

Central Cost Allocation

VCU New Budget Model Task Force,
Central Cost Allocation Working Group

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Objective: The Central Cost Allocation Working Group was charged with developing recommendations to allocate each central unit's costs to the revenue-producing units or schools. Allocation method options were to include a hybrid approach consisting of both an "off-the-top" option and a metric-based or use-based option. Based on best practices and VCU's model core values of transparency and accountability, the group was also charged with minimizing the number of metrics employed in metric-based allocations to ensure the model would be readily understood and the data would be readily accessible and replicable.

Overview and Recommendations: The two allocation methodologies, "off-the-top" and metric-based, both fully allocate the central costs. The "off-the-top" methodology describes charging total central costs against total university revenue prior to any distribution of revenue to the schools. The "metric-based" option allocates central costs to each school based on a variety of measures (e.g. student enrollment, faculty headcount, square feet occupied, etc.) as a reasonable proxy for use.

Based on discussions with the leadership of the New Budget Model Task Force and University NBM consultant, Larry Goldstein of Campus Strategies, LLC, the working group recommends against the adoption of the hybrid approach in favor of a 100% metric-driven allocation model. While an "off-the-top" approach has the advantage of simplicity, it fails to meet the criteria of accountability or transparency. Schools or revenue units would not have a clear or accurate understanding of how the "off-the-top" portion of central costs would relate to their unit's revenues, nor would a revenue unit's share of those central cost be responsive to expansions or contractions in the revenue unit's characteristics such as expenditures, faculty and staffing levels, enrollment levels, or square footage. Such a methodology seems at odds with the original purpose of creating an allocation model and in fact might act to dis-incentivize cost control of central expenses or efficient utilization of those services.

Instead, the working group has identified a clear, system-based set of central costs and related use metrics to allocate costs including a space step-down method. This approach is detailed in the "Summary of Recommendations" section below, which includes a description of the step-down method, a summary of E&G cost allocation by cost pools (groupings of central unit MBU's by service type), the metrics on which the allocation is based, and the underlying rationale used in the selection of each metric.

Data Selection & Methodology: The group selected FY 15 E&G expenditure (the most recent closed year at the time) as the basis for reviewing the allocation method. While the other fund types (Research,

Gift, Capital, Auxiliary, etc.) will be addressed in the final model, the urgency of starting this work and the group's familiarity with E&G funds, resulted in this initial focus on solely E&G funds. It is anticipated that addition of the other funds will not significantly change the metrics identified or groupings of costs.

In addition, in December, 2015, the New Budget Model Steering Committee approved the selection of 14 specific MBU's as the "School Revenue Units." The principal criteria for inclusion as a School was the presence of significant tuition revenue. All other E&G units were grouped as central cost units (see Appendix B). The working group identified a total of 78 MBU's as central units with a combined \$157.1M in adjusted FY15 E&G expenditures.

The below formula demonstrates how the net total cost for each Central Cost Allocation Unit was developed:

ADD:	Space allocation cost (see explanation of "step-down" method below)
ADD:	FY15 central unit expenditure – including any offset due to transfers from internal charges
DEDUCT:	Financial aid expenditure
DEDUCT:	Any tuition and/or fee revenue
DEDUCT:	Any revenue from external sources
EQUALS:	Total Central Costs to be allocated to revenue units

The result is that the costs allocated under this model are net of any revenue or internal charges collected by central units.

Cost metrics were developed for each central unit based on conversations with the unit incurring the costs and those to whom the cost would be allocated:

- Approximately 39% or \$61.4M of central costs were determined to be too general in nature to warrant specific metrics – for example, costs such as the Budget Office were seen as too diffuse to link to use by revenue units and therefore had no accurate, simple use metric. For these units, the working group recommends distributing these costs based on total expenditures recorded by each revenue unit or school, excluding FACR and grant expenditures. The reason for excluding grants and FACR expenditures from this metric is that research funds are already charged an overhead expense, making additional charges inequitable. Additionally, excluding grant and FACR funds from the metric can be viewed as an additional incentive for each unit to grow its research enterprise without growing its share of central costs.
- 19 central unit MBU's costs are recommended for metric-based allocation, representing adjusted total E&G expenditures of \$95.8M or 61% of all central costs in FY15.
- 3 central unit MBU's costs were not allocated. These consist of Contingencies/Reserves, Qatar Campus, and University Operations MBU's – with the latter two posting negative expenditures in FY15.
- 12 inactive MBU's were not allocated.

SUMMARY OF RECOMMENDATIONS

Step-Down Method of Allocating Facilities Costs

Facilities Management costs are associated with maintenance and operations of both central and revenue-producing unit building spaces. The step-down allocation method involves distributing these costs, which totaled \$45.3M in FY15, to every unit – whether central or revenue – based on the square footage each unit occupies. The allocation share belonging to each revenue unit can be viewed as a metric-based charge paid directly by the school that approximates its own facilities upkeep. The allocation share charged to each central unit is added to that unit’s total direct expenditures. This combined total will then be allocated to the revenue units based on whichever allocation metric is assigned to that central unit MBU. Using FY15 as an example, \$31.4M would have been charged directly to the schools based on the total square footage assigned to academic units. The remaining \$13.9M would have been assigned to central units based on their square footage. The space costs assigned to each central unit would then be added to the unit’s direct costs, minus any revenue or scholarships, to form the total amount to be allocated from that unit. In the initial assessment, the decision was made that only space costs were of sufficient size and applicability to warrant across-the-board allocation to all units (both central costs and revenue units) using the step-down method.

The central cost allocation working group is currently exploring the possibility of developing a differential square footage charge for lab space to better reflect the higher costs associated with the upkeep of research space.

Central Costs Pools

For simplification purposes, the central unit MBU’s can be combined into a handful “pools” based on the general type of service each unit provides. Table 1 below consists ten central costs pools identified by the working group, as well as the metric(s) by which each cost pool’s expenses are recommended for allocation, the total costs associated with each pool in FY15, and a justification of the metrics that were selected as the basis of the allocation.

Table 1. Central cost pools and allocation metrics

Central Cost Pools	Allocation Metrics	FY15 Allocation Amounts	Justification
Public Services	All Funds Expenditures excl. Grants/FACR	\$ 7,662,989	Allocated based on all funds expenditures to capture that larger schools generate more costs for this cost pool
IT services	All Student FTE and Faculty/Staff Headcount	\$ 18,830,240	Input from Technology Services. Some IT units expenditures pertain more to students, others are more associated with staffing
Employee Services	Faculty/Staff Headcount	\$ 4,229,795	Staffing levels drive employee services costs
Fundraising Services	Local Fund Spending	\$ 3,032,583	Schools with more development fund activity drive costs for central development
Central Library Services	50% All Student FTE and 50% Faculty Headcount	\$ 21,422,932	Based on input from VCU Libraries, reflects view that mission is to support student success and faculty research equally.
Research Support Services	Grant Expenditures	\$ 6,146,194	Schools with more grant expenditures drive costs for research support
Student Support Services	All Student FTE	\$ 1,553,852	School enrollment levels drive the cost of student services.
Academic Support Services	All Funds Expenditures excl. Grants/FACR	\$ 18,908,836	Allocated based on all funds expenditures to capture that larger schools generate more costs for this cost pool
Admission Services	All Student FTE	\$ 5,244,246	School enrollment levels drive admissions costs

Business Executive Management Services	All Funds Expenditures excl. Grants/FACR	\$ 38,712,508	Allocated based on all funds expenditures to capture that larger schools generate more costs for this cost pool
Facilities Services	Square Footage	\$ 31,423,440	Allocated based on all funds expenditures to capture that larger schools generate more costs for this cost pool
TOTAL		\$ 157,167,615	

Central Cost Allocation by Metric Type

Table 2 displays the same FY15 data for central costs broken out by broad metric groupings as well as by each specific metric.

Table 2. Central cost allocation by metrics

Metric Groups	Metrics	FY15 Allocation Amounts	%	Group %
Student-based metrics	All Student FTE	\$ 11,185,558	8%	16%
	Grad Student FTE	\$ 3,922,863	2%	
	MCV Student FTE	\$ 3,462,976	2%	
	MPC Student FTE	\$ 6,455,841	4%	
Faculty-based metrics	MCV Faculty	\$ 3,462,976	2%	18%
	MPC Faculty	\$ 6,455,841	4%	
	Faculty/Staff Headcount	\$ 18,704,020	12%	
Expenditure-based metrics	All Funds (Excl. Grants/FACR)	\$ 62,915,322	39%	46%
	Local Fund Expenditures	\$ 3,032,582	2%	
Other	Grant Expenditures	\$ 6,146,194	4%	20%
	Space Allocated to Schools	\$ 31,423,439	20%	
TOTAL		\$ 157,167,615	100%	

Remaining Issues:

- Determine a look back period for both central costs and school metrics. The group must recommend which fiscal year(s) should serve as the basis for the model. Primary issues include whether the central cost allocation should be based on data from a single year (e.g. the previous fiscal year) or derived from an average of multiple years to lessen variability and increase predictability for planning purposes. The group will next explore data from FY13, FY14 and FY16 in order to make an informed recommendation.
- Continue to review square footage data to better understand the different costs and services required of different types of space.
- Explore the possibility of incorporating adjunct faculty into the faculty headcount metric.
- Explore the allocation of other fund types. The group's initial charge was to recommend the allocation of E&G expenditures only.

Other Notes and Considerations:

- Pending the recommendations of the financial aid work group, this model excludes approximately \$17M in E&G financial aid expenditures recorded by central units.

- The model currently includes the allocation of \$6.1M in Office of Research (OoR) E&G expenditures. The FACR Working Group is exploring the question of central costs that were previously paid from FACR fund source, including the OoR expenses.
- MBU's for Summer Intersession, Center for Teach Excellence, Continuing & Professional Education, and the da Vinci Center were identified as central cost units, but the Revenue Working Group is exploring whether these MBUs should be more properly included as part of revenue units.

APPENDIX A: Metrics Glossary

All Student FTE – Fulltime equivalency student enrollment for each revenue unit per academic year.

Grad Student FTE – Fulltime equivalency graduate student enrollment for each revenue unit per academic year.

MCV Student FTE – Fulltime equivalency student enrollment for each revenue unit associated with the Health Sciences Campus per academic year.

MPC Student FTE – Fulltime equivalency student enrollment of each revenue unit per academic year.

MCV Faculty – The average headcount of all fulltime faculty members employed by each revenue unit associated with the Health Sciences Campus per fiscal year. Includes teaching, research, administrative and professional faculty. Excludes adjunct and other part time faculty.

MPC Faculty – The average headcount of all fulltime faculty members employed by each revenue unit associated with the Monroe Park Campus per fiscal year. Includes teaching, research, administrative and professional faculty. Excludes adjunct and other part time faculty.

Faculty/Staff Headcount – The average head count of all fulltime faculty and staff members employed by each revenue unit per fiscal year. Includes teaching, research, administrative and professional faculty. Excludes adjunct and other part time faculty.

All Funds (Excl. Grants/FACR) – All expenditures recorded by each revenue unit, excluding grant and FACR indexes.

Local Fund Expenditures – All 6-ledger expenditures recorded by each revenue unit.

Space Allocated to Schools – Square footage each revenue unit occupies.

Grant Expenditures – All 5-ledger expenditures.

APPENDIX B: Complete List of Central MBU Allocations by Cost Pool

Cost Pool	Central Unit	Amount Allocated	% of Total Allocation	Allocation Metric 1	% Metric 1	Metric 2	% Metric 2
Academic Support Services	Graduate School (188)	\$ 3,922,863	3.00%	Grad Student FTE	100%		
	Summer Intersession MBU (193)	\$ 3,088,160	2.37%	All Funds (Excl Grants/FACR)	100%		
	Continuing & Professional Education MBU (131)	\$ 1,449,250	1.11%	All Funds (Excl Grants/FACR)	100%		
	Center for Teaching Excellence MBU (190)	\$ 663,724	0.51%	All Funds (Excl Grants/FACR)	100%		
	Community Engagement (132)	\$ 2,013,635	1.54%	All Funds (Excl Grants/FACR)	100%		
	Global Education Office (159)	\$ 3,824,747	2.93%	All Funds (Excl Grants/FACR)	100%		
	daVinci Center MBU (151)	\$ 90,741	0.07%	All Funds (Excl Grants/FACR)	100%		
	Office of VP for Academic Affairs MBU (154)	\$ 2,464,303	1.89%	All Funds (Excl Grants/FACR)	100%		
	Honors College MBU (189)	\$ 1,377,991	1.06%	All Funds (Excl Grants/FACR)	100%		
	Online@VCU MBU (195)	\$ 13,424	0.01%	All Funds (Excl Grants/FACR)	100%		
Admission Services	Admissions (158)	\$ 5,015,645	3.84%	All Student FTE	100%		
	Strategic Enrollment (168)	\$ 5,213,817	3.99%	All Student FTE	100%		
	Enrollment Services (124)	\$ (4,985,215)	-3.82%	All Student FTE	100%		
Business Executive Management Services	Institute for Contemporary Art MBU (198)	\$ 687,506	0.53%	All Funds (Excl Grants/FACR)	100%		
	Office Of President MBU (101)	\$ 2,836,764	2.17%	All Funds (Excl Grants/FACR)	100%		
	Board Of Visitors MBU (102)	\$ 60,290	0.05%	All Funds (Excl Grants/FACR)	100%		
	Office of University Counsel MBU (103)	\$ 1,010,561	0.77%	All Funds (Excl Grants/FACR)	100%		
	Office of VPHS (134)	\$ 10,272,132	7.87%	All Funds (Excl Grants/FACR)	100%		
	Massey Cancer Center (135)	\$ 3,523,758	2.70%	All Funds (Excl Grants/FACR)	100%		
	University Relations (130)	\$ 3,275,671	2.51%	All Funds (Excl Grants/FACR)	100%		
	Athletics MBU (104)	\$ 238,735	0.18%	All Funds (Excl Grants/FACR)	100%		
	Audit MBU (106)	\$ 1,403,291	1.07%	All Funds (Excl Grants/FACR)	100%		
	VP Government Relations MBU (177)	\$ 354,415	0.27%	All Funds (Excl Grants/FACR)	100%		
	VP Finance & Administration MBU (105)	\$ 1,232,885	0.94%	All Funds (Excl Grants/FACR)	100%		
	Procurement Operations MBU (110)	\$ 2,184,081	1.67%	All Funds (Excl Grants/FACR)	100%		
	Business Services MBU (149)	\$ 416,112	0.32%	All Funds (Excl Grants/FACR)	100%		
	AVP Finance & Administration (108)	\$ 584,783	0.45%	All Funds (Excl Grants/FACR)	100%		
	VP for Inclusive Excellence MBU (196)	\$ 736,703	0.56%	All Funds (Excl Grants/FACR)	100%		
	University Controller MBU (109)	\$ 3,422,648	2.62%	All Funds (Excl Grants/FACR)	100%		
	Budgeting & Resource Analysis MBU (115)	\$ 646,493	0.50%	All Funds (Excl Grants/FACR)	100%		
	Treasury Services MBU (155)	\$ 1,643,845	1.26%	All Funds (Excl Grants/FACR)	100%		
	Provost and VP Acad Affairs (117)	\$ 3,993,642	3.06%	All Funds (Excl Grants/FACR)	100%		
	Risk Management MBU (197)	\$ 188,192	0.14%	All Funds (Excl Grants/FACR)	100%		
Central Library Services	Libraries (125)	\$ 21,422,932	16.41%				
	University Libraries (<i>less collections</i>)	\$ 542,006	0.42%	All Student FTE	50%	Faculty/Staff Headcount	50%
	General Collections	\$ 529,656	0.41%	All Student FTE	50%	Faculty/Staff Headcount	50%
	TML Library (<i>less collections</i>)	\$ 3,608,641	2.76%	MCV Student FTE	50%	MCV Faculty/Staff Headcount	50%
	TML Collections	\$ 3,317,310	2.54%	MCV Student FTE	50%	MCV Faculty/Staff Headcount	50%
	JBC Library (<i>less collections</i>)	\$ 6,245,582	4.78%	MPC Student FTE	50%	MPC Faculty/Staff Headcount	50%
	JBC Collections	\$ 6,434,752	4.93%	MPC Student FTE	50%	MPC Faculty/Staff Headcount	50%
	Virtual Library (<i>less collections</i>)	\$ 34,975	0.03%	All Student FTE	50%	Faculty/Staff Headcount	50%

	VIVA Collections	\$ 47,896	0.04%	All Student FTE	50%	Faculty/Staff Headcount	50%
	Student Technology Fee	\$ 229,866	0.18%	All Student FTE	50%	Faculty/Staff Headcount	50%
	Non Staff Travel	\$ 11,522	0.01%	All Student FTE	50%	Faculty/Staff Headcount	50%
	Library Fee	\$ 174,583	0.13%	All Student FTE	50%	Faculty/Staff Headcount	50%
	DMA5 Cost Share	\$ 1,106	0.00%	All Student FTE	50%	Faculty/Staff Headcount	50%
	University Libraries (index 105611)	\$ 571	0.00%	All Student FTE	50%	Faculty/Staff Headcount	50%
	New Building and Renovations	\$ 231,349	0.18%	MPC Student FTE	50%	MPC Faculty/Staff Headcount	50%
	Quest Virtual Global Classroom	\$ 13,116	0.01%	All Student FTE	50%	Faculty/Staff Headcount	50%
Employee Services	Human Resources (113)	\$ 4,229,795	3.24%	Faculty/Staff Headcount	100%		
Public Services	Parking and Transportation Services (152)	\$ 1,369,496	1.05%	All Funds (Excl Grants/FACR)	100%		
	Equity and Acces Services MBU (199)	\$ 802,264	0.61%	All Funds (Excl Grants/FACR)	100%		
	Public Safety & Security (148)	\$ 5,491,229	4.21%	All Funds (Excl Grants/FACR)	100%		
Fundraising Services	VP for Advancement (147)	\$ 7,580	0.01%	Total Local Fund Expense	100%		
	Development (144)	\$ 3,025,003	2.32%	Total Local Fund Expense	100%		
IT Services	Technology Services (176)	\$ 18,830,240	14.42%	0.00%			
	Administrative Systems (1821)	\$ 1,567,598	1.20%	Faculty/Staff Headcount	100%		
	Application Services (1879)	\$ 3,107,552	2.38%	Faculty/Staff Headcount	100%		
	Computer Center (1871)	\$ 2,384,360	1.83%	Faculty/Staff Headcount	100%		
	Technology Services (1875)	\$ 4,850,008	3.72%	All Student FTE	50%	Faculty/Staff Headcount	50%
	Technology Support Services(1878)	\$ 3,642,224	2.79%	All Student FTE	50%	Faculty/Staff Headcount	50%
	Network Services (1839)	\$ 1,805,094	1.38%	All Student FTE	50%	Faculty/Staff Headcount	50%
Academic Technologies (1888)	\$ 1,473,404	1.13%	Faculty/Staff Headcount	100%			
Research Support Services	VP Research (129)	\$ 6,146,194	4.71%	Grant Expenditures	100%		
Student Support Services	Student Affairs (126)	\$ 1,553,852	1.19%	All Student FTE	100%		
	Student Affairs, MCV Campus (127)	\$ -	0.00%	All Student FTE	100%		
	Student Affairs, Mp Campus (128)	\$ -	0.00%	All Student FTE	100%		
Not Allocated	Engineering and Utilities (163)	\$ -	0.00%	All Funds	100%		
	Academic Technology MBU (172)	\$ -	0.00%	Not Allocated	100%		
	University Allocations MBU (179)	\$ -	0.00%	Not Allocated	100%		
	School of Comm Pub Aff MBU (121)	\$ -	0.00%	Not Allocated	100%		
	Qatar Campus MBU (304)	\$ (4,067,866)	-3.12%	Not Allocated	100%		
	Alumni Relations (145)	\$ -	0.00%	Not Allocated	100%		
	School Of Public Health MBU (143)	\$ -	0.00%	Not Allocated	100%		
	AVP Business Services & Treasurer MBU (107)	\$ -	0.00%	Not Allocated	100%		
	Chief Operating Officer MBU (112)	\$ -	0.00%	Not Allocated	100%		
	Property Acquisition Renovation MBU (180)	\$ -	0.00%	Not Allocated	100%		
	Leasing & Rent MBU (181)	\$ -	0.00%	Not Allocated	100%		
	Contingencies & Reserves (182)	\$ 10,903,680	8.35%	Not Allocated	100%		
	Benefits & Awards MBU (183)	\$ -	0.00%	Not Allocated	100%		
	University Operations MBU (184)	\$ (2,030,246)	-1.56%	Not Allocated	100%		
	Insurance MBU (185)	\$ -	0.00%	Not Allocated	100%		
HEETF MBU (187)	\$ -	0.00%	Not Allocated	100%			