New Budget Model:
From Theory to Practice

THE UNIVERSITY OF CHICAGO

August 15, 2017

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Introduction

For FY18 the University is moving to a new budget model. Its major features include the following:

- Operates under GAAP.
- Units retain their share of net undergraduate tuition based on teaching load.
- Units are charged for their share of space related costs.

Purpose of this deck

- To highlight changes and answer frequently asked questions on some of the areas of major change in the new budget model.
- Some topics will be supplemented with additional backup data that will be posted on the Budget Office website.

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Overview

- A new account has been created in your unit to handle transactions related to items in the new budget model:
  - Space-related charges (building depreciation/interest, facilities management, utilities)
  - Undergraduate tuition allocation
  - Equipment capitalization and depreciation
- New sub-accounts have been specified for each of these items to enable independent tracking throughout the year.
- Transactions will be made on a monthly basis to reflect the latest activity for each item.
- With the distribution of space charges to each unit, there are also a number of implications for the capital process and tracking procedures.

Net Undergraduate Tuition (1/2)

- **How will tuition be transacted?**
  - Gross undergraduate tuition and financial aid will initially be recorded centrally. Net undergraduate tuition will then be allocated out to units based on teaching load and other relevant criteria.
  - It will appear in OBS row A06 on two separate subaccounts:
    - ✓ 9482: Base allocation (enrollments, majors, minors)
    - ✓ 9483: College metrics (e.g., class size, instructor type)

- **When will transactions occur?**
  - Initial projection for 9482/9483 shortly after add/drop each quarter based on preliminary enrollment figures; final true up and transfer at the end of the quarter following data validation by units (e.g., instructor attribution). There will be a single transaction for each formula element.
  - Transactions into 9482 for graduating majors/minors will be made soon after the end of the academic year.

Net Undergraduate Tuition (2/2)

- **How much of the gross tuition is allocated to units?**
  - A portion of gross tuition will be used to fund unrestricted financial aid. Raising more restricted scholarship income will reduce the use of tuition needed to offset financial aid costs.
  - A second portion will be used to fund undergraduate student services.
  - The balance of the gross tuition – about 1/3 of the total -- will be allocated to teaching units.
  - The allocated value per course enrollment will serve as the base metric upon which other valuations are made (e.g., each major is valued at four enrollments). In order to provide stability throughout the fiscal year, this enrollment value will be determined at the beginning of the Autumn quarter based on the latest projections of tuition, financial aid, and student enrollment.

Private Gifts (1/2)

- **How will gifts be transacted?**
  - Income categories in the OBS for private gift and endowment will continue to match restricted spending for each category. However, to bring the OBS line item total (D99) into alignment with GAAP, a line will be added, showing the fund balance change. This will effectively adjust the line from reflecting only restricted spending to showing actual revenue.
  - Units will receive a report in their shared drive each month showing revenue and expense detail for each of their gift and endowed funds.
- **When will transactions occur?**
  - Revenue will continue to be reflected on the General Ledger as gifts are received throughout the month.
  - GAAP revenue will now also be shown each month in the OBS reports.

Private Gifts (2/2)

- **Reconciling Griffin and OBS Data**
  - Year-to-date actuals will reflect the data in the OBS. However, the pace reports (which build off year-to-date actuals) are based on the data in Griffin. Therefore, the Development Office will need to first reconcile year-to-date activity between the two systems in building its pace report. It may be that data already in Griffin will be added to the pace year-end estimate because there is every assurance that this gift will make it into the accounting system by the end of the year.
  - Given the pressures on the Development Office as we approach the final phase of the campaign they will not be able to provide detailed back-up on the components of their pace estimate to every unit.

Space Charges (1/3)

- **How will space charges be transacted?**
  - On a monthly basis, the Budget Office will update a consolidated space model that incorporates building-level costs and usage data to allocate these costs out to campus units.
  - This model will calculate the amount of four separate sets of transactions that will be charged to your unit each month:
    - ✓ Building depreciation (sub-account 9478)
    - ✓ Building interest (sub-account 9479)
    - ✓ Facilities operations and maintenance (sub-account 9480)
    - ✓ Utilities (sub-account 9481; separate transaction for each utility)

- **When will transactions occur?**
  - Transactions will be made on a monthly basis for costs incurred the prior month (e.g., the transaction in November will be assessed based on October space occupancy and utility usage).

Space Charges (2/3)

- **How will utility costs be transacted?**
  - Utility costs will be charged to the Facilities budget and then recharged out to the units who own the asset.
  - Costs in nearly all cases are based on actual meter readings. For buildings occupied by more than one unit, metered costs will be allocated by square footage.

- **How will consumption and price changes factor into the utilities cost to units?**
  - The budget for each unit was based on historical consumption average and a projected per unit cost for each commodity. Units bear the gain/loss from consumption variance; the central budget incurs the gain/loss from price variance.

Space Charges (3/3)

- **What supporting information will be provided regarding space charge calculations?**
  - Following the transaction of monthly space charges, the associated model will be broken out by unit and distributed via the unit shared drive.
  - This unit-level model will incorporate occupancy data from the prior month, and include all space assignment and cost back-up for any buildings the unit occupies space in.
  - A set of reports (e.g., building cost overview) will be built into this model to support analysis and data validation.
- **Who will be transacting the space related charges?**
  - The Budget Office will be working directly with Facilities Services to process transactions for these line items.

Equipment Capitalization and Depreciation (1/2)

- **How were transactions done in the old budget model?**
  - In the old budget model, any equipment that a unit purchased was charged in full against their budget.
  - In the central budget (CBI) any equipment purchases above the capital threshold were reversed. Therefore, on a university level, the immediate net impact to the operating budget for capitalized equipment purchases was $0.
  - The annual depreciation costs for these capitalized equipment purchases were charged to the CBI.

Equipment Capitalization and Depreciation (2/2)

- **How will these transactions be done in the new model?**
  - Any capitalized equipment purchases that a unit makes will be reversed to a fixed asset account. The transaction, therefore, will not have an immediate operating impact but the unit will incur future depreciation costs. To cover these future costs, the unit will need to plan accordingly in order to bank at year end the savings from the expense reversal.

- **How problematic is it that equipment spending may be steady each year but capital vs. non-capital may fluctuate?**
  - Since units will be depositing the savings from the credit offset into the bank to cover future depreciation expenses, year-to-year fluctuations will not impact a unit's budget flexibility.

Capital Projects (1/5)

- **How were transactions done in the old budget model?**
  - In the old budget model, if a unit wanted to move money to the capital ledger, they would charge the following subaccount: "Transfers to Ledger 8". The transaction (say $50K to refurbish a student lounge) was the only impact to the unit's operating budget.
  - In the central budget (CBI) this $50K expense was reversed. Therefore, on a university level, the immediate net impact to the operating budget from this transaction was $0.
  - Once the ledger 8 account was spent (which may not happen until a future fiscal year) there were two possible impacts to the CBI: if the project was capitalized, annual depreciation costs were charged to the CBI. If the project costs fell below the capital threshold it was then fully expensed in the CBI.

Capital Projects (2/5)

- **How will these transactions be done in the new model?**
  - The biggest change for units is that there will be no immediate operating impact to their budget if they want to proceed on a capital project. Re-doing the student lounge won't cost a unit $50,000 in one year (unless it ends up being expensed) but it will be charged the subsequent depreciation costs annually for many years into the future. As a result of this change, the subaccount "Transfers to Ledger 8" will no longer be used. In fact, when converting FY17 unit budgets into the new GAAP model we took any activity in this subaccount out.
  - In the new model all capital projects must go through a central approval process because the central budget is providing the cash for these projects and we need to monitor this resource carefully.

Capital Projects (3/5)

- **How about spending from existing ledger 8 accounts?**
  - These projects must also first be approved centrally because of the cash implications. The subsequent depreciation or outright expense costs will then be borne by the unit.

- **How will internal loans be processed in the new model?**
  - Under the old budget model a few units were responsible for the debt service costs on large construction projects. Since interest and depreciation were paid centrally the units took out an internal loan from the central budget. Under the new model the internal loans have been eliminated since the interest and depreciation will now be charged directly to the units.

Capital Projects (4/5)

- **What happens if a capital project is funded by gifts?**
  - Gifts received for capital projects are typically "bled" into operations at a rate that matches the depreciation schedule. For example, a $10M gift for a project with a useful life of ten years would appear in the operating statement for ten years at $1M per year.

- **When does the University take out debt for a capital project?**
  - Debt is used to fund major projects. Smaller capital renewal and repair projects are funded from operating cash, thus limiting the subsequent operating cost to the units to only depreciation. Over 85% of University debt is fixed rate debt thus limiting volatility.

Capital Projects (5/5)

- **Are units charged the depreciation on projects funded from the annual deferred maintenance pool?**
  - Each year the Board approves a significant capital outlay for deferred maintenance and campus enhancement projects (Capital A&R). These stewardship projects are undertaken to extend the useful life of campus buildings and systems. The subsequent depreciation is charged to the units who occupy the space. Capital A&R projects are not very costly and carry lengthy depreciation schedules so the annual cost to units should not be excessive.
- **How about for major capital projects that impact my unit?**
  - For these projects, the Provost will discuss with the units, before the project commences, whether an adjustment to the unit's GAAP performance target is warranted in order to accommodate the incremental cost to their budget.

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Private Gifts

- Private Gift forecasts will be based on the latest projection from the Development Office.
- The Development Office will produce a monthly pace report estimating year-end expendable gift revenue. The year-end pace reports builds off of year-to-date actuals, takes into account scheduled pledge payments (discounted; payments in arrears are excluded) and estimates small gift receipts (< $100,000 for most units) in future months based on prior year activity.
- This pace report is conservative because it makes no assumption of future bequests, unsolicited large gifts (> $100,000 for most units) or early pledge payments. The pace report also does not take into account private grants or endowment gifts.
- The Budget Office will continue to work closely with URA and ARD throughout the year to further improve gift and grant forecasting.

Endowment Payout

- We do not have the systems in place to provide an estimate of additional endowment yield from specific gifts received during the year. However, since the income yield is pro-rated this will usually not result in a large boost to current year income. In the case of large anticipated gifts to endowment, units should discuss these expectations and the resulting projected payout with the Budget Office.

Space Charges

- The space charge forecast for each month will be based on accumulated charges to-date, plus the projected charges for the remainder of the year based on the current space occupancy information.
- Utility projections will incorporate the latest forecast from Facilities Services.
- All other space-related charges will be flat throughout the year for each building. Thus, any variation in monthly charges will be based only on changes in space occupancy.
- Alterations to this projection based on anticipated changes in space occupancy should be discussed with the Budget Office.

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Monthly Tracking Procedure – Timeline and Process

- Budget Office will send out the following reports to units within two days of closing (8th or 9th of month):
  - Control charts for total unit showing its major revenue and expense lines.
  - Significant variances against y-t-d budget.
  - List of pre-populated year end projection items: private gifts, endowment yield and space costs.
- Units will provide back the following:
  - Written explanation of significant variances against y-t-d budget.
  - Written explanation of significant variances between full year budget and year end projection.
  - Updated Forecast in Delphi (see next slide).
- Normal turnaround time for units will be three business days.

Monthly Tracking Procedure - Delphi

- Units will utilize Delphi on a monthly basis to update their year-end forecast.
- A snapshot will be taken for Budget Office reporting after the 3 day turnaround period.
- Only 1st Draft will be utilized to capture these updates and it can be updated continuously until rolled over for the next month.
- The 1st Draft of the current month will be rolled over to the next month by IT, capturing all updates made up to that point in time.
- The mapping process will include updates to reflect the new budget model.
- The budget office will also input depreciation, space allocation and tuition allocations, as well as any other required adjustments to show a complete view in Delphi.

Monthly Tracking Procedure - Delphi

- UCSAL will be pre-seeded by IT with the original budget in the first month and then the most recent forecast in subsequent months. Units will then add/modify records as needed and transfer the data to UCBUD.
- UCBUD will be pre-seeded by IT with a combination of year to date actuals and current forecast. (adjusted for the additional month of actuals). Units will then adjust the forecast columns accordingly to update their forecast, map the forecast to the OBS and submit to the budget office by the 3rd working day.
- We are kicking off a project to tie individual employees to budgeted salary pools to enhance forecasting. We hope to have this completed for Q2.
- We are also looking into summarizing Actuals in the Forecast to either the 00 line or lines with Budget as a future enhancement.

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Determination of Deposits and Loans

- At fiscal year close the Budget Office will determine if a unit has performed better or worse against its GAAP performance target.
- If a unit exceeds target then the excess will be deposited into the bank and be available for withdrawal on a mutually agreed schedule.
- If a unit comes in worse than target then it will take out a loan to balance its budget. It will then need to submit a plan to pay back the loan and will be charged interest on the loan.
- If a unit comes in better than budget the surplus will be deposited by ledger (unrestricted, gift, endowment) based on their individual performance. If one ledger is negative (but the unit as a whole is better than budget), the loss in this one ledger will be factored into the surplus calculated for another ledger.

Interest Rate on Deposits

- For instruments with a maturity of less than one year, interest will be earned monthly at the previous month's weighted average of the 90 day T-bill. For fixed deposits with terms greater than one year, interest will be earned monthly at the corresponding U.S. Treasury rate published on the issue date of the loan. Interest will be paid out at maturity, but for multi-year instruments units will receive interest on the interest earned over the life of the CD. If units are forced to use any portion of their funds before maturity the penalties will be as follows: 90 days of interest for maturities of less than one year and 180 days of interest for CD's with maturities of more than one year.
- The University may limit the availability of shorter term CD's in order to control the impact of these withdrawals on University GAAP results

Interest Rate on Loans

- All loans must be paid back within five years (there are no early payoff penalties) and interest will be charged monthly at the previous month's weighted average of the University's outstanding external debt (currently 3.98%).