

Sustainable Financial Model Working Group



CONTEXT

Since 1889, the University of Idaho has provided a transformative educational experience that prepares Idaho's citizens to solve real-world problems and achieve success in their lives and careers. Beginning with our beautiful residential campus in Moscow, the University's reach extends throughout Idaho, serving nearly 12,000 students with educational centers in Boise, Coeur d'Alene and Idaho Falls; nine Research and Extension centers; and Extension offices in 42 counties. One of the nation's land-grant research universities, the U of I is a national leader in student-centered learning and interdisciplinary research that promotes public service. Our work serves businesses and communities, advancing the pursuit of diversity, citizenship, and global outreach.

The U of I faces significant financial challenges that cut across all funding sources and affect all of our operations. At the same time, students, their families, and legislators across the country are focused on the cost of a college education. External and internal stakeholders are demanding better financial controls to minimize increases in tuition and to maximize the return on investment.

Over the past several years, varying levels of state support, declining enrollment and rising expenditures (as a result of optimistic enrollment growth projections) have caused the University to deplete its cash reserves. In addition, a change in accounting for post-retirement health benefits in FY18 caused an immediate \$33 million non-cash increase in the University's liabilities. This, combined with operations deficit in FY18 and FY19, led to the

reporting of negative unrestricted reserves in fiscal year 2019, well below the 5% operating expenditures reserve required of all public higher education institutions by the Idaho State Board of Education (SBOE). Further financial strain resulting from a tuition freeze for all higher education institutions in Idaho for FY21, additional cuts of \$2M for FY20 and an expected \$5M for FY21 requested by the state have all combined to create a financial situation that is not sustainable.

The University has already implemented efforts to address its immediate challenges. But a more effective way of managing the University's financial resources is needed to address long-term objectives. To that end, President Green invited a group of faculty, staff, students and external experts to review our budget model to inform a new way of doing business with the goal of protecting the transformative student experience we offer while elevating excellence in teaching and research.

The Sustainable Financial Model (SFM) Working Group launched in October 2019 and was charged with recommending a new financial model to guide the budget process.

The University of Idaho's current incremental model has not proven to be the ideal tool to support achieving our two primary financial goals:

- **Balanced Budget** — We must align our annual expenditures with our revenues.
- **Positive Cash Balance** — The SBOE requires the University to have 5% of our net position in unrestricted reserves.

THE SFM WORKING GROUP'S CHARTER

The Sustainable Financial Model Working Group was asked to recommend the best model to guide University of Idaho financial decisions in the future. The ideal model rewards performance and incorporates the ability to adjust to changes in its operating environment. The new model should prepare U of I to face future budget challenges and provide the institution with the tools to invest in strategic areas that support the key priorities of student success, research and telling our story.

PROCESS

The SFM Working Group spent time together during fall 2019 and early 2020 with a goal of forming actionable recommendations to address the recent and ongoing financial challenges facing the University of Idaho.

In addition to internal representation from faculty, students, staff, and administration, the group included external representatives

chosen for their professional background in accounting and finance.

October - Provost John Wiencek and VP Brian Foisy provided a detailed history of the University of Idaho's financial performance. This added context and perspective for the group and answered the question: How did we get to where we are today?

November - The group focused on potential models and how they fit into our history and culture. This included a debate on the Guiding Principles for making financial decisions at the U of I.

January - The group answered an anonymous, detailed questionnaire to further focus the discussion on the preferred model. Each participant recommended a model and identified potential challenges, opportunities, and next steps.

February - The group reviewed questionnaire results and shared feedback with President Green related to the challenges and opportunities going forward. In addition, the group highlighted key actions to enable success.

SFM WORKING GROUP PARTICIPANTS

Scott Green
President

Chandra Zenner Ford
President's Office Executive Sponsor

John Wiencek
Provost and EVP co-chair

Brian Foisy
VP Finance and Administration co-chair

Annette Elg
retired CFO Simplot

Sharon Allen
retired Chairman Deloitte

Craig Olson
retired CFO Albertsons

Todd Kilburn
CFO SBOE

Brad Ritts
AVP Research

Jerry Long
Dean College of Law

Terry Grieb
*Chair, Faculty Senate
College of Business and
Economics*

Patrick Hrdlicka
Chemistry Faculty

Brian Johnson
Engineering Faculty

Toni Broyles
President's Office

Cari Espenschade
Vice Chair Staff Council

Stephanie Fox
*Manager, Facilities and Operations
UI Boise*

Margarita Cardona
*Director Admin Services, College
of Agriculture and Life Sciences*

Jacob Lockhart
ASUI President

Alexis Murray
SArb President

Recorder: Patty Houle
retired staff

GUIDING PRINCIPLES

The SFM Working Group focused on the following general themes as guiding principles for making its recommendations.

- **Mission Alignment** - The model must help us achieve our land grant mission, support student success, and promote research and discovery.
- **Transparency** - The model, and its implementation, must be accessible to the entire University community.
- **Agility and Adaptability** - The model must allow university leadership to correct and guide, support continuous improvement, enable U of I to respond to the State's educational needs and provide training for in-demand jobs.
- **Incentive Based** - The model must promote efficiencies and encourage entrepreneurial and interdisciplinary ideas.

The ultimate goal is for the University of Idaho to adopt a budget model that improves our financial strength and allows for more flexibility to invest strategically and react to changes in the educational needs of our students and the State. The group agreed that for the Guiding Principles to be put into practice, we will need a periodic process to monitor outcomes of the budget model implementation and ensure the outcomes match these principles. In addition, a strong university-wide communications plan will need to be developed to convey the correlation between the Guiding Principles and the budget model implementation and outcomes. Linking the budget process to the overall vision and mission of the University of Idaho will be key to a successful implementation.

BUDGET MODELS CONSIDERED

The SFM Working Group considered the following budget models:

1. **Incremental** – Currently in use at the U of I with budget allocations based on the previous year's budget
2. **Activity-based** – Allocates funding based on specific activities and metrics
3. **Performance-based** – Awards funding based on performance, defined by outcomes and standards (e.g., student credit hours taught, degrees conferred, graduation rates)
4. **Responsibility Centered Management (RCM)** – Assigns decision-making authority to academic units to manage their own budgets, increases accountability, assigns all costs (like central services and facilities) to units and motivates revenue generation and expense reduction

The group unanimously rejected the idea of continuing with the current incremental model as it is no longer sufficient to meet all of the Guiding Principles. A model with a performance-based focus was clearly favored with the other options all having some level of performance driven emphasis. Cultural realities, our land grant mission, implementation considerations and history all factored into the budget model recommended by the group.

RECOMMENDED MODEL:

The Vandal Hybrid

Overview

The Vandal Hybrid model primarily combines elements of incremental with movement to performance-based budgeting. Accountability, incentives for growth, efficiency, entrepreneurial thinking, and improving financial strength are all key components of the Vandal Hybrid model.

It is important to note the model does not apply to self-sustaining operations, such as Auxiliary Services, nor charitable donations or grants or other outside funding sources. This model is for the general education funding from the state and the tuition and fee revenues.

In the incremental model the university budgeted their next fiscal year to a forecasted enrollment number and all anticipated funds were distributed accordingly. If the actual enrollments met or exceeded the forecasted projections, then the budgets held up. If actual enrollment did not meet the forecasted projection, the university was in a deficit position and with the budgets already set for the fiscal year it was difficult to pivot.

The Vandal Hybrid model will budget to a lower fixed enrollment number chosen because we have high confidence in achieving it year in and year out. The enrollment number will be evaluated annually, but the frequency of the adjustment is expected to be closer to every three years. One of the goals of the SFM working group is a model that allows leadership to know their funding level for multiple years at a time for strategic planning. For purposes of illustration, 9,500 students is used for the infographic on page 6.

University Operations

Historically some of the university operations were base funded in the incremental model including Information Technology Services (ITS) while others such as University Communications and Marketing (UCM) and Strategic Enrollment Management (SEM) were not. Meaning the university had to find one-time funding each year from different places for these core university operations. The university's reserves were often used for this purpose if other funding sources could not be found. The Vandal Hybrid model will provide a reasonable amount of consistent base funding for all key university operations. The cost of doing business will be built into the annual budget.

After base funding, it is expected for Advancement and the UI Foundation to fund their growth through their gift and endowment fees. The more money we fundraise and grow our endowment we can then expand those operations. Similarly, research is a presidential priority and will be funded; however, future growth in the Office of Research and Economic Development budget will be aligned with research growth at the institution.

All other university operations will also have metrics. Their funding will now expand and contract based on enrollment, performance to increase operating efficiencies, span of control and collaboration.

Central & Fixed Costs

There are many centralized and fixed costs for the university system (i.e. utilities and student financial aid). Under the incremental model these were base funded and will continue to follow the incremental model under the Vandal Hybrid.

The main difference with the Vandal Hybrid is all the university's operational expenses will be incorporated into the base budgeting which will decrease the pressure on the reserves. The Vandal Hybrid will put a fixed amount of money into reserves every year until the 5% SBOE requirement is met. Once the 5% requirement has been satisfied, the fixed amount will be reallocated to the overall budget for the university.

Provost Office

The non-instruction areas under the Provost Office are primarily focused on student services such as the library, and Student Affairs. Depending on the unit, some of the areas have been base funded historically while others have not, and the university had to find one-time monies for support.

The Vandal Hybrid model will provide base funding while also ensuring all required core non-instructional student services budgets are tied directly to the size of the student population they are serving. It will be based on a three-year rolling average of enrollment. For example, when there are less students there is less demand on the library, the student rec center, and counseling services for example. The converse is also true. As enrollment grows, we will need to add resources accordingly for the larger population.

For the areas of instruction, under the incremental model there is no direct incentive for performance and no reward system for growing enrollment. In the Vandal Hybrid model a large percentage of academic operating budgets will be base funded as it was with the incremental model. Also, an increasing percentage will be attributed to achieving the performance driven metrics.

The performance driven metrics should align with the Guiding Principles and could include enrollment, student credit hours taught, degrees conferred, graduate job placement, service to other programs, research output, collaboration, and others. Performance could also include some measure of centrality to our land grant mission, given that some small programs are integral to who we are as a University and for that reason are a priority to ensure our success as a community. The ultimate performance metrics will be developed with input from faculty, staff, and students.

Enrollment Increase

As mentioned in the overview, the Vandal Hybrid model base budgets to a high confidence enrollment number versus a forecasted projection. So what happens to the additional funds generated when the actual enrollments are higher than 9,500 students? Whether it is 9,501 or 10,000 or more, those funds are used for strategic growth and to reward performance.

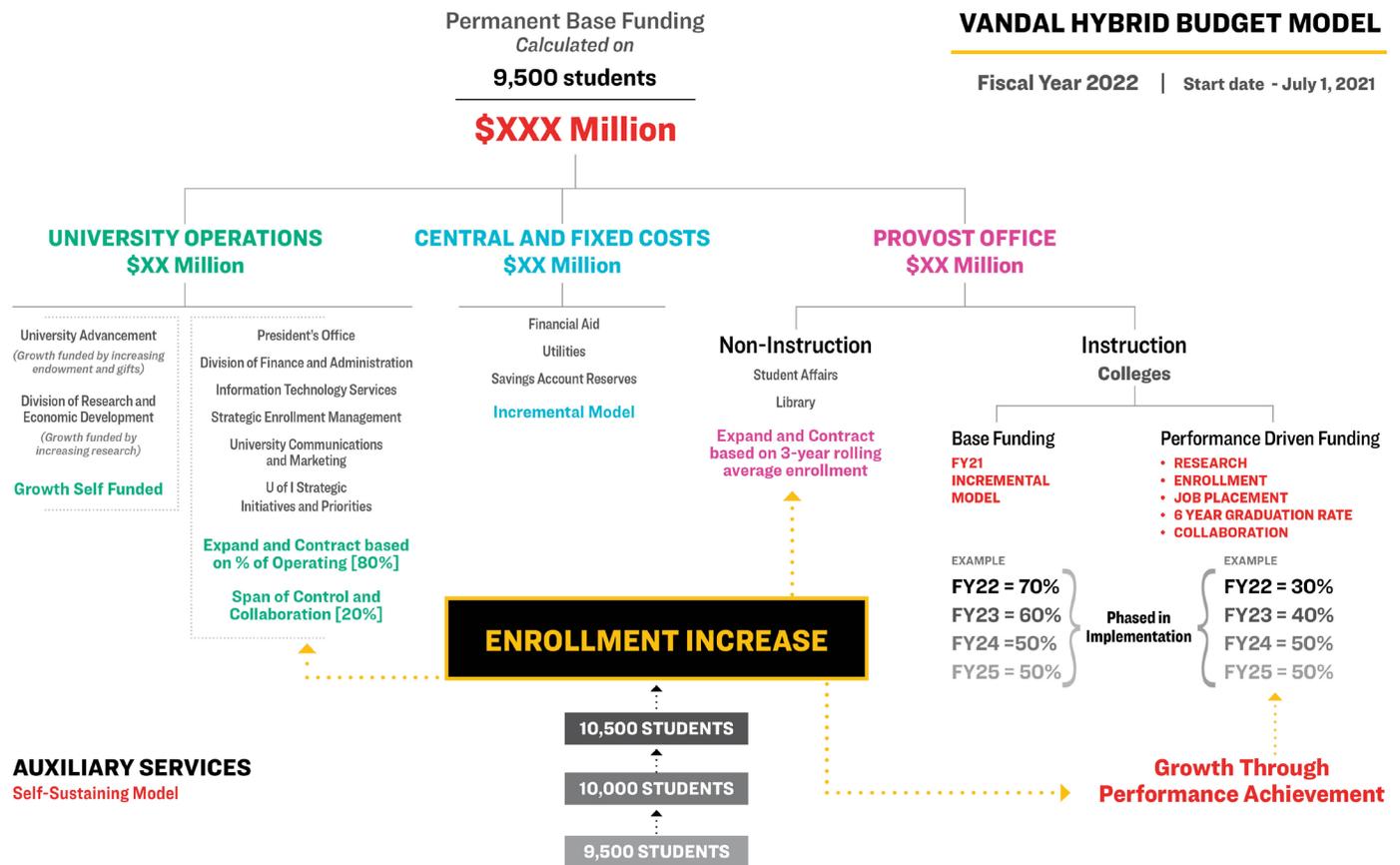
The additional funding will be flowing to the instructional areas meeting their performance driven metrics, the non-instructional student support services experiencing increased demand and university core operations.

A portion of funds from increased enrollment going to university core operations will be used for UI Strategic Initiatives and Priorities. This will create the flexible pool of funds the university has sorely been missing to fuel innovation and entrepreneurial thinking. Examples could include investment in quick response research, such as the recent Covid-19 pandemic; necessary infrastructure for new programs; sustainable funding for market-based salary targets; and many other strategic opportunities that will present themselves. The use of the funds will follow the Guiding Principles and presidential priorities.

Summary

In the past with the incremental model areas received the same amount of funding regardless if their area increased enrollment and were high performing, or experienced enrollment contraction. Creating tension in areas trying to keep up with their growth juxtaposed to the areas enjoying the consistent funding with decreased demand. It also allowed little flexibility to adjust to state holdbacks or enrollment swings and did little to incentivize innovation or performance.

The Vandal Hybrid model seeks a more strategic perspective, providing funds to invest in programs that attract students with an educational experience that is relevant to employers in an ever-evolving workplace. It also ensures that impactful research continues to be a focus at the University of Idaho. Finally, the model addresses the need to regain fiscal strength including aligning expenses with revenues, providing a permanent funding plan for operations and infrastructure, and re-establishing an adequate reserve position.



VANDAL HYBRID BUDGET MODEL

Fiscal Year 2022 | Start date - July 1, 2021

TIMELINE

The ideal timeline for the Vandal Hybrid implementation assumes FY21 budget allocations will be developed from the adjusted budget in place following the recent cuts. FY21 will be a year for the colleges to model the Vandal Hybrid and prepare for the transition beginning July 1, 2021.

The transition from the current incremental budget model to the Vandal Hybrid will occur beginning in FY22 but full implementation could take multiple years.

This will allow for a managed evolution in programs and priorities. As indicated on the Infographic above, over the transition period, ever increasing percentages of available resources will be shifted away from incremental-based to performance-based allocations. The performance metrics shown in the model are examples only and will be finalized in the next phase of this process.

COMMUNICATION PLAN

ASUI President Jacob Lockhart developed a statement of values during the SFM Working Group's second session. The group agreed this was insightful and could be used to help communicate to the U of I community and provide some visioning and inspiration for now and into the future. The "Circle of Success" infographic depicts a statement of purpose and values showing Jacob's input with the inner circle of **Ingenuity, Discovery, Accountability, Harmony, Optimism**.

I Ingenuity – Imagining new possibilities for student success by empowering students to meet the market and social needs of today and tomorrow. In doing so, we will remain a premier institution dedicated to serving state, country, world and beyond.

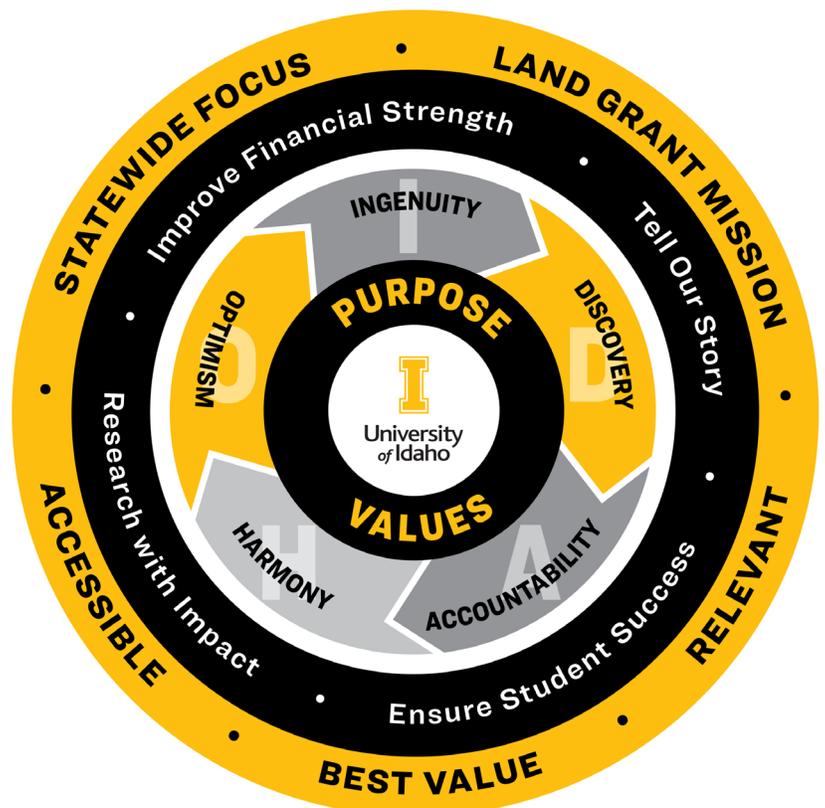
D Discovery – Breaking through dated metrics and embracing the future of higher education will help us inspire new innovation, research, and discovery.

A Accountability – Acting as informed and involved leaders gives each of us a stake in our shared success.

H Harmony – Joining together in the promotion of interdisciplinary practices will forge an even stronger sense of institutional unity.

O Optimism – Continually cultivating an environment that values the contribution of students, faculty, and staff guarantees a future of endless possibilities and boundless opportunity.

The "Circle of Success" infographic points to President Green's priorities and higher-level mission references for the University of Idaho. The goal is to use information like this to help communicate and support University-wide communications around the new model, positioning it as a tool to help us move forward in an optimistic way.



CONCLUSION AND NEXT STEPS:

U of I Community Feedback

The SFM Working Group agrees we should over communicate the plan and the rationale behind it. The group also agrees the University of Idaho community will get behind a budget model with an increased focus on performance if we provide an optimistic vision for the future this new model can help create. Our future should include the ability to invest in strategic areas of emphasis and an improved ability to weather variances in our resource base.

A credible roadmap to execute on this model over time will need to be widely shared and transparent. The group desires input from the U of I community on the conclusions reached and to that end, Provost's Council, Faculty Senate and Staff Council will engage in a feedback process beginning in April and over the summer where comments and input will be considered and incorporated as appropriate in the final draft of this document. A site for comments and input will also be made available to the entire U of I community.

The next phase of this process will be for President Green to appoint a group to finalize the metrics and implementation steps. The charge will be to create an outline and guidelines for colleges and departments to move the University of Idaho's budget process to be in alignment with the recommendations in this white paper.