



Item: v.

Monday, September 30, 2024

SUBJECT: The University Operating Budget Redesign

PROPOSED BOARD ACTION

Informational Only, no action is necessary.

BACKGROUND INFORMATION

University Staff and Deloitte Consulting will provide the Board of Trustees an update on the Operating Budget Redesign.

IMPLEMENTATION PLAN/DATE

June of 2025.

FISCAL IMPLICATIONS

N/A.

Supporting Documentation: Draft Budget Model

Presented by: Mr. Jayson Iroff, Vice President Financial Affairs and CFO

Budget Model Design & Testing

**BOT Budget Model Redesign
Presentation**

September 30, 2024



Deloitte.



Today's Goals & Objectives

Today's topics include:

1. Provide an overview of the Budget Model Redesign Project effort to date and roadmap going forward
2. Describe the model design process & key decisions resolved by the governance committees
3. Share preliminary model output and results
4. Outline next steps for model socialization and implementation



Deloitte Project Team



Scott Friedman
PROJECT PARTNER

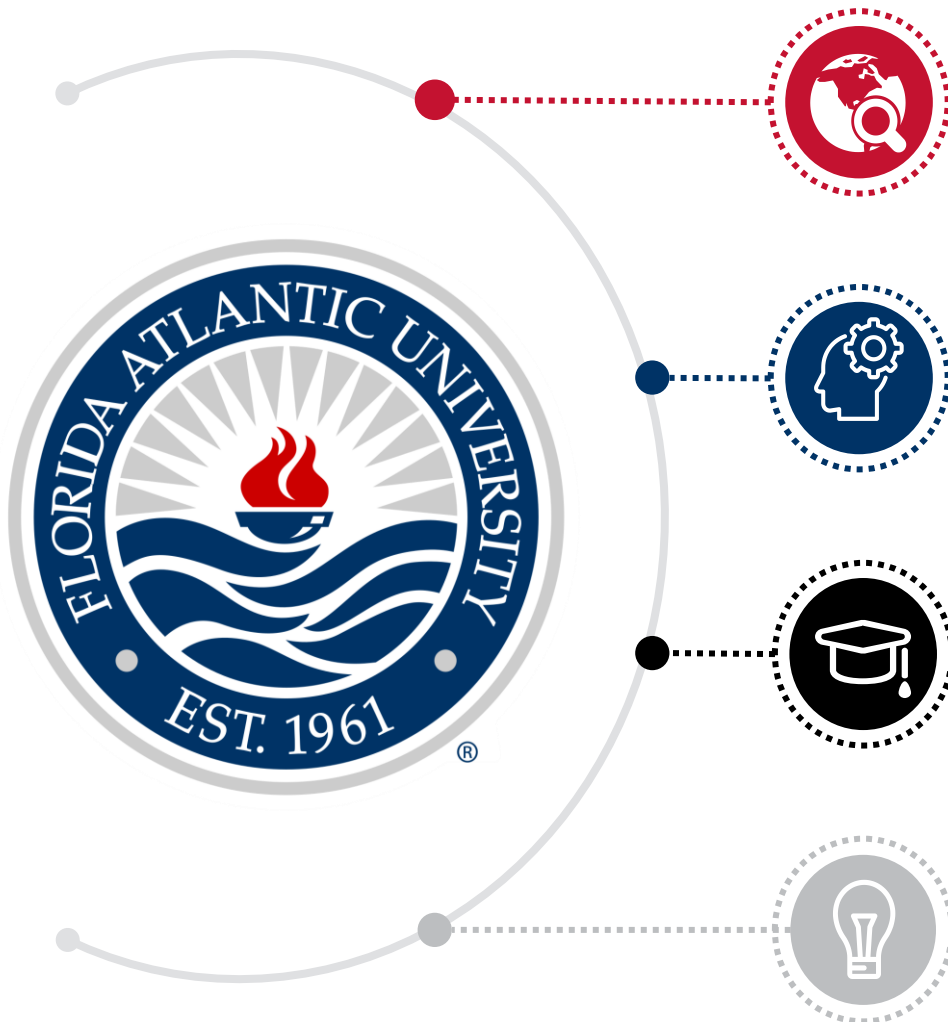


Collin McWilliams
PROJECT LEAD



Trevor Lobaugh
PROJECT MANAGER

Case for Change



FAU is on an ambitious path to become the country's fastest improving public research university...

- FAU will acquire **Carnegie R1 Doctoral** status in 2025 and is in pursuit of the **US News Top 100** list through growing research and continuing to expand its world-class faculty, staff, and student body.
- FAU also seeks to better serve the surrounding area's healthcare needs through the **expansion of FAU Health**.

Yet operates on a rigid, incremental budget model that does not create incentives for innovation nor empower leadership and reward performance...

- University leadership consistently voiced through interviews that FAU has outgrown its current-state budget model and a new model that provides **mission-aligned incentives** is needed.
- The current budget model **does not consider enrollment trends**, student credit hour activity, research activity, or state performance metrics tied to FAU's mission.

And does not tie funding to strategic goals or reserve funding to further leadership priorities...

- The current budget model **limits the University's ability to measure contributions** to strategic goals and adapt if performance lags behind expectations.
- The current budget model is not intentional in how it allocates funding for leadership priorities.

Creating the need for an enhanced budget model that fits the goals and aspirations of the University it serves

- To accelerate progress on strategic priorities, the University needs a budget model that **allocates resources transparently**, creates a single source of truth, and provides a strong infrastructure for informed decision-making.
- Stakeholders are eager to move forward and the University must implement the new model in an **understandable way that promotes long-term adoption** and desired outcomes

Desired Outcomes of Budget Model Transformation

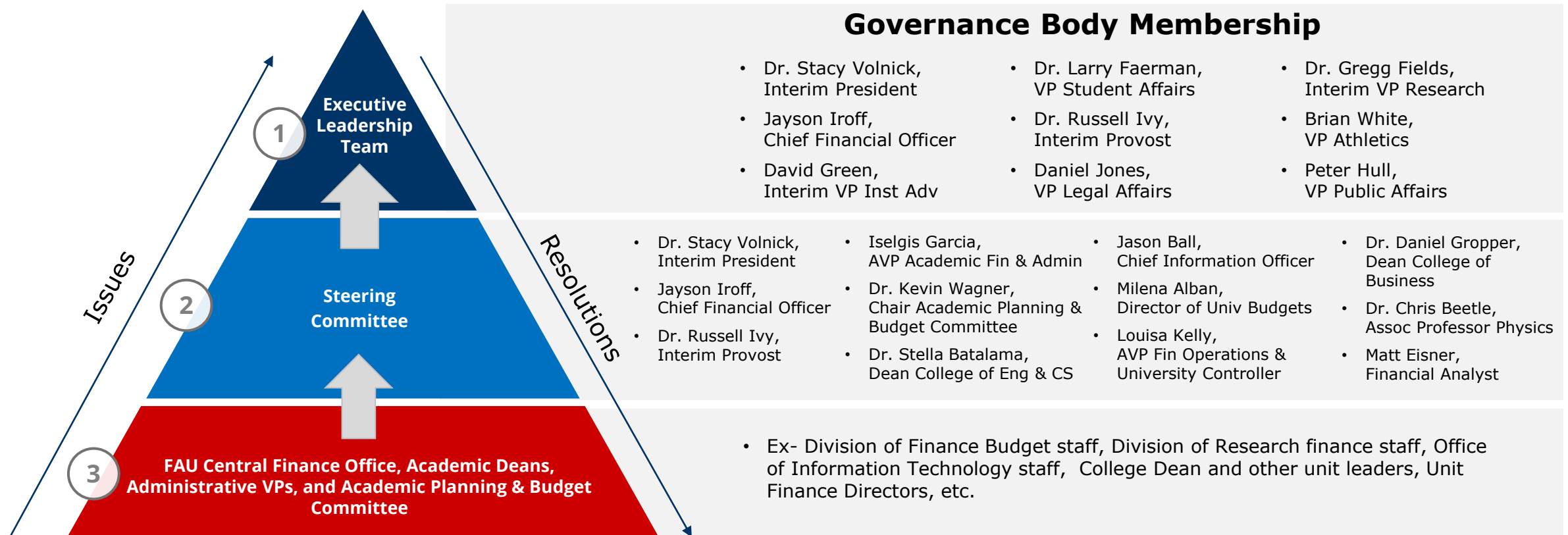
A new FAU budget model neither creates nor destroys wealth upon implementation, but it can promote behaviors at FAU that will drive innovation while maintaining quality.



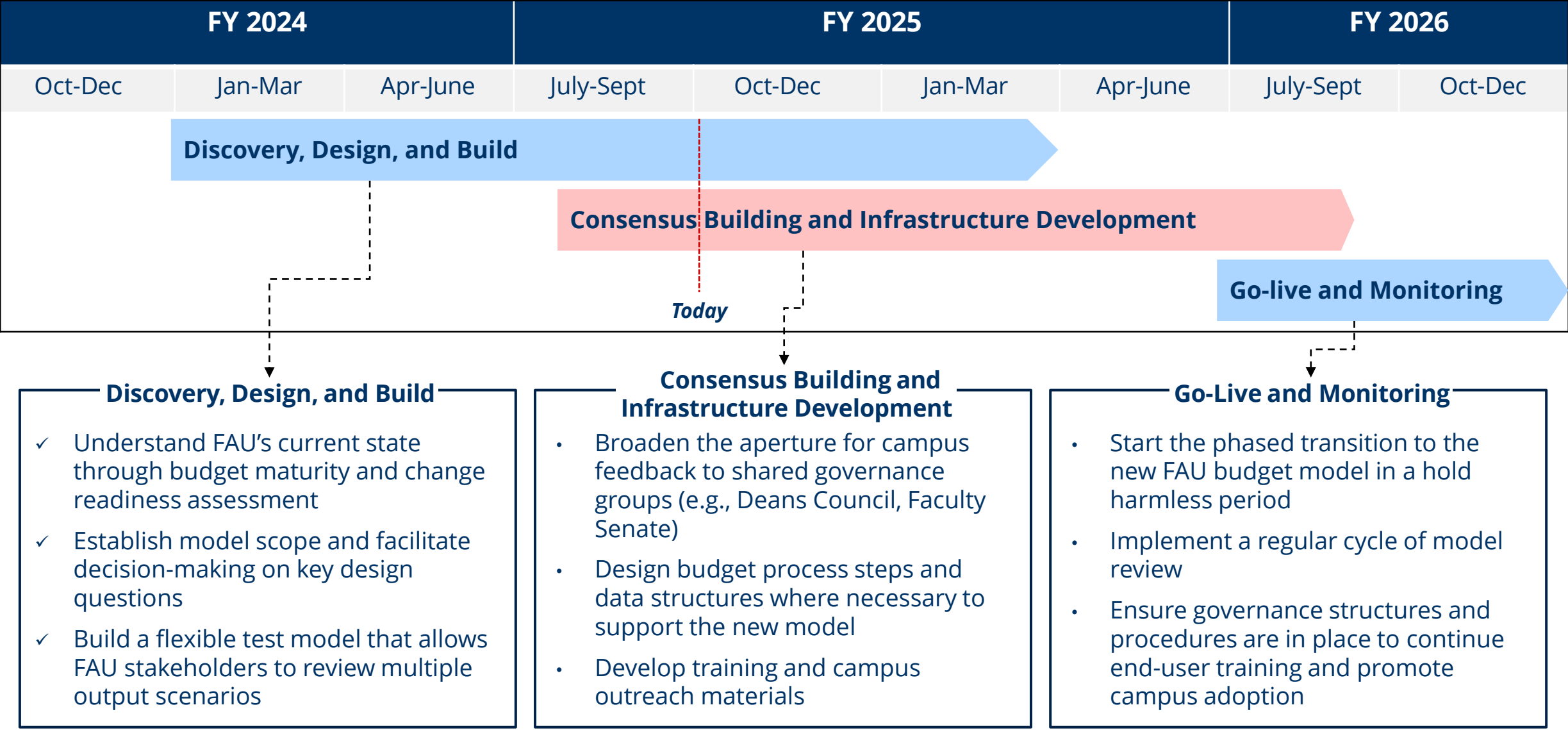
- 1 | Align Funding with University Mission
- 2 | Incorporate SUS Metrics
- 3 | Incentivize Growth Commensurate with Quality
- 4 | Enable Transparency and Simplicity
- 5 | Reward Entrepreneurship and Innovation
- 6 | Balance Predictability with Flexibility

Project Governance

A governance structure was established to support decision-making throughout the life of the project. The model design and build phases were led by an Executive Leadership Team and guided by a Steering Committee.



Budget Model Transformation Roadmap



Model Design Process and Results

FAU

FLORIDA ATLANTIC UNIVERSITY

Model Design Approach Overview

Budget model examples from peers across the country, the Florida SUS performance funding methodology, and FAU's institutional goals were used by the Steering Committee to tailor the new model's design to FAU's specific needs.



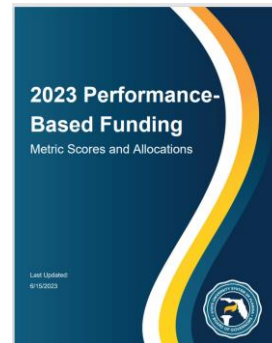
1) NATIONWIDE REVIEW OF PEER BUDGET MODELS

Budget model examples were reviewed from peer institutions across the country to assess the approach and practices leading to successful model adoption.



2) STATE UNIVERSITY SYSTEM PERFORMANCE ALLOCATION METHODOLOGY

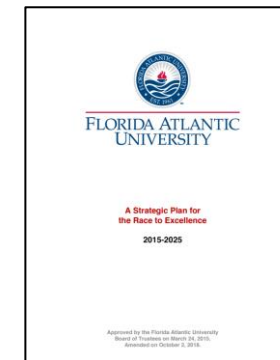
SUS performance funding metrics served as the foundation for the new model's allocation levers so that success in the FAU model translates to increases in State performance funding.



- 40+ Peer Budget Model Metrics Analyzed
- 10 SUS Metrics Reviewed
- 3 E&G Allocation Priorities Selected

3) FAU STRATEGIC PRIORITIES AND GOALS

FAU's strategic plan and campus stakeholder feedback informed the design of FAU's new budget model allocation rules to advance FAU's mission.



- 12 Steering Committee Members
- 13 FAU Leaders and Deans Interviewed
- 60+ Budget Model Design Meetings

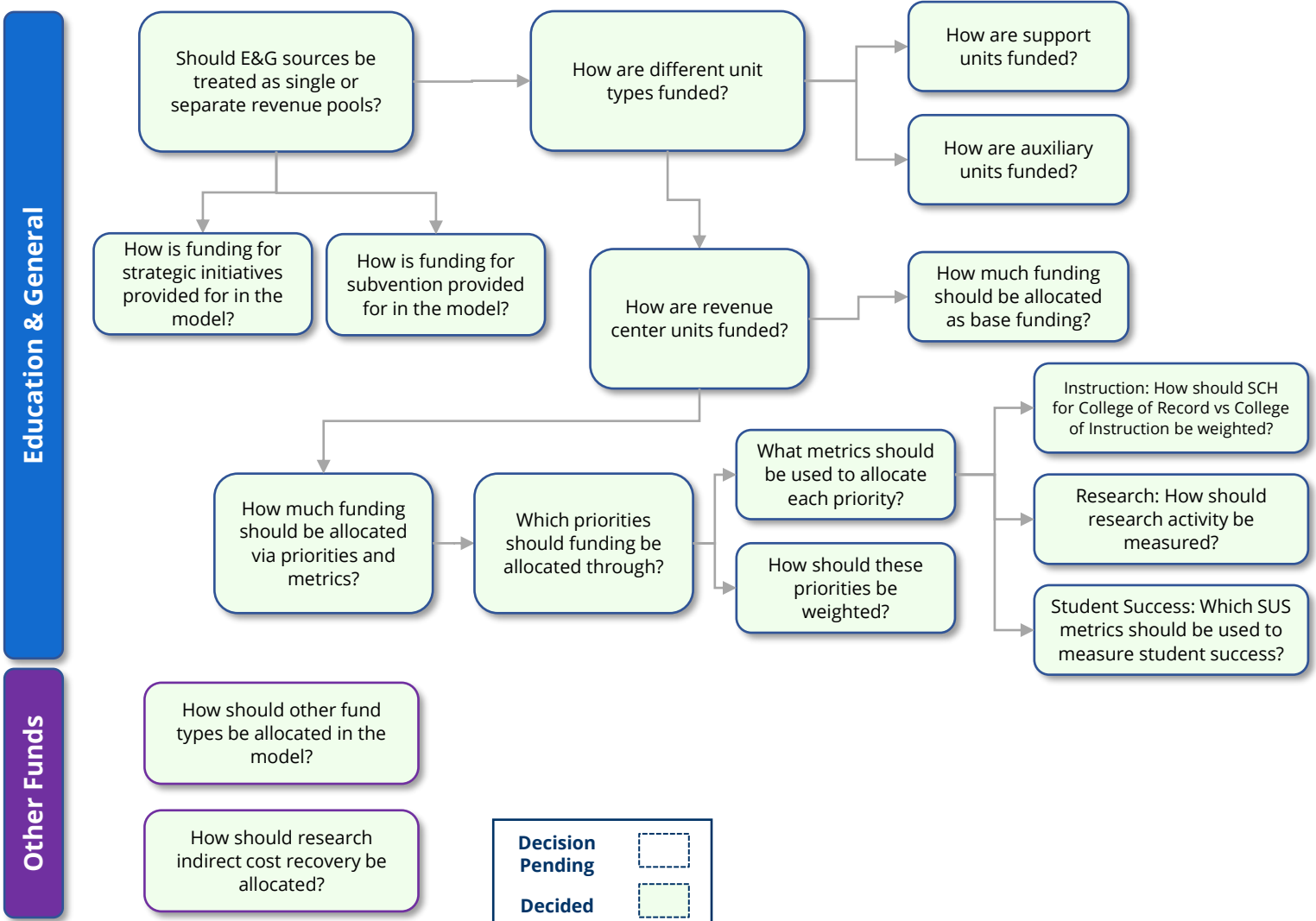
Budget Model Redesign Process & Decisions

Define Scope of Funds and Units

Design Funding Allocation Rules for Units

Define Model Rollout

- Determine model primary input data and reconcile with financial statements
FY23 Trial Balance data serves as model input data
- Determine how expenses and revenues will be categorized
Ledger account numbers will be used to categorize expense and revenue types
- Determine scope of units included in the model and how they should be classified
All units are in scope and are classified as revenue centers, support units, or auxiliary units
- Determine scope of funds included in the model
E&G funds are the primary scope as they have the fewest restrictions and represent the bulk of discretionary revenue



- Socialize model with stakeholders and wider campus community.
- Phase in model impacts through "hold harmless" period and simplified approach
- Review model and refine rules and parameters based on feedback and institutional priorities

Budget Model Concepts and Terminology

The information below serves as a glossary for understanding the language of budget model redesign.

Unit Categorization

FAU units have been categorized as revenue centers, support units, and auxiliaries to determine their allocation treatment in the new model.

- **Revenue Centers:** Units providing teaching and research that are able to influence revenues through programming decisions (i.e. Colleges)
- **Support Units:** Generally not revenue-generating and provide services to support the university in advancing its mission
- **Auxiliary Units:** Self-sufficient units able to generate direct revenues to cover their direct costs

Model Funding Types

Model revenue is allocated to units differently based on the category of funding.

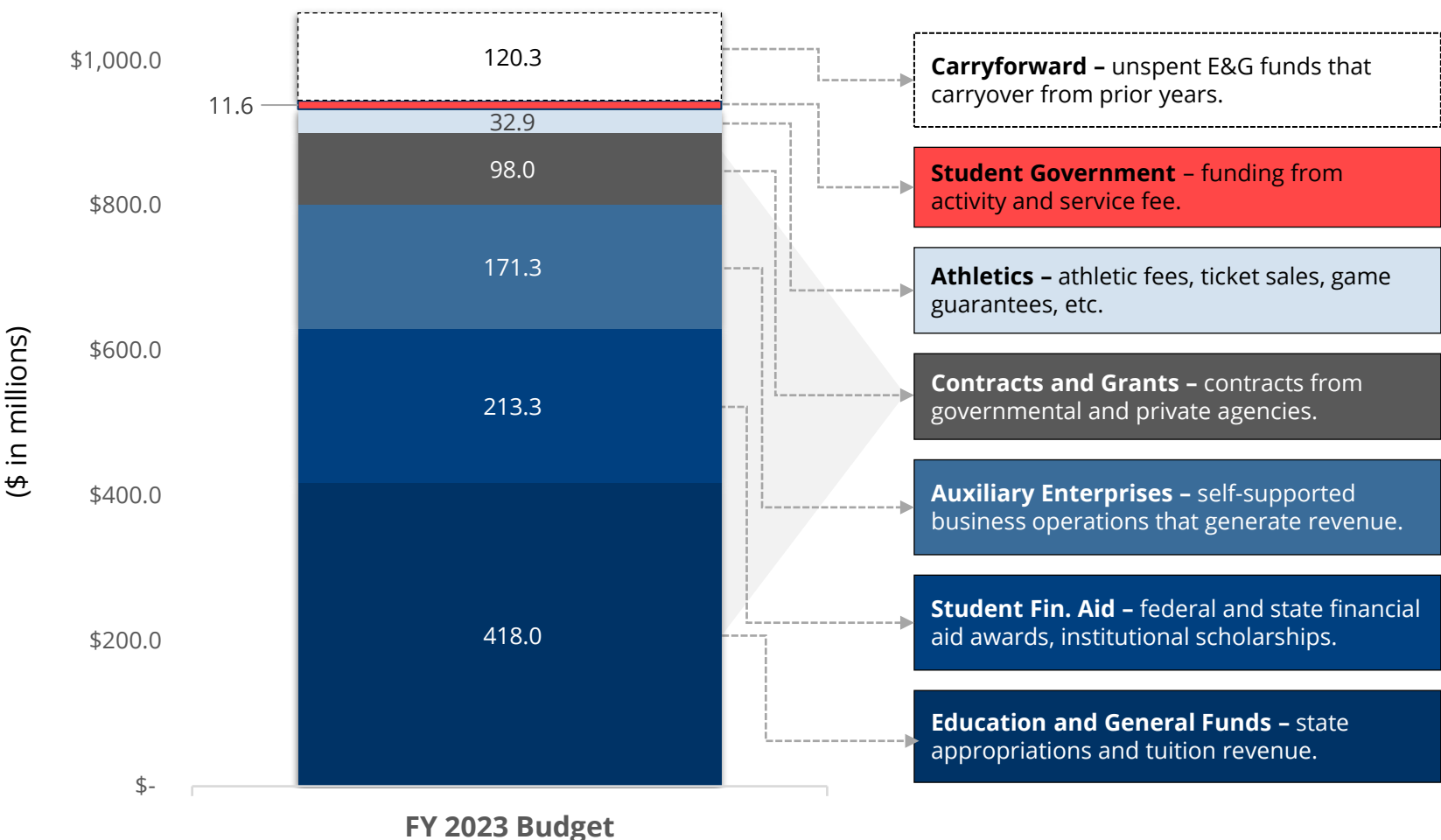
- **Strategic Funding:** Portion of funds reserved to invest in leadership initiatives that help fulfill university goals and objectives.
- **Subvention Funding:** Portion of funds that is used to help subsidize units whose costs under the new allocation rules exceed their revenue allocations.
- **Guaranteed Funding:** Funding allocated to units that is not metric driven
 - **Base Funding-** Funding allocated to units determined based on a percentage of their prior year budget
 - **Direct Allocations-** Earmarked funding based on legal and other considerations
- **Priority Funding:** Funding allocated to units based on performance metrics

Model Elements

- **Priority Area:** Subcomponent of the overall priority funding pool representing an outcome that FAU wants to incentivize through metric driven revenue allocation
- **Priority Metric:** Performance indicator used to determine the share of each priority area's allocable revenue
- **E&G Change Limit:** Model lever used to set the degree of E&G funding increase and/or decrease allowable by the budget model
- **Hold Harmless Period:** Period during the initial rollout of a redesigned budget model where status quo funding will be maintained regardless of the new model output so that units have time to understand and adapt to model changes

FAU Budget Expenditures by Fund

Total FY 2023 Operating Budget Expenditures: **\$1,066.1M**



- The FAU budget includes fund types with varying restrictions given the funding source and intended use.
- E&G funds represent ~40% of the total operating budget. They are the primary focus for allocation changes in the new model and represent funds received through tuition and state appropriations
- Carryforward funds are not budgeted as revenue and thus are not affected by the new model's allocation rules

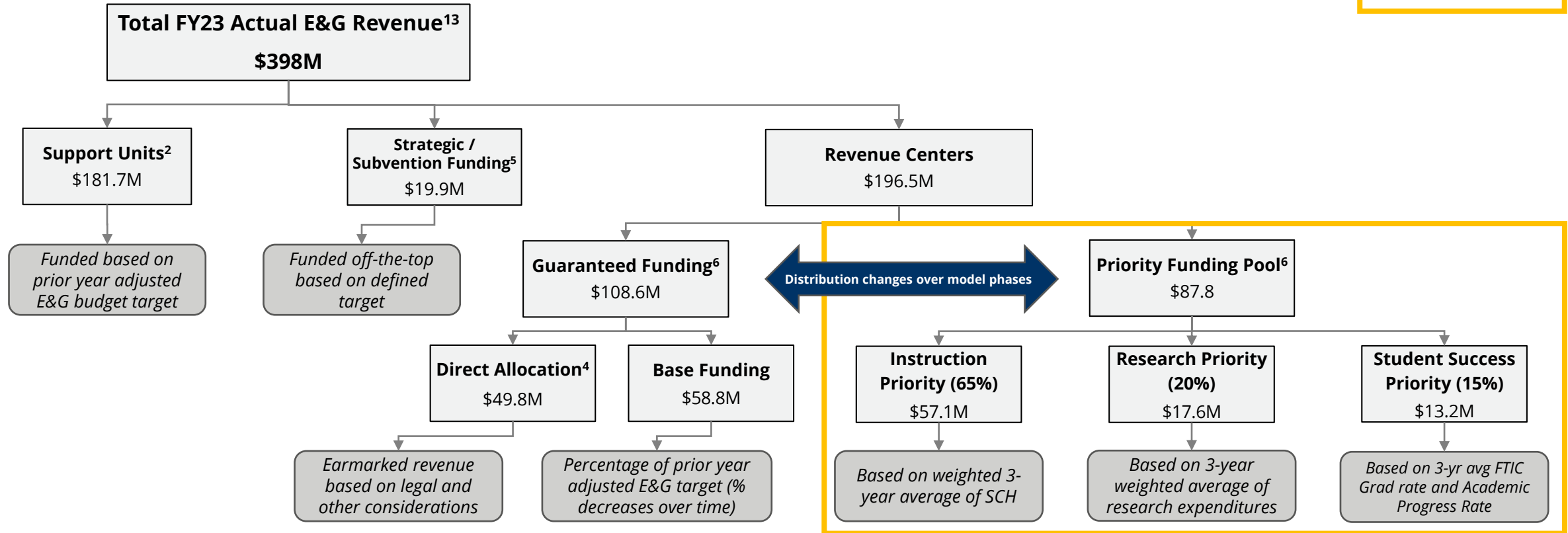
Source: FY23 operating budget exp from <https://www.fau.edu/financial-planning/files/2023-24-budget-book.pdf>

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Preliminary Redesigned Allocation Model

The following is an overview of the current version of the model developed through a series of meetings and decisions with the Steering and Executive Committees. All numbers cited are based on FY23 actuals revenue.

Focus Area



Priority areas discussed in detail on subsequent slides

¹ Dollar figures reflect year 4 ("Steady state") model scenario final allocation amounts

² Cited dollar figures assume support units funded at adjusted budget target level

³ Totals may not reconcile due to rounding

⁴ College of Medicine E&G funding is included in Direct Allocation total

⁵ Strategic/Subvention funding final allocation may vary based on the impact of the revenue center E&G increase/decrease limit

⁶ The final allocation splits for Guaranteed and Priority Funding may not equal the percentage of guaranteed funding by phase due to differences between prior year budget targets and allocable E&G revenue, the impact of the E&G limits, and the tuition waiver and exemption allocation

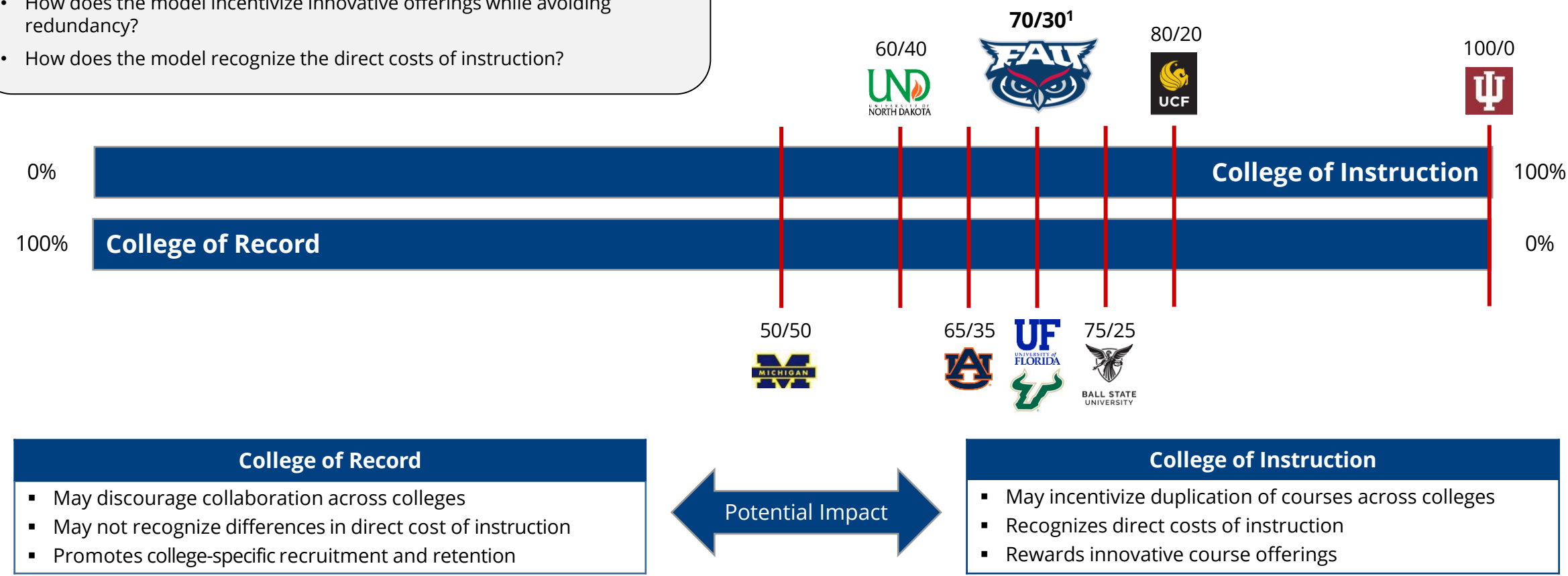
Priority Area #1: Instruction

A three-year average of student credit hours (SCH) is used to determine the allocation of the Instruction Priority pool. SCH is a commonly used indicator of instruction activity across other universities and directly links to revenue generation.

Key Questions

- How does the model balance the collaborative nature of the University versus college specific initiatives and strategies?
- How does the model incentivize innovative offerings while avoiding redundancy?
- How does the model recognize the direct costs of instruction?

SCH associated with the College of Record (i.e. student home) and College of Instruction (i.e. course home) were weighted based on an analysis of functional expenses and Steering Committee consideration of the impacts below.



Priority Area #2: Research

To advance FAU's aspirations for research growth, a portion of priority funding is allocated based on research activity. The Steering Committee discussed the following questions to determine the metric used for allocation.

Key Questions

- How do we align the budget model's allocation metric with state and national research standards, such the Carnegie R1 classification?
- How does the model recognize differences in the types of research conducted by each College?
- How do we ensure that research data is consistent and easy to procure?

1

Research Activity Quantification

A 3-year average of research expenditures is used to measure research activity

Research expenditures are commonly used by other universities to allocate research incentive pools

Research expenditures are a key driver behind achieving R1 status

2

Components of Research Included

Sponsored Organized research and internally funded research will be included in the metric calculation

Sponsored Training and Instruction research will **not** be included

These are the same components reported in the Higher Education Research and Development (HERD) survey

3

Research Component Weighting

Sponsored research expenditures are weighted at **75%**

Internally funded research is weighted at **25%**

This split recognizes the value of all research while emphasizing the importance of sponsored external research for R1 classification

Priority Area #3: Student Success

Student success is vital to FAU's mission. The Steering Committee included performance metrics in the model to evaluate unit outcomes for students that aligned with SUS performance indicators.

Key Questions:

- What current state student challenges does FAU have that the model can help to overcome?
- While institutional-level goals are critical, what metrics do colleges have direct control over?

Allocation Methodology

- For each metric, points are awarded based on a unit's relative performance ranking and a unit's relative degree of improvement over the most recent three years of data available.
- The proportion of points awarded for a unit's performance ranking and improvement are equal, but this weighting can be adjusted if needed.
- For example, a unit with the highest FTIC graduation rate and highest graduation rate improvement from year one to year three would receive the maximum points awarded.

Metric	Description	FY23	Excellence Benchmark
1	Percent of Bachelor's Graduates Enrolled or Employed (\$40,000+) Within 1 year of Graduation	69%	80%
2	Median Wages of Bachelor's Graduates Employed Full-time One Year After Graduation	\$45,300	\$40,700
3	Cost to the Student Net Tuition & Fees for Resident Undergraduates per 120 Credit Hours	\$5,890	\$9,000
4	Four Year FTIC Graduation Rate	50.1%	65%
5	Academic Progress Rate 2nd Year Retention with GPA Above 2.0	81.8%	90%
6	Bachelor's Degrees within Programs of Strategic Emphasis	61.3%	50%
7	University Access Rate Percent of Undergraduates with a Pell-grant	38.4%	42%
8a	Graduate Degrees within Programs of Strategic Emphasis	66.0%	60%
9a	Three-Year Graduation Rate for FCS Associate in Arts Transfer Student	58.8%	70%
9b	Six-Year Graduation Rate for Students who are Awarded a Pell Grant in their First Year	65.2%	80%
10	Total Research Expenditures	\$73M	\$75M

Selected Metric

Revenue Center Performance and Funding Output

The information below shows the budget model E&G funding output for revenue center units during year 4 (steady state) of model implementation.

E&G Funding Metric Drivers

Revenue Center Units	Instruction		Research		Student Success	
	2020-22 Total Weighted SCH %	Rank	2020-23 Avg Weighted Research Exp %	Rank	SUS Metrics Points Share	Rank
College of Science	29.0%	1	37.6%	2	11.8%	5
College of Arts & Letters	24.7%	2	2.3%	6	11.1%	7
College of Business	21.9%	3	5.1%	3	13.2%	2
College of Engineering & CS	7.8%	4	43.1%	1	11.8%	5
College of Social Work & CJ	6.0%	5	1.8%	7	13.2%	2
College of Education	5.6%	6	1.6%	8	9.7%	8
College of Nursing	2.7%	7	4.9%	4	16.0%	1
Honors College	2.3%	8	3.5%	5	13.2%	2
Revenue Center Subtotals	100%		100%		100%	

Revenue Center E&G Output (Yr4)

Priority	%	\$
Instruction	65%	\$57,082,766
Research	20%	\$17,563,928
Student Success	15%	\$13,172,946

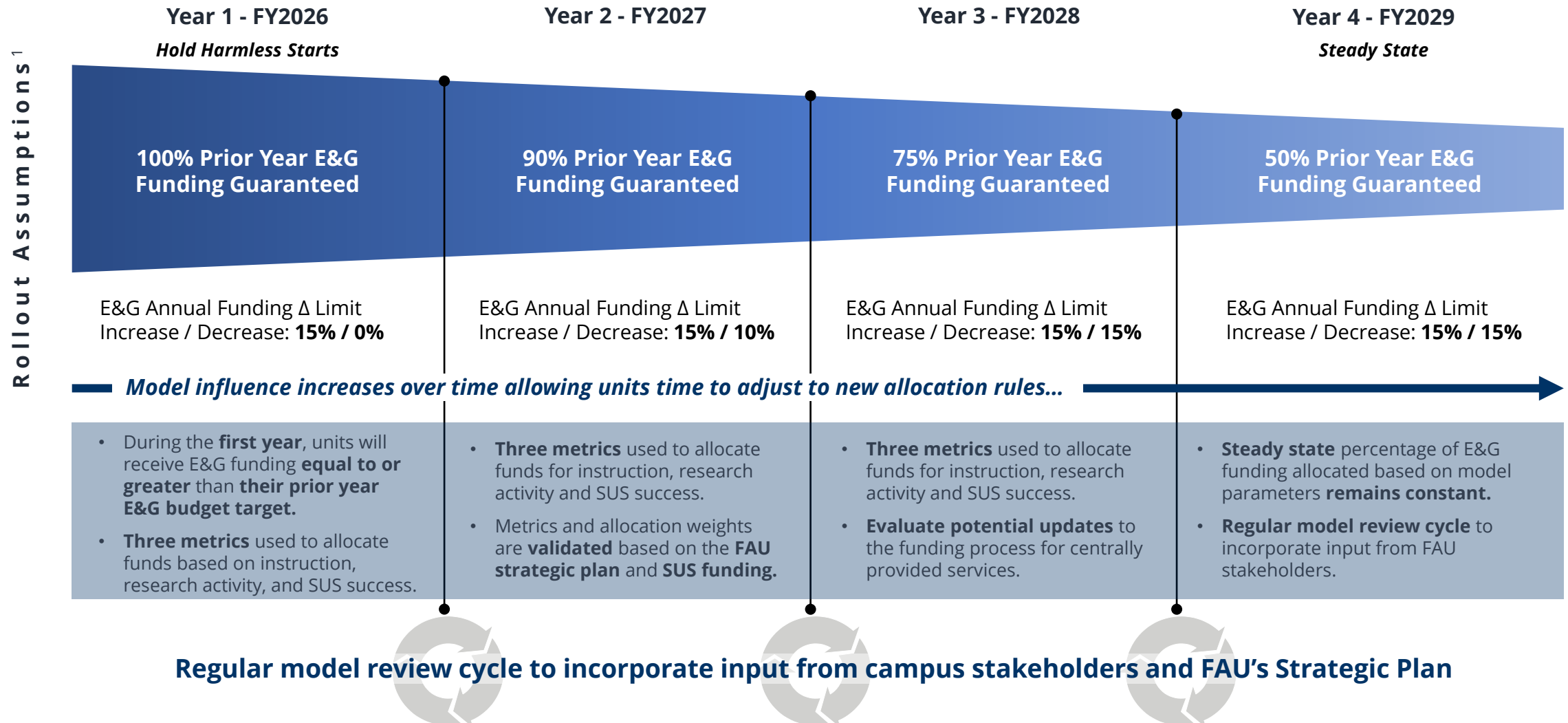
Revenue Center (\$ in M)	Baseline (FY23 Adj Budget Target)	Model E&G Funding Output	\$ Δ
College of Arts & Letters	\$35.0	\$34.4	(\$0.6)
College of Business	\$32.4	\$32.2	(\$0.2)
College of Education	\$14.3	\$12.2	(\$2.1)
College of Engineering & CS	\$19.6	\$22.6	\$3.0
Honors College	\$6.3	\$7.0	\$0.7
College of Nursing	\$13.4	\$11.4	(\$1.9)
College of Science	\$34.8	\$40.8	\$6.0
College of Social Work & CJ	\$7.8	\$9.0	\$1.2
Revenue Center Subtotals	\$163.7	\$169.7	\$6.0

Notes:

- College of Medicine not shown since its funding is directly allocated by the State
- Figures assume Support and Auxiliary units are funded at the FY23 budget target level
- Numbers reflect FY23 revenue and adjusted budget target totals

Budget Model Implementation Plan

A phased roll-out of changes to E&G funding allocation in the new model provides unit leaders time to adjust to the new allocation rules.



¹ Test budget model assumptions updated as of August 2024

Next Steps

1

Confirm budget model alignment with BOT vision

2

Refine and finalize redesigned budget model

3

Configure model within budget systems (Workday Adaptive Planning)

4

Socialize budget model with stakeholders and wider campus community

5

Prepare for budget model go-live in FY2026