New Budget Model Working Group Report

FACR – Fall 2016

1. **Working Group Members:** Michael Newsome (Office of VP Research), Amy Young (Budget Office), Clive Baumgarten (Medicine), Heidi Jack (Provost Office), Kristen Lynch (Massey Cancer Center), Franklin Bost (Engineering), Patricia Perkins (Controller)

2. Original Charge:

The group was charged with recommending both a revenue (FACR) and expense (FACR and research support) allocation methodology. In developing this recommendation, the group was also tasked with completing a review of current VCU practices, consultation with Controller or others as to legal or compliance restrictions, and the consideration of special VCU priorities such as cross-School centers. Similar to all model elements, the recommendations should meet the criteria of simplicity, transparency and accessibility, and would ideally identify issues related to future costs and growth in research.

3. **Summary of Group Work:**

The group researched various institutions that were using similar models, and the majority of them were returning 100% of the FACR revenues back to the Schools, then applying a "tax" to cover central expenses supporting the research enterprise. Another approach discussed was keeping 100% of the revenues centrally, but it was agreed that not distributing any of the revenue would go against the basic principles of the new model. Schools within VCU have voiced their concerns in the past that they are not clear on where their revenues are allocated, so returning 100% would be more transparent.

There is a state requirement that 30% of FACR revenue be moved to E&G to cover administrative costs, which has been held constant at $7.8M since FY 2004. In order to meet this requirement, we recommend 30% of the FACR revenue earned in the School be loaded in an E&G org, and the remaining 70% in a 2 ledger.

In order to continue to fund the central costs that have historically been supported through FACR revenue captured centrally (Table C in the Budget Plan), it was recommended that VCU would also have a "tax" applied to the 70% allocation (the 30% going to E&G would be "taxed" by the E&G cost allocation process). The "tax" would be calculated at a rate sufficient to cover those central expenses, as well as to continue to provide a contingency for unavoidable costs or strategic initiatives. It's recommended that the "tax" be recalculated annually to determine if it is still appropriate or needs to be recalibrated.

4. Principle Recommendations – summary (spreadsheets or other documents may be attached)

- 100% of revenues will be returned to the School.
- 70% will be loaded in a 2 ledger as FACR.
- 30% will be loaded in a 1 ledger as E&G to satisfy the state requirement.
- The 30% loaded in E&G will be subject to whatever "tax" that other E&G funds are.
- The 70% loaded as FACR will be taxed at a rate equal to whatever is necessary to fund "Table C" in the Budget Plan, minus those line items that are allocations to the Schools. This "tax" will be re-calculated as necessary to take into consideration new funding requests, growth of research, etc.

5. Open issues, questions or concerns:

- Development of revised distribution formulas (next phase)
- Sun-setting of research incentive plans and EPT's
- Review the functional role and relationship of Centers/Institutes to the generation of research/scholarship and FACR dollars (develop a metric)
- Funding for the Office of VP Research potentially becomes more static and reduces the ability of the VP for Research to fund strategic initiatives and support requests for matching funds

6. General questions/concerns beyond your group's charge:

- The exclusion of current FACR expenses from Cost allocation committee recommendation draft report ignores that expenses that could be considered central cost have been historically charged to FACR allocation out of convenience w/o justification. As the process continues an "All Funds" Model will have to be considered.

7. List any data questions/concerns: