Minutes
Wednesday, November 4, 2020
8:15-9:50am via Zoom


Presenters: Liesl Folks, Senior Vice President for Academic Affairs and Provost, Lisa Rulney, Senior Vice President and Chief Financial Officer

Call to Order
Co-Chair Helm called the meeting to order at 8:16am

Approval of the Minutes of October 21, 2020
The minutes of October 21, 2020 were approved.

Presentation and Discussion: Summer/Winter/Online Revenue Distributions
Presenters: Liesl Folks, Senior Vice President for Academic Affairs and Provost, Lisa Rulney, Senior Vice President and Chief Financial Officer

Folks presented to the committee information about instructional revenue distributions that flow outside of RCM. She stated Fall and Spring tuition revenues were distributed within the RCM model but tuition flows for Summer and Winter were distributed via established formula. Folks said Online, Global, Distance, Continuing and Professional Education (CAPE), and Campus Community revenues were distributed via ad-hoc means. Folks provided further detailed information, including:

Graduate Interdisciplinary Degree Programs (GIDPs)
- Fall and Spring revenues from GIDPs were handled within RCM but differently from other graduate programs.
- 100% SCH based distribution (without a major component).
- Distributions flowed to the College based on who is paying the instructor of record.

1 Questions asked on chat that remained unanswered during the regular meeting were forwarded to the relevant presenters for follow-up reports and answers. Presenters’ resulting answers are marked as “follow-up” in the minutes.
• Revenues shared 87.22% to Colleges and 12.78% to Central.
• $3m collected across campus and most colleges participated.

Summer and Winter
• 100% SCH-based distribution to Colleges, by Course Owner:
  Undergraduates: 31.96% shared to Central / 68.04% to Colleges
  Graduates / Professional degrees: 12.78% shared to Central / 87.22% to Colleges.
• SCH revenue pooled after Aid and/or Regents Set Aside (RSA), then distributed.
• Eller Evening and Eller Executive MBA programs pooled and distributed separately, due to the Fixed Price of the programs.
• Worth roughly $28m to the University.
• Summer/Winter sessions will increase in importance as the University works to assist students in completing degrees in 4 years.

Online, Global, and Distance
• For Online: generally, around 65% - 70% shared to Colleges by Course Owner, and 30% - 35% shared to Online.
• For Distance and Global: generally, around 70% shared to Colleges by Course Owner, and 30% shared to Global.
• New operations considered to be in “startup mode” and ability to build digital content considered vital to success of these operations.
• Tuition pricing for Online and Distance is per SCH and varies by degree program. Tuition pricing for Global varies by country & partner institution agreement.
• Strong revenues projected for FY21 because of pandemic and resulting revenue growth.
• Online revenues projected for FY21 totaled roughly $78m.
• Distance revenues projected for FY21 totaled roughly $4m.

Global Microcampus: Dual Degrees
Folks said dual degrees were offered through partner institutions and were still in early stages of development. She said robust growth was expected and revenues were distributed 70% to Colleges and 30% to Central with tuition varying by site and partnership arrangement. Folks said revenues for this category were not associated with international students studying at UArizona and FY21 projected revenues were $6.2m.

Global: Global Direct Online Degrees
Folks said the University owned direct online degrees and they offered an opportunity for students to have a campus experience at a partner site. She added there may be long-term growth opportunities and shared additional details including:
• First year of operation in FY21 with $100 per credit hour to colleges for undergraduate and $150 per credit hour for graduate.
• Roughly a 50/50 share of tuition revenues, based upon mix of locations and students.
• Aiming for 70/30 split for FY22 (by increasing college return per credit hour).

Community Campus
• Programs primarily offered to high school students around the state with low tuition which varies by program. Some courses offer college credit.
• No share of revenues flows to Central. FY21 revenues were projected to be $830k.
CAPE
- Ad-hoc arrangements with Colleges, and contracts with outside vendors for packaged professional development program delivery.

Folks stated the revenue projections for FY21 totaled $117m and shared a slide indicating the complexity of the RCM model.

Committee member Jones asked about potential increases in budget to support tools for growth in online and global such as 24/7 support, Zoom, and Panopto. Folks responded this was tangled up with UITS and UITS fees and strategies for managing University-wide contracts for these tools. Folks said she viewed need for centralizing support for these activities under UITS and there was need to be intentional to avoid satellite entities doing business separately with business entities. Co-chair Brummund stated UITS does not currently discriminate or provide a lower set of IT services for students enrolling through other modalities.

Co-chair Helm asked if a table could be created that lists all revenue sources and how they are distributed to Colleges and units. Folks responded she would do so, but the information was massive.

Committee member Liverman had a question regarding overall tuition and if revenues were estimated after costs. She added costs may equal tuition when programs are growing. Folks responded that she understood costs were held in colleges and Central did not have exact knowledge of costs to deliver content. She said it was up to colleges to manage costs and ensure there will be a net-surplus out of delivery of content. She added Colleges will always have autonomy at the cost side and she was working to refine the model to make it easier to see opportunities for revenue generation.

Co-chair Brummund asked if there was any consideration for allocations specific to teaching versus overhead or if there were any components that are dedicated to teaching or support. Rulney responded it depended on the unit but there was no consideration at the revenue allocation model at the college level. She added there were some allocation models that went all the way down to the instructor teaching the course. Rulney added there was debate regarding how to fund IT, libraries, and support units for on and off campus students. She said the University did not have a separate IT fee for online, but had a tuition carve-out. She added the online market was interested in a simplified bill that removed fees.

Committee member Summers asked if anyone considered carrying tuition remission over to summer/winter courses for graduate students with 9-month assistantships. Rulney responded that assistantships were usually bound to academic years and was not sure why benefits would not apply to winter session if there was a full academic year appointment in place.

Committee members asked questions about and discussed cross-listing of courses and the flow of funds to home departments for courses/instructors. Rulney said that in the RCM model money flows to the home department for a course. She added in case of tuition that does not flow through RCM, money flows to the course owner.
Presentation and Discussion: Transition of Responsibility Centered Management (RCM) to Activity Informed Budgeting (AIB) – Guiding Principles
Presenters: Liesl Folks, Senior Vice President for Academic Affairs and Provost, Lisa Rulney, Senior Vice President and Chief Financial Officer

Folks prefaced the presentation by saying it dealt with principles and not implementation of AIB at this time.

She presented 17 guiding principles including:

**Lowered Complexity:**
Folks said the flow of revenue was not well understood making management and strategic alignment difficult. She added:
- RCM allocates revenues out via one set of activity metrics with a variety of weightings, then taxes funds back to support central needs via a different set of activity metrics and rates.
- RCM is relatively poorly understood by non-finance professionals, making unit and program level management challenging.
- Not all RCM activity drivers have proved useful to incentivize positive management outcomes.
- Some revenues flow outside of RCM via different metrics and ad hoc deals (e.g., Summer, Winter, Online, Global, Distance, Continuing Ed. tuition).

**Weight All Undergraduate SCH Equally:**
- The weightings created tension over the perceived “value” of different disciplines.
- The weightings add further complexity to RCM and to interdisciplinary instruction.
- Differences in cost-of-operation are also addressed through differential tuition, program fees, and subvention.

**Continue to Fund Teaching Effort:**
- Teaching is the core work that generates tuition revenue.
- Current state in RCM model:
  - The majority of RCM UG tuition revenue is distributed to the Colleges in proportion to SCH delivered (75%) and Majors enrolled (25%).
  - The majority of RCM G tuition revenue is distributed to the Colleges in proportion to SCH delivered (25%) and Majors enrolled (75%).

**Encourage Inter/Multi-Disciplinary Innovation, Teaching, and Research:**
- As of 2018, RCM didn’t appear to have either incentivized or disincentivized interdisciplinary activity, which has been rather constant since the introduction of RCM.
- Many report challenges posed by RCM in easily setting up interdisciplinary education offerings due to the different SCH weightings by discipline and varied mechanisms within Colleges.

**Reward Innovation and Growth:**
Folks said that nothing in the current model rewards new growth and Distance and Online are going to be parts of growing the University’s revenue. She added:
- RCM doesn’t currently align with our strategic goals for student retention and completion.
• The campus is not strongly aligned around the importance of retention and completion as strategic objectives.

Fund Central Support Units, in Proportion to Activity, Where Appropriate:
Folks said there was a problem of not retaining enough money at the center to support central budgets in proportion to growth. She added:
• Currently, Support Unit budgets are not scaled with activity metrics, even for those which must scale with RCM-activity metrics, such as with student support activity and research expenditures.
• There is a perceived lack of alignment between the Colleges and the Support Units, based on a sense that Colleges are accountable for revenue generation, but Support Units are not.

Simplify Activity Taxes and Space Charges:
• The RCM space charges have not helped us to actively manage our built infrastructure.
• The trading of space between units is not facilitated by RCM.
• There are different tax rates for different account activities, which adds complexity.
• The revenues are shared to Colleges and then “taxed” back to support the Central Support Units, which creates the impression that the central needs are met by “taking from the Colleges.”
• Support Unit budgets being funded via RCM taxes amplifies the “us” vs “them” culture issue.

Treat All Tuition Revenue the Same, No Matter the Delivery Platform:
• UG and G tuition revenues from Fall and Spring semesters are handled within RCM, but not Summer, Winter, Distance, Global, Online or Continuing Education tuition revenues.
• Summer and Winter tuition is handled via established, but separate, formulas.
• Global, Online, Distance and Continuing Education revenues are currently handled via a series of ad-hoc negotiated deals with Colleges.
• Graduate tuition should continue to be treated differently from Undergraduate tuition.

Develop Consistent Activity-Informed Allocations to Units Within Colleges:
Folks stated this was different from the personnel budget and was not a suggestion of splitting up personnel budgets to the academic level.
• Per original design, RCM stops at the College level – decisions on allocations to academic units were left to deans.
• When RCM was introduced, Colleges were asked to develop college-specific activity-informed distribution models for academic units – some have, and some have not done so, leading to uneven experiences for academic unit leaders, and their staff and faculty.
• Some academic unit leaders, staff and faculty report challenges to remain aligned with the goals of the College or University.

Prevent Deficit Budgeting:
• Discipline in preventing deficit budgeting at all levels would help minimize structural deficits from emerging.
• Budget guidance on carryforwards/contingency fund levels would support improved decision making.
• Controls on deficit spending would also support improved decision making.
• Including all major revenue sources within RCM would make this approach more manageable for leaders.
Manage More Funds Centrally to Meet Institutional Strategic Needs, Aligned with Strategic Plan:

- Central Support Units are not currently funded via activity metrics, even where scaling is appropriate – instead funded via plussed-up base budgets.
- There is general recognition that RCM did not adequately address institutional strategic objectives, and a lack of transparency around allocations to, and unclear strategic objectives for, Central Support Units.
- One proposal is to perform annual zero-base-budgeting for all Central Support Units, and to utilize the resultant multi-year carryforwards to fund institutional needs.

Budgets to Include an Activity Informed Component and Strategic Budget Adjustment Component:
Folks stated the goal of this item was to remove the term “subvention” and replace it with strategic budget adjustment.

Ensure 100% Transparency on Budget and Finance Data:

- RCM is highly transparent, in that the budget allocation worksheets are available for review / analysis.
- The complexity of the RCM model makes it challenging to digest for non-experts.

Ensure General Education is Funded Appropriately, Without Perverse Incentives:
Folks expressed the need for strong management oversight of the new general education program as it emerges with clear understanding of how it is funded.

- GE resides within RCM, in that SCH-based funds flow to Colleges.
- GE has not been actively managed to optimize numbers of courses and seats to meet demand.
- Colleges have introduced many new courses in order to secure a share of the GE revenues, reducing the efficiency of the GE program overall.

Continue with Current Year Forecast Budgeting:

- Due to the pandemic, in FY2021 we introduced current-year (forecast) budgeting, to replace trailing year budgeting.
- Reconciliation to actual performance is required to close the finance cycle, performed once or twice per year.
- Current-year budgeting can stimulate more innovation since new revenues are shared in the same year as they are generated, reducing the need for central investment funds to bridge the start-up year.
- However, forecasts can be very wrong if a mid-year shock is experienced.

Exclude Cooperative Extension from AIB
Folks said the extension was funded through a state line item, not RCM, but was still listed as part of the RCM model.

Committee member Summers asked if the central budget might be able to manage market-level and merit-based raises? Folks replied that all units go through all-funds multi-year budgeting processes and are asked to provide 3-4 year forecasts. She added units were not forced to include salary increases into models. Folks added that to stay current with inflation the University needed to look at personnel cost increasing by 2% annually and every budget should allow for this amount on an annual basis. Summers also asked how units with salary lags should address them. Folks responded that this had to be dealt with college by college and unit by unit by looking at each in relation to the market. She added the issue needed to be handled at the local level because it was so uneven.
Co-chair Brummund said a survey would be sent to SPBAC for further follow-up on the presentation materials.

**Updates**

**President Robbins**
Robbins shared with the committee information about the positive review of the UA Nursing program. He expressed concerns about the rapid spread of COVID.

**Steve Moore, Senior Vice President and Chief Marketing and Communications Officer**
Moore updated the committee on updated targeted advertising efforts in Texas and California.

**Liesl Folks, Senior Vice President for Academic Affairs and Provost**
Folks updated the committee on plans for spring semester and said one difference with the spring semester start was the hope to test all students who come to campus for any type of instruction. She expressed the need to encourage good behavior in relation to the coronavirus on campus.

**Lisa Rulney, Senior Vice President and Chief Financial Officer**
Rulney expressed thanks to the committee for input on the Furlough Relief program as well as for feedback on FY21 budget revisions. She said the budget for FY21 was close to announcement. Rulney added the University received a clean audit for the latest CAFR.

**Jon Dudas, Senior Vice President, Senior Associate to the President / Secretary of the University**
Dudas shared there will be an ABOR meeting that will look into future goals and competitors. He added President Robbins has been in his role for three years. Dudas added the University had broken records on research, retention, and most accomplished and diverse incoming class. He said UA had moved up 27 spots in rankings.

**Adjournment**
The meeting was adjourned at 9:48am.