UCSF: A Regrouping of Huron’s 12 Recommendations

High-Level Summary

A. Underlying Context and the “Burning Platform”

1. A paradigm shift has occurred in the way UCSF is funded: state funding in real terms and as a fraction to total UCSF resources is declining, and will decline further and materially for 2008-09; incremental and unrestricted funds are insufficient to meet demands for support of the commons; the current budget process focuses almost singularly on 5.5% of total revenues

2. The UCSF Strategic Plan calls for: significant investment in infrastructure — the commons — placing new demands on the scarcest of resources; efficiency, transparency, and accountability in developing and allocating resources; performance-based allocations and incentives (both dollars and space); and alignment of resource allocations with strategic priorities

3. Underlying the recommendations to follow is the understanding that operating and capital budgets are developed to fund strategic priorities, and budget performance is measured both financially — did revenues and expenses come in as expected? — and academically — did the programs and faculty appointments on which the budget was based happen?

4. Managing the balance sheet (assets and debt) as well as annual operations — and operating margins — is important to maintain and enhance debt capacity to finance future priority capital projects

B. An unified approach to managing the finances of UCSF; or linking the balance sheet to operations

1. Link capital budget to operating budget — fund balances, gift capital, debt capital, debt service, operating costs, indirect cost rate, implications for other revenues to support new initiatives; bring all these together in a multi-year forecast to quantify feasibility of strategic priorities; formalize related decision processes; require business cases for new projects and programs

2. Formalize relative roles (between UCOP and UCSF, including the Medical Center) re: debt policies, capacity and issuance; continue to develop Kaufman Hall model (and think in these terms)

3. Disclose reserves in annual budgeting; amend STIP policy to allocate only very short term cash returns to individual accounts, and collect difference for central funding; develop volatility and debt capacity hedge.

C. Joint development of an all-funds budget; full transparency

1. Use the Kaufman Hall model or develop an Excel model as appropriate to create a UCSF roll-up to show operating budgets and actuals, balance sheet receipts, disbursements, and fund balances by year at every level of the organization; use these formats to develop annual and multi-year budget proposals; evaluate and purchase a budgeting and planning system (Hyperion, Cognos, CFPM,…)

2. Jointly develop assumptions governing revenues and expenses; pre-fill expense and revenue “default” assumptions as part of the budget initiation process to challenge departments’ estimation rationales
3. Develop the capital budget during the same cycle

4. Use “total revenue” – not “net revenue” – in annual budgeting process; promote “never net” as a motto since netting often collapses activities with distinctly different drivers

D. Linking budget to the strategic plan

1. Prioritize and quantify needs identified in the Strategic Plan, forecast their financial impacts (bottom lines) across a relevant number of years, and develop revenue, expense, and financing strategies to close forecast gaps

2. Since the capacity to fund strategic priorities by revenues will surely be limited, develop the capacity for growth by substitution: reduce budgets for low priority activities, and allocate the released budget to fund new ones

E. Understanding the UCSF Internal Economy; more transparency

1. Develop a detailed background paper at budget cycle initiation to include contextual economic conditions, and to indicate strategic UC and UCSF priorities; close the loop by documenting and communicating decisions and their rationales at the end of the budget development cycle

2. Compare and analyze the reasons for differences between budgets and actuals at least quarterly; take corrective actions and revise planning assumptions accordingly; create budget and attendant academic dashboards to report performance simply and to instill through repetition what’s important; hold units accountable for budget performance and attendant academic delivery

3. Allocate and understand the full costs across organizational units of key activities — e.g., space consumption in general and research-related space in particular, inter unit payments for services, external charges for services (e.g. the registration fee)

4. Match direct revenues and expenses by activity category to understand implicit internal subsidies; fully cost services across units internally and set prices to cover them where possible; set external prices in the same way where feasible; once they are known, ratify or alter internal subsidies explicitly on a priority basis

5. Develop a unified theory of costing sponsored activities, and recover related F&A accordingly; in particular, recognize that endowments and gifts are forms of sponsorship, and the activities they support consume facilities and administrative costs just as federally sponsored activities do

F. Understanding space utilization and developing incentives for efficient use

1. Allocate space costs to organizational units and activities and determine revenues, including the state appropriation, available to cover these costs; use this work as an educational tool to demonstrate who benefits from and who pays for space

2. Establish research dollar thresholds required to acquire new or retain current space allocations; use Space Use and Planning Committee(s) to evaluate usage and periodically reallocate where warranted