

# Inaugural Town Hall: Some Administrative Topics

Summer 2017

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**UAB** THE UNIVERSITY OF  
ALABAMA AT BIRMINGHAM

Knowledge that will change your world

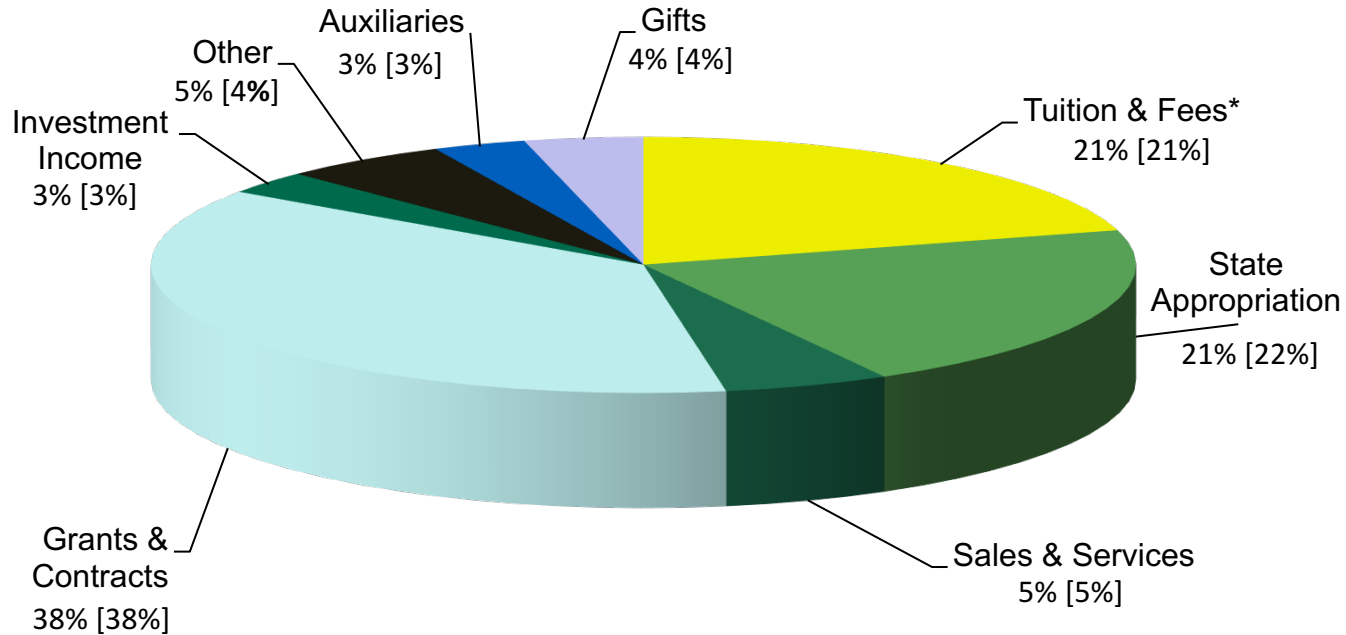
# Today's Agenda:

- High-level financials
- Overview of the new budget model (RCM)
- Principles underpinning the model
- Subvention
- Transparency
- Additional FAQs
- Timeline
- Brief Process Improvement and Benefits updates
- Q&A

# We are complex, big and interdependent...

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"><li>• <b>Core Entity</b></li></ul>        | <ul style="list-style-type: none"><li>• <b>Campus</b></li></ul>   | <ul style="list-style-type: none"><li>• <b>\$1.1 billion</b></li></ul>  |
| <ul style="list-style-type: none"><li>• <i>Blended Component</i></li></ul>  | <ul style="list-style-type: none"><li>• <b>Hospital</b></li><li>• <i>Triton</i></li><li>• <i>Hospital LLC</i></li><li>• <i>UAB Research Fndn</i></li></ul>                                  | <ul style="list-style-type: none"><li>• <b>\$1.5 billion</b></li><li>• <i>\$612 million</i></li><li>• <i>\$198 million</i></li><li>• <i>\$4 million</i></li></ul> |
| <ul style="list-style-type: none"><li>• <b>Discrete Component</b></li></ul> | <ul style="list-style-type: none"><li>• <b>Southern Research</b></li></ul>  | <ul style="list-style-type: none"><li>• <b>\$85 million</b></li></ul>   |
| <ul style="list-style-type: none"><li>• <i>Related Party</i></li></ul>      | <ul style="list-style-type: none"><li>• <i>Health System</i></li><li>• <i>Health Services Foundation</i></li><li>• <i>Education Foundation</i></li><li>• <i>Valley Foundation</i></li></ul> |   |

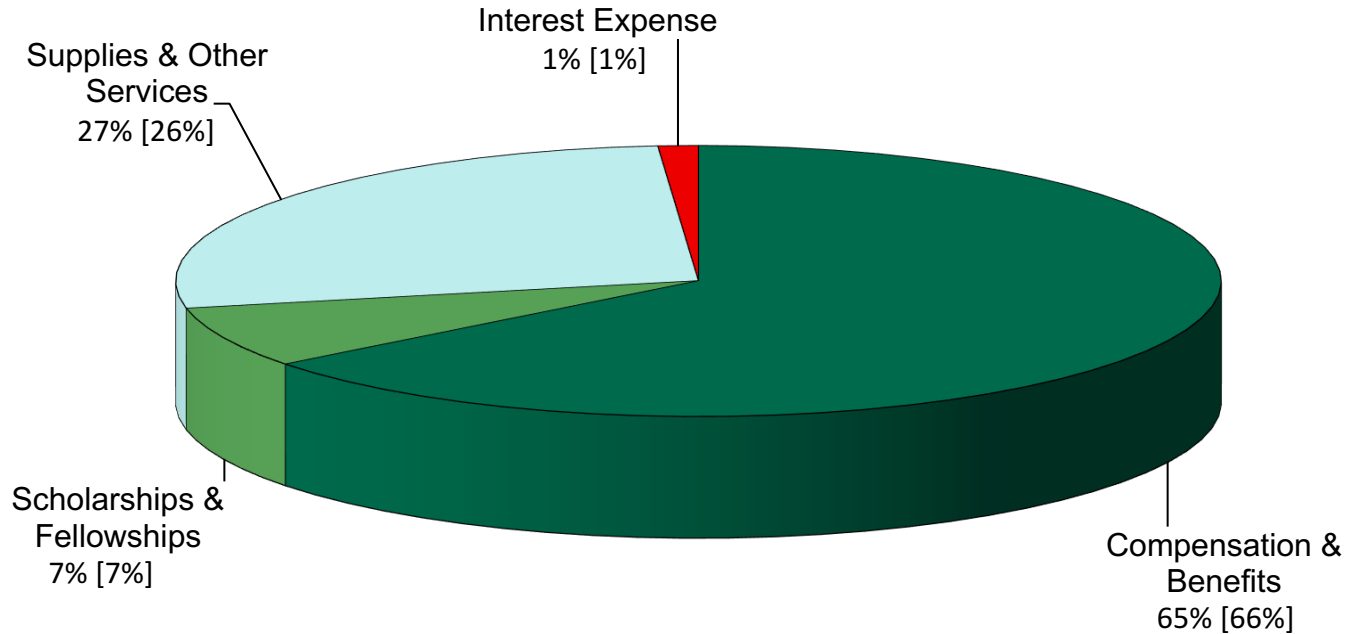
# FY 2016 "Campus" Revenues - All Funds (\$1.1 Billion)



Prior year budget percentages in brackets

\*Reflects gross Tuition & Fees

# FY 2016 "Campus" Expenses - All Funds (\$1.1 Billion)



Prior year budget percentages in brackets

UAB spends over \$300M/yr with over 1,600 B'ham businesses

UAB Annual Financial Reports from 2002-2016 are in Reports and Publications tab at <http://uabfinancial.infomedia.com>

# Perceived Shortfalls in UAB's Existing Campus Budget Model

- Not transparent
- “uneven” or “unfair” in distributions and allocations
- Does not incentivize “good” or “priority aligned” behavior
- Promotes unit-specific tactical priorities rather than institutional strategic priorities
- Does not provide adequate resources for strategic investment
- Encourages duplication of services resulting in inefficiency
  
- **CONCLUSION: A NEW BUDGET MODEL COULD BETTER ALIGN AND SERVE THE INSTITUTION**

# Budget Modeling Task Force Charge

- Establish fair, transparent, metric-driven guidelines for the allocation *of certain university funds*.
- Discuss necessary aspects of the new allocation process, design modeling scenarios, and make implementation recommendations.
- Represent their school/unit but serve the best interests of the institution overall.

## **Task force recommendation:**

- Adopt a responsibility center management (RCM)-based budget model.

# Task Force Members – a shared governance example

April 2015 – June 2017

Allen Bolton – Financial Affairs and Admin. - <b>Chair</b>	Andy Hollis – Financial Affairs and Admin.
Dr. Iwan Alexander - School of Engineering	Dr. Eric Jack – School of Business
Dawn Bulgarella – School of Medicine	Dr. Harold Jones – School of Health Professions
Dr. Curt Carver – Information Technology	Dr. Dick Marchase - Research and Economic Development
Dr. Janelle Chiasera – ACE Fellow (Non-Voting Member)	Tim McMinn – Budget and Payroll
Chris Clifford – Business and Auxiliary Services	Stephanie Mullins – CFO
John Coles – School of Nursing	Dr. John Jones – VP for Student Affairs
Amy Evans – College of Arts and Sciences	Dr. Joseph Sullivan – Faculty Senate
Kim Fort – Provost Office	Dr. Jamey Worrell – Faculty Senate



## What is Responsibility Center Management (RCM)?

RCM is a combination of policies and practices designed to overcome the separation of authority and financial responsibility within an organization. RCM couples decision making directly to the associated financial ramifications.

## What “certain” funds are in the budget model?

- About ½ of the \$1.1B will be allocated in the new model, including: unearmarked state funds, tuition & fees, indirect expense recovery.
- About ½ of the \$1.1B will NOT be allocated in the new model, including: earmarked state funds, direct grant and contract dollars, gifts and endowments, sales and service revenue (e.g., parking, bookstore, housing, dining), clinical funds.

# In simple terms, how will the model work for schools?

**+**

## **Income**

**Tuition**

**Indirect Expense Recovery**

**Un-earmarked State Dollars**

**-**

## **Direct Expense**

**Compensation**

**Supplies/Other**

**Debt**

## **Indirect Expense**

**Assessment for central costs**

# What's so hard about that?

- Determining how to allocate state dollars
- Determining how to assess for central costs
- Benchmarking the reasonableness of central costs and services
- Protecting/preserving mission critical efforts or programs that don't break even in the model
- Creating processes and reports that makes transparency real rather than a buzz word

# Allocating state dollars to schools (responsibility centers)

- Principle: state dollars are to support the academic mission of UAB, i.e., the direct and indirect costs of teaching and research
- Based on that principle, the Task Force created a formula that considers for each school:
  - Teaching effort
  - Number of students
  - Research expenditures
  - Number of faculty

# Assessing for central costs (support centers)

- Principles: reasonableness of central costs and services should be addressed; cost drivers should align with support centers; keep it as simple as possible.
- Based on those principles, the Task Force created simple formulae for each support center. As examples:
  - Cost drivers for Facilities costs relate to square footage
  - Cost drivers for Provost costs relate to student and faculty headcounts
  - Cost drivers for Human Resource costs relate to overall employee headcount
  - Cost drivers for IT costs relate to employee and student headcounts
  - Cost drivers for Student Affairs costs relate to student headcount

# Benchmarking the reasonableness of central costs and services

- Principle: there should be increased awareness of and accountability for central services and their costs.
- Based on that principle:
  - A task force was assembled this summer to perform an Administrative Services review of all areas for which costs will be assessed.
  - Results will be shared and recommendations initiated throughout FY18
  - A standing committee will be attached to the RCM process to help provide oversight for administrative services and costs going forward

# Initiating/protecting/preserving mission critical efforts or programs

- Principles: the new model may create financial swings for a unit that require buffering until that unit can “adjust” to the model; there are some mission critical activities of our comprehensive urban university that do not have sufficient revenue potential and must be financially supported outside of the model; investments in certain new strategic initiatives will be required to advance our academic agenda.
- **Subvention funds** are pooled centrally to use for mission and strategic investments and to ensure that resources are allocated in a manner consistent with university goals and objectives.



## Subvention Funds (con't from previous slide)

- Some form of subsidization (implicit or explicit) occurs in every budget model, including RCM; however, RCM models make those subsidies much more intentional, explicit and obvious.
- Subvention funding should enable leadership to steer the university by providing subsidies and support for strategic initiatives that benefit the institution as a whole.
- For structurally high-cost programs, long-term subvention plans (e.g., legacy support) may be appropriate and especially helpful for long-term planning.
- Just as administrative support centers will routinely undergo scrutiny to reduce costs and/or improve services, schools receiving subvention funding should develop plans to reduce reliance on subvention.

# Making transparency real rather than a buzz word

- Shared governance: the Task Force has concluded but new permanent and representative governance committees have been invited.
- Communication: website [uab.edu/rcm](http://uab.edu/rcm); monthly updates to deans from May through summer; three scheduled Town Halls this academic year; additional articles, mailings and presentations as requested.
- Budget reporting: reporting tools are being developed using Axiom software and will be launched in the first quarter of FY18.

- Will RCM cause widespread faculty and staff layoffs?

*No. Neither this nor any other budget model should be the determinant of workforce decisions. A budget model is only a tool to help match effort and financial resources. Workforce decisions should be based on numerous factors, including the demand for our services and the amount of external funding to support them. Academic units that participate effectively and efficiently in the quality growth of UAB's academic areas will be well supported by RCM.*

- Will RCM cause administration to grow disproportionately?

*No. Administrative costs are examined more carefully in an RCM model and efforts to streamline and be more efficient are a constant process (and pressure) to reduce overhead. The Administrative Review Committee plays an important role in establishing the baseline and process for this to occur.*

- Will RCM just shift more money to the health schools? Will RCM just shift money from medicine to the other schools on campus?

*No and no, but we are sensitive to both concerns. The new budget model is intended to bring more equity, consistency and clarity across all schools in terms of the work for which funds are provided and the basis for the assessments that cover infrastructure costs (such as space, IT, libraries, police, etc.). All schools have the opportunity to be reasonably supported through the RCM budget model.*

## Who else is using RCM? (A sample)

University of Illinois - Urbana Champaign  
Southern Illinois University  
Marquette University  
American University  
University of California at Los Angeles (UCLA)  
University of Toledo  
Clemson University  
Harvard University  
Washington University of St. Louis  
Indiana University of Pennsylvania  
Mercer University  
CalTech University  
Vanderbilt University  
Duke University  
Emory University

Auburn University  
Clarkson University (considering)  
Purdue University  
Temple University  
University of Oregon  
University of Pennsylvania  
University of Southern California  
University of Toronto  
West Chester University (PA)  
Central Michigan University  
University of Iowa  
University of Alaska  
McGill University  
Florida International University  
Ohio University

# Timeline/Next Steps

The table below represents a three-year period as UAB transitions from the current budget model to an RCM model.

FY2018 (Oct '17 – Sep '18)	FY2019 (Oct '18 – Sep '19)	FY2020 (Oct '19 – Sep '20)
FY2018 Budget Process		
RCM Pro Forma (Year 1)	RCM Budget (Year 2)	RCM Budget (Year 3)

**FY2018: Transition Year (Dual Process)** – The purpose of the dual process year is to plan for the future utilizing RCM reports that demonstrate resource allocations under the new model with the understanding that FY2018 budgets were developed using the existing methodology.

**FY2019: RCM Budget Accountability** – The RCM budget model will be used beginning in fall 2017 to plan for and establish FY2019 budget allocations and subvention.

## Two non-RCM items

- Process Improvement Committee
  - [www.uab.edu/ovpfinad/pic](http://www.uab.edu/ovpfinad/pic)
- Benefits update:
  - Communications will begin in mid September through October, including at [www.uab.edu/hrintouch](http://www.uab.edu/hrintouch)
  - Benefits Fair on Friday October 27, 7:00-4:00, WP Atrium
  - HR Consultant presentations in schools and divisions will be scheduled in the near future
  - Open Enrollment October 27-November 13 – ACTIVE enrollment for UAB healthcare plans

**Questions/comments?**

**THANK YOU!**