UNIVERSITY OF FLORIDA FACULTY SENATE

Budgeting at the University of Florida

Academic Year 2024-25

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CFO's Office at Move-in!

Executive Summary

FY25 Enterprise Budget

University of Florida
2024-2025 Enterprise Budget Summary
(in thousands)

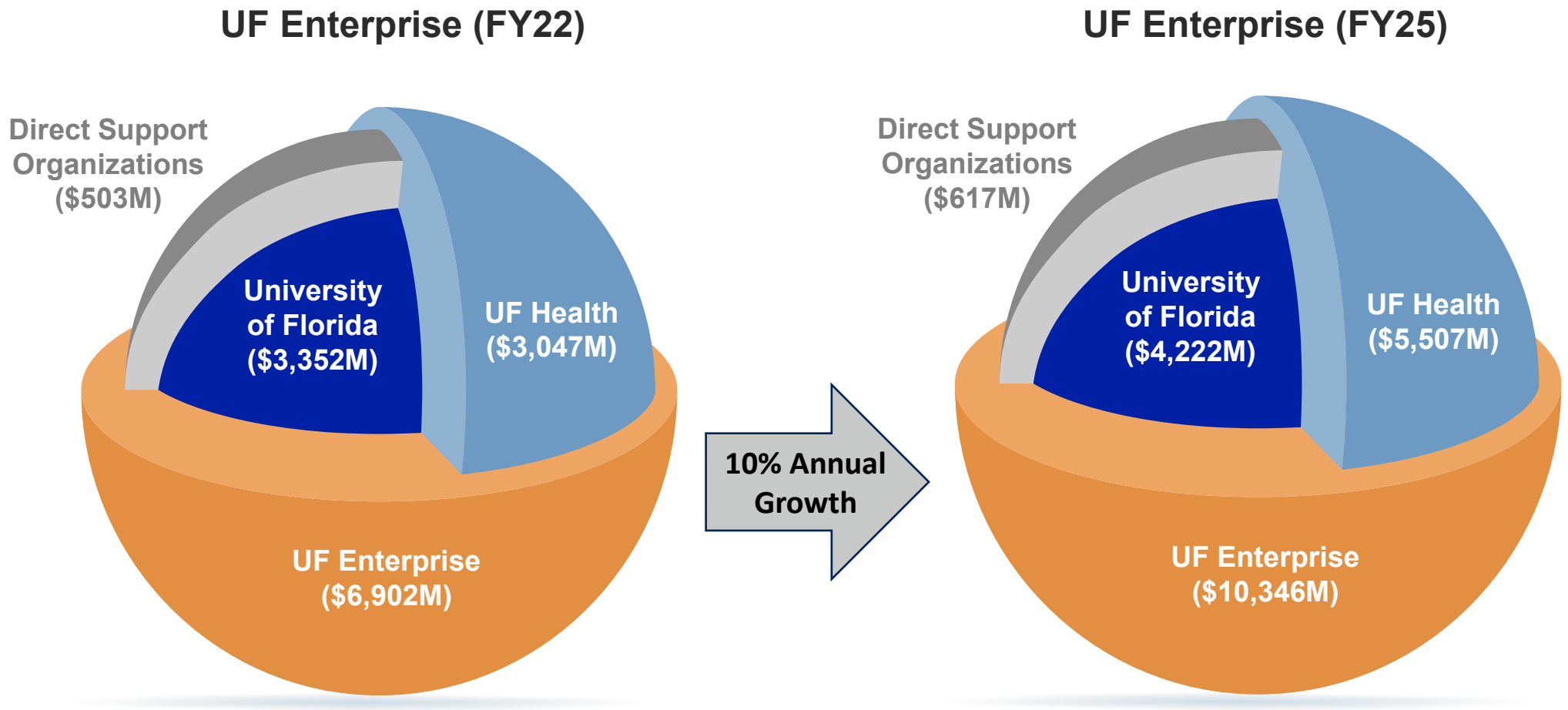
	FY 2024-2025 Operating Budget								
	University of Florida	Athletic Association	Faculty Practice	UF Foundation	Shands Gainesville	Shands Jacksonville	GatorCare	Other DSOs	Total
Revenues									
Tuition and Fees	484,163	0	0	0	0	0	0	0	484,163
State Appropriations	1,276,527	3,612	0	0	7,050	0	0	21,550	1,308,739
Contracts and Grants	952,217	0	0	0	0	0	0	737	952,954
Federal and State Financial Aid	241,617	0	0	0	0	0	0	0	241,617
Patient Service Revenue	0	0	1,069,929	0	3,651,498	1,171,363	0	0	5,892,790
Contributions/Donations	0	0	2	150,000	2,867	0	291,517	41,408	485,795
Investment Income	44,100	800	3,674	221,710	45,652	7,935	300	16,539	340,710
Licensing and Royalties	0	79,971	0	0	0	0	0	56,250	136,221
Sales of Goods & Services	220,222	58,291	283,517	0	0	0	1,749	15,933	579,712
Other Cash Receipts	249,503	0	96,627	11,628	91,909	64,498	310	13,440	527,915
Component Unit Transfers In/(Out)	1,080,692	34,174	(943,267)	(190,000)	(90,232)	(139,195)	0	(95,174)	(343,003)
Total Revenues	**4,549,041**	**176,848**	**510,483**	**193,338**	**3,708,744**	**1,104,601**	**293,876**	**70,682**	**10,607,613**
Expenses									
Salaries & Benefits	2,991,878	78,531	160,844	26,151	1,523,643	494,490	1,431	9,050	5,286,017
Other Operating Expenses	1,230,331	114,060	336,723	28,937	2,427,915	563,147	292,439	66,617	5,060,168
Total Expenses	**4,222,209**	**192,591**	**497,567**	**55,088**	**3,951,558**	**1,057,637**	**293,869**	**75,667**	**10,346,185**
Net Change	**326,832**	**(15,743)**	**12,916**	**138,250**	**(242,814)**	**46,964**	**7**	**(4,984)**	**261,428**

We will seek formal approval of the FY25 budget in October.

BOG submission format requires the incorporation of capital expenditures.

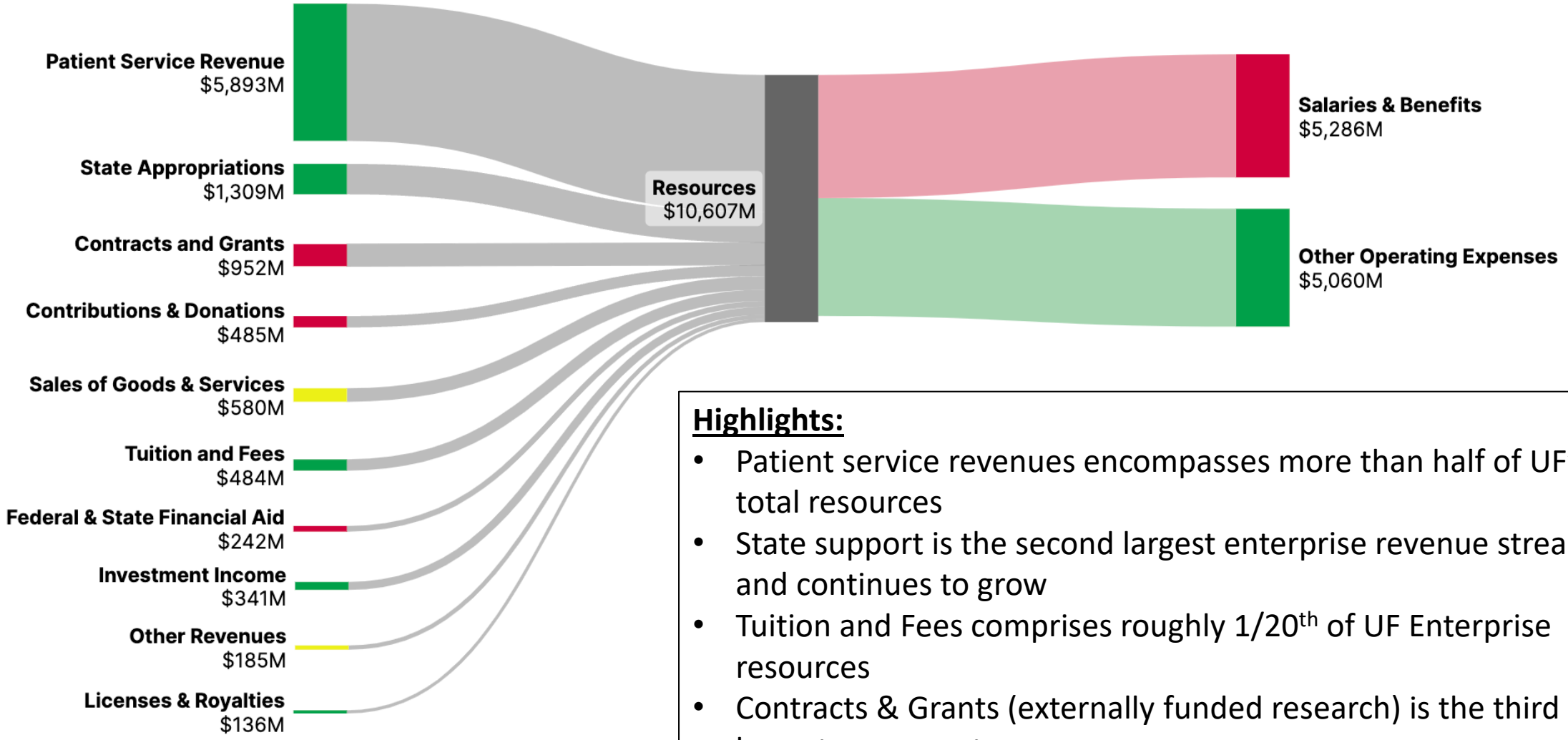
Overview of the UF Enterprise Budget

The University of Florida Enterprise has experienced tremendous growth across all core entities growing an average 10% year over year since 2022.



Source: Enterprise Annual Budget Submission to BOG

UF Enterprise Budget (FY25)

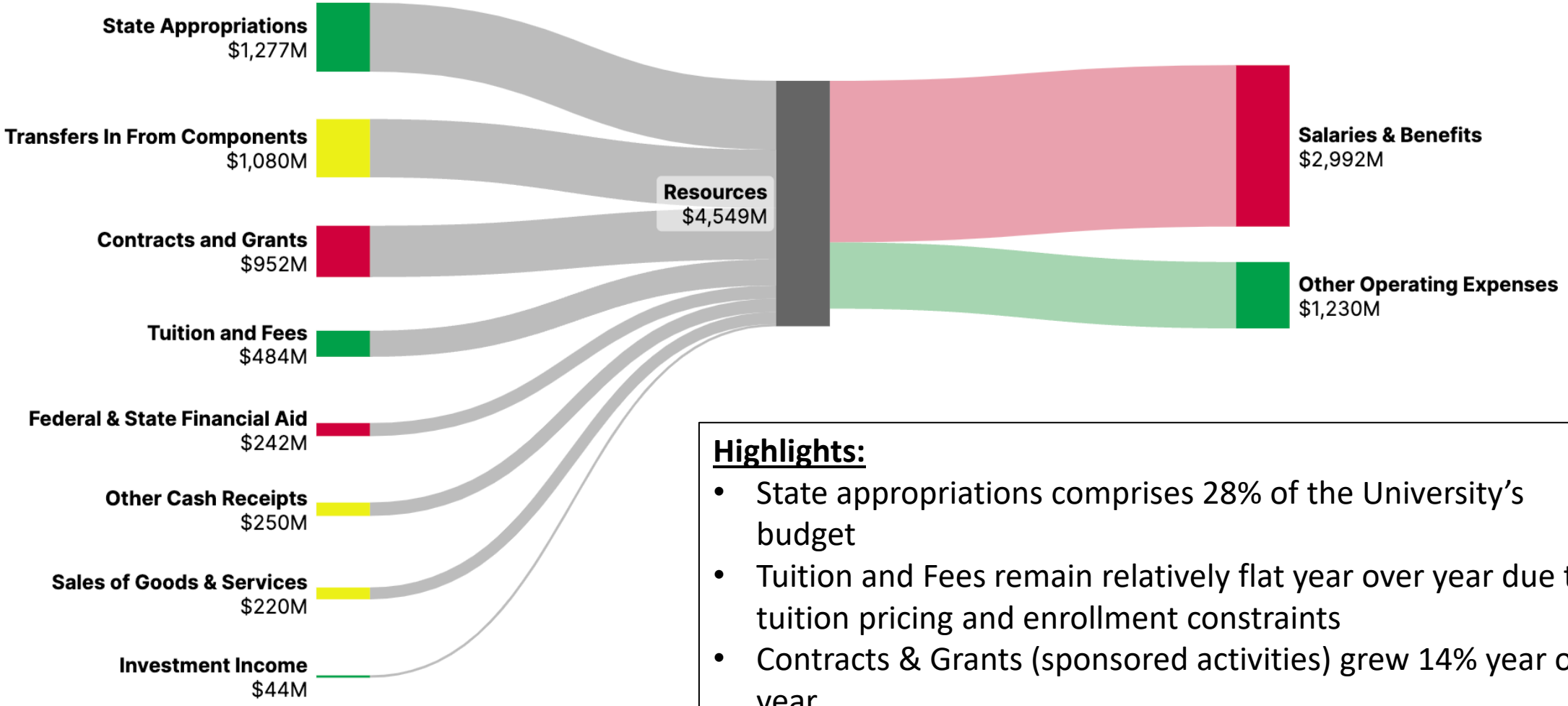


Highlights:

- Patient service revenues encompasses more than half of UF's total resources
- State support is the second largest enterprise revenue stream and continues to grow
- Tuition and Fees comprises roughly 1/20th of UF Enterprise resources
- Contracts & Grants (externally funded research) is the third largest revenue stream

Key: Unrestricted Designated Restricted

University Budget (FY25)



Highlights:

- State appropriations comprises 28% of the University's budget
- Tuition and Fees remain relatively flat year over year due to tuition pricing and enrollment constraints
- Contracts & Grants (sponsored activities) grew 14% year over year

Key: Unrestricted Designated Restricted

A Closer Look at the University's Budget

Thanks to the significant investment in our university, UF has been able to make unprecedented strides in retaining, recruiting, and building our faculty ranks.

- Total operating revenues for the University are budgeted to increase a healthy 12% while operating expenses are budgeted to increase 10% year over year. Notable areas include:
  - Continued state support, with state appropriations of $1,277M up from $1,080M in FY24
  - Strong growth of contracts and grants revenues totaling $952M up from $835M in FY24
  - Tuition and Fees, investment income, and sales of goods and services are budgeted to remain largely flat
  - On the expense side, salaries and benefits are our largest expense comprising ~74% of all expenditures
  - Salaries and benefits are budgeted to grow more than 8% compared to FY24
- Colleges and Units received recurring block grants ~$62M to support merit raises and operating expenses
- An additional ~$140M in one-time, earmarked state funding is budgeted to support specific priorities of the State and UF

A Closer Look at UF's Component Units

Part of what makes the University of Florida one of the nation's preeminent universities in the country, is our various component units which include a growing health system and a prestigious athletic program.

- Creation of the UF Health Corporation enables greater opportunity for system efficiencies. Combined UF Health entities operating revenue is budgeted to increase $398M, or 7%, in FY25.
  - Importantly, UF Health's operating margin is budgeted to remain stable and positive at 1.1% in FY25 up from a loss of 2.9% in FY23
  - Operating margin of UF Health directly impacts academic support transfers to the university
- Athletic Association (UAA) revenue is budgeted to increase 7% driven largely by ticket sales
- Given relative global market stabilization coming out of the pandemic and inflationary period, the UF Foundation adjusted its budgeting methodology in FY25
- Total budgeted revenues for other component units increased by 19% year-over-year
- The comprehensive UF Enterprise is budgeting a 4% surplus for FY25 (UF Enterprise aims to budget at a conservative, breakeven level)

Our Budget Philosophy

Budget Philosophy: Industry Trends in Budgeting

Analysts generally predicted a difficult year financially for higher education, as institutions faced the continued loss of federal stimulis dollars, enrollment pressures, and increasing operational costs.

Overall Trends

- **Deteriorating credit environment for U.S. higher education in 2024** due to macroeconomic headwinds, labor and wage pressures, elevated interest rates and uneven recovery in enrollments.[1]
- **Enrollment for freshmen ≤20 years old was flat** and 5.3% below 2019[2]
  - High school graduates are on track to peak at 3.93 million in 2025, and then decline moderately over the next dozen years.[3]
  - The South is projected to experience growth in high school graduates until 2026 and **Florida** is one of the few states projecting an increasing number of HS graduates in the coming decade. [3]
- Many **large publics have avoided enrollment pressures**, which has increased pressure on small-to-midsized private intuitions. This has resulted in a continued increase to tuition discounting (over ~56% for first time students at private institutions).[4]
- **Appropriations to HE increased 10.2%** allocated ($11.7 billion) in FY2024[5]
  - 19 states increased spending by ≥10%, while 9 states showed declines[5]
  - Florida spent 16.6 percent more on HE in 2024 than in 2023[5]
- **Research funding to HE continued to increase**, driven in part by the CHIPS and Science Act ($248 billion).
- **Charitable giving to HE declined by $1.5 billion** to ~$58 billion (-2.5%)[6]

Common Institutional Responses[7]

- University leaders are increasingly focusing on investments designed to **increase institutional sustainability**:
  - Enhanced **recruitment and financial aid** strategies to attract and retain students
  - **Programmatic expansions** (including via mergers and acquisitions) to build in-demand academic portfolios
  - Business process redesign and service delivery enhancements through large scale **digital transformation** initiatives
- Sustainability investments often require **increased levels of centralized spending** in alignment with strategic and leadership priorities
- Increased strategic spending supported and evaluated with increasing levels of **transparency and data analysis.**

(1) Fitch Ratings, U.S. Higher Education Outlook 2024
(2) January by the National Student Clearinghouse Research Center
(3) Western Interstate Commission for Higher Education, Knocking at the College Door
(4) NACUBO tuition discounting study, Mary 2024
(5) State Higher Education Executive Officers Association (SHEEO), February 2024
(6) Giving USA, June 2024
(7) Huron Consulting Group

Budget Philosophy: History of UF's Budget Model

Following the University's shift to an RCM model in 2011, the budget model has gone through several iterations leading to its current emphasis on financial transparency and generating strategic investment resources.

Incremental Model
Pre-2011

- Economic realities created by the **great recession** resulted in an unsustainable model
- Failed to recognize the varying **cost of education** by discipline
- **Inhibited** dynamic **faculty recruitment** and **research** growth

- $2.3B in University Opex (FY11)
- 49,785 students in Fall 2011
- $556M in Research Expenditures

RCM Implementation
2011

- Shift spurred by desire to align with common industry trends with goals of **promote aggressive, incentive-driven growth**
- Used **activity drivers** to align revenues and costs with productivity
- Introduced the **General Funds Supplement** to help supplement low student tuition

- $2.7B in University Opex (FY15)
- 52,519 students in Fall 2015
- $619M in Research Expenditures

RCM Review
2016

- Conducted a 5-year review to simplify model
- Introduced **SPA Tax** on Research Indirects
- Established **fixed overhead expense** allocations
- Funded Provost strategic pool with out-of-state undergraduate fees

- $3.5B in University Opex (FY22)
- 60,795 students in Fall 2022
- $763M in Research Expenditures

Model Optimization
2021 - 2023

- **COVID-19 Pandemic** underlined fundamental flaws with the model
- **Flat tax** models don't work in economic uncertainty – moved to **activity-based costing**
- Additional **transparency** and **predictability** was added via an **"all-funds"** view

- $4.2B in Budgeted Opex (FY25)
- 60,489 students in Fall 2023*
- $880M in Budgeted Research Exp.

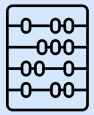
Model Stabilization
2024

- Institute a**ctivity-based metrics** for revenue and expense allocations
- Encourage **strategic investments** across the University
- Leverage all-funds unit-level view to **improve understanding** of past, current, and future financial trends

UF's budget model has evolved with the University to promote and steward the extraordinary growth our campus has seen since Fiscal Year 2011.

Budget Philosophy: Recent & Ongoing Enhancements

Several efforts have been implemented to improve the University's budgetary practices throughout the 3 years with the goal of improving financial transparency and aligning resources with institutional priorities.



Activity-Based Costing Overhead

- Re-based college taxation model - colleges pay for central administrative services based on their proportional share of consumption (Slide 13)

Strategic Investment Applications

- Established a new pool of annual funding to seed fund strategic university-initiatives (approximately $42M)

Block Grant Allocations

- Provides an activity-based allocation of new state funding allocated based on proportional share of teaching (70%) and research productivity (30%)

Radical Financial Transparency

- Current engagement working to document, define, and socialize how the University of Florida consumes and spends resources in a standardized manner

The CFO's office held upwards of 160 individual stakeholder meetings to discuss the above enhancements. Stakeholder engagement is key to ensuring transparency and buy-in.

Budget Philosophy: Revenue Allocation Methodology

Revenues flow through the budget model in two ways; directly and through allocation drivers. The allocable revenues received by units are the largest proportion of their respective annual operating revenues.

Common Direct Revenues

- **Research & Research Overhead (IDC)**
  - IDCs are assessed a SPA tax by the VP of Research before distribution to the units
- **Patient Revenue**
  - Health Science Colleges receive a share of revenue from UF Clinical Operations
- **Gifts**
  - Gifts designated (often restricted) for units are allocated directly to that unit – major gifts are taxed 5% by our foundation
- **Sales of Goods & Services**
  - Units generating revenue off services will receive those revenues directly

Allocated Revenues

- **Tuition**
  - Tuition revenue is allocated by 70% instructor college of record and 30% student college of record
  - A portion of out-of-state tuition is allocated to the Provost
- **Legacy General Funds Supplement**
  - Base budget support provided using state resources
- **Block Grant Allocation (New)**
  - New incremental state funding is allocated proportionality – 70% based on tuition collected (instruction) and 30% based on research expenditures

All university units also have access to apply for additional time-limited strategic funding. This pool of funds is roughly $40M annually.

Budget Philosophy: University Overhead Methodology

Central administrative expenses are allocated to the revenue generating units (Colleges and Auxiliary Units) based on their proportional share of cost center utilization.

Cost Center	Metric Driver
Information Technology	Employee Headcount
Student Services	Student Headcount
Facilities & Maintenance	Occupied Weighted Square Foot
General Administration	Direct Expenses
Health Affairs	Direct Expenses

Aligned with industry best practice, UF implemented a data-driven approach to allocate cost center expenses in FY24.

Illustrative Calculation *IT Cost Center Expenses of $1M*			
College	**Employee Headcount of College**	**Employee Headcount %**	**Allocable Charge for IT**
College A	50	50%	$500K
College B	35	35%	$350K
College C	15	15%	$150K
Total	**100**	**100%**	**$1M**

The activity-based, cost center methodology provides new insights into the true cost of business operations at UF.

Budget Philosophy: Ongoing Constraints & Headwinds

In talking with peers and our ratings agencies, there are still several headwinds we must be cognizant of as we plan for the University's future.

Highly Leveraged: UF is heavily leveraged by state dollars (28% of total operating budget). Any changes to state funding could have drastic real-time impacts to not only college operations but university-personnel.

Low & Stagnant Tuition Rates: While UF is one of the most affordable universities in the country, our in-state tuition remains at $6,380/year which hasn't increased since 2013. Out-of-state rates haven't been adjusted since 2010.

Research Costs Money: UF, like every other university, loses money on research. For every new dollar of research generated, we lose $0.32. To get to $2B in funded research we need to generate $195.8M in recurring revenue to subsize research costs.

Small Endowment Size: UF's endowment current sits at $2.45B. This equates to about $40,503/student. The Public Top 5 average equates to $263,000/student – over 6.5X UF.

Color of Money: Given federal and state regulations, Board of Governors policy, and internal restrictions, most of UF's money cannot be used for any purpose. This constrains our ability to fund items ranging from capital projects to the food provided at this board retreat.

Our Budget Process

Process: Who Makes Decisions?

The following stakeholder groups are the primary decision-makers in the budgetary process.

Budget Office & CFO

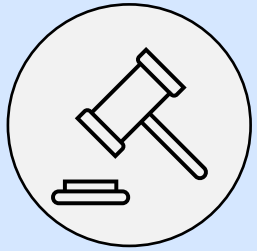
- Manage annual budget process
- Prioritize and recommend administrative funding needs

Deans & Academic Representatives

- Provide input on administrative funding needs
- Integrated into budget development cycle

Provost/President

- Review and approve administrative funding needs
- Identify and guide strategic/mission investment



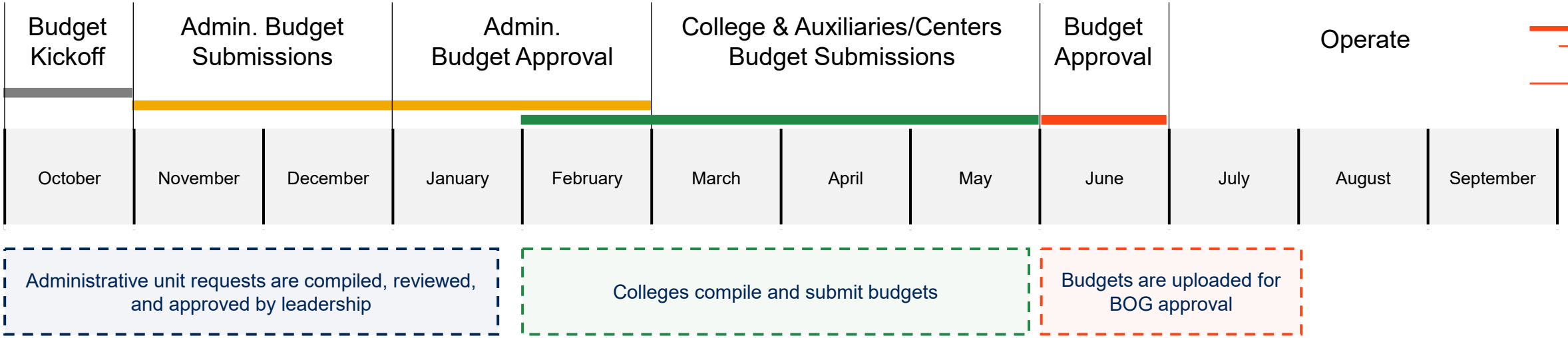
BOT

- Approve enterprise budget prior to BOG submission
- Provide annual strategic guidance on key priorities

The current process encourages efficient and effective use of resources by promoting transparency and accountability between academic units and central administration.

Process: When are Decisions Made?

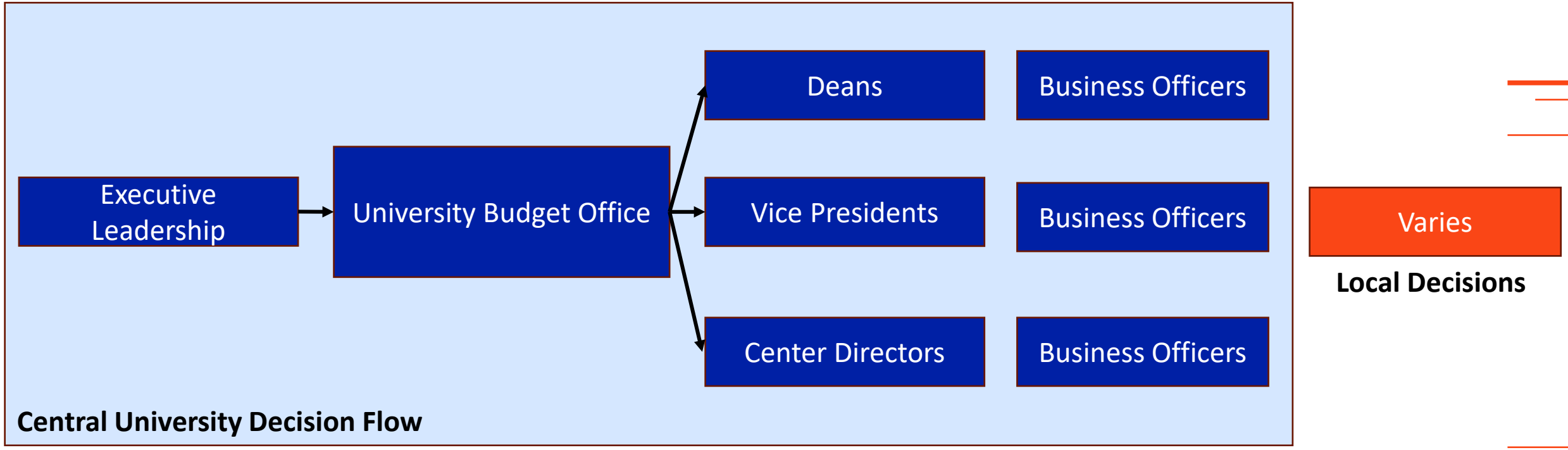
The budget development process begins in October with final budgets approved in June of the following year.



The budget team actively manages the entirety of the process through communication with support and academic units to encourage transparency, collaboration, and support.

Process: Who Operationalizes the Budget?

Implementation of the University's budget cascades down from executive leadership to central administration who is responsible for providing guidance to units as they deploy responsible budgeting practices locally.



Coordinating budget operations across units and a multiple operating systems creates challenges with streamlining budgetary actions.

Process: What are our systems?

The CFO's Office uses three operating systems to conduct the day-to-day operations: Workday Adaptive, Oracle PeopleSoft, and Microsoft Excel.

Workday Adaptive

- Financial tasks such as fund transfers, unit budget tracking
- CFO's office is one of the few offices on campus using Adaptive already

Oracle PeopleSoft

- HR processes (i.e., job classification, compensation bands, etc.
- Houses the general ledger and accounting data

Microsoft Excel

- Strategic analysis (e.g., forecasting, scenario planning)
- Exporting and developing reports

The implementation of the Workday ERP will enable the CFO's Office to be more streamlined in its operations rather than shifting from system to system.

Our Go-Forward

Go-Forward: Potential Future Enhancements

The following topics, driven largely by deans, are still areas of interest and further exploration from the campus community to ensure we are continually be strong financial stewards of the university's resources.

- **General Funds Supplement:** *Incorporating metrics driven approach to some or all of the GFS to more closely align with activity and priorities*

- **SPA Tax:** *Partner with the VP of* Research to *reevaluate the current administration of SPA Tax, which is currently a pain point for academic units, to better incentivize IDC recovery*

- **Radical Financial Transparency Implementation**: *Upon completion of RFT review, development of recommendations for budget adjustments (investments or cost reductions) based on findings*

The CFO's Office is committed to transparency and will continue to engage extensively with University stakeholders through any potential enhancements.

UF