University of California
San Francisco

Optimizing Resource Allocation Models Project

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Academic Planning and Budget Committee
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The problem: UCSF's funding model is inconsistently applied, complex, and costly to administer, and lacks guiding principles

Complexity	• More than 115 different mechanisms exist for allocating resources across the campus to support administrative activity, creating a lack of transparency
Inefficiency	• Many recharges simply move funds around the campus, without generating new revenue or controlling demand • Administrative services are recharged to other administrative units that generate no external revenue and have no control over their usage of those services
Lack of Clarity	• Campus stakeholders do not understand why they must pay for some services and not others • Lack of guiding principles for funding new initiatives and adequately supporting basic services
Inconsistency and Inequity	• Units that are strictly core-funded must abide by the campus budget strategy while those with multiple funding sources can shift costs to other campus sources • Some units are in a position to fund higher levels of service than others
Misalignment	• The complexity and inconsistency of the existing model may lead to misallocation of resources, in turn creating risk for UCSF

The task force developed the following principles to guide change and future allocation models

Equity	• All revenue sources should contribute toward the full cost of expenditures associated with revenue-generating activities. Specifically, all sources should contribute to central administrative activities with broad impact. • All cost centers should be treated equitably with respect to allocations for inflationary cost increases and budget reductions
Simplicity and Efficiency	• Models should minimize the administrative burden associated with execution • In particular, models should avoid moving money from non-revenue generating units • Model should be easily understood
Transparency	• Models should be well-documented and shared broadly • Stakeholders should have input into decisions related to services provided and funding (user advisory groups)
Alignment	• Models should encourage revenue generation by mission-aligned activities, promote conservation of resources, and discourage wasteful activity • Models should promote policy compliance, customer service, and alignment of service goals, expectations, and budget realities • Models should allow for and address growth and/or reductions in workload, new requirements, and new opportunities
Consistency	• Models should be consistent across both revenue and cost centers • Models should inhibit opportunities to circumvent official processes, but also provide for off-cycle adjustments • Models should incorporate greater scrutiny for costs rising beyond a standard threshold increase

The task force identified principles for retention of recharges and cost central activities

Principles for Retention of Campuswide Mechanisms:

- Charges apply to federal, State, and/or private contracts and grants, resulting in significant revenue to the campus
- Charges constrain demand in a desirable way (metering)
- The total cost and/or distribution of charges fluctuate significantly from year to year due to decisions made by users

Principles for Retention of Non-campuswide CCAs/MOUs

- The total cost of the activity fluctuates significantly from year to year
- The distribution of costs and/or activity associated with various customers varies significantly from year to year based on user demand or external factors
- Service levels require annual agreement
- Services are distinct and specifically dedicated to a customer; that is, they are different and separable from services provided to the general campus and typically provided to a small specific subset of the campus
- Services are new and potentially subject to changes in the next several years
- Costs are not known until year end

Recommendation: Shift certain recharges and costed central activities to CFP funding

Type	Campuswide Recharges	Non-campuswide CCAs/MOUs
Affected funding mechanisms	• Sponsored Projects Office • Human Resources • UCOP Assessment • Mail Stop • Surplus Equipment • Finance Service Center • Privacy Office • Interim Staffing Administration • Learning and Development	• Gallup Engagement Survey • Controller's Office • Development & Alumni Relations • University Relations • Legal Affairs • Audit & Advisory Services • Campus Planning • Ethics & Compliance Operations • Diversity & Outreach • Office of the Ombuds
Rationale	• Little or no C&G revenue generated • Mechanism does not constrain demand or alternative control methods are available	• Payments are based on roughly-estimated fair share of cost; services are not specific to the customer • Total cost of operations is relatively stable and customers have no control over share of cost

Recommendations: Generate sustainable CFP funding through a combination of financial adjustments

- The goal at implementation is for control points and departments to be held harmless – that is, the changes in funding mechanisms should not advantage or disadvantage any particular unit
- **Reduce F&A Allocations** to fund the Sponsored Projects Office
- **Assess auxiliary enterprise revenue** to fund an appropriate share of services
- **Redirect Campus Core Fund allocations** for administrative departments
- **Create an omnibus agreement** between the Chancellor (CFP) and UCSF Health
  - General administration and support services provided by the campus
  - Specific cost items for new, temporary and/or variable items
  - Known services not covered by the agreement
  - Standardized processes for annual review and mid-year changes
  - Expectations and processes for recurring analyses of appropriate cost shares

Funding the Office of Sponsored Research

- Pre-award services – currently funded by the OSR recharge – are included in the department administration component of the federal F&A rate calculation
- It is this component of the F&A cost recovery that the Chancellor allocates to the schools
- The OSR charge represented ~50% of the F&A allocation in 2017-18
- The schools currently distribute the OSR charges on a per-PI basis
- In effect, the proposal to reduce the F&A allocations would change the charging mechanism from a per-PI basis to an F&A cost recovery basis
- The schools could decide to reallocate State funds or alter allocation methods to address cost shifts

Remaining issue: options for handling school shares of eliminated recharge mechanisms

- Ideally, adjustments for schools would involve reductions in recurring State funds and a new assessment on clinical and other sales & service revenue
- However, some departments have limited State funds needed to support ladder rank faculty salaries

	Option 1	Option 2
Mechanisms	• Assess clinical and other sales & services revenue to recover a portion of funding • Redirect recurring State fund allocations to recover the balance	• Assess schools based on total revenue and allow payment from any source • Maintain recurring State fund allocations at current levels
Advantages	• Simple, transparent, and automatable, eliminating administrative effort	• Provides flexibility to schools and departments and sidesteps State funding issue

Recommendation: Retain and strengthen the role of advisory bodies and increase stakeholder input during the budget process

- Retain committees even if the recharge is eliminated; standardize charters and focus on services and service levels
- Reduce the number of committees through consolidation
- Maintain Academic Senate representation
- Governing bodies should advise the Chancellor about services provided and funding levels
- Standardize review process for recharges, administrative services, and budget proposals, including the application of principles to new funding needs
- Include CPFO and B&I Committees in the budget process (proposal review, identifying funding mechanisms)

Current Status: The Chancellor's Executive Team endorsed phased a implementation of proposed changes

- The School of Medicine needs more time to evaluate impacts on its own allocation models
- The Chancellor requested a firm schedule for implementation to keep momentum
- Proposed Timeline:

Phase 1 – July 1, 2019

1. Execute an omnibus agreement with UCSF Health
2. Execute a one-year omnibus agreement with SOM for certain items
3. Establish an assessment on auxiliaries
4. Eliminate HR and UCOP assessment recharges for administrative control points
5. Retain the HR and UCOP assessment recharges for the schools and the OSR cost recovery mechanism for all customers
6. Retain the Mail Stop, Privacy and other recharges for all customers (including Health?)

Phase 2 – July 1, 2020

7. Eliminate the HR, UCOP assessment, and OSR cost recovery mechanisms entirely
8. Eliminate Mail Stop, Privacy, and other recharges to be determined (e.g., IT, real estate)
9. Establish an assessment on non-recharge, sales and service revenue in the schools

Appendix

The project evolved from questions about appropriate allocation of costs

History:

- In September 2016, the B&I Committee suggested a holistic review of funding models in response to ongoing questions about how to address increases in the UCSF share of the UCOP assessment
- During spring 2017, FAS identified "optimizing resource allocations" as a key strategic goal and conducted an A3 process to define the problem and identify next steps
- Since September 2017, a task force has documented existing mechanisms, drafted guiding principles, and outlined options
  - The task force is focused on administrative activity. Excluded from analysis are:
    - allocations within non-FAS control points
    - allocations among the schools and UCSF Health
    - recharges that are primarily scientific and/or academic in nature
    - internal recharges of auxiliary products and services provided by CLS
- During spring 2018, the B&I Committee and the Chancellor considered and rejected a major overhaul implementing responsibility-centered management (at least for now)

The task force represents the larger control points and several major administrative service providers

Control Point	Representative
Executive Vice Chancellor/Provost	Suzanne Murphy
Financial & Administrative Services	Stephanie Metz Steve Stugard Bernard Jones (Facilities) Hannah Chin (IT) Katharine Tull (HR/PMO)
School of Dentistry	Larisa Kure
School of Medicine	Amal Smith
School of Nursing	David Rein
School of Pharmacy	Michael Nordberg
University Development & Alumni Relations	Steve Downs
UCSF Health	Melanie Long
Budget & Resource Management	Michael Clune Debra Fry Sarah Hislen Angie Marinello

The task force documented more than 115 different allocation mechanisms

Category	Definition and Examples	Number
Recharges	Customers are provided services and are charged on a per item basis Example: Voice Services charge on a per-phone and per-international call basis	29
Costed Central Activities and MOUs	Customers are provided services and are charged based on an agreed-upon calculation or methodology for the year, rather than on a per-item basis Example: UCSF Police Patrol Services charges to Campus Life Services for fair share cost related to housing, parking, fitness and recreation, etc.	50
Central Allocation Rules	Rules governing distributions to and from the Core Financial Plan Examples: I&O Fund, Pooled Cost Allocation	39

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