Principles …

- Institutional perspective
- Invest strategically and differentially
- Be realistic about our goals

Now …

- At the margin …
- The base is the base …
- Decentralization …
The numbers …

Karen Eckert
October 26, 2006

- All funds vs. funds that are the focus of the campuswide budget process
- Our resource envelope through 2010
  - New core resources
  - Commitments and investments
- Our potential resources through 2020
All UCSC Funds

- Auxiliary Enterprises ($74M) 15%
- Extramural ($110M) 23%
- Designated Student Fees ($40M) 8%
- Other Sources ($5M & $9M) 3%
- Core Fees ($64M) 13%
- State ($182M) 38%

Academic Divisions — Core vs. Designated Funds

- Academic Divisions (all funds)
  - Extramural Funds
  - State/UC Funds
  - Fees

- Academic Divisions (excluding extramural activity)
  - State/UC Funds
  - Fees
Academic Support Divisions — Core vs. Designated Funds

Some Observations

- About 95% of the budget is decentralized
- Of the 5% held centrally, 65% is committed for ongoing obligations
  - Debt service and off-campus leases
  - TA fee increases and GSHIP
  - IWF, Core Courses, and supplemental TAs.
- Incremental funds are roughly 3% of the base
Current Year ...

2006-07 Incremental Increase

- $8M increase in core funds
- 2006-07 Allocations:
  - $8M in permanent allocations
  - $14M in one-time allocations
2006-07 Allocations

**Academic Divisions**
- 19 Faculty FTE
- Includes:
  - Faculty salary and benefits
  - I&R Support
  - Teaching Assistants
  - UOF (per formula)
  - One-time funds for start-up

**Other Academic and Academic Support**
- Includes support of:
  - Library
  - Office of Research
  - Graduate Division
  - ITS
  - BAS
  - Student Affairs
  - University Relations

**Other Recent Investments**
(2001-02 to 2006-07)
- Faculty Start-Up
- AIS and GARP
- Business Transformation Projects
- IT
Other Recent Investments
(2001-02 to 2006-07)

- Campus Planning
- Off-Campus Space & Debt Service
- Capital Projects
- Bond Funding for Deferred Maintenance

Near Term Projections …
Core Funding Assumptions

Enrollment-Funds
- Marginal Cost: $8,100/stu
- Ed Fee: $3,100/stu
- Reg Fee: $735/stu
- Indirect Cost Receipts: 4% growth/yr
- Admin Recharge: $50,000/yr
- OMP Workload: TBD

Projected New Core Funds

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>$4</td>
</tr>
<tr>
<td>2008-09</td>
<td>$4</td>
</tr>
<tr>
<td>2009-10</td>
<td>$4</td>
</tr>
<tr>
<td>2010-11</td>
<td>$4</td>
</tr>
</tbody>
</table>
Future Allocations …

Academic Divisions

- 112 faculty FTE allocated through 2010-11
- Includes:
  - Faculty salary and benefits
  - I&R support
  - Teaching assistants
  - UOF (per formula)

Other Academic and Academic Support

- Other Needs:
  - Graduate support
  - Development
  - Internal controls and safety
  - Library collection
  - Student services
  - Information technology

Allocation of Core Funds

![Bar chart showing allocations for 2007-08 to 2010-11](chart.png)
Other Challenges

- Maintain & Improve Infrastructure
  - Deferred Maintenance (beginning to address with Bond Funding)
  - Improve Reliability and Power Capacity
    - To address power outages
    - To support high tech computing
    - Replace aging CoGen Facility

- IT Physical Infrastructure

Other Challenges

- Recruit and Hire Faculty
- Increase Graduate Enrollments
- Big-Ticket Capital Expenses:
  - McHenry Library
  - Digital Arts Facility
  - Physical Sciences
  - 2300 Delaware (Building C)
  - Biomedical Facility
Other Challenges

- Maintain internal controls and a safe environment
- Mount a Capital Campaign
- Deficits

Other Challenges

- Plan — knowing the State budget will face another down-turn at some point
- Invest in our academic plan
- Create more resource flexibility
Looking beyond 2010-11…

Core resources today

- **Current enrollment of approximately 15,680 FTE (FWSSu)**
- $255 million
Core resources through 2010-11

- Enrollment growth to 17,215 FTE (FWSSu)
  - Core enrollment funding
    - $8,100 from State
    - $3,100 in Ed Fees
    - $ 735 in Reg Fees
  - Research funding increases proportional to faculty FTE growth
  - Administrative recharges increase marginally

Core resources allowed by LRDP

- Enrollment growth to 19,500 FTE (FWS) plus full summer growth potential
  - Core enrollment funding
    - $8,100 from State
    - $3,100 in Ed Fees
    - $ 735 in Reg Fees
  - In addition, research funding per faculty FTE improves
  - Administrative recharges increase modestly
Commitments against core resources

- Allocated base reflecting current commitments thru 2010
- Instruction
  (faculty and TA FTE/I&R support)

- Additional resources for
  - Other academic investments
  - Infrastructure and service investments
  - Workload increases
Review of the numbers …

- Core funds
- Resources through 2010
- Potential resources through 2020

- Do these resources provide the flexibility to meet campus needs?
- How do we create more flexibility?
Overview of Strategic Budgeting Options

David Maddox
October 26, 2006

What are your options

Karen and Meredith identified major budgeting strategy issues:
- Incremental budgeting won’t allow UCSC to do what you want and need to do
- There is flexibility in the budget that would allow you to try something else.

So what can you do?
- From a technical budgeting perspective, there’s a range of options
Will consider two questions

1. How can the institution make more funds available for allocation?
2. Can you allocate funds in a way that is more effective strategically?

There is a range of techniques available, and we will start by looking at the range.

No magic solutions

A range of options

- Options come from what universities and other organizations have tried.
- Most universities use some combination of these techniques.
- What happens at the center and units is relevant.
- Not all options will work out for Santa Cruz -- but the best starting position is that each one of the ideas might hold promise for UCSC.
- Want to spur everyone’s thinking.
Revenue strategies

- Most obvious strategy is to increase revenue
- But those strategies are obvious
  …and are being pursued
  …and have some limitations:
  - Offsetting costs
  - Campus capacity
  - Limitations on use of funds
  - Length of time between investment and payout
  - Effect on primary mission

If revenue is constrained

You can:
1. Reallocate funds to free more up for allocation
2. Change the way you allocate funds to create better alignment with strategic goals
Reallocation to produce flexibility

Techniques

**Cost cutting**
Mandate internal reallocations in units
Eliminate or reduce programs
Reduce quality of service or work conditions
Process improvement
Capture salary savings
Redirect fund streams
Hold back some incremental funds
Tax budgets
Transfer funds between units

Cutting wasted effort or delivering a service more efficiently to free up funds for new purposes. It can be hard to capture such savings, let alone find them.
### Reallocation to produce flexibility

#### Techniques

- Cost cutting
- **Mandate internal reallocations in units**
  - Eliminate or reduce programs
  - Reduce quality of service or work conditions
  - Process improvement
  - Capture salary savings
  - Redirect fund streams
  - Hold back some incremental funds
  - Tax budgets
  - Transfer funds between units

<table>
<thead>
<tr>
<th>Techniques</th>
<th>Set a percentage goal, require each unit to demonstrate reallocation within their budgets. Retains level of funds by unit but in essence creates small allocation pools in the units.</th>
</tr>
</thead>
</table>

#### Reallocation to produce flexibility

#### Techniques

- Cost cutting
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<table>
<thead>
<tr>
<th>Techniques</th>
<th>Academic or administrative. Programs which institutions can end appear to be rare. Does not free up much funding if people are absorbed elsewhere. Program reductions tend to occur organically and incrementally.</th>
</tr>
</thead>
</table>
Reallocation to produce flexibility

Techniques

Cost cutting
Mandate internal reallocations in units
Eliminate or reduce programs
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Process improvement
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Hold back some incremental funds
Tax budgets
Transfer funds between units

Reduced spending in one area or activity leaves funding available for other purposes. Of course, reduced quality has serious effects and costs.

Reallocation to produce flexibility

Techniques

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Reduce quality of service or work conditions
Process improvement
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Transfer funds between units

The theory is that process improvements allow service to be delivered at same quality level with fewer resources. Difficult to realize $ savings.
Reallocation to produce flexibility

Techniques

- Cost cutting
- Mandate internal reallocations in units
- Eliminate or reduce programs
- Reduce quality of service or work conditions
- Process improvement
- **Capture salary savings**
- Redirect fund streams
- Hold back some incremental funds
- Tax budgets
- Transfer funds between units

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Retain the value of unfilled positions centrally. Or the difference between old and replacement salary.

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Reallocation to produce flexibility

Techniques

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- Reduce quality of service or work conditions
- Process improvement
- Capture salary savings
- **Redirect fund streams**
- Hold back some incremental funds
- Tax budgets
- Transfer funds between units

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If certain revenue streams are dedicated to specific purposes by institutional choice, they can be redirected to fund general allocation pools.
Reallocation to produce flexibility

Techniques

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Mandate internal reallocations in units
Eliminate or reduce programs
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Capture salary savings
Redirect fund streams

Hold back some incremental funds
Tax budgets
Transfer funds between units

Funds added to the pool of incremental funds available for allocation.

Reallocation to produce flexibility

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Process improvement
Capture salary savings
Redirect fund streams
Hold back some incremental funds

Tax budgets
Transfer funds between units

Tax budgets across the institution to create an enhanced funding pool. The tax might be limited to certain fund types and expense types.
Reallocation to produce flexibility

Techniques

- Cost cutting
- Mandate internal reallocations in units
- Eliminate or reduce programs
- Reduce quality of service or work conditions
- Process improvement
- Capture salary savings
- Redirect fund streams
- Hold back some incremental funds
- Tax budgets
- Transfer funds between units

Based on need, performance or other criteria, take some base funding from one unit and transfer it to another or make it available for general deployment.

Allocation methods

- Once you settle how much you have available for allocation, you have choices on how to allocate the funds.
- Different allocation methods may produce more successful alignment of funding and strategy.
- Changing allocation methods does not necessarily free up resources.
- But changing the allocation method does change how funds flow within the organization.
  Potential shifts in resources between units
Budget allocation methods

Techniques

- Leadership discretion
- Across the board increments/decrements
- Responsibility Center Management (RCM)
- Zero-Based Budgeting (ZBB)
- Activity-Based Budgeting (ABB)
- Formula budgeting
- Process budgeting
- Resource realignment/resetting
- Initiative processes

Leadership (an individual or a group) gathers information and makes decision on allocations. Assumed to reflect their view of institution’s strategic goals.
Budget allocation methods

**Techniques**

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- Formula budgeting
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- Initiative processes

Incremental funds go out by a uniform percentage, cuts hit across the board.

Funds flow to the unit that generated them. Critical steps for RCM are to define financial performance targets, attribute revenues and expenses to units, provide managerial freedom, and allow units to retain carry forward balances.
Budget allocation methods

Techniques

Leadership discretion
Across the board increments/decrements
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Formula budgeting
Process budgeting
Resource realignment/resetting
Initiative processes

Exhaustive process of evaluating every allocation against institutional goals and needs.

Funding for each function based on the level of activity in that function. The most advanced systems work from rigorous evaluation of the relationship between activity drivers and costs.
Budget allocation methods

Techniques

Leadership discretion
Across the board increments/decrements
Responsibility Center Management (RCM)
Zero-Based Budgeting (ZBB)
Activity-Based Budgeting (ABB)

**Formula budgeting**
Process budgeting
Resource realignment/resetting
Initiative processes

Funding based on some overall metric or basket of metrics. E.g., enrollment-based funding formulas.

**Process budgeting**

Fund processes rather than units. “We should be spending xx% of our budget on instruction.”
Budget allocation methods

Techniques

Leadership discretion
Across the board increments/decrements
Responsibility Center Management (RCM)
Zero-Based Budgeting (ZBB)
Activity-Based Budgeting (ABB)
Formula budgeting
Process budgeting
**Resource realignment/resetting**
Initiative processes

**Periodic shift of resources between units reflecting changes in strategic priorities.**

Budget allocation methods

Techniques

Leadership discretion
Across the board increments/decrements
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Zero-Based Budgeting (ZBB)
Activity-Based Budgeting (ABB)
Formula budgeting
Process budgeting
**Resource realignment/resetting**
Initiative processes

**Funds granted to initiatives based on proposals. Like an internal grant program.**
Methods used at UCSC

UCSC uses or has used many of these methods

- **Activity-based budgeting**: Funding for academic positions is based on target student:faculty ratios, I&R based on standards for support of faculty.
- **Leadership discretion**: Characterizes many decisions on use of incremental funding. Parallel process occurs within units.
- **RCM**: Once funds are allocated to units, they are free to manage those funds within broad expense categories. Thorough attribution of revenue does not occur.

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Methods used at UCSC

- **Recharges**: Some closer to ABB, some closer to formula based. Depends on the degree to which the service is consumption driven.
- **Across the board**: Primary method for allocating undesignated budget cuts in recent years.
- **Initiatives**: UCSC has had major programs of this sort in the recent past.
Considerations

- Impact
- Scale/$ range
- Incentives (desirable and not)
- Parallels in practices at different organization levels
- Strategic clarity
- Restrictions and policy
- Complexity

Questions

What does UCSC need to take into account in making any choices/decisions?

What do you want to know more about?

What issues/opportunities do you see with any of the options?