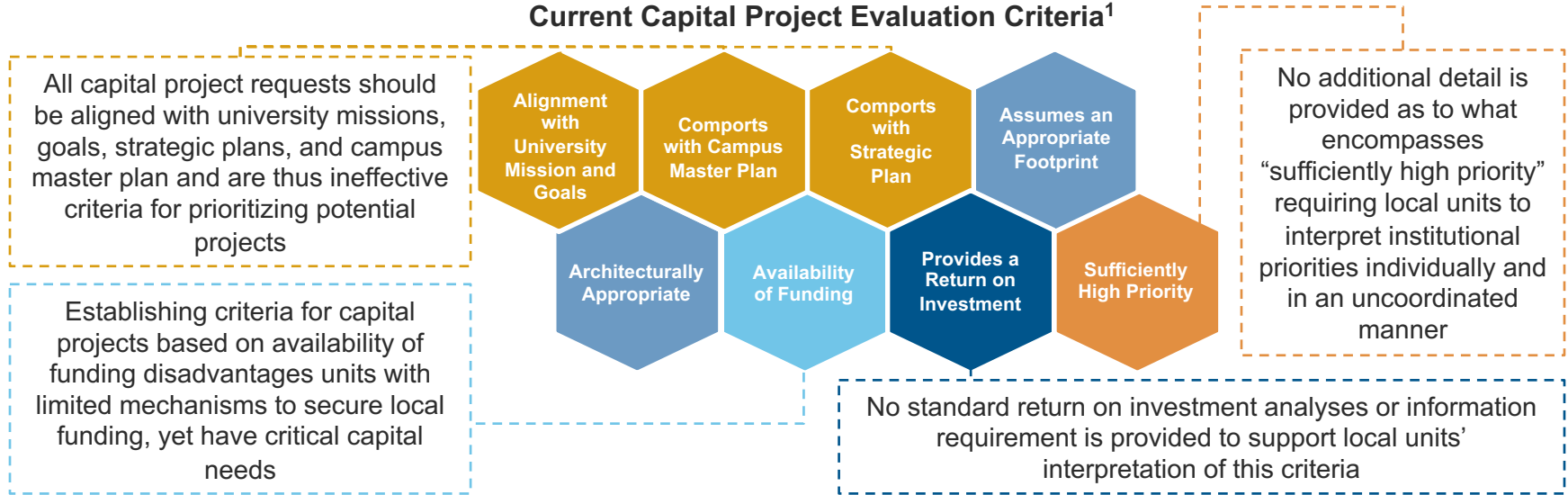


Primary focus of Business Case Recommendation

## Current State: Prioritization, Coordination, and Governance

Current criteria established for UF prioritization of capital projects are broad, utilize subjective metrics, and reference unclear or nonexistent institution-wide plans.

### Current Capital Project Evaluation Criteria<sup>1</sup>

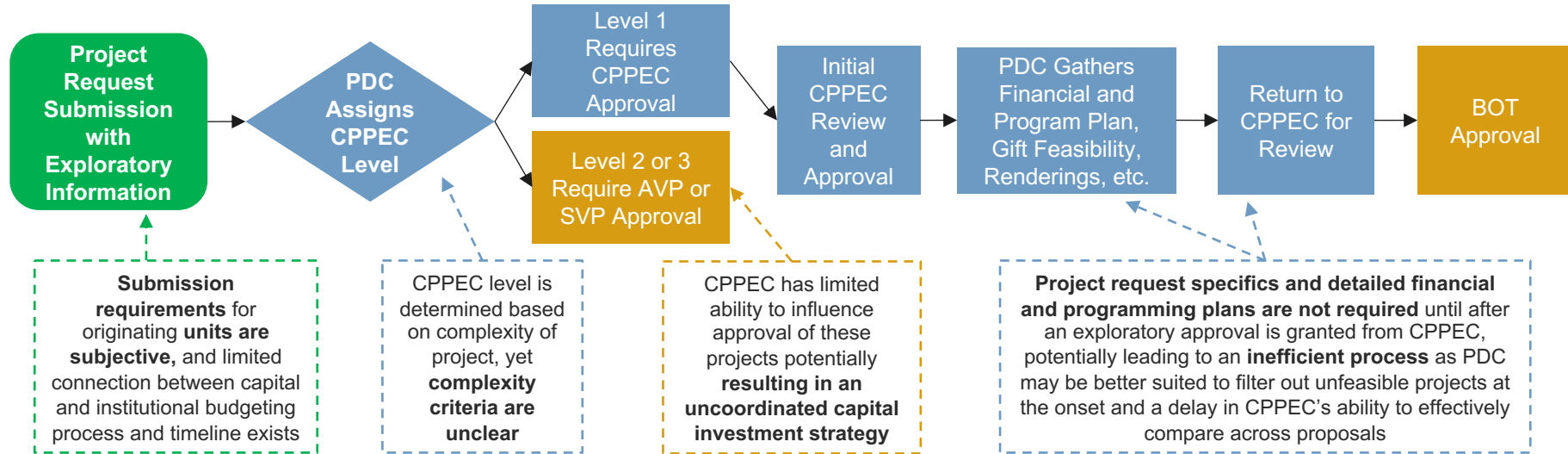


**While current capital project approval criteria may be effective at evaluating individual proposals, they do not enhance UF’s ability to determine where to invest limited institutional resources across projects.**

1. CPPEC Policy 2017

## Current State: Request Process and Timeline

Due to infrequency of a unit going through capital request process as well as various unit exclusions (i.e., UF Health, IFAS, etc.), many stakeholders noted the process is unfamiliar and confusing to navigate.



**Unclear PDC<sup>1</sup> classification criteria for major projects combined with distributed approval authority limits CPPEC's ability to influence a comprehensive major capital project strategy.**

## Current State: Request Information

The current capital project request process is supported by UF's internally developed tracking solution. However, project financial projections, justifications, and ROI assessments are inconsistently submitted.

CPPEC policy states: information required for submission upon initial review of capital projects elevated to the CPPEC levels I through III is “cursory and exploratory in nature” and includes:

- Project description, drawings
- Purpose and justification
- Proposed location
- Estimated cost and proposed funding source
- Consistency with Campus Master Plan
- Concept approval from authorized Dean/VP

**UF TRACKER**

**NEW PROJECT REQUEST**

To set yourself as the project contact or the fiscal contact click the associated icon.

\*Project Contact: Search by Last,First | |

\*Department Fiscal Contact: Search by Last,First | |

Department: Search by Departm

\*Category: [Dropdown]

\*Description: Please enter a description of the work to be performed. Please be as descriptive as possible.

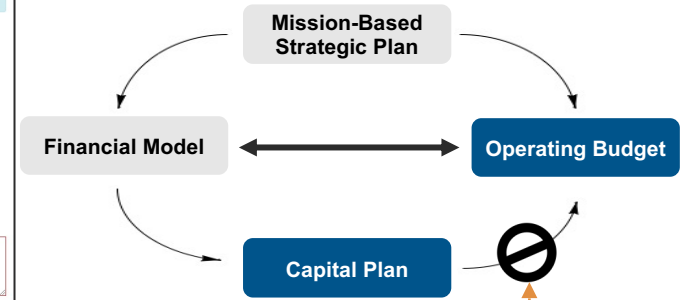
\*Building: Search by Building Number or Name

Room(s): [Text Area]

Please enter data in all \*required fields before submitting.

**SUBMIT**

### Financial Management Strategy Framework



Capital project request submission deadlines are not integrated with university budget development timelines – making it difficult to understand collective monies available and monies committed throughout the year

**Unclear submission deadlines for UF's capital request process and inconsistent, limited detailed requirements creates challenges for decision-makers to understand a complete picture and scale of need at a point in time.**

# 2

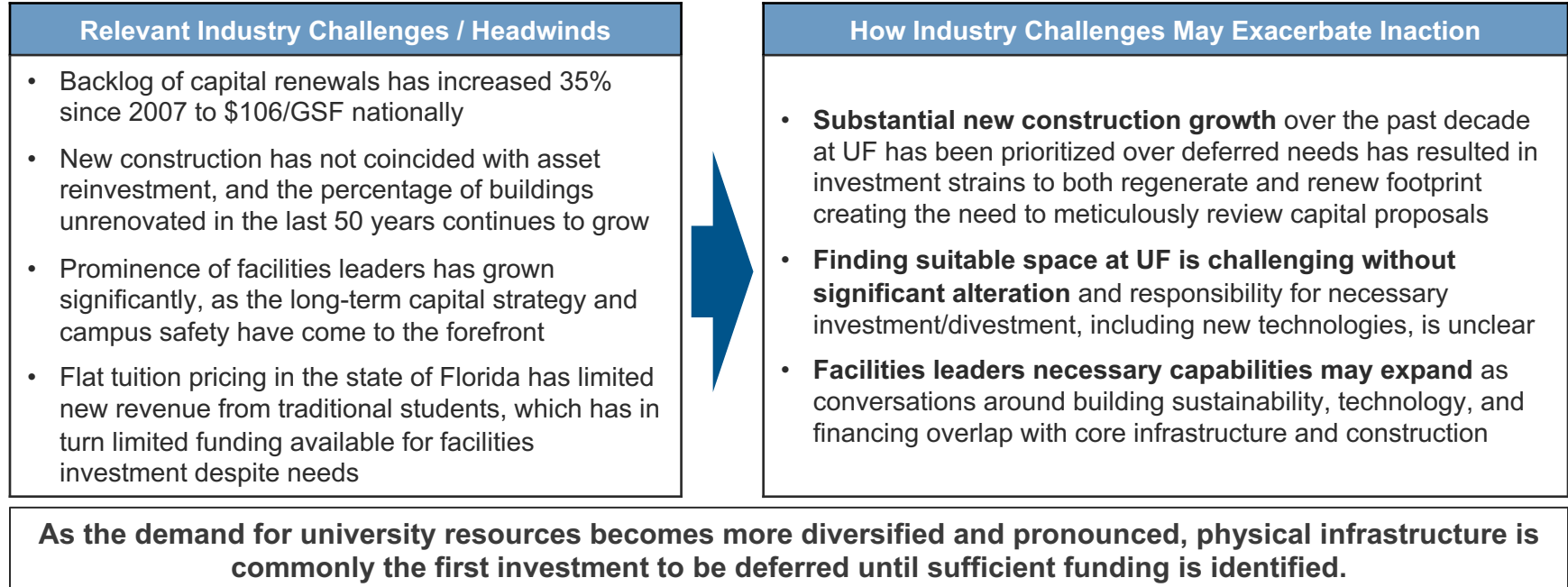
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## Risk Assessment






# Industry Challenges and Risks of UF Inaction

Financial and enrollment challenges related to the COVID-19 pandemic created difficult short-term decisions for leaders, while also influencing long-term facility strategies across higher education.



## Risks of Action and Mitigation Approach

While standardizing evaluation criteria for capital project decision-making and the effectiveness of the request process will enable more equity, UF should be aware of three potential risks.

			
Risk	<b>Increased Transparency of Spend</b> With a more defined process and procedure, external stakeholders will have more insight into how the University is spending capital dollars and may disagree with UF's priorities.	<b>Continued Policy Subversion</b> Units with large donors or special access to University leadership (e.g., BoT) may still feel they can sidestep the new process.	<b>Continual Reporting Demands</b> The increased demands on continual reporting needs related to capital projects may be difficult to keep up with and maintain without sufficient investment.
Mitigation Approach	Develop a standardized executive-level report which details the rationale for why certain projects have been prioritized and while others have not.	Build buy-in with all University leadership and Board members to explain the importance of following procedure. Limit or have no exceptions to proposed policy.	Build a stronger working relationship between the budget office and capital needs office to develop reports that are simple, effective, and replicable.

**By universally affirming the new approach to capital decision making with exceptions requiring rigorous rationale and justification, UF can effectively mitigate risks in this process.**



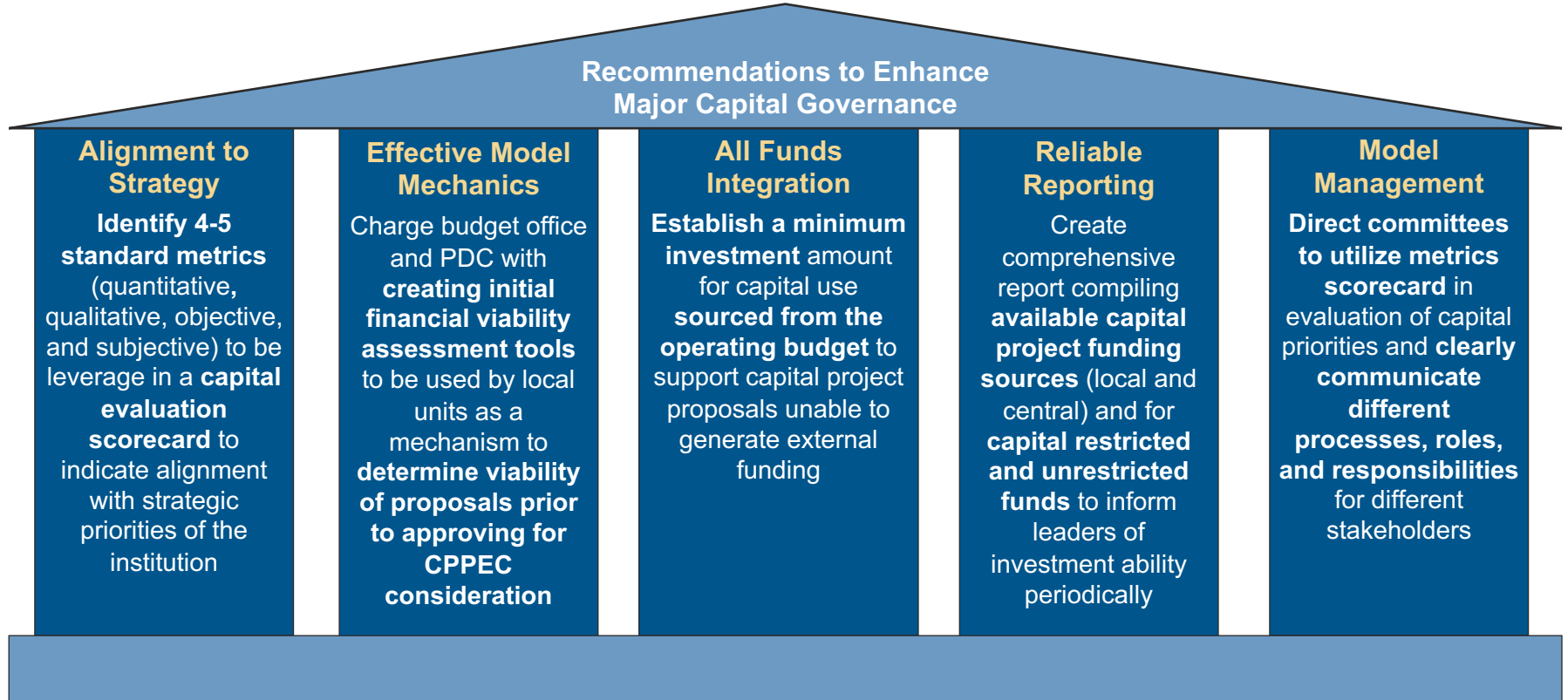
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## Solution Design and Alignment to Framework



# Solution Design & Enhancement Recommendation Summary



# Strengthen Alignment of Capital Resources to UF Strategy

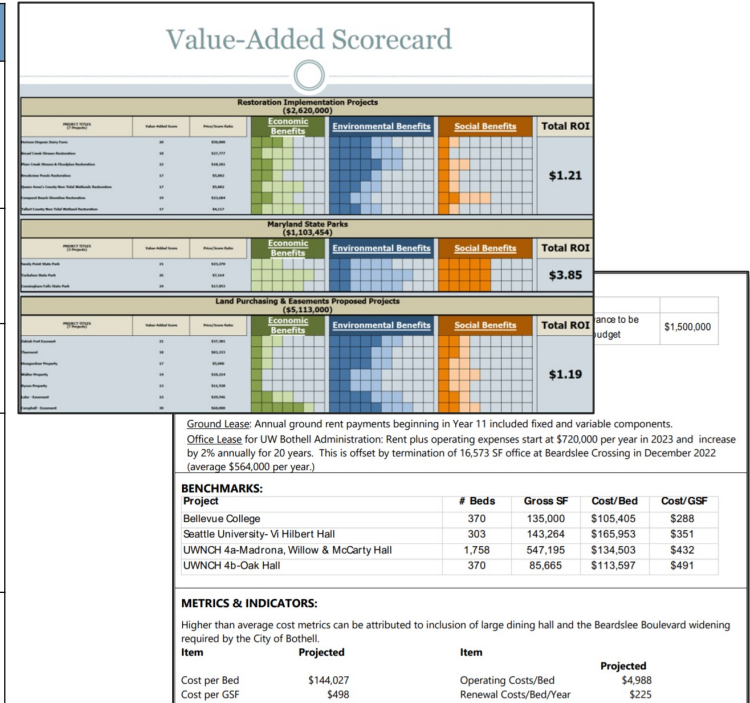
Establishing clear capital priorities and project evaluation criteria will strengthen alignment between UF's available resources and broader institutional direction.

Tactics of Solution Design	Alignment To Framework
<p><b>Develop a standardized metric scorecard with specific criteria</b> to measure how well proposed capital projects align to UF's strategic priorities and overall financial viability</p>	<p>Standardizing evaluation of capital projects will enable decision-makers to align scarce resources to most critical strategic priorities and best leverage institutional discretionary funds</p>
<p>Compile concrete, <b>unit-level strategic goals to drive capital prioritization</b> to consider in tandem with the current state prioritization criteria outlined in the campus master plan</p>	<p>Assists in creating a comprehensive One UF strategy and creates an avenue for units who do not have a good sense of UF priorities to align unit-specific priorities with UF leadership</p>

# Strengthen Alignment of Capital Resources to UF Strategy

Establishing a standardized scorecard to compare proposed capital projects can be a simple, effective tool in aligning capital resources to their best use.




Sample Metrics for Scorecard Inclusion	
Upfront Capital Costs	<ul style="list-style-type: none"> <li>Total Cost Estimation</li> <li>Level of Gift Funding</li> <li>Pledge Commitments</li> <li>Institutional Funding Investment</li> </ul>
Recurring Annual Operating Costs (Unit vs. UF)	<ul style="list-style-type: none"> <li>Labor Costs</li> <li>Material &amp; Supply Costs</li> <li>Ongoing Maintenance</li> </ul>
Construction Cost Benchmarking	<ul style="list-style-type: none"> <li>Cost per GSF in comparison to similar historical projects (lab, academic, etc.)</li> </ul>
Unit Financial Position	<ul style="list-style-type: none"> <li>Annual Operating Margins (5-years)</li> <li>Unrestricted Reserves to Project Coverage Ratio</li> <li>Ongoing Capital Investment</li> <li>Return on Investment Metrics</li> </ul>
Subjective Indicators	<ul style="list-style-type: none"> <li>Strategic Goal Alignment</li> <li>Diversity &amp; Inclusion Impact</li> <li>Support for Sustainability</li> </ul>



# Strengthen Alignment of Capital Resources to UF Strategy

UF should consider additional decision points while tweaking its capital budget process to better incorporate unit specific needs into the strategic direction of the institution.

- UF's historical process is not sustainable as capital constraints continue to build. UF must create an **effective and equitable approach to project evaluation**.
- Leading practices suggest **prioritization framework should be limited to 3-5 variables**, including a mix of **objective** financial data and more **subjective** strategic criteria.
- Consistent use of a **simplified, clear scorecard** will allow leadership to consistently prioritize projects each year given different physical and financial constraints and operational needs.

Additional Leadership Considerations	
 <p><b>Capital Prioritization Framework</b></p>	<ul style="list-style-type: none"> <li>• How does the university <b>utilize its capital plan</b> to evaluate potential projects?</li> <li>• Are strategic priorities and projects being <b>consistently evaluated</b> across the university?</li> </ul>
 <p><b>Space Planning</b></p>	<ul style="list-style-type: none"> <li>• Can planning, design, and construction support university leadership in <b>identifying spaces that can be re-tooled</b> in place of new investment? (i.e., alternative investments)</li> </ul>
 <p><b>Ongoing Investment</b></p>	<ul style="list-style-type: none"> <li>• How can <b>maintenance and ongoing infrastructure costs</b> be incorporated into investment decisions?</li> </ul>

# Streamline Mechanics of Capital Budgeting

Clarifying the capital proposal intake process will help UF stakeholders plan and prioritize projects and eliminate the sense of favoritism across the institution.

Tactics of Solution Design	Alignment Explanation
<p>Create financial models, templates, and tools to help units understand <b>ROI of potential investments</b> as well as the <b>future operational costs</b> that will be the responsibility of both the unit and the institution</p>	<p>Assesses the financial viability of different projects to aid in prioritization and determination of annual funding levels needed for campus infrastructure. Also determines if unit specific financial positions justify upfront and ongoing investment</p>
<p>Mandate locally sourced capital project requests <b>receive approval from authorized unit leadership</b> (i.e., Dean) and require submission information is compiled prior to submission to PDC or CPPEC</p>	<p>Requires local unit leadership to give approval for proposals before elevating to UF leadership reduces unnecessary workload volumes by PDC, CPPEC, and other units for requests that have no feasibility promoting a more efficient capital project submission process</p>
<p><b>Plan for capital project variances</b> to create contingency funds for inevitable discrepancies and <b>track significant project variances</b> and incorporate mandatory approval step threshold with executive leadership to enhance future accountability</p>	<p>Allows UF to address variances optimally as opposed to reactionary and tracking significant offenses and imposing additional responsibilities for individuals mitigates risk of reoccurrence</p>

# Streamline Mechanics of Capital Budgeting

Establishing a standardized internal investment model will allow the university to better compare capital projects and understand which projects, and over what time period, projects should be funded.

## Pertinent ROI Metrics for New Major Projects



## Internal Rate of Return Analysis

Compare cost of capital to project returns (inflows)



## Net Present Value / Opportunity Cost Analysis

Evaluate marginal project benefits against others vs. not investing



## Discounted Payback Period / Throughput Analysis

Determine time period to recoup initial outflow investment

[illegible]

## Pertinent On-Going Operational Cost Considerations

Assessment of current operating margin and **feasibility for unit to assume more recurring financial responsibility** resulting from capital investment

Quantification of **institutional financial obligation** (insurance, utilities, etc.) to **communicate comprehensive financial burdens**

**UF's capital budgeting models and tools should confirm decisions that both a unit and UF can support the initial capital investment and recurring financial costs, ensuring economically viability in the long-run.**

# Utilize an All-Funds Approach

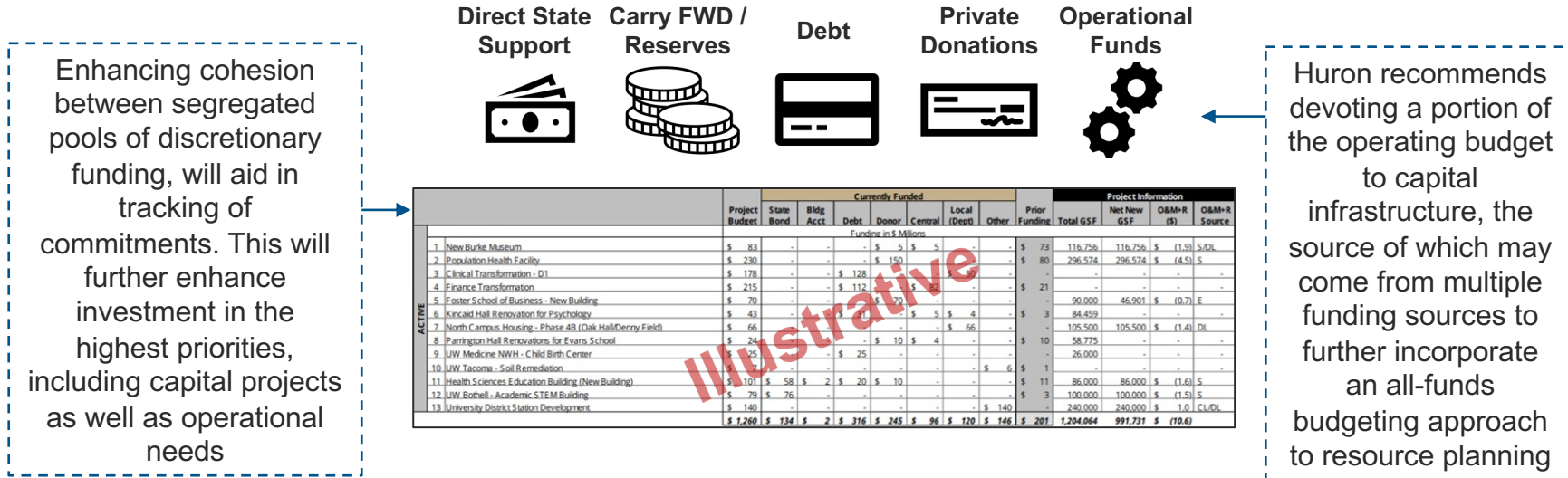
Establishing a connection point between capital budgeting and operational budgeting better enables comprehensive insight into all fiscal demands and commitments for university leadership.

Tactics of Solution Design	Alignment Explanation
Provide visibility of <b>strategic dollars and other funding sources available for UF investments</b> into capital decision making process especially for high priority infrastructure needs that lack ability to generate private funding	Roots capital decisions around funding availability in realities, shows the level of flexibility available to address capital priorities, and identifies optimal use of UF's multiple strategic funding pools
Incorporate a <b>minimum annual funding amount</b> from the operating budget to be directed to <b>institutional maintenance and capital infrastructure needs</b>	Provides additional flexible funding into the capital budget and serves as a mechanism to link the two processes



## Utilize an All-Funds Approach

Developing a clear picture of available funding sources provides insight into the funds restricted for capital use and encourages more effective use of unrestricted funding sources.



**Establishing capital financing through regular renewal and replacement from the operating budget as opposed to debt and private gifts can also enhance the university's credit profile.<sup>1</sup>**

1. Moody's Investor Service: Capital Investment for Higher Education Institutions

# Strengthen Reporting Mechanisms

Enhanced reporting and monitoring of funding sources eligible and available for capital infrastructure needs will strengthen budget to actuals reporting.

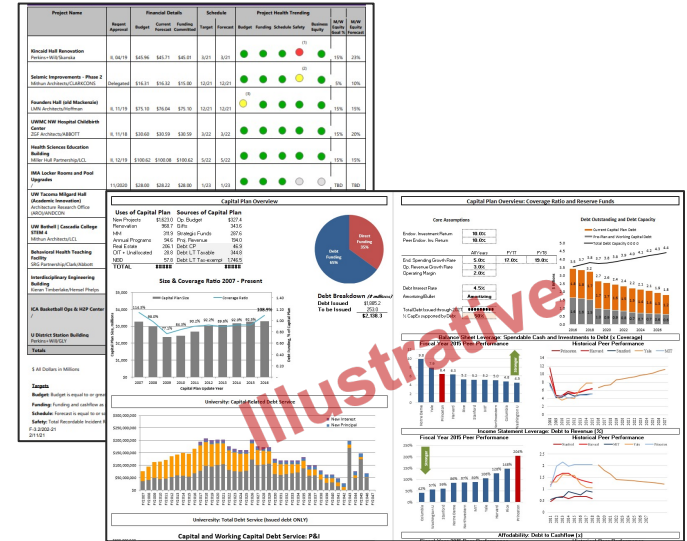
Tactics of Solution Design	Alignment Explanation
<b>Create an institutional report</b> , coordinated by central finance, <b>communicating eligible capital funding sources</b> based on input from local units	Understanding true resource availability, restricted to capital use, across the University enhances investment decisions and optimizes uses of different fund types
<b>Report budget to actuals based on the initially approved budget</b> of individual projects to enhance accuracy of project cost estimations in the long-term	Standard project specific reports will increase accountability into how capital project budgets are developed, where funds are spent, and where common variances occur
Submit <b>quarterly report to the BOT</b> , documenting capital inventory, priorities, budget details and any other pertinent metrics	Regular trustee summary reports build understanding of resource availability and confirms BOT initiatives are grounded in realities of UF's financial position

# Strengthen Reporting Mechanisms

Creating reports and dashboards for senior leadership will provide a mechanism to better explain complex capital project statuses and available funding sources to less informed constituents.

## Additional Considerations

- A summary report detailing **aggregate active project statuses, financials, and impacted space** across the institution should be automatically generated and **summarized at an appropriate level depending on the audience** (e.g., CPPEC, BOT, Deans)
- A separate report should detail **total funding sources** eligible for capital investment, **committed funding** along with schedules detailing past decisions, and **uncommitted (available) funds** for leadership to leverage at its discretion for new project requests
- All reports should include a **multi-year outlook** to enable executive leadership (CPPEC) to effectively plan and make funding decisions and sequester resources when necessary



Creating standard internal reports on metrics such as project cash flows, budget to project actuals, and funding availability will enhance capital project decision making and fund management.

# Strengthen Capital Project Governance

Recharging the current CPPEC executive governance group establishes a one UF approach through consistently and transparently prioritizing capital proposals.

Tactics of Solution Design	Alignment Explanation
<b>Recharge governance committees</b> to utilize scorecard to equitably review initial project proposals and thoroughly vet decisions for those that proceed to the BOT, BOG, and State	Incorporates a broad range of perspectives and allows competing priorities input into the capital investment strategy of the broader institution
Distribute information detailing concrete <b>submission timeline and review requirements</b> , as well as <b>roles and responsibilities of the submitting unit</b> in capital funding requests	Clarifies and enhances transparency while minimizing re-work effort for local units while standardizing the review process for CPPEC and other committees
<b>PDC should own development of project proposals and scorecards</b> , in collaboration with local units, to elevate most viable projects to CPPEC	Balances authority between subject matter experts and decision makers who understand context and issues at the local level

# Strengthen Capital Project Governance

While benefits for managing some capital projects locally exist, UF should continue to shift responsibilities for major capital projects to be more institutionally administered to leverage resources and expertise fully.

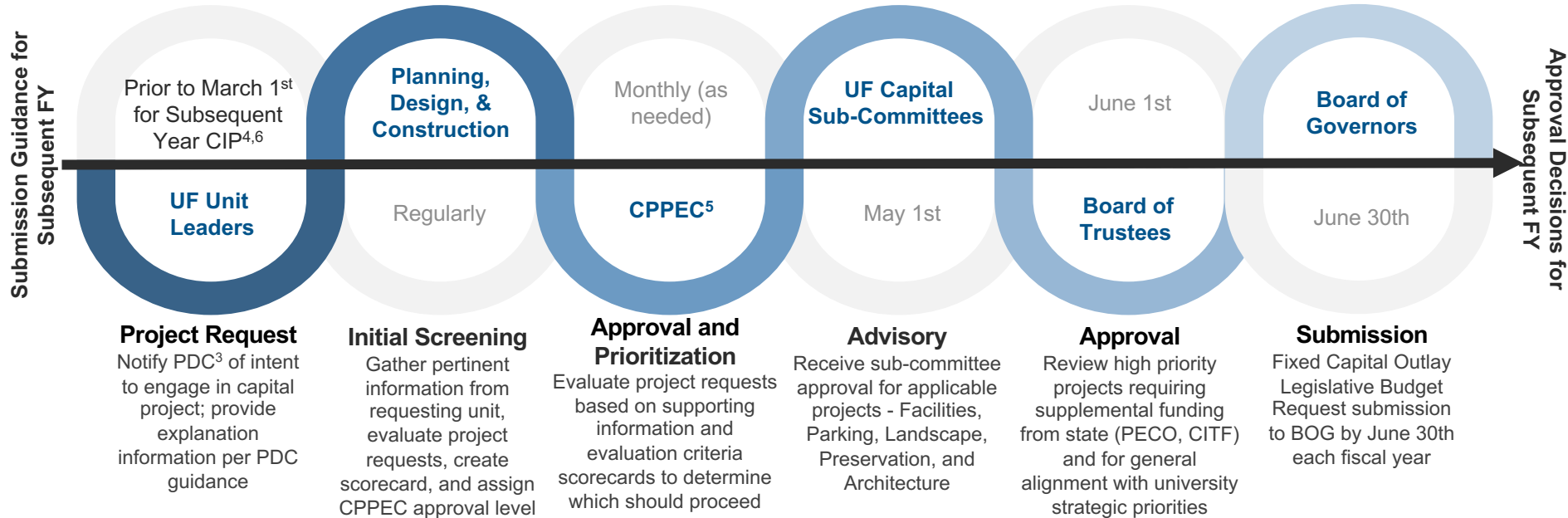
Spectrum of Capital Budget Processes in Higher Education		
	Institutionally Administered	Locally Managed
Benefits	<ul style="list-style-type: none"> <li>Enables input from enterprise-wide perspective, not solely the unit providing funding, encouraging collaboration</li> <li>Resources with most applicable skillsets and expertise are leveraged and incorporated into process</li> <li>Enhanced compliance and adherence to capital requirements</li> </ul>	<ul style="list-style-type: none"> <li>Distributed units, who have the best understanding of urgent priorities, are given discretion on investment priorities and management of projects</li> <li>Distributed ownership encourages ability for the enterprise to managed multiple projects in the same time frame</li> </ul>
Considerations	<ul style="list-style-type: none"> <li>Uses university resources to subsidize projects in specific areas deemed most critical by the governing body</li> <li>Limited ability to balance capital demands of units with capacity to deliver projects</li> </ul>	<ul style="list-style-type: none"> <li>Duplicative investments resulting in inefficient, uncoordinated, and potentially inhibiting efforts towards other components/missions</li> <li>Mission based resources supporting enterprise-level operational investments</li> <li>Reduced ability to leverage enterprise scale and expertise</li> </ul>



**Recharging the current executive governance group with a structure to consistently and transparently prioritize capital proposals encourages a One UF approach to developing enterprise land and infrastructure.**

# Strengthen Capital Project Governance (Enterprise-Level)

UF should consider aligning major capital project requests with the fixed capital outlay budget submission to the state to force units to formally vocalize needs at a consistent time period during the fiscal year.

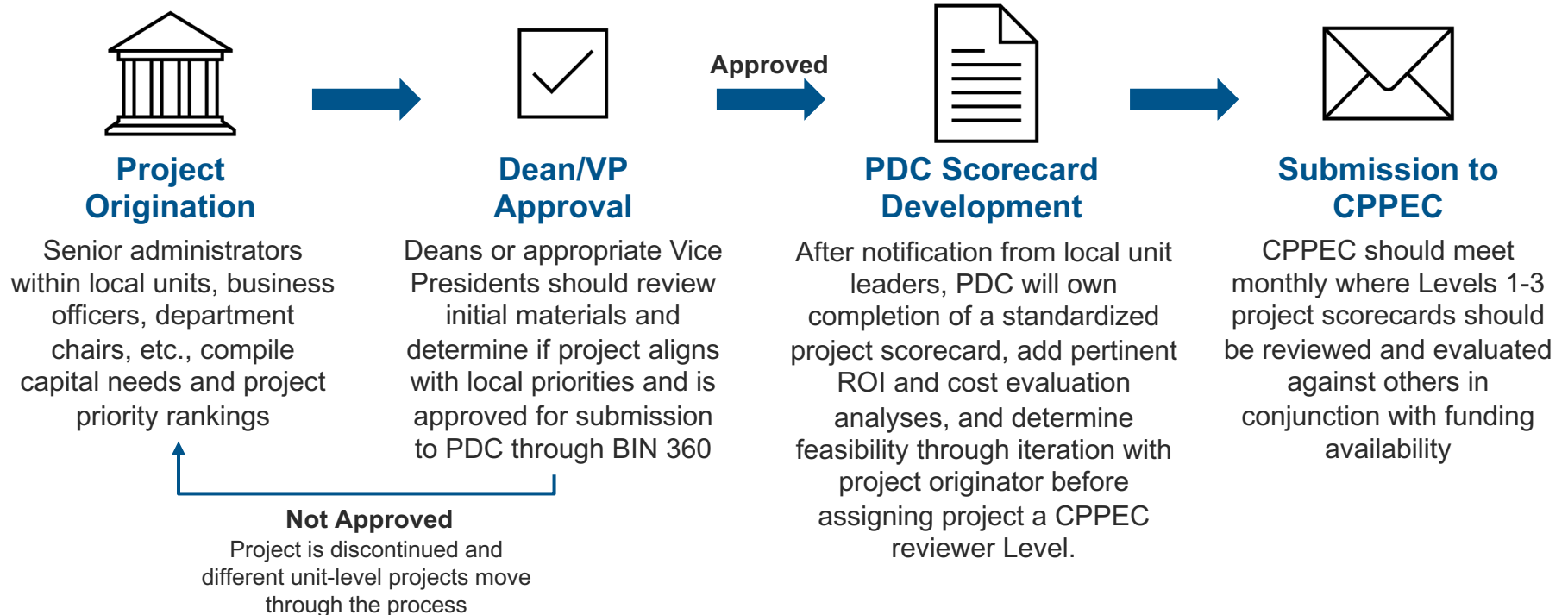


1. Public Education Capital Outlay  
2. Capital Improvement Trust Fund  
3. Planning, Design, and Construction

4. Capital Improvement Plan  
5. Construction Project Planning and Approval Executive Committee  
6. Exceptions to submission deadline will require additional explanation detail

# Strengthen Capital Project Governance (Local-Level)

Local units should align approval requirements and information submission standards for capital projects originating within their unit with PDC guidance to enhance consistency and efficiency.



# 4

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## Implementation Roadmap





## Benefits of Successful Implementation

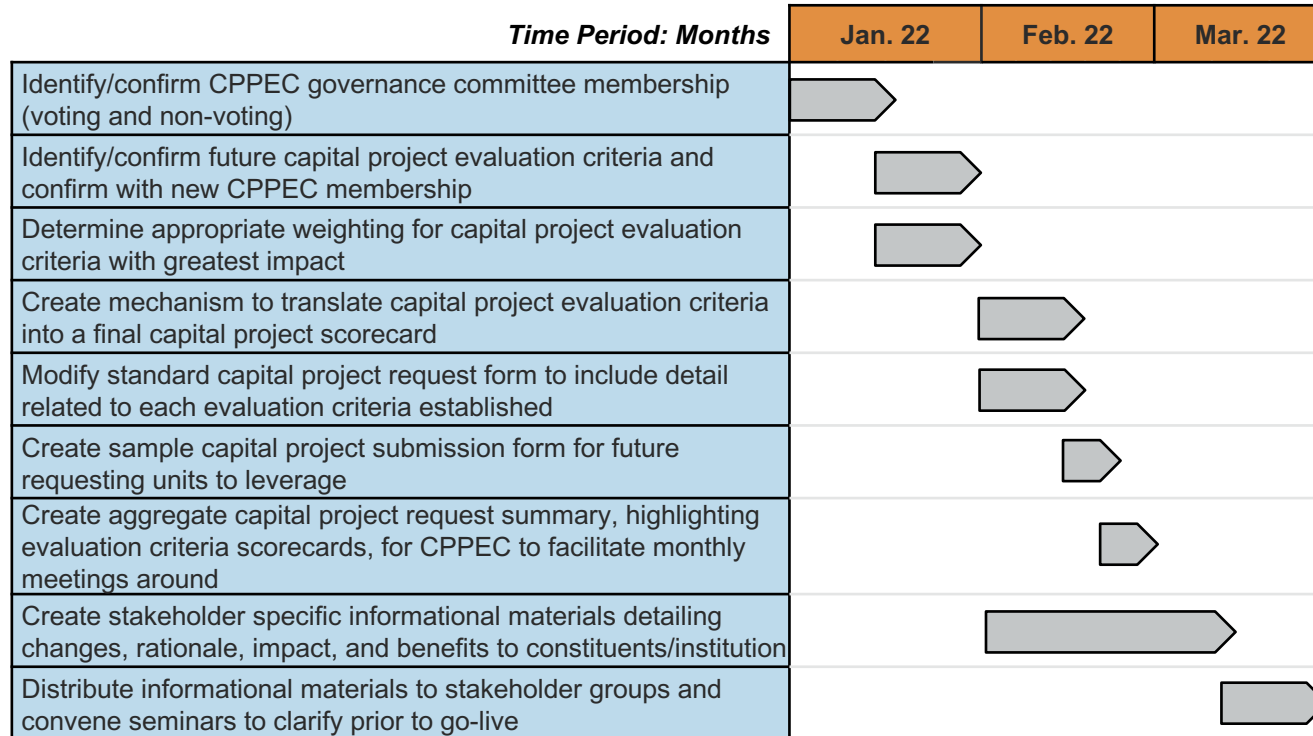
By addressing the identified barriers and frustrations identified through Huron's current state assessment with recommended tactics for a more effective practice, UF can expect to see the following outcomes.

	Benefit / Expected Outcome	How Does this Address the Current Problem?
All Funds Integration / Strategy Alignment	Enhanced ability for executive leadership to effectively <b>optimize use of institutional funds today vs. in the future and for what purpose or project</b>	Establishes clear criteria for local, requesting units to leverage in capital request process and creates equitable decision-making based on consistent criteria as opposed to perceptions of privileged colleges/units
Model Mgmt / Mechanics	A <b>consistent process</b> with clear roles for stakeholders involved <b>prevents duplication and rework</b> and aligns tasks to be done with relevant individual expertise or approval authority <b>to increase overall efficiency and effectiveness</b>	Provides clarity around information submission requirements, roles, responsibilities, timeline, and approval processes for capital request process
Effective Reporting	Comprehensive, <b>executive level financial reports</b> detailing available funding for capital project proposals as well as funding earmarked or committed for future use	Detailing resource commitments will help less knowledgeable stakeholders understand flow of funding and where comprehensive UF resources are being directed

**Huron has outlined implementation infrastructure needs and a roadmap for UF to immediately realize these benefits upon successful six-month implementation.**

## Draft Implementation Timeline: Capital Governance

As part of the larger implementation effort, Huron sees this effort being completed towards the end of the seven identified cases as there is no direct impact to model mechanics.

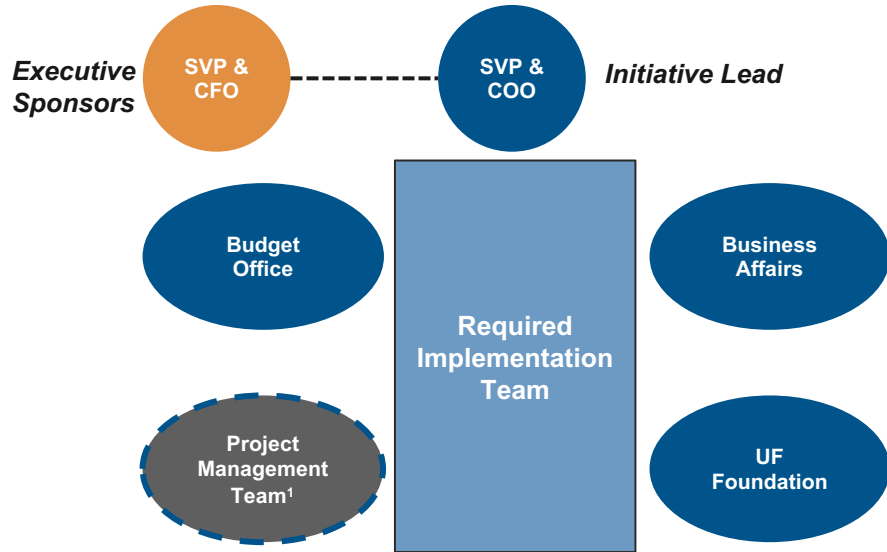


### Key Considerations:

- UF's homegrown capital project request and monitoring solution (BIM 360) will need to be reconfigured include new information submission requirements on the capital project request form
- Standardized information submission requirements centered around evaluation criteria will equitably and efficiently evaluate capital project requests
- Outside of the new capital project governance and evaluation criteria, PDC and requesting units will need substantial training and support to compile required information

## Implementation Team: Capital Governance

To successfully complete the implementation of this case, Huron recommends the following groups be actively involved over the coming months.



- Huron recommends that the implementation of this case is led by the SVP & COO given the position's responsibility over capital projects.
- Within the Business Affairs Office, Huron expects Planning, Design, and Construction to take a large role in the execution of this business case.
- Since a large majority of external funding for new capital projects comes from the UF Foundation, it is important they be involved in this effort.

1. While not required, Huron can assist this effort by coordinating University-wide progress, taking on workload, drafting communications, and ultimately expediting the implementation process.

# 5

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## Appendix



## Select Detailed Stakeholder Input on Capital Budgeting

Huron heard numerous frustrations with the capital budgeting process at UF, with a few of the most impactful paraphrased below.

Generating funding for capital projects is backwards, and **encourages strongarming by local units** who raise private money and turn to the university to fund the remainder

Standardized **capital budgeting process or structure is unknown** for local units

There is **no consistent financial package/materials** outlining project funding methods that required to be submitted to support decision making

The **requirement to secure a lead gift** from a donor prior to UF funding capacity **conflicts with donor desires to have UF match funding**

Planning, Design, and Construction's **1% charge for capital project planning feels duplicative** to the overhead assessment I pay for facilities

Committees regularly discuss capital project proposals that have no funding approaches identified resulting in **inefficient use of time and resources**

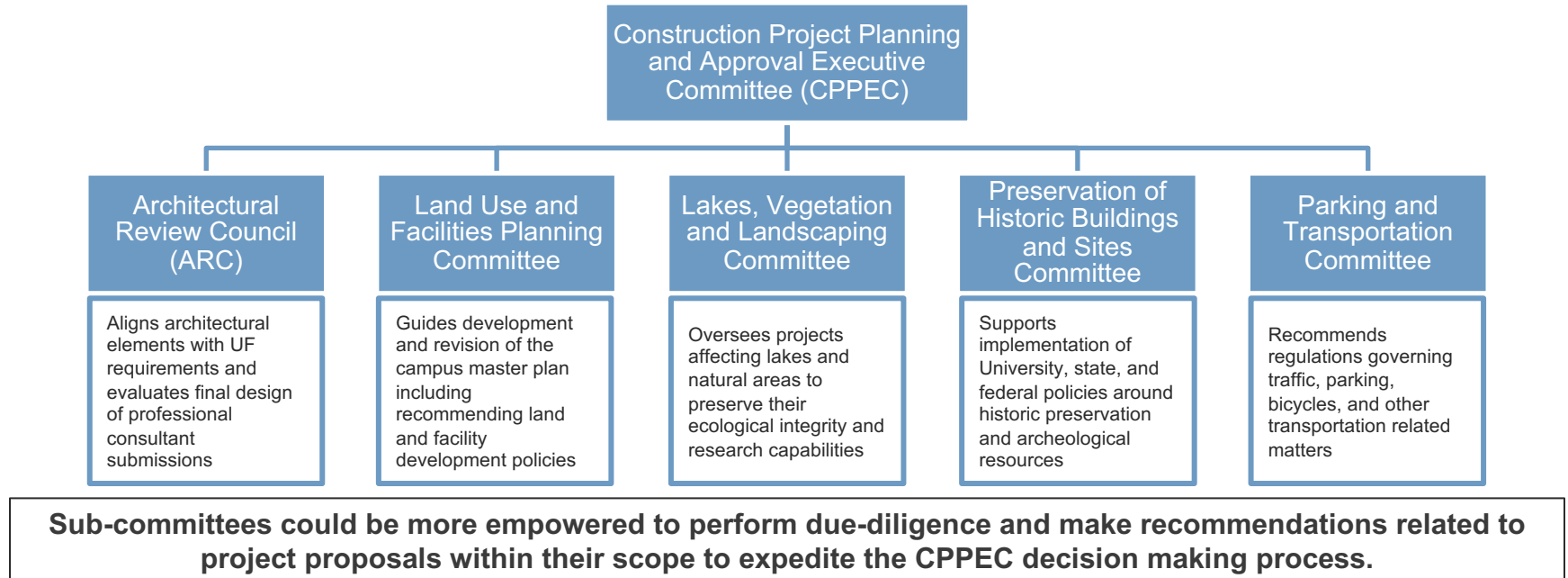
**Projects are evaluated independently** and with little comparative analyses against other capital projects in the queue

**No sophisticated, consistent criteria** to evaluate and prioritize capital project proposals is communicated to units

**Units able to identify funding sources for projects are prioritized** over most critical, strategic needs of UF

## Current State: Prioritization, Coordination, and Governance

The CPPEC maintains oversight of five specific sub-committees whose expertise is leveraged, and responsibilities or approvals delegated, as necessary, on a project-by-project basis.



## Current State: Prioritization, Coordination, and Governance

CPPEC serves as the integrated governance committee for all major components of UF and is accountable for balancing capital project demand with the limited resources and capacity to deliver.



### CPPEC Purpose

**Provides oversight** to best instruct the University and component units in the **physical plant** necessary to **advance the missions and strategic priorities of the enterprise** without directly competing or hindering growth of one component. Position implementation efforts and **investments** with the four initiatives included within **UF's Strategic Development Plan, Campus Master Plan, and UF strategic priorities.**



### CPPEC Charge

**Reviews initial project proposals** for purposes of determining whether a project should proceed to review by the BOT and President. The committee reviews the purpose and strategic impact, costs and availability of funds, and compliance with campus master plan and strategic plan. Critically, the CPPEC also provides **feedback to project originator to assist in coordination of campus development across units.**

### CPPEC Membership

#### Voting

<b>President</b>	<b>SVP COO (Chair)</b>
<b>SVP CFO</b>	<b>SVP Health Affairs</b>
<b>SVP Provost</b>	<b>VP Ag. &amp; Nat. Res.</b>
<b>VP Business Affairs</b>	

#### Non-Voting

<b>Executive Chief of Staff</b>	<b>VP Advancement</b>
<b>VP Facilities UF Health</b>	<b>VP General Council</b>
<b>VP Gov. Relations</b>	<b>VP MarComm</b>
<b>Asst. VP PDC*</b>	<b>Athletics Director*</b>

**Limited resource availability paired with an abundance of infrastructure modernization needs demands UF leadership pivot toward near term prioritization decision making compared to ad hoc project approval.**

## Current State: Financial Analysis and Reporting

UF's current mechanisms for capital construction cost projections are inconsistent and commonly require amendments that result in final construction costs varying significantly from initial budget estimations.

### Major Project Observations

- Despite a **5% standard project contingency** allowed by the BOG, **stakeholders mentioned greater variations in project budget estimations** as they go through approval processes and compared to final project costs<sup>1</sup>
- As state support for PO&M has flat-lined, a more intentional focus and **plan for new building ongoing maintenance costs is already under consideration** and will mitigate future liability
- Encumbrances are currently utilized to flag committed funding sources**, yet encumbered funds specific to a project are **difficult to report on** potentially resulting in liquidity issues
- Project cost estimations are based on a GSF cost per certain space type and extrapolated out to the total GSF of a new building. This provides rationale for differing space cost estimations, but **monitoring actual incurred costs at this level is challenging**

### Current Capital Project Projection Tools

PROJECT COMPONENT COSTS & PROJECTIONS									
Costs Funded By Date	Projected Costs								
	Year 1	Year 2	Year 3	Year 4	Year 5	Total			
Basic Construction Costs									
Building Cost (from above)	16,947,200					16,947,200			
Environmental Impacts/Mitigation	100,000					100,000			
Site Preparation	200,000					200,000			
Landscape / Irrigation									
Plant / Fertilizer									
Handicap Improvements									
Parking									
Telecommunications									
Electrical Service									
Water Distribution									
Sanitary Sewer System									
Other Water System									
Storm Water System									
Energy Efficient Equipment									
Subtotal Basic Const. Costs									
Other Project Costs									
Land / existing facility acquisition									
Professional Fees									
Free Material / Items									
Inspection Services									
Insurance Consultant									
Survey & Title									
Permit / Impact / Environmental Fee									
Artwork									
Movable Furniture & Equipment									
Project Contingency									
Subtotal Other Project Costs									
Total Project Cost									

PROJECT FINANCING									
Source									
State									
Local									
Federal									
Other									
Other Assessable - Business	1,100					1,100			
Other Assessable - Health Care									
Avail. Construction Cost									
Est. Construction Cost	30,422,700	1,900				30,424,600			
Historical NG Compare 1.08									
Harriet Weather Lab for Engineering						Comprehensive GSF Evaluation	\$2,235.50	Total Const. \$/GSF	\$51.03
						1.08 External Detail	\$5,000.70	Total Project \$/GSF	\$72.21

New School of Music Building											
PROJECT SPANS AND SUGGEST SUMMARY							UF-672		4/15/2021		
							Edition:		March 1, 2021		
Add for Inflation							2	Years	(6)	5.50 %	Effective Rate: 11.30 %
Add for Adjustment							Y	YN		Current Trending	RS Means Index: 3.06 %
Year Construction Start							2023				
Construction Phase Duration							1.0	Years			
Design Phase Duration							1.0	Years			
							Est. Budget: \$38,973,309				
							Target Budget: \$40,000,000				

*Note: Are proposed design criteria having significant impact or deviations upon project cost model development*

- The facility will require extensive sound attenuation properties for performance studios, office office, instructional, and practice spaces. Allowance for thick walls and sound attenuated materials should be included. This will also serve as impact mitigation ratio of affected spaces and overall building cost.
- 10 ceiling heights will be required in studio office and practice spaces. Allowance for additional area of finishes should be included.
- Allowance for Mechanical Equipment sound and vibration isolation impacts should be included.

SPACE SIMULATION (from Section IV Facilities Program)									
Program Space Type (Item Construction)	NARS	Factor	GSF*	7 GSF	\$				
Classrooms	15	1.5	225	309.56	\$0				
Teaching Laboratory	15	1.5	225	309.56	\$0				
Study Facilities	13,838	1.5	207,570	280,425.00	\$13,147,225.00				
Research Laboratory Facilities 200	200	1.5	300	409.56	\$0				
Research Laboratory Facilities 300	300	1.5	450	614.34	\$0				
Other Computer Facilities 200	6,544	1.5	98,160	132,864.00	\$6,562,972.00				
Other Computer Facilities 300	300	1.5	450	614.34	\$0				
Recreation / Exhibition Facilities	6,010	4.0	24,040	32,452.80	\$0				
Instructional Media		4.0		5,294.40	\$0				
Computer Support Services		4.0		5,294.40	\$0				
Residential		4.0		5,294.40	\$0				
Other Assessable - Athletics / Recreation (Recreational)		4.0		5,294.40	\$0				
Other Assessable - Business	1,100	1.500	1,650	2,223.91	\$734,643.21				
Other Assessable - Health Care		1.75		556.91	\$0				
Avail. Construction Cost					\$0				
Est. Construction Cost	30,422,700	1,900	30,424,600		\$2,919,024.00				

Historical NG Compare 1.08									
Harriet Weather Lab for Engineering						Comprehensive GSF Evaluation	\$2,235.50	Total Const. \$/GSF	\$51.03
						1.08 External Detail	\$5,000.70	Total Project \$/GSF	\$72.21

**While complete accuracy on financials related to capital project construction is impractical, strengthening UF's current tools and approaches may reduce institutional financial liability.**



## Current State: Sources and Uses Optimization

A One UF view of all available resources for capital or other uses is not regularly provided to key stakeholders, resulting in misconceptions over the resources available for discretionary use.

### Major Project Observations

- UF's approach to identifying **discretionary funding available for capital projects** and strategic initiatives is **siload and lacks a comprehensive visibility** of all component unit available funding
- Stakeholders indicated the perception that **if a college can secure partial funding via a private donor**, the institution is significantly more likely to identify funding to support that project
- Huron heard limited commentary around ensuring the **colors of money were being utilized optimally and within compliance**

Category	Project Title/Name	Total Projects Cost	Funding Source(s) Source	Amount	Funds Expended to Date	Funds to be Expended This Year	Remaining Balance	Project Timeline Start Date	Completion
<b>Education &amp; General (E&amp;G) Operating Projects</b>									
Consolidated list item of all FCO-operated projects funded from E&G operating funds, approved by Board regulation 14.003.01 and 3.001. No individual project expense.		\$2,200,000	E&G Operating Funds	\$2,200,000	\$0	\$2,200,000	\$0		Not Applicable
<b>Minor Carryforward (CF) Projects</b>									
Consolidated list item of all FCO projects with a cost of less than \$2M funded from E&G CF funds, pursuant to Board regulation 14.003.02. Includes replacement of.		\$34,616,417	E&G CF Funds						
<b>Major Carryforward (CF) Projects</b>									
Any FCO project funded in whole or in part from CF funds, where total individual FCO project cost exceeds \$2M. Includes replacement of.									
(Various) Steam Mainhole Repair and Rehabilitation	\$2,232,000		E&G CF						
(UT-338) Holland Law School Hot Water Conversion and Other Repairs	\$6,600,000		E&G CF						
(Various) Campus Safety	\$5,000,000		E&G CF						
(Various) Dental Sciences Building Deferred Maintenance	\$4,250,000		E&G CF						
(UF-458) Campus Landscape and Open Spaces	\$5,000,000		E&G CF						
(UF-562) SW Campus Transportation Improvements	\$10,536,000		E&G CF						
(UF-644) Inner Road Surface Paving Improvements	\$5,000,000		E&G CF						
<b>Source of Funds</b>		<b>FY20 Capital Amount<sup>1</sup></b>							
E&G CF Funds		\$52,315,226							
Auxiliary		\$38,630,911							
Debt		\$21,582,867							
Grant		\$10,643,777							
UF Strategic Funds		\$9,646,266							
CITF		\$9,290,029							
E&G Operating Funds		\$2,200,000							
Donor		\$1,039,250							
Component Unit		\$51,025							
<b>Total</b>		<b>\$145,399,351</b>							

### Available Capital Funding Sources

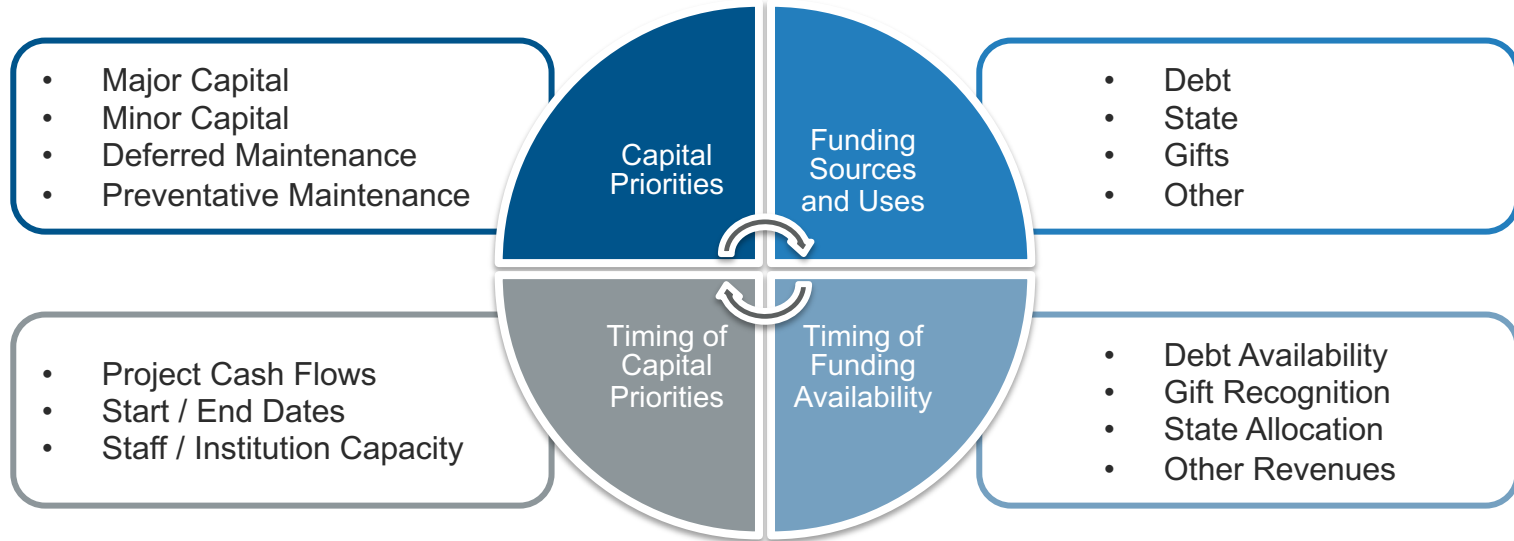
Donor	Auxiliary	PECO / CITF	E&G Operating	E&G Carry Forward	Grant	Debt
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Current FY20 FCO Budget details funding uses, but a comprehensive capital funding sources picture is not clear

**Establishing greater capital funding source transparency provides insight into the colors of money available and encourages more effective use of unrestricted funding sources.**

# Industry Best Practice Components of Capital Budgeting

An effective approach to capital budgeting is informed by four components: Capital Priorities, Funding Sources, Timing of Capital Priorities, and Timing of Funding Availability.



**Traditional higher education approaches to capital budget involve relatively short-term tactics (1-5 years) to address a long-term outcome (+30 years) resulting in suboptimal capital budgeting strategies.**

