



Overview of University Budget and Budget Model

March 10, 2022

Agenda

- **Overview of the university's operating budget**
 - Defining the university's financial structure
 - Identifying primary revenue and expense components and their complexities
 - Reviewing university's financial progress
- **Transition to new budget model**
 - Explaining why we budget
 - Detailing reasons for changing budgeting approach
 - Explaining new budget model components, its advantages, and how it works
- **University's financial progress**
 - Evidence of significant improvement in financial position
 - Understanding need to avoid repeating the past

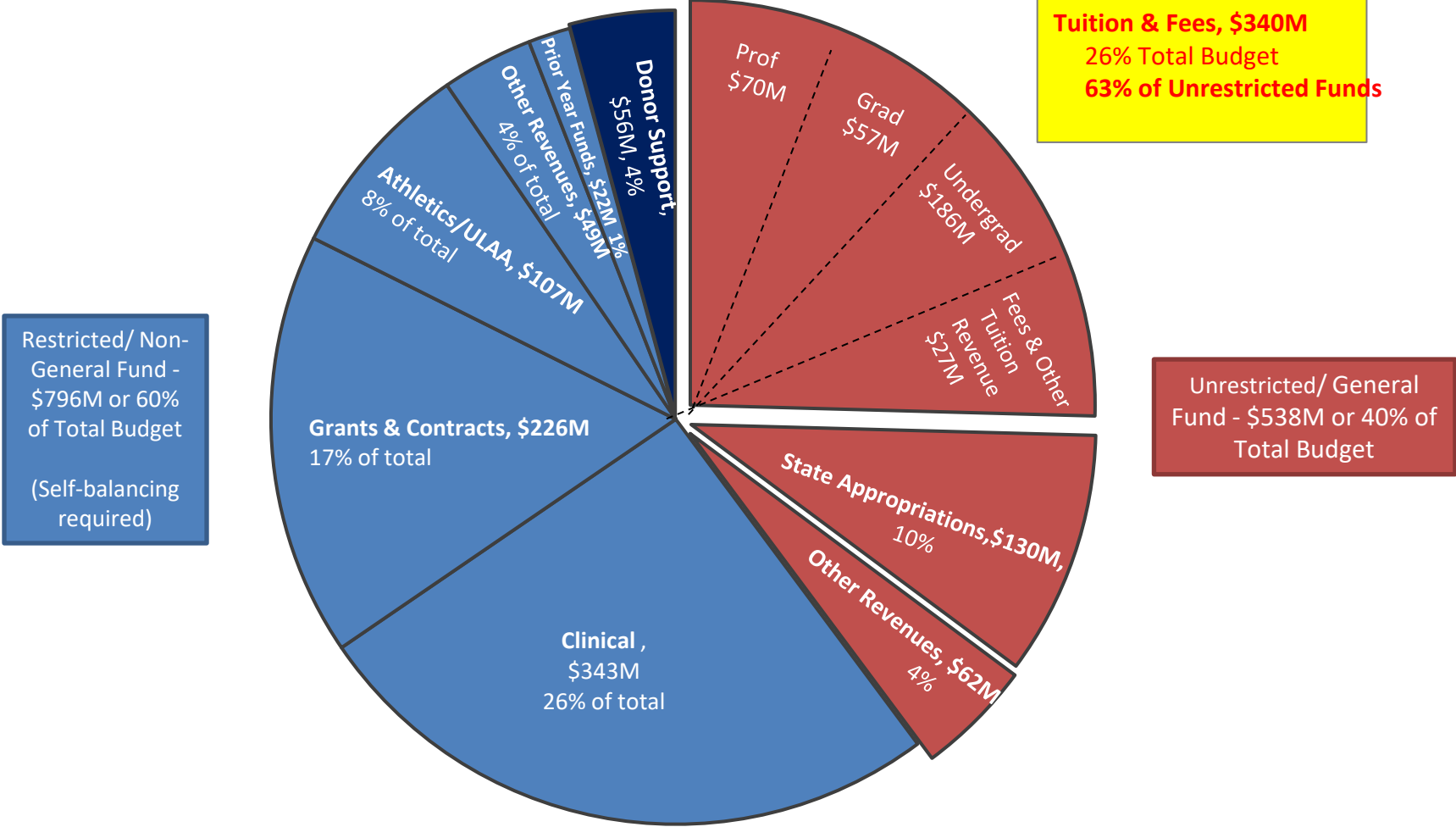
Overview of UofL's Budget and Financial Structure

Budget and Financial Structure

- **Component units within the University's operating budget***
 - University of Louisville stand-alone entity
 - University of Louisville Research Foundation
 - University of Louisville Athletic Association
- **What is NOT in the University's operating budget?**
 - University of Louisville Health (hospitals and physician plans)
 - University of Louisville Foundation
 - University of Louisville Real Estate Foundation

** Funds transferred to/from the University from University of Louisville Health and the University of Louisville Foundation are included in the University operating budget.*

Sources of UofL Funding

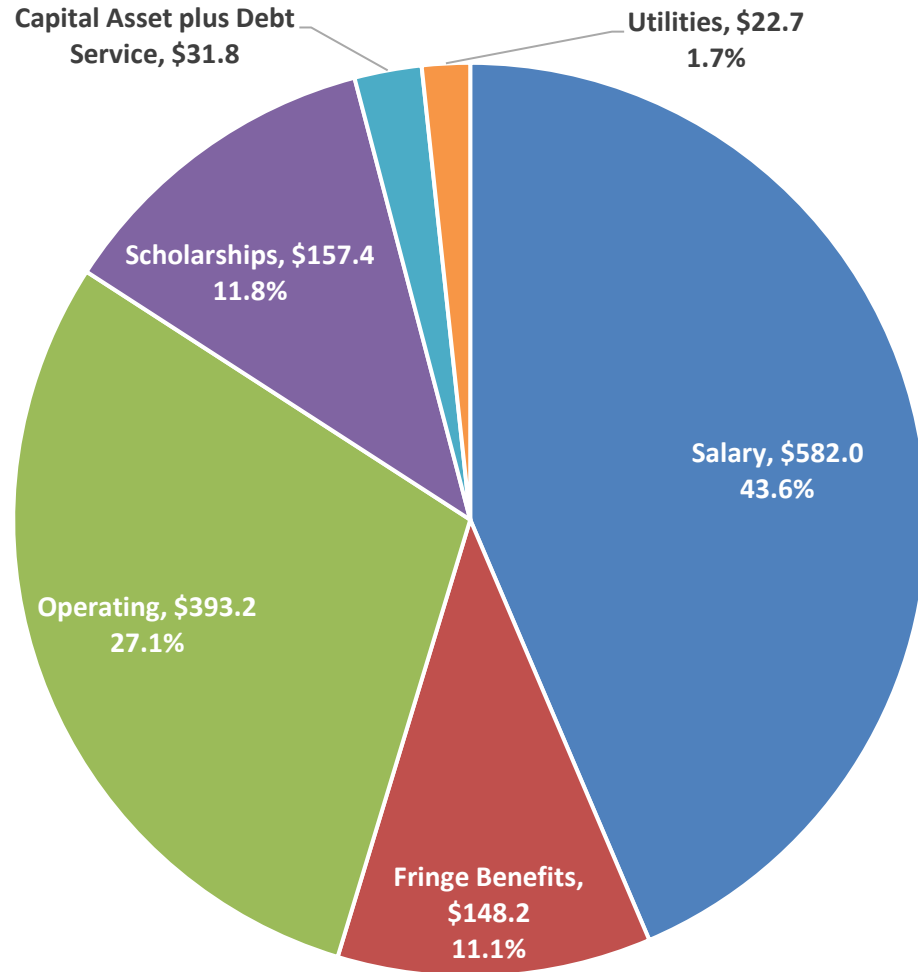


FY 2022 Sources of Funds

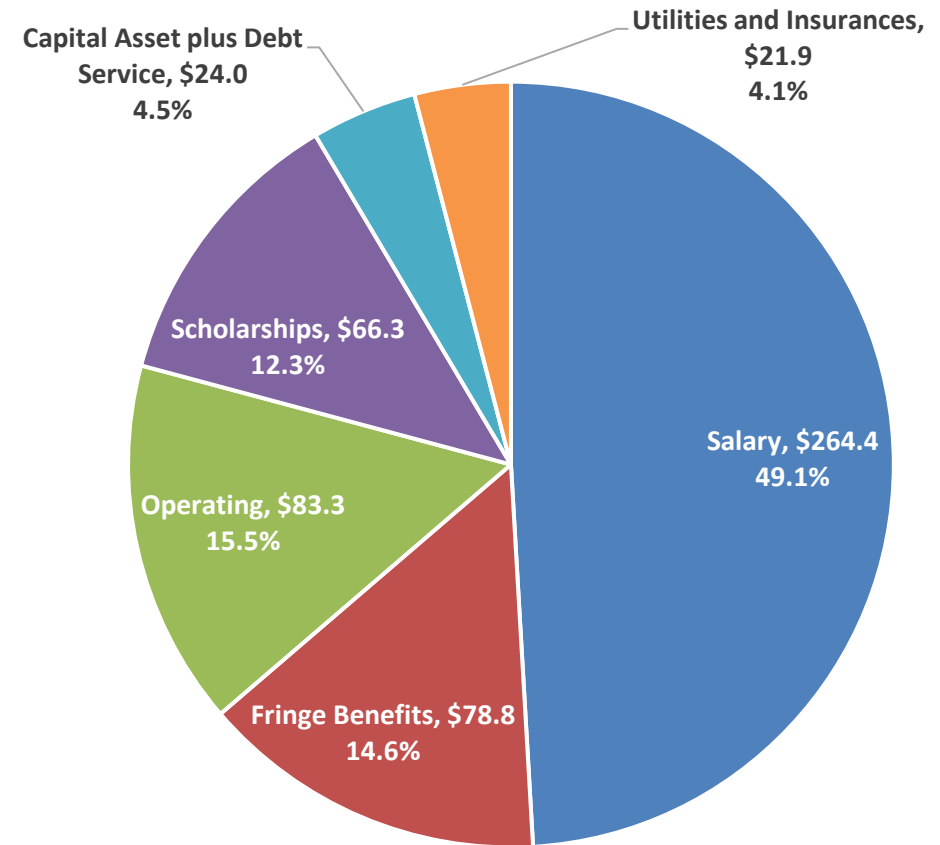
What We Budget and Where It Comes From

Revenue Category		Description
Non-general Fund		
	Clinical	Patient care services and laboratories performed by faculty & staff
	Grants and contracts	Research funding from federal government and others; federal student aid
	Gifts and endowments	Reimbursement from UofL Foundation for allowable costs
	Athletics	ACC conference; media; ticket sales; stadium and arena suites; licensing
	Other	Miscellaneous sources such as residuals on grants; research infrastructure
General Fund		
	Tuition and fees	Revenues associated with student enrollment in courses
	State appropriations	Amount approved by General Assembly; partially based on performance
	Other	Includes housing, parking, dining, investment income, etc.

Where UofL Allocates its Limited Financial Resources



All Funds = \$1.3 Billion



General Fund = \$538.7 million

The Distribution of our General Fund Budget: Every Dollar Has Defined Purpose

- There are no “unallocated” general fund dollars - we budget everything we expect to receive
- An increase in a budget must come from unbudgeted revenue increases or reductions of other current budgets
- Over 80% of our General Fund Budget is allocated to academic units and other mandatory fixed cost items (ex. utilities, student aid, insurance)

Budget Category	FY 2022 (in \$ millions)	% of Total
Allocated to Academic Units	290.9	54.0%
Inst. Student Financial Aid	56.4	10.5%
Physical Plant (Facilities)	24.2	4.5%
Debt Service	24.0	4.5%
Utilities	20.9	3.9%
IT Services	14.5	2.7%
Auxiliaries	13.9	2.6%
EVPRI (Research)	11.4	2.1%
Mandatory student fees	9.8	1.8%
President & Inst Support	9.7	1.8%
Delphi Center	9.5	1.8%
Environ. Health, Procurement, Bus Ops	9.4	1.7%
Advancement, Comm. Engage.; Other	7.4	1.4%
Finance	5.3	1.0%
Admissions	5.2	1.0%
Campus Police & Public Safety	4.8	0.9%
Provost & Academic Affairs	4.3	0.8%
Insurances	4.1	0.8%
Student Health Services	3.5	0.7%
Bad Debt Expense	2.9	0.5%
Human Resources	2.7	0.5%
Audit & Compliance	1.8	0.3%
Campus building & grounds repairs	1.1	0.2%
Faculty Promotions	0.5	0.1%
State Restricted	0.3	0.0%
Dean Recruitment	0.1	0.0%
Total General Fund Expense Budget	\$ 538.7	100.0%

History of University's Budget Models

Budget Basics

- What is a budget?
 - Prioritized allocation of limited financial resources
- What is a budget model?
 - Methodology / process used to determine the allocation of financial resources
- Primary budget model goals:
 - Clear rules of operation / transparent
 - Consistent operation
 - Incentive-driven
 - Predictable (allows for long-term planning)

Why did the University change budget models?

- To establish clear link between outcomes (e.g., credit hours produced; student enrollment) and allocation of general funds
- To provide transparency about how general funds are allocated
- To incentivize creation of degree programs that attract new students and improve student retention among existing students
- Provide opportunity to develop longer-term financial plans

Long road to the new budget model

- Provost and CFO established budget model workgroup in Fall 2018
Workgroup composed of: faculty, staff, administrators, and students
- Workgroup submitted recommendations to university leadership in Spring 2019 which were endorsed
- Workgroup reconvened Fall 2019 to finalize structure and operationalize model
- Shared information with academic units, CAO group, and fiscal officers
- New budget model rolled out to academic units in January 2020
- Basis for FY 2021 general fund budgets

University's Budget Model

Mechanics: Five Budget Model Components

- Undergraduate credit hours instructed
 - Graduate tuition revenues
 - Professional tuition revenues
 - Self-generated revenues
 - Revenue Allocation Adjustment
-
- Variable
(outcome driven)
- Fixed*

Undergraduate Component

- **What is it?**
 - Allocates dollar amount (\$331 starting FY 2023) per undergrad credit hour instructed to college teaching the course; student major is not a factor
 - Greater than previous distance education rate
 - One exception is dual credit = \$57.50 per credit hour allocation
- **What's included?**
 - All 100 to 600 level courses (starting FY 2023) taken by undergraduate students
 - Final grade does not impact academic unit dollar allocation
 - Residency does not impact academic unit dollar allocation

Graduate Tuition Revenue Component

- **What is it?**

- Academic units receive 75% of graduate tuition revenue (less mandatory fees)
- Based on student's home academic unit
- Gross tuition revenues before any financial aid

- **What's not included?**

- Students who take courses outside of their home academic unit (e.g., an MBA student who takes a leadership course in the College of Education)
 - Reason: simplicity
 - Workaround: deans set individual agreements on tuition revenue allocations

Professional Tuition Revenue Component

- **What is it?**
 - Academic units receive 85% of professional tuition revenue (less mandatory fees)
 - Based on student's home academic unit
 - Gross tuition revenues before any financial aid
 - Includes CPE-recognized professional degrees: DMD, JD, MD

Self-generated Revenue Component

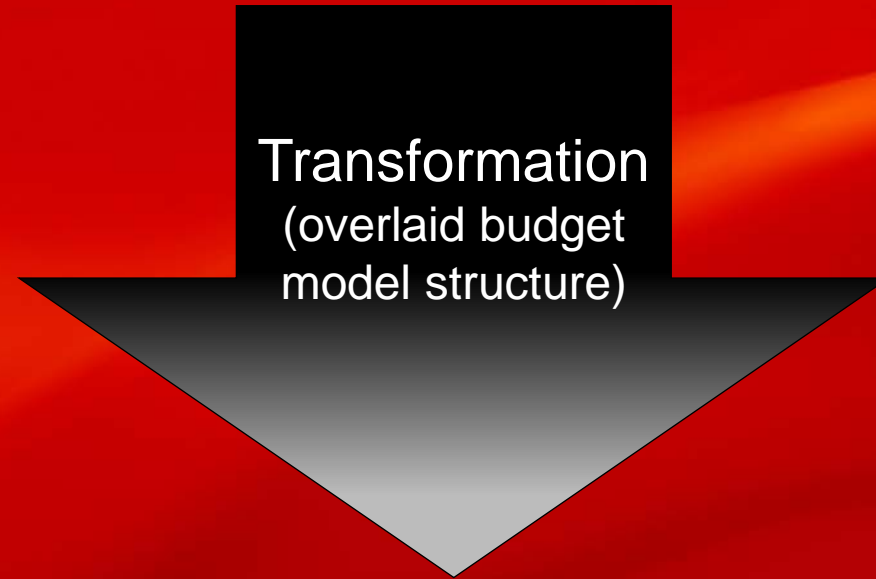
- **What is it?**
 - 100% of revenues generated from course and lab fees, conferences, etc. allocated to units

Revenue Allocation Adjustment Component

- **What is it?**
 - After calculating undergraduate, graduate, professional and self-generating components, adjustment reflects amount needed (+/-) to equal unit's FY 2020 adopted budget
 - Every unit's revenue allocation adjustment has increased each year of the new budget model

Transition to New Budget Model

- **Adopted FY 2020 general fund expenditure budget**



- **Same FY 2020 general fund expenditure budget but based on budget model components (known as “Base Year”)**

Transition to New Budget Model

Model Components

Undergrad + Grad + Prof + Self-generated + RAA = FY20 Adopted

Solve for “RAA”:

RAA = FY20 Adopted – Undergrad – Grad – Prof – Self Generated

Example of Transition to New Model: College of Letters

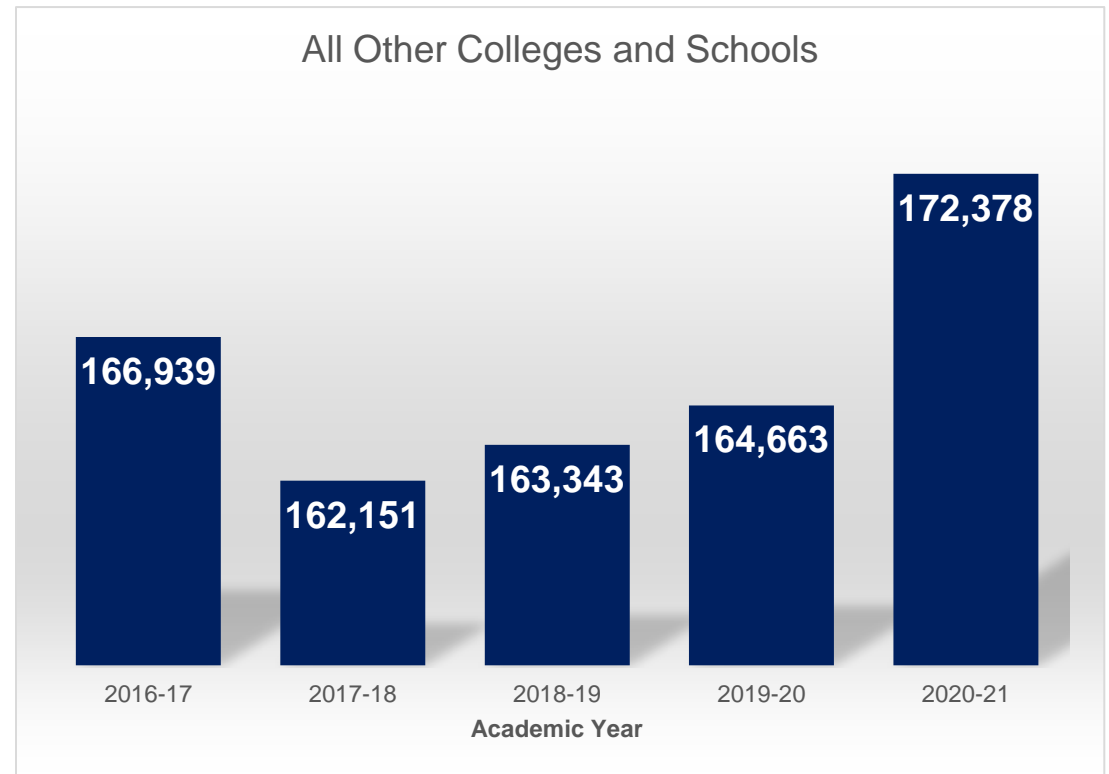
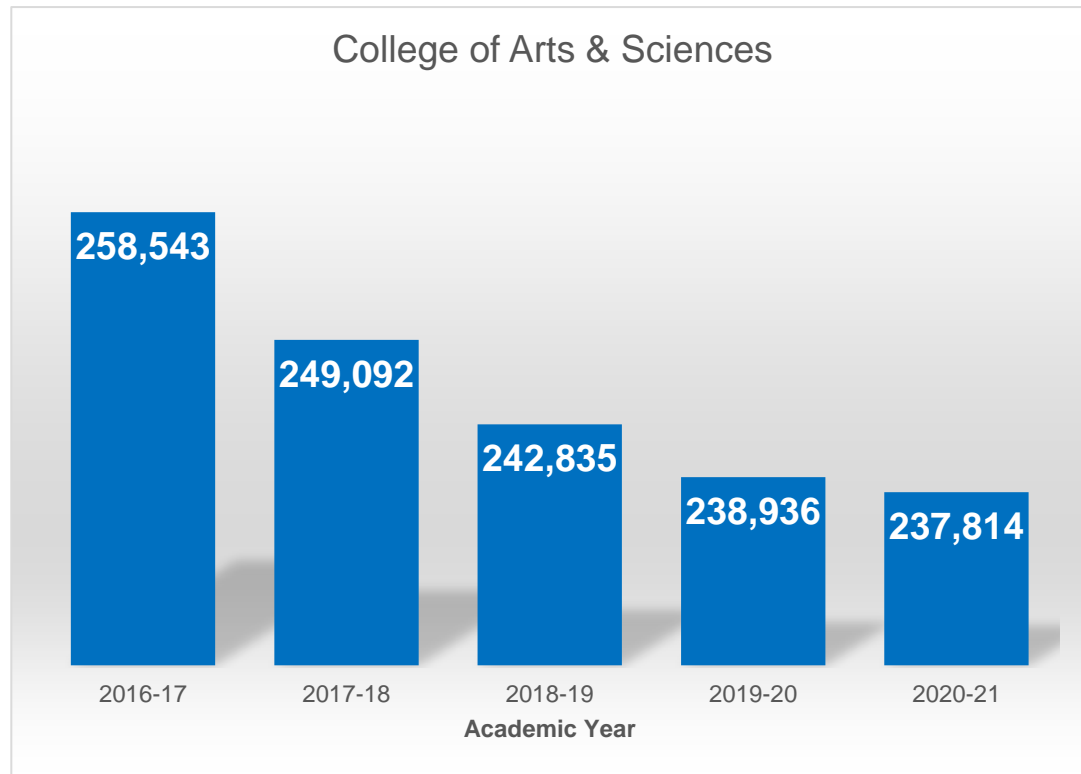
	FY 2020 Adopted Budget	FY 2020 "Base Year"
General Fund Revenues		
1) Undergraduate tuition	0	\$2,000,000
2) Graduate tuition	0	\$1,000,000
3) Professional tuition	0	0
4) Self-generated	\$1,000,000	\$1,000,000
<u>5) Appropriated / Rev. Alloc. Adj.</u>	<u>\$4,000,000</u>	<u>\$1,000,000</u>
Total Revenues	\$5,000,000	\$5,000,000
General Fund Expenditures	\$5,000,000	\$5,000,000

Same amounts!

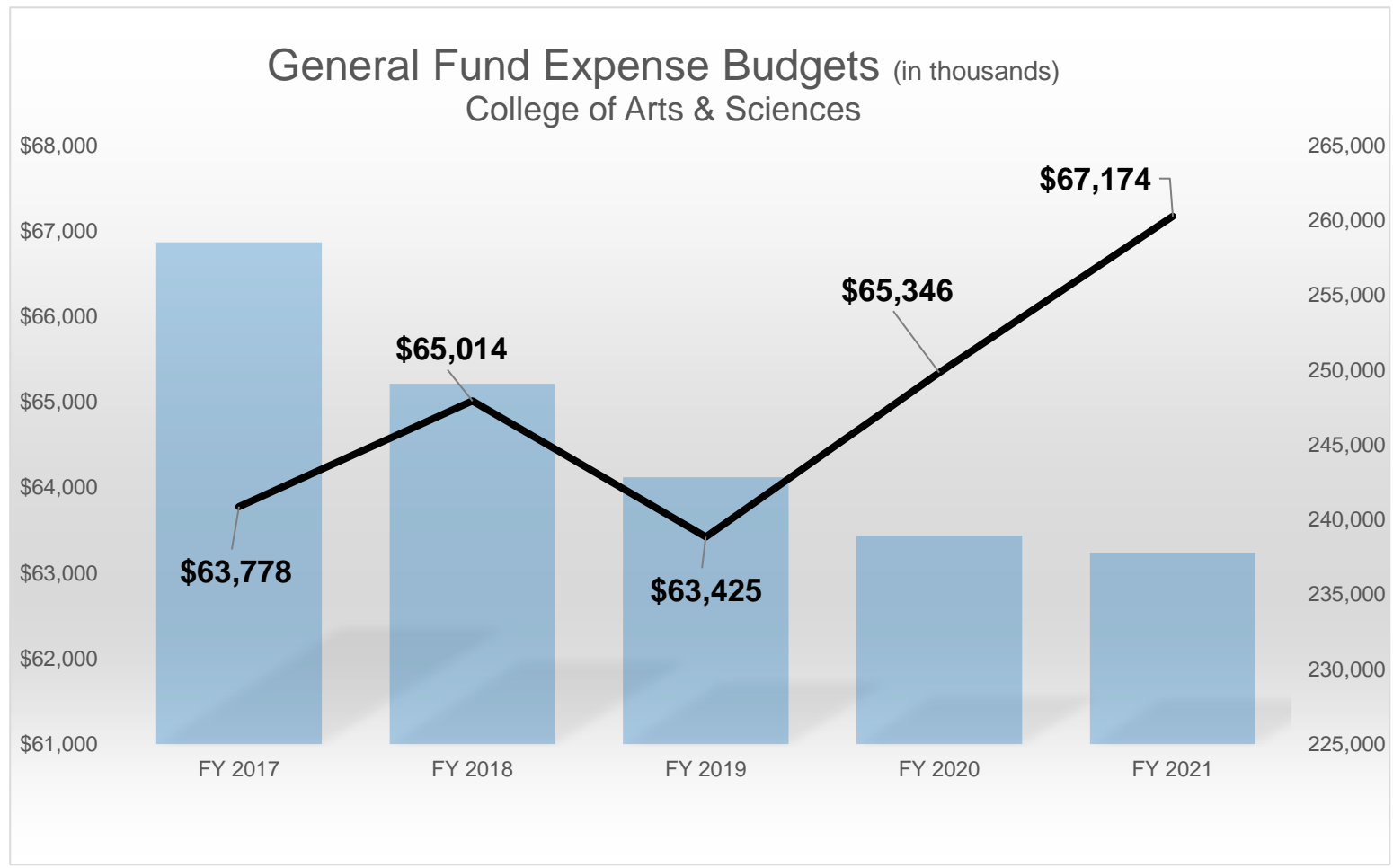
A few more words about the “Revenue Allocation Adjustment”

- **Has the amount changed since the transition year?**
Yes. Academic units received \$6.1 million more in FY 2022 compared with FY 2020 transition year. Amounts increased for every academic unit.
- **Where did the \$6.1M come from?**
Other parts of the university had fewer new dollars allocated to them.
- **Does the amount indicate that my unit is over/under funded?**
No. The amount simply balanced the revenue allocated to a unit via the new budget model with its already adopted general fund expense budget. It was not a normative statement about how much funding a unit should or should not have.

Undergraduate Student Credit Hours: AY 2016/17 thru 2020/21



General Fund Expense Budgets: FY 2016/17 thru 2020/21



A&S General Fund Expense Budget Plan: FY 2022

Change from FY 2021

- Tuition revenues: -\$ 2,612,346
- Revenue Allocation: +\$ 984,811
- Use of reserves: +\$ 800,000
- Increase endowment use +\$ 650,000

Our Financial Progress under the New Budget Model

New budget model in action...

	FY 2019 and FY 2020 <u>Prior</u> to new budget model	FY 2021 and FY 2022 <u>With</u> new budget model
Change in Academic Unit General Fund Expense Budgets	+ \$1,689,811	+ \$16,578,873
Academic Unit General Fund Expense Budgets as % of Total	47.0%	49.2%

- **Budget model resulted in 10x marginal increase for academic units**
- **Places academic units in driver's seat**
- **Clearly links activities to financial resource allocations**

General Fund Expense Budgets: FY 2020 to FY 2022

	FY 2020	FY 2021	FY 2022	Change
Academic Units	244,454,962	252,130,091	261,033,835	16,578,873
Support Units	179,148,690	182,990,885	177,994,079	(1,154,611)
Libraries	17,081,048	17,125,703	17,673,924	592,876
Grad School	12,204,184	12,208,638	12,222,400	18,216
Student Affairs	14,296,484	17,692,711	22,912,418	8,615,934
University-wide	48,139,962	54,713,550	46,814,196	(1,325,766)
Total	\$515,325,330	\$536,861,578	\$538,650,852	\$23,325,522

Funding Source Changes for Academic Units

	FY20 to FY21	FY21 to FY22	Total Change
Tuition and fees (per budget model)	3,980,629	6,473,476	10,454,105
Revenue Allocation Adjustment	3,694,500	2,430,269	6,124,768
Change in GF Expense Budget	\$7,675,129	\$8,903,744	\$16,578,873

Revenue Allocation Adjustments

\$1.6M redirected from support units to provide additional support to colleges/schools

~\$2.7M for cost of living increase (January 2020)

~\$1M for faculty promotion cost increases

~\$0.8M various financial requests from deans (e.g., start-up/offer letters)

Sources of General Fund Revenue Changes: FY 2020 to FY 2022

Academic Unit	Tuition & Fee Allocations	Revenue Allocation Adjustment	Total
Arts and Sciences	(1,596,412)	1,796,505	200,093
Business	4,726,306	236,732	4,963,038
Dentistry	2,638,006	402,018	3,040,024
Education	(714,701)	501,937	(212,764)
Kent School	1,038,164	140,288	1,178,452
Law	(913,868)	857,279	(56,589)
Medicine	2,745,925	700,785	3,446,710
Music	(11,077)	120,877	109,800
Nursing	454,601	119,968	574,569
Public Health	1,347,977	463,004	1,810,981
Speed School	739,185	785,375	1,524,559
Total Academic Unit Allocations	\$10,454,105	\$6,124,768	\$16,578,873

Lack of financial incentive and strategic alignment...

Prior Strategy (pre-2018)

Top Down – Central Drives Budget Allocations

“Use it or lose it” mentality to spending

Limited transparency on financial allocations

Limited unit incentive to grow enrollment/retain



Now

Local / College Control

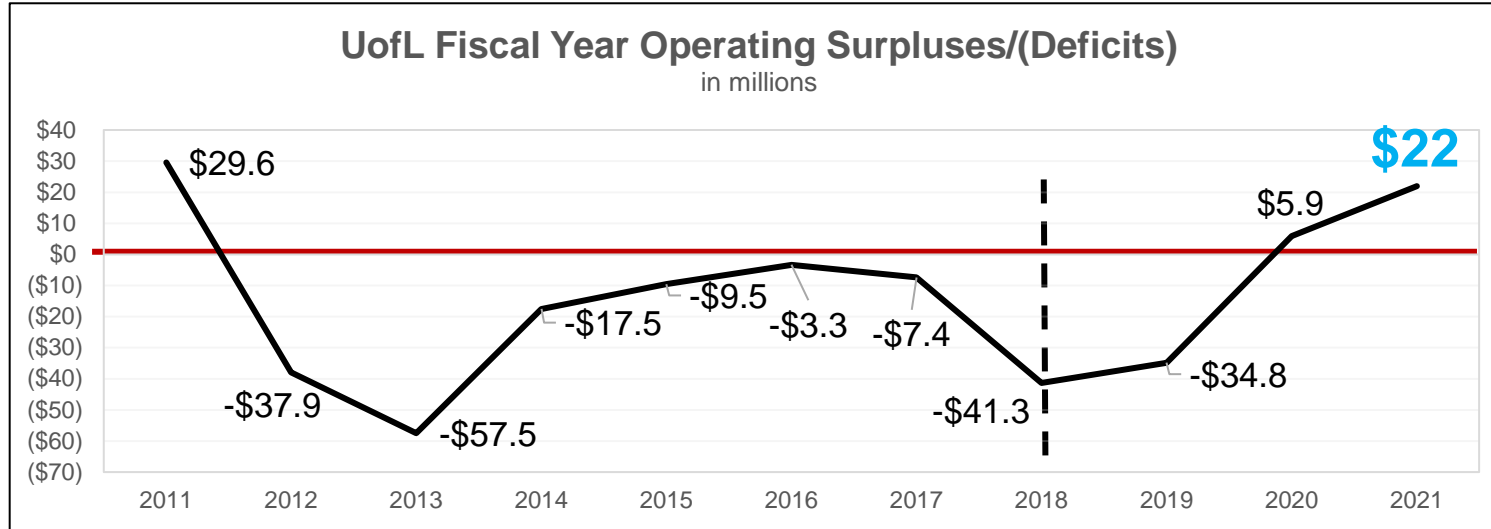
Ability to save and plan long-term
(\$37M allocated via year-end gain share)

Clear allocation methods; participatory
(Budget projections submitted by college/school)

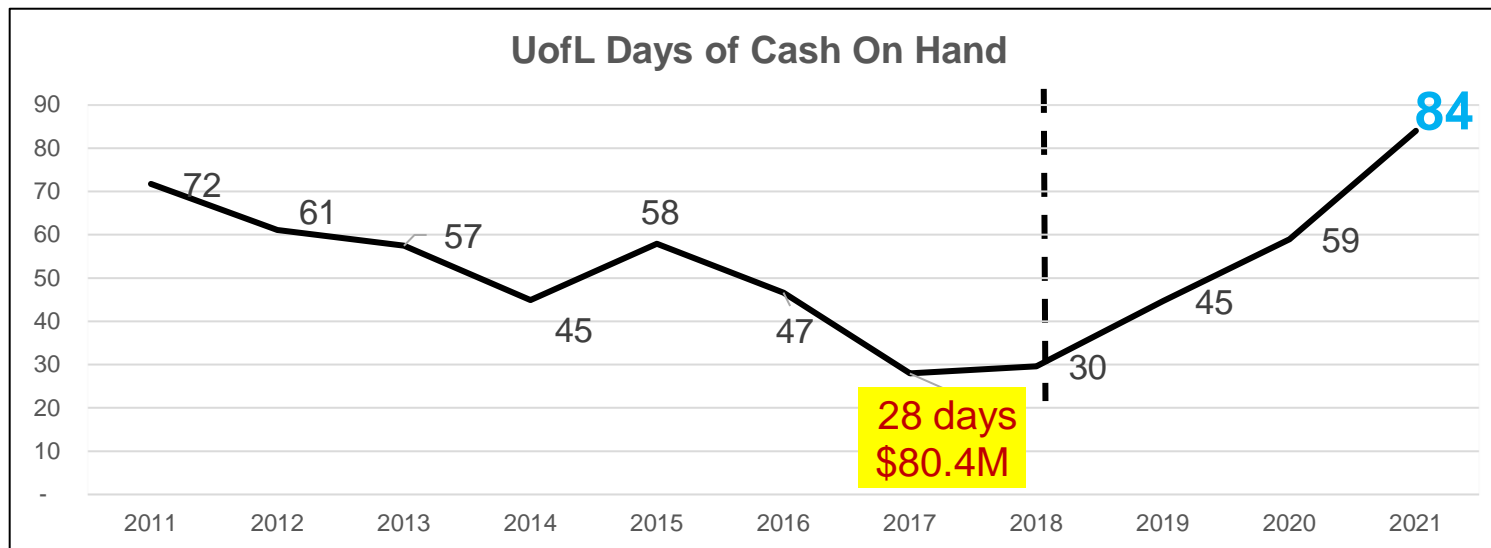
Financial resources linked with enrollment
(Academic unit budgets increased \$10M)

Historic Operating Results

(source: UofL audited financial statements and excludes UofL Health margin share in FY20)



**\$179 million
cumulative operating
loss through 2019**



Opportunities to Increase Resource Allocations

- **Instruct more undergraduate credit hours**
New students OR retain existing students
- **Increase graduate and / or professional tuition revenues**
Accomplished through new students, relatively more non-resident students, and tuition rate increases
- **Increase self-generated revenues**
100% of conference revenues, fees, etc. retained by unit (general fund)
- **Look for ways to maximize the resources you already have (use APS!)**

Budget & Finance Reference Sources

- **UofL financial statements**
 - <https://louisville.edu/finance/controller/univacct/finst-1>
- **FY 2022 operating budget**
 - <https://louisville.edu/finance/budget/opuds/2122/opbudbook2022>
- **Student tuition and fees (Bursar's Office)**
 - <https://louisville.edu/bursar/tuitionfee/tuition-rates-2021-2022>
 - <https://louisville.edu/bursar/tuitionfee/university-fees-2021-2022>
- **University financial policies**
 - <https://louisville.edu/policies/policy-and-procedure-library/#finance>

