Finance Reform

A new metrics-informed financial model designed to improve transparency, align incentives with campus goals, and simplify our planning and management environment

http://budget.berkeley.edu/financereform

Speaker Series
March 10 20165

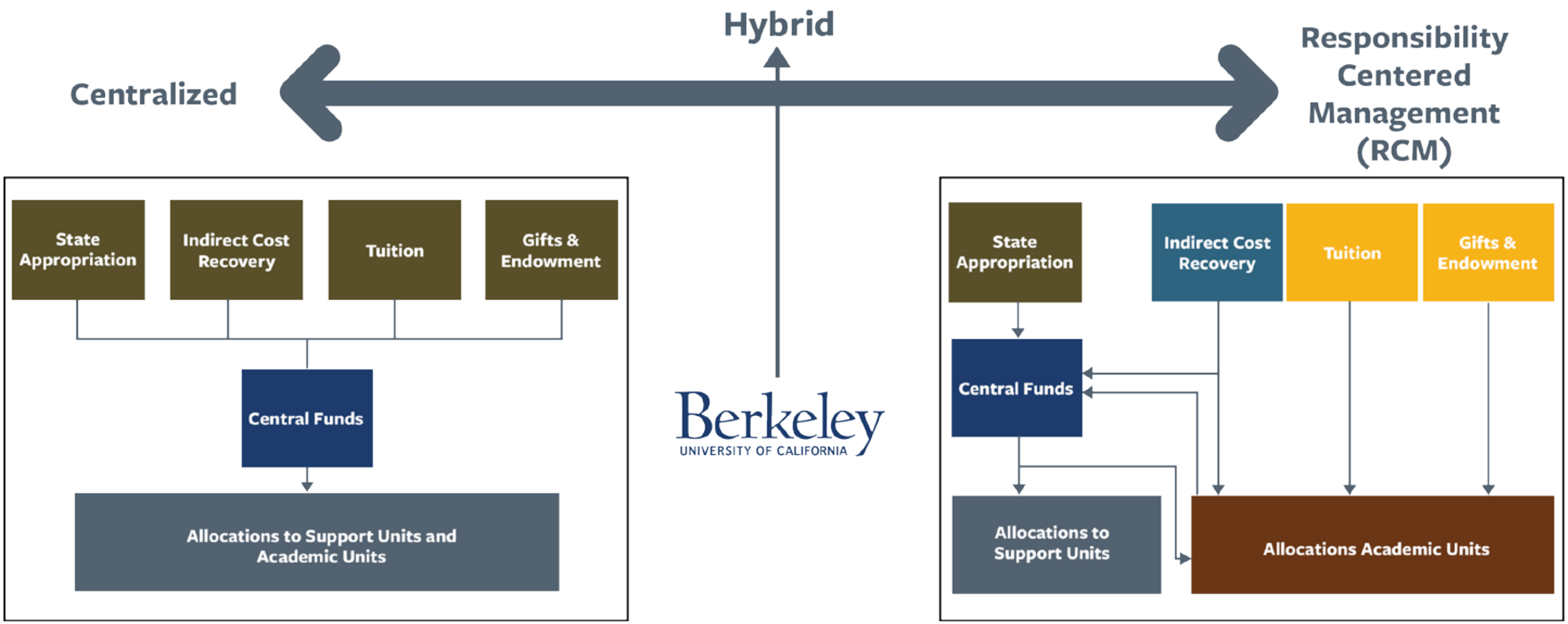
Berkeley
UNIVERSITY OF CALIFORNIA

Today's objectives

- Introduce our new Strategic Initiative to design a new financial model for the campus
- To share our current state analysis and early elements of the new campus financial model
- To start an ongoing dialogue with you as we prepare to begin the design phase
- To clarify what the Project "is" and "is not"!

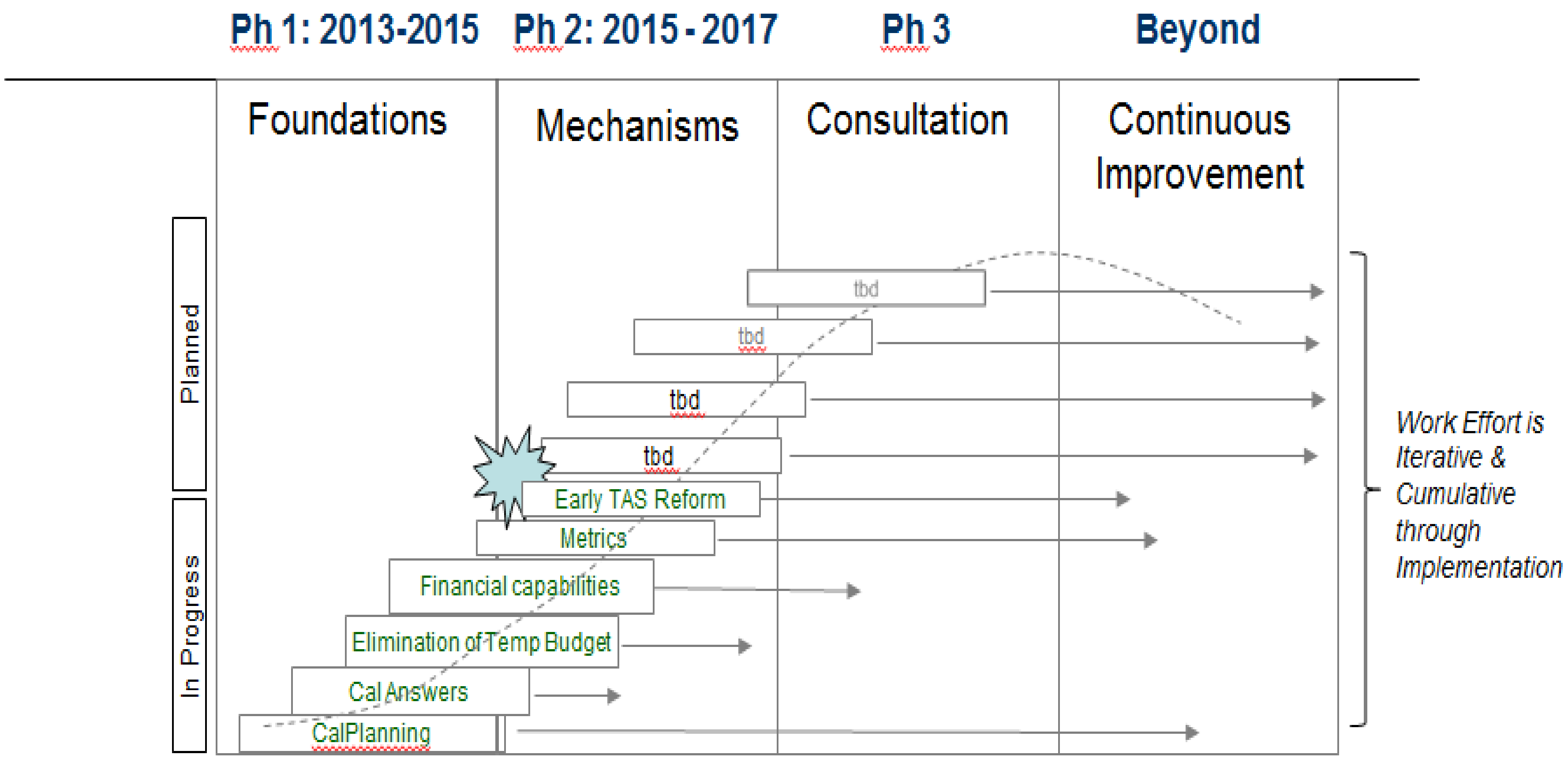
What is a financial model?

Financial model spectrum



UC Berkeley is positioning itself to redesign our hybrid model

Our work to date



UCB's Case for Change

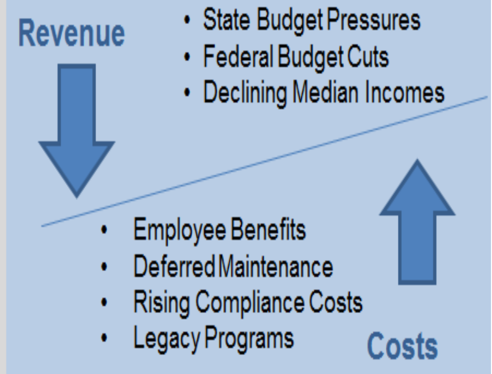
- Untenable revenue performance over the last decade
- We cannot resolve our financial sustainability issues at the center
- Campus is eager for change
- There is a desire to adopt allocation practices which support the strategic goals of the institution.
- Practices need to be simple, rational, incentivize revenue generation and cost containment
- The yearly budget review meeting remains a key leverage point.
- Shared collaboration is key to improve and optimize our resource allocation methodology

Feedback from the Education Advisory Board:

Growing Concerns About the Financial Sustainability of Higher Education

34% of University Presidents surveyed in 2014 are not confident in the sustainability of their institution's financial model.

Revenues Under Pressure As Costs Continue to Grow



No Institution Is Immune – Elite Public Research University

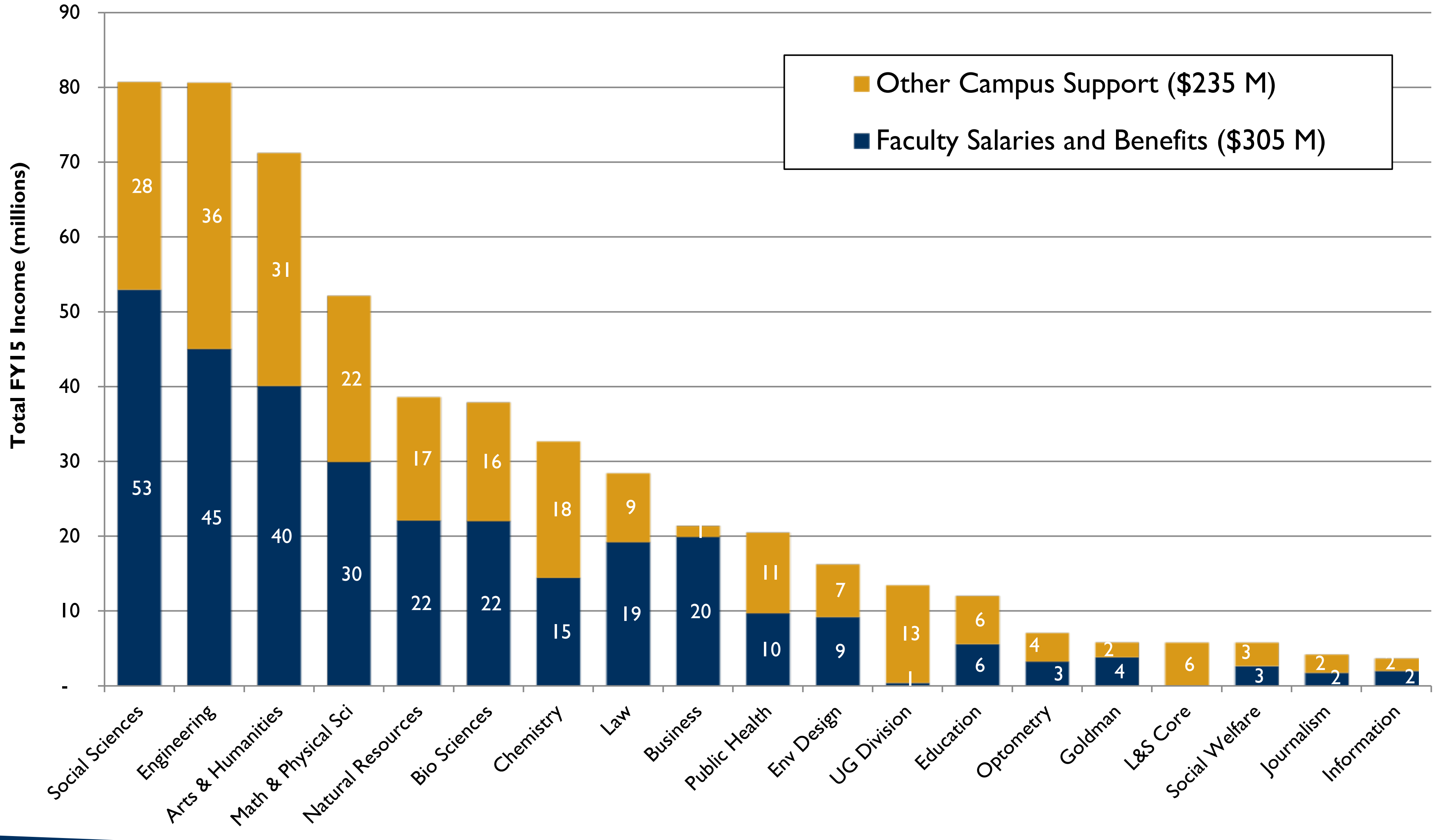
- Multiple rounds of state budget cuts reduce strategic investment funds
- Major consulting engagement cut costs by 3% but didn't slow cost growth
- Faculty resistance to shared services limits further cost savings
- State limits on tuition increases and growing financial need slowing revenue growth
- Declining federal research funding exposes dependence on indirect cost recovery funds

(Source: Education Advisory Board)

Project goals

- Sustain and enhance the academic preeminence of UC Berkeley, underpinned by a sustainable financial model
- Strengthen units’ abilities to influence revenue growth
- Simplify allocation decisions and processes
- Better allocate funding in line with campus priorities and workload
- Ensure provision of adequate strategic funding
- Allow campus leaders at every level to be nimble in allocating resources
- Encourage more horizontal collaboration

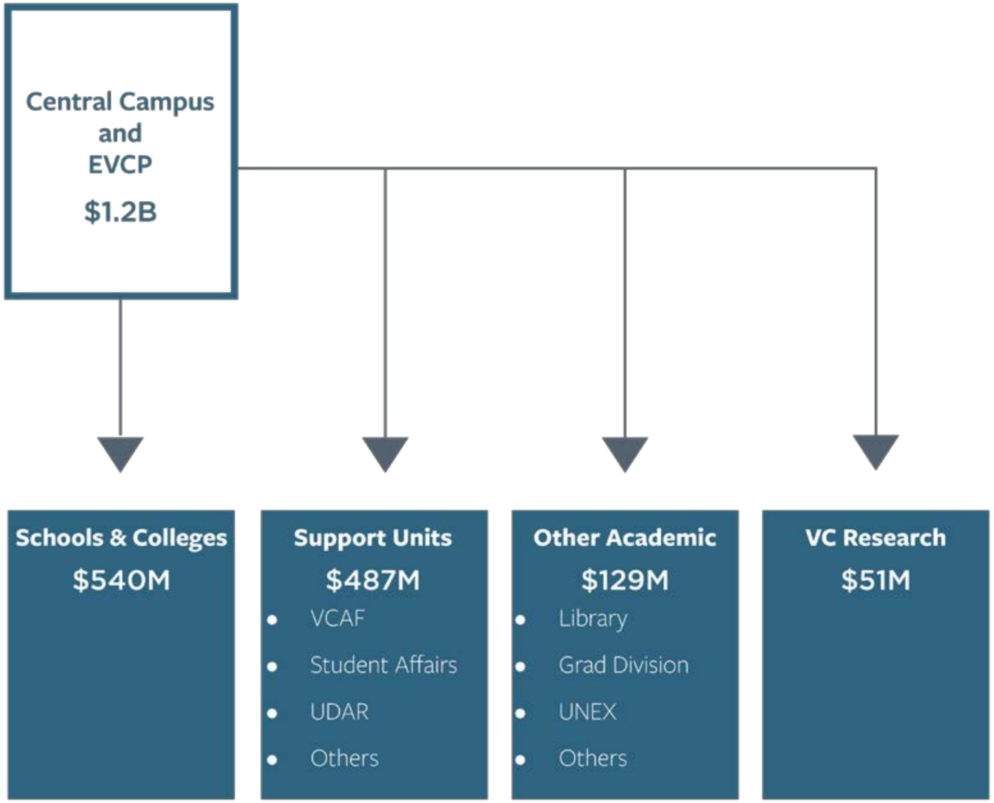
Early stages will focus on Academic units



Berkeley
UNIVERSITY OF CALIFORNIA

The initiative will also simplify the funding of central services

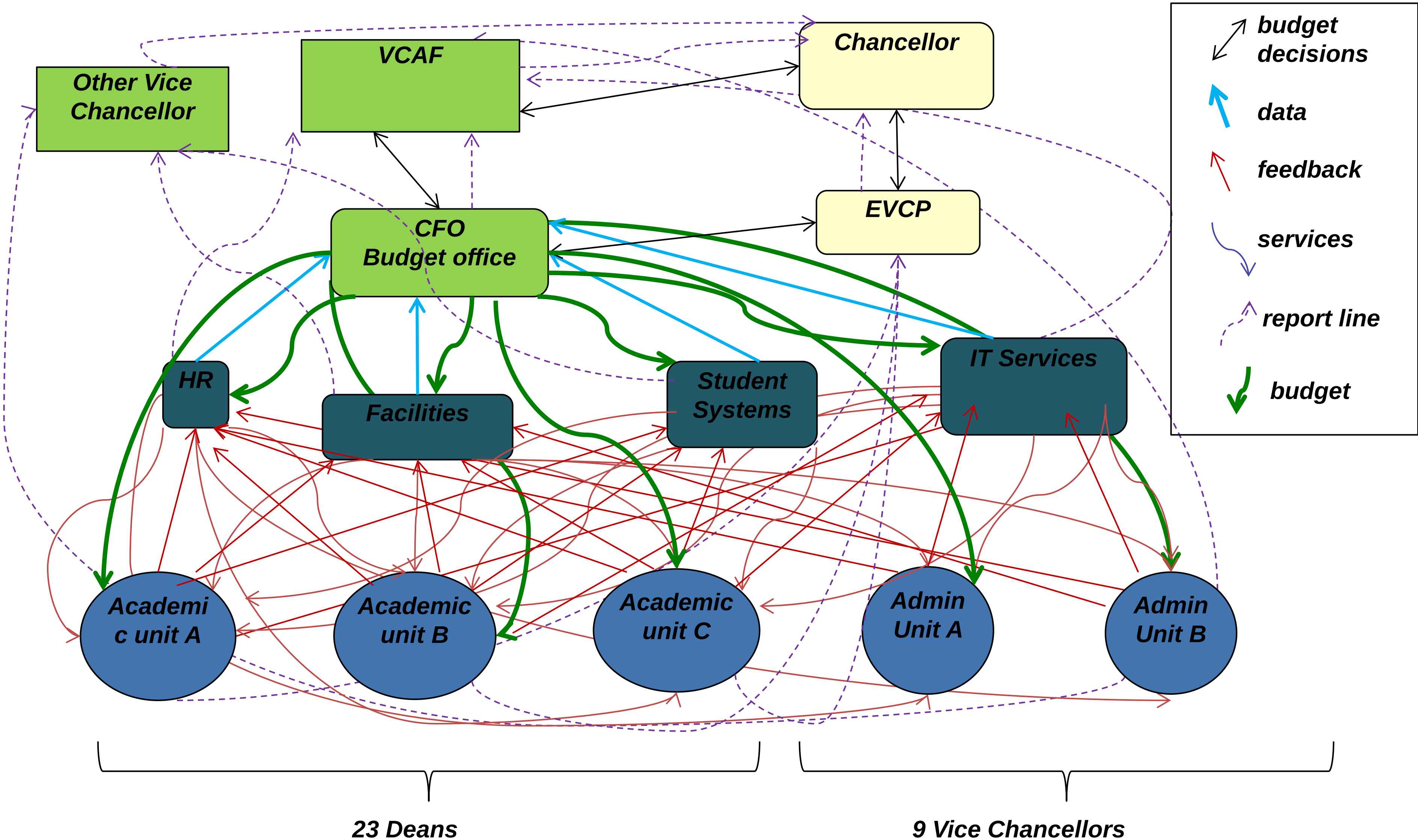
- Simplifying UC Berkeley's financial model impacts all units.
- We need to think about the best way to fund central services, e.g. simplify current recharge activity and re-examine carry forward policies
- This will be a complex exercise given the heterogeneous nature of these activities



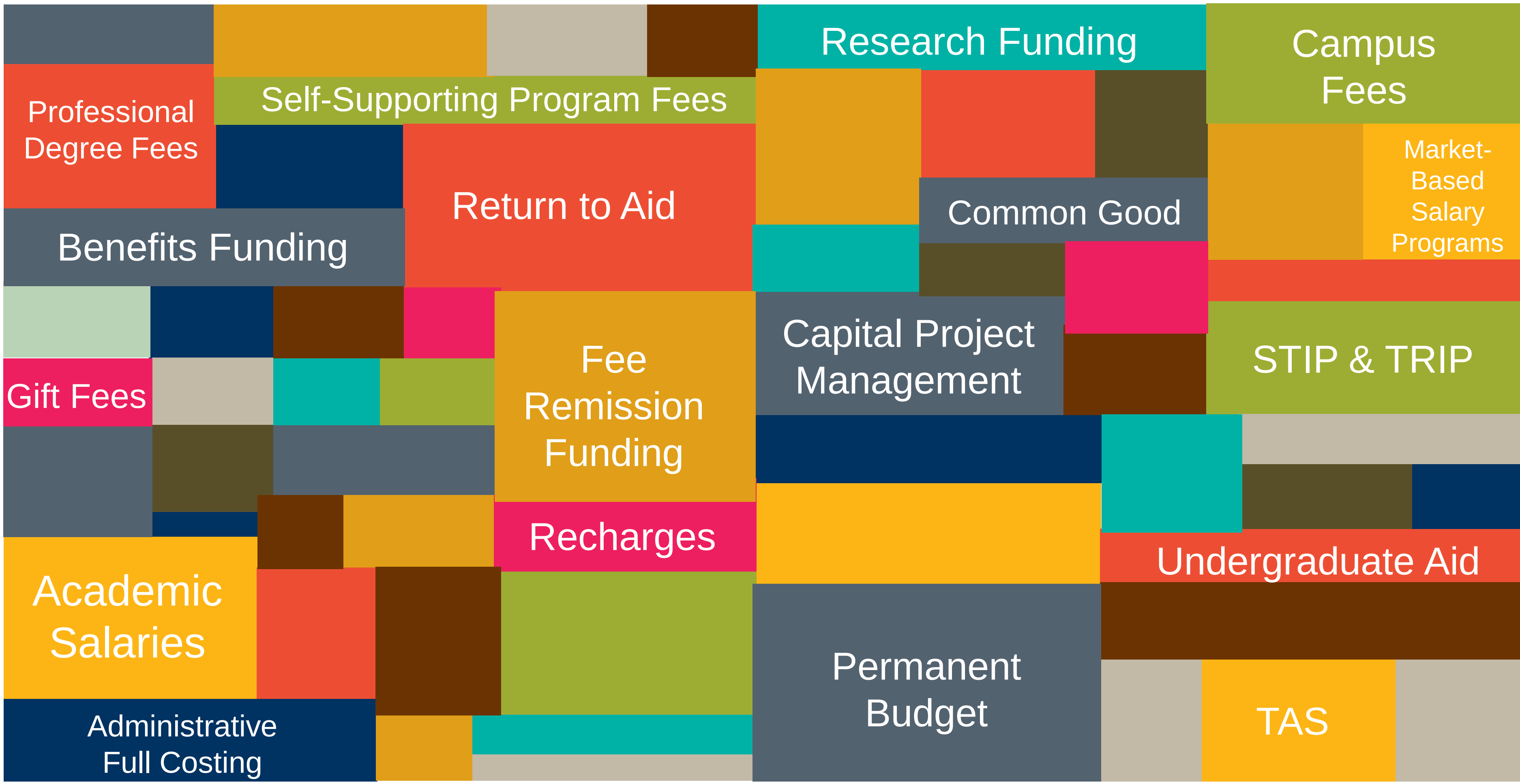
Berkeley
UNIVERSITY OF CALIFORNIA

Current State

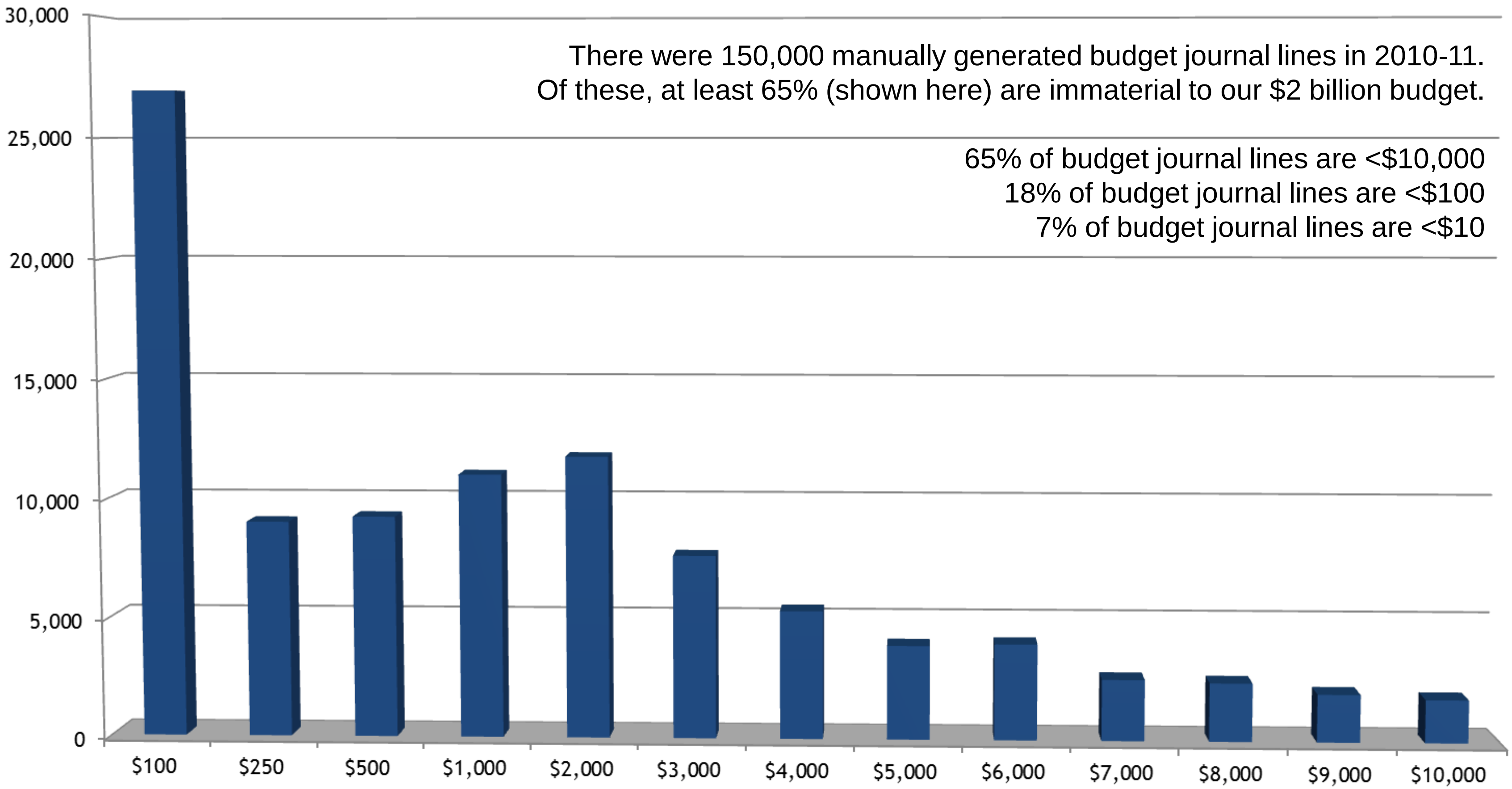
UC Berkeley's current financial model is extremely complex



There are many different processes, determined at different times, by different people, that make up one unit’s financial relationship to campus



Low-value transactions occupy time, add cost, and make it difficult to forecast



Actual Dollars – Not in Thousands!

Early Thinking: Berkeley's New Financial Model

The starting point

Analysis: after review, we know there is some equity and logic that has built a great university

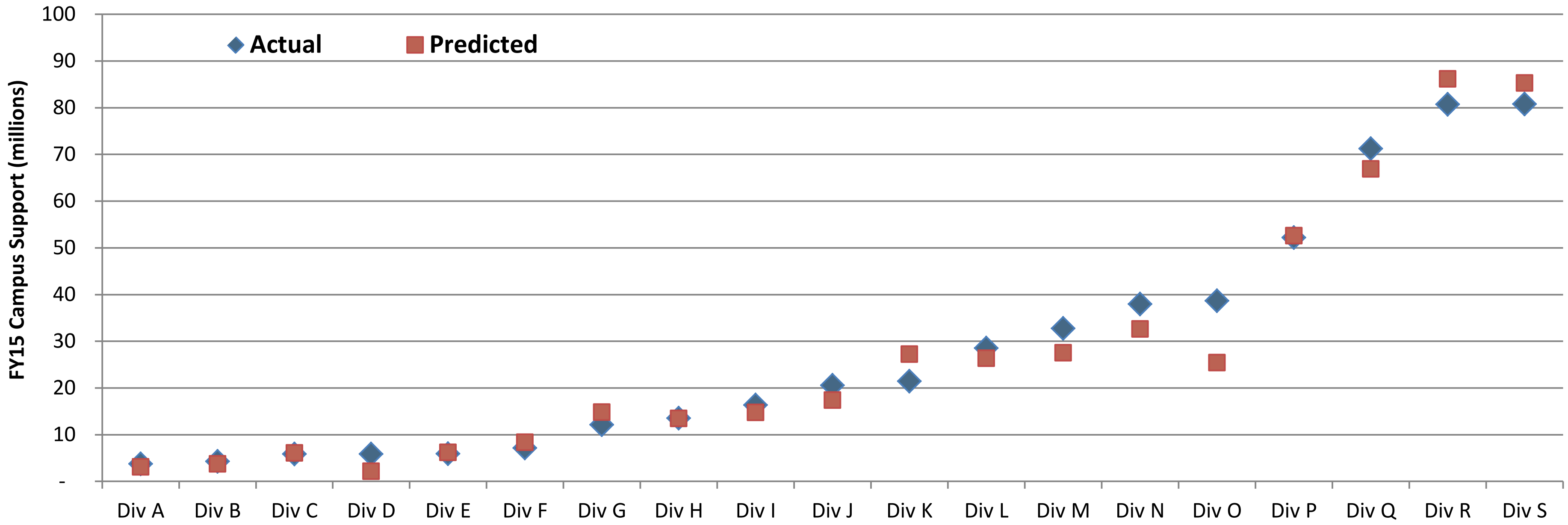
Findings: allocations show a strong correlation between various metrics. A simple model using just three such metrics can explain more than 92% of current budget allocations…

Next Steps: build upon the findings to design a model that is more transparent and responsive to changes in workload

Outcomes from applying metrics to campus support

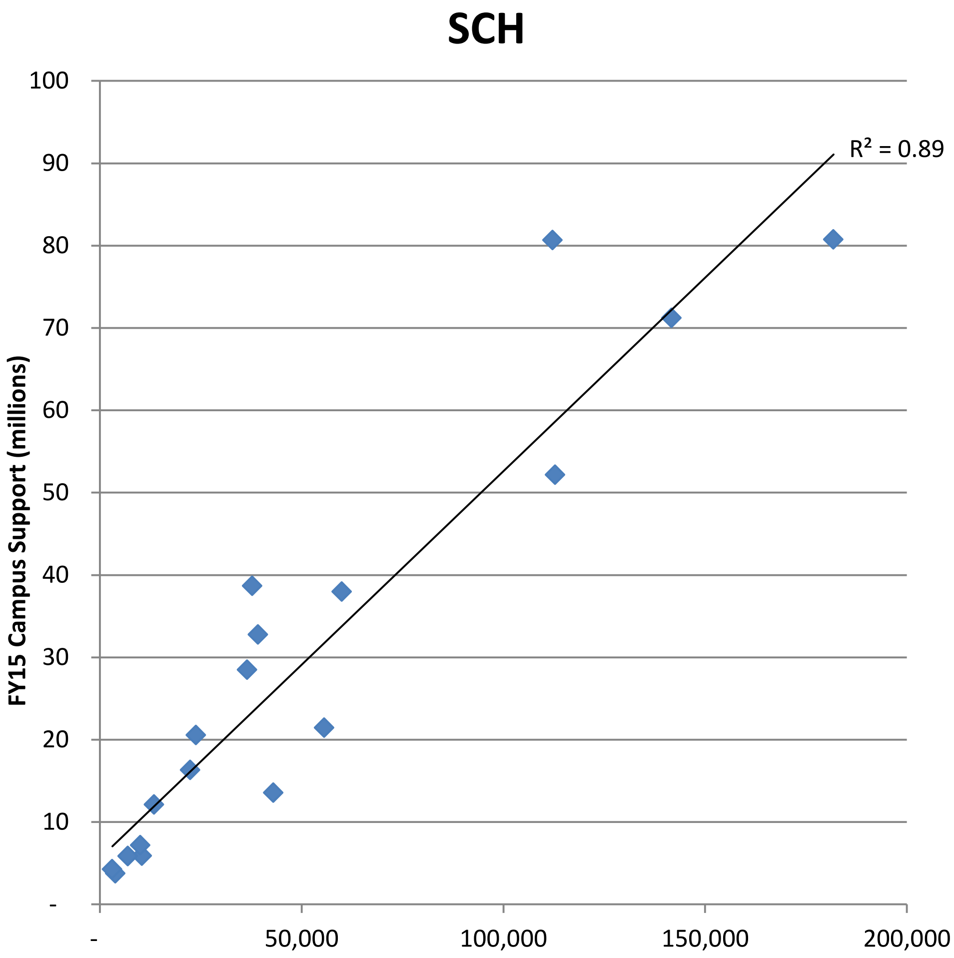
The best statistical equation to explain the distribution of current campus support to instructional units involved SCH, Grad Academic headcount, and Grad Professional headcount.

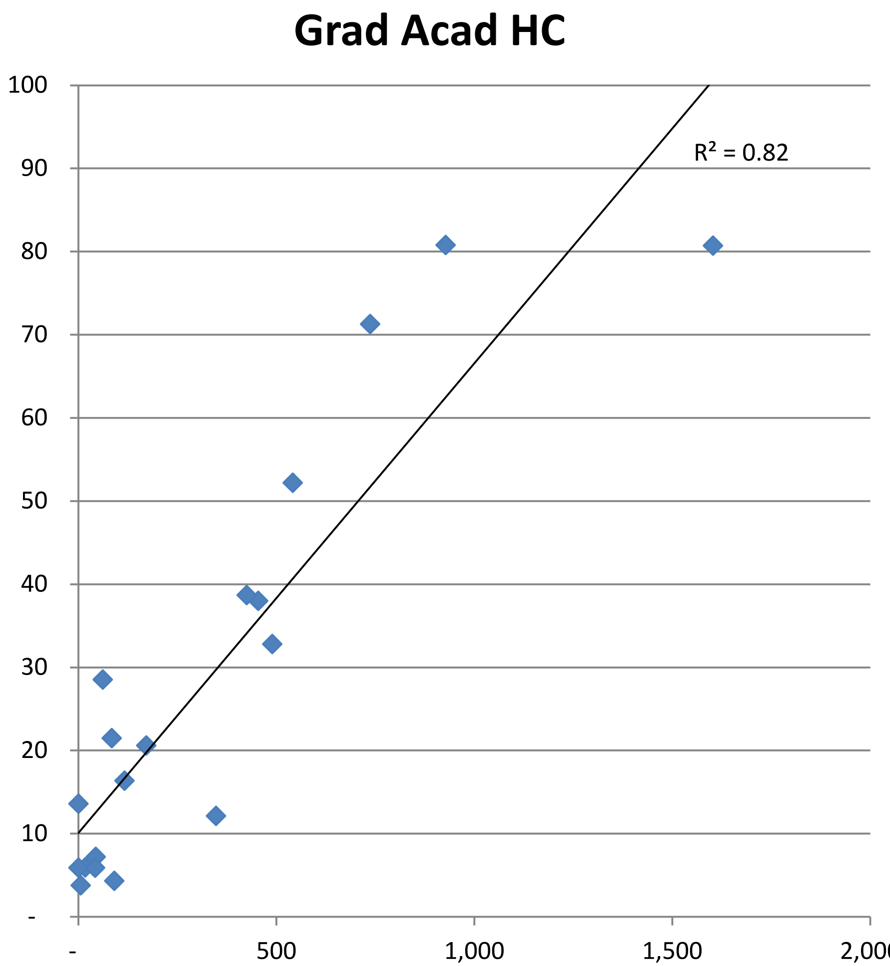
	SCH	Grad Acad HC	Grad Prof HC
Value per Unit (coefficient)	$ 313	$30,508	$15,142
Confidence Level	1.0000	1.0000	.9961
Explanatory value (r^2)	0.922		



Outcomes from applying metrics to campus support

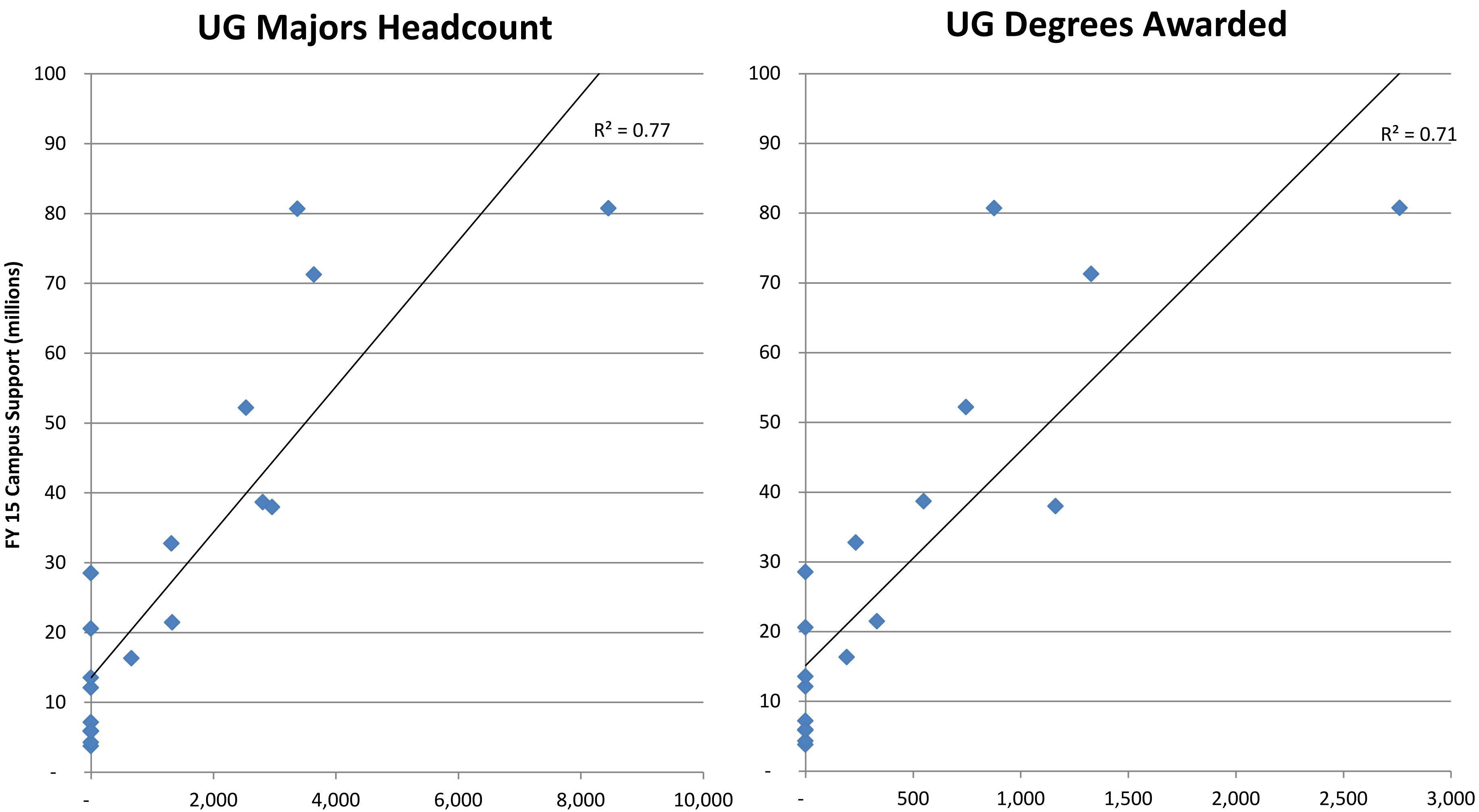
SCH and Grad Academic Headcount have the strongest singular relationships to campus support as evidenced by high r^2 values (closer to 1.00 is a perfect relationship)





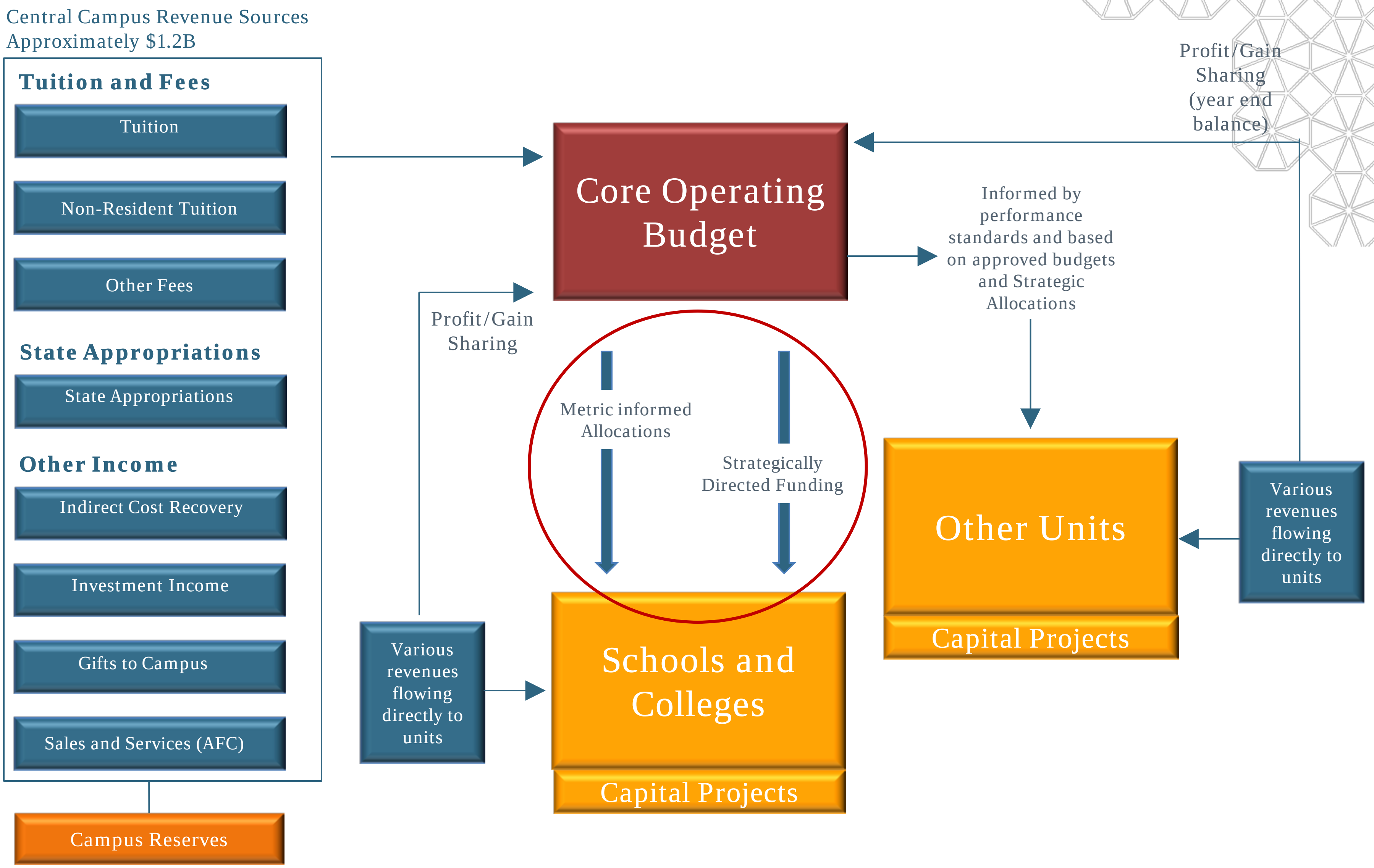
Outcomes from applying metrics to campus support

Undergraduate Majors Headcount and Degrees Awarded are good but less related…

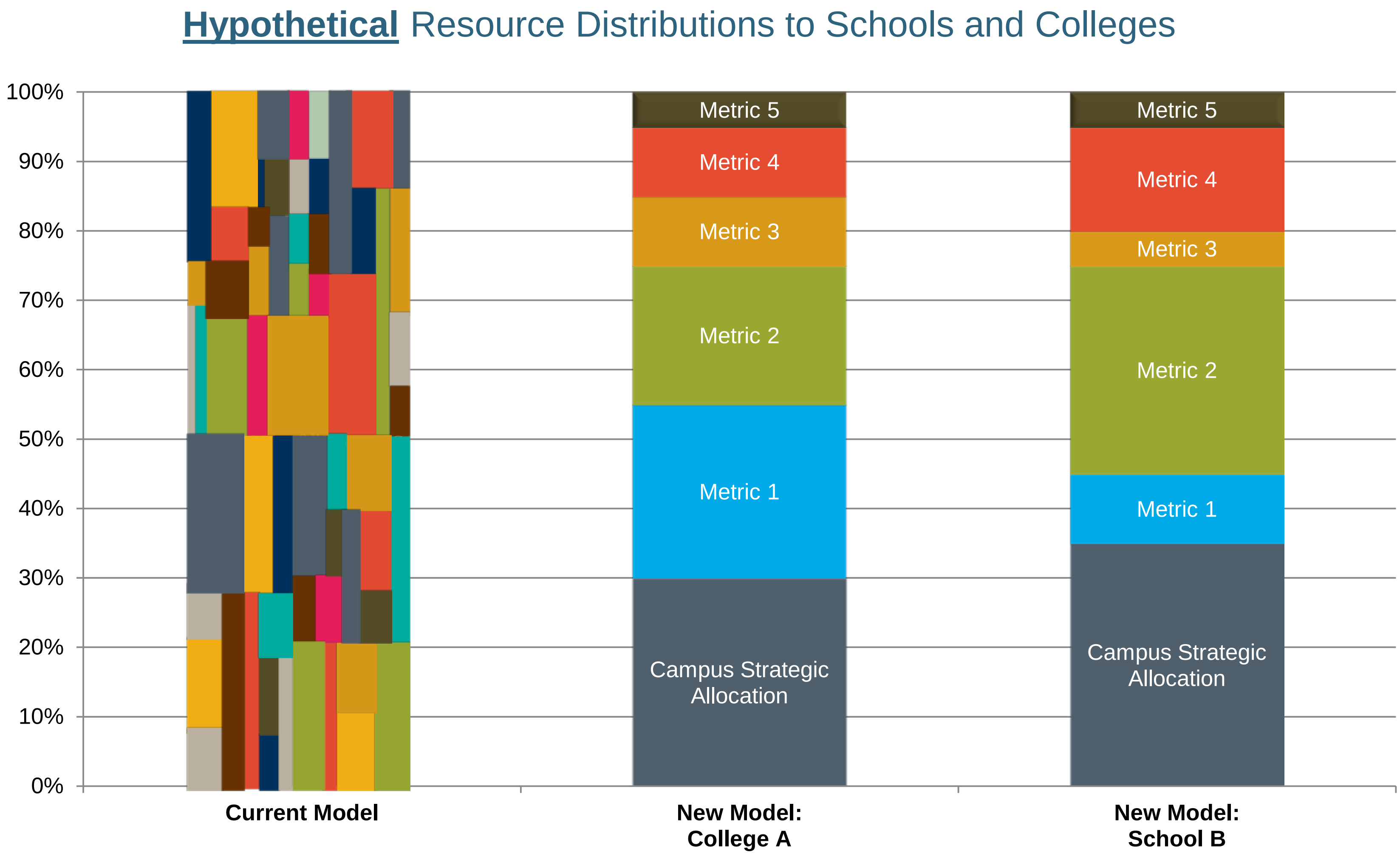


Berkeley
UNIVERSITY OF CALIFORNIA

The emerging new model



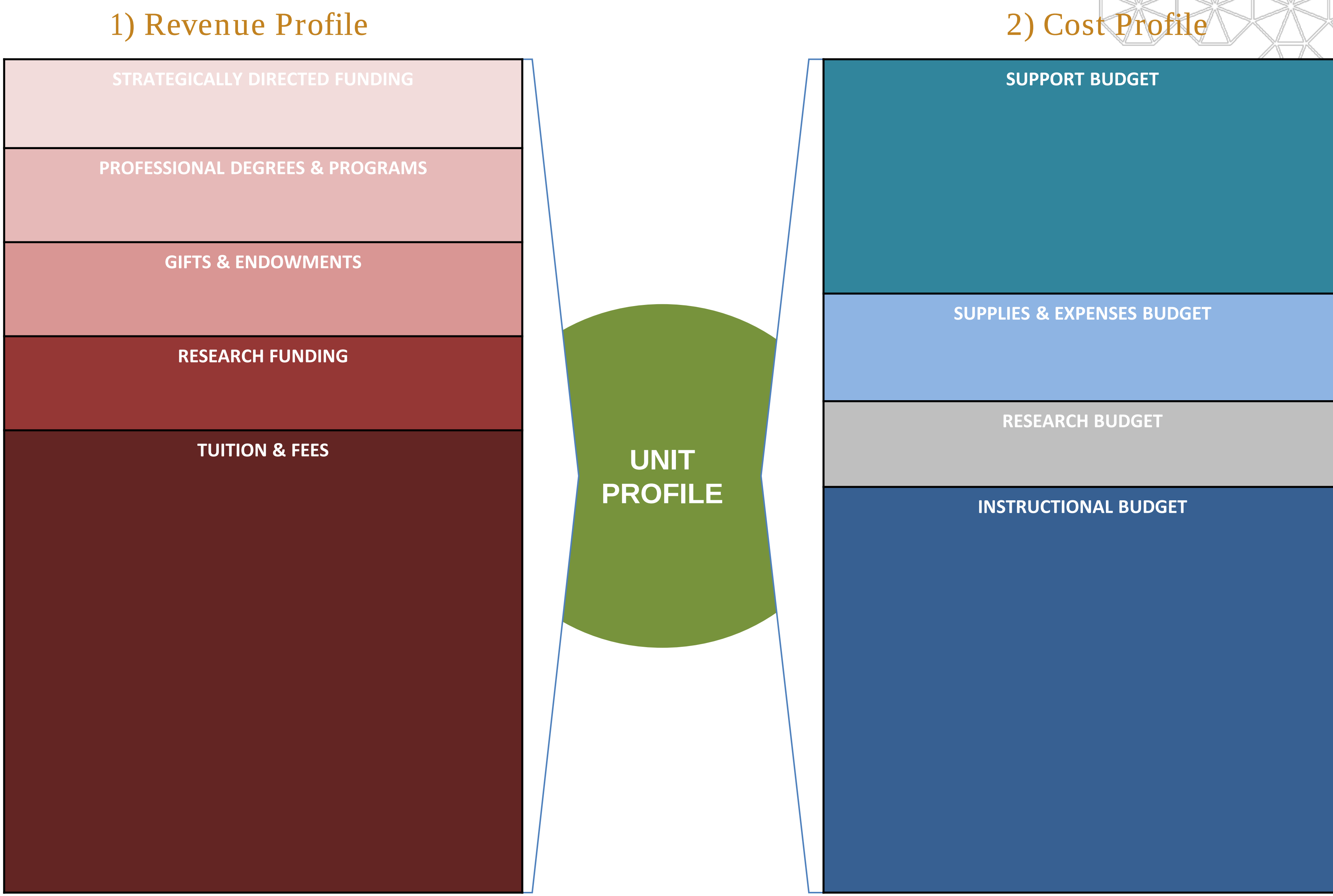
Key metrics will inform resource distributions



What are the right metrics and values for our new financial model?

Berkeley
UNIVERSITY OF CALIFORNIA

Metrics-Informed Allocations – The Two Pronged Approach



How should we collaborate going forward?

FY16
Design

- Develop methodology
- Gather Data
- Design prototype
- Communications
- Stakeholder engagement
- Review cost allocations

FY17
Test

- Test prototype
- Rollout interim TAS model
- Build capacity
- Establish incentives and policies
- Prepare systems and reports

FY18
Implement

- Roll out the new metrics-informed revenue model
- Combine instruction budgets
- Update carry-forward policies
- Reform cost allocations

FY19
Make adjustments

- Review to match experience and update methodology

Future Phases

- Consider transition to a more autonomous model
- Utilize performance/ curriculum metrics