Administrative and Resource Management
Indirect Cost for Auxiliary Units - Unit implementation
Summer 2011

BACKGROUND:

Budget and Institutional Analysis has developed an approach to streamline the Direct Cost Agreements (DCAs) between campus units. The first phase of this project replaces the annually negotiated DCAs between campus auxiliaries and campus administrative and service providers. The second phase will be to address DCAs with the Health System. The benefits of this approach include:

1. Provides a measurement / mechanism to determine that auxiliaries are charged the same rate for services as campus core funds.

2. Provides a consistent and objective methodology to arrive at the amounts charged to auxiliaries for services provided.

3. Provides framework for the service providers to provide a consistent level of service to all auxiliaries, as well as an avenue for auxiliaries to purchase a higher level of service.

4. Reduced staff time dedicated to annual development of DCAs between campus units.

5. A single OP fund number replaces at least five within ARM. This allows for easier administration.

6. The allocation for the auxiliary assessment will be made to the Vice Chancellor. Within ARM we have the ability to allocate the funds to support unit and campuswide priorities, similar to other campus core funds.

The total funds collected through the Auxiliary indirect cost are provided to the following ARM units: Accounting, Human Resources, Purchasing, Fire and Police. While these are the units who previously had individual DCA’s with the campus auxiliaries, they are not the only ARM units who provide support to Auxiliaries. The following units support Auxiliaries without a corresponding fund source: Budget and Institutional Analysis, Capital Resource Management and Campus and Environmental Planning, Risk Management and Environmental and Health Services. For these units, it should be presumed that core funds are supporting the work provided to campus Auxiliaries, and not that net new funds are required to provide auxiliary support.

The Grounds division was excluded from the auxiliary indirect cost assessment due to the complexity and variability of the workload drivers.

TAPS is the only ARM auxiliary, therefore the only ARM unit who is paying the assessment.
Brief description of BIA methodology:

The premise of the analysis is not to develop a new funding stream for service providers, but to ensure that service providers budgets reflect the units they support.

1. To accurately allocate costs to the auxiliaries, BIA identified two different drivers:

   - **Transaction and analytical based services** - The family of ARM units providing these type of services to auxiliaries is larger than those historically receiving DCA funds.
     - ARM units receiving allocations: Accounting, Human Resources and Purchasing
     - ARM units currently providing services to auxiliaries without recovering costs include: Budget and Institutional Analysis, Capital Resource Management and Campus Planning, Risk Management /Environmental and Health Services.

   - Based on average expenditures reported in the campus’ audited financial statements for 2008/09 and 2009/10,
     - BIA determined expenditures for core-funded campus operations, excluding purchased utilities.
     - The amount of core funds supporting each identified function (e.g., purchasing, Human Resources) was then divided by the base general fund expenditure base to arrive at the rate campus core funds pay for the services.

   - **Land Based Units** – The identified driver for Fire and Police was the amount of GSF serviced.
     - The cost of Fire and Police services were determined based upon core fund cost per gross square foot (GSF), and calculates to be .30/ gsf and .42 / gsf for Fire and Police, respectively.
     - In recognition that the population and public safety costs associated with parking structures and lots is not easily determined or agreed upon, BIA discounted the GSF at parking lots by 90% and GSF within parking structures by 50%.
TAPS has not historically paid for Police Services. The 5% phase-in cap limits the amount TAPS pays towards Police in 2011-12. However, TAPS is concerned with the utilization of GSF for the methodology of Police, and would like to suggest different models in future years. The goal is to have a methodology that is fair and equitable for all units. The nature of TAPS operations is space-centric, thus the use of GSF drives the cost.

To ensure that a units’ operating budgets are not materially impacted year to year, BIA implemented the principle that no single unit would either pay or receive an amount more than 5% different from the prior year. This allows for a phased in implementation.

**ARM IMPLEMENTATION STRATEGY**

**Principles:**

The following principles from the ARM 2011-12 budget reduction plan are relevant to this allocation process:

- **To remain consistent with the Chancellor’s strategic objectives**, ARM will allocate funds based on the methodology used to develop the campus wide planning. Once the ARM detail analysis is complete, the pro-rata allocations will reviewed for strategic implications.

  - Protect public safety – Implications to Fire and Police must not impact the public safety mission.

2. **Allocations are effective July 1, 2011.**

3. **Streamlining the organization** expectations are applied across all ARM fund sources and operations. Services provided on the auxiliary indirect cost and auxiliaries are expected to work towards a supervisor; staff ratio of 1:7.

**OBJECTIVES:**

- **Short term**
  - Determine the allocation of the incremental ARM increase of funding for 2011-12.

- **Longer term**
  - Determine the manner to distribute this fund source, and offsetting general funds, among ARM units to best reflect the level of service provided to auxiliaries.
• Develop a methodology to allocate increases in this fund source over future years that recognizes (1) cost increases and (2) provides support for programs historically provided to auxiliaries that were never fully funded and were looking to this source to offset the need for increased recharge activity.

OPPORTUNITIES AND ISSUES:

The table below illustrates that BIA determined that auxiliary units have been under paying ARM service providers (with the exception of Fire) by approximately $550,000 annually. The BIA analysis does not state that these units are underfunded, just that the auxiliary share hasn’t been equal.

<table>
<thead>
<tr>
<th>ARM Unit</th>
<th>10/11 DCA Income</th>
<th>BIA Unadjusted Calculation</th>
<th>Over (Under) Collection /1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, finance and cashier</td>
<td>$486,792</td>
<td>$564,448</td>
<td>$ (77,656)</td>
</tr>
<tr>
<td>Human resources</td>
<td>$285,069</td>
<td>$480,006</td>
<td>$ (194,937)</td>
</tr>
<tr>
<td>Purchasing</td>
<td>$58,382</td>
<td>$154,461</td>
<td>$ (96,079)</td>
</tr>
<tr>
<td>Fire - Suppression</td>
<td>$1,085,147</td>
<td>$876,153</td>
<td>$208,994</td>
</tr>
<tr>
<td>Fire - Prevention</td>
<td>$123,444</td>
<td>TBD</td>
<td>$123,444</td>
</tr>
<tr>
<td>Police</td>
<td>$978,187</td>
<td>$1,218,592</td>
<td>$ (240,405)</td>
</tr>
<tr>
<td>TBD</td>
<td>$-</td>
<td>$276,679</td>
<td>$ (276,679)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$3,017,021</td>
<td>$3,570,339</td>
<td>$ (553,318)</td>
</tr>
<tr>
<td>5% increase to ARM</td>
<td>$150,851</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL ARM Allocation for 2011-12</td>
<td>$3,167,872</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ This is the variance between the amounts paid by auxiliaries in 2010-11 and the amount that should be paid if auxiliaries and core funds paid the same rate.

For the 2011-12 year, ARM will receive $150,000 more than the individual units received via the DCA arrangement in 2010-11. Historically, DCAs, like recharge rates, were indexed for known benefit increases and negotiated / system wide salary increases.

➢ To the extent auxiliaries have been underpaying for services (based on BIA methodology), and the auxiliary has been receiving the same level of service as the rest of campus, campus core funds are being used to subsidize services provided to auxiliaries.
Fire. Based on the BIA methodology of charging auxiliaries the same gsf charge as core funds, auxiliaries have been overpaying approximately $330,000 (209k for suppression + 123k for prevention) for fire services - $100,000 of this overpayment attributable to TAPS. The TAPS discrepancy is partially due to discounting parking garages in the new approach. Historically, Fire did not discount the gsf of parking garages nor did they collect at all for the surface lots.

- The increase to the value of the amount the Police Department has been providing is due to including TAPS into the calculation. Historically, TAPS did not pay for Police services.

- The auxiliary DCAs were frozen for the past two years, therefore the service providers have had to cover cost increases generated from benefits (including UCRS of 7%) and negotiated salary cost increases through operational efficiencies and cost reductions.

  - Including large increases for Fire and Police officers totaling $67,000 for 2011-12 and $74,000 permanent funding, which applies directly to the budget planning principle of not impacting public safety.

- Reducing 2011-12 allocations to the service providers to be less than 2011-12 would require service degradation. Since, in aggregate, campus auxiliaries continue to pay close to the same amount under this indirect cost approach than under DCAs would be very controversial.

2011-12 ALLOCATION SCENARIOS:

Since the final implementation figures were not going to be available until the late spring of 2011, AVC Davies Conley advised ARM units to plan for 2011-12 amounts equal to those in 2010-11 but hoped to be able to allocate 5% increase to cover a portion of cost increases for 2010-12.

The attached worksheet illustrates the following models.

1. **Status Quo** - Allocate funds to each unit equal to their 2010-11 DCA revenues and direct the additional $150,000 to ARM budget reductions or units who serve auxiliary units without past compensation. This would require units to reduce costs in the DCA supported operations to cover increased benefit and salary costs.

   **Not Recommended.** This would require self supporting service providers (with prior DCAs) to further reduce expenses to cover mandated costs and would likely impact service levels. If these funds were then allocated to service providers who had not had
a DCA in the past, it would be outside of the completed budget planning and represents a reallocation between the self supporting and core funded activities. While ARM may move this direction in the long term, an allocation for 2011-12 would be abrupt. It does not serve ARM units or ARM customers well.

2. **Pro Rata based on BIA methodology** – While the BIA methodology arrived at an ARM allocation of 5% greater than existing DCA recovery, the distribution of the revenue across ARM units varied significantly from the current revenue stream. This scenario allocates the ARM allocation to units pro-rata based upon the BIA calculations and leaves $245,000 to allocate towards budget reductions or units who serve auxiliary units without past compensation.

   **Not Recommended.** This scenario would create an unplanned budget windfall for A&FS, HR and Police but dramatically decrease Fire budget. To implement a budget reduction for 2011-12 Fire and Fire Prevention would need to immediately restructure budget and operational plans. This is contrary to the budget planning principle of protecting public safety. This scenario also creates the reallocation from self supporting to core funded units as discussed above in scenario 1.

3. **5% Increase Across The Board** - Since the phase-in approach limits the increase to 5% per year, the allocation could easily be allocated ATB to provide everyone some budget relief.

   **Not Recommended.** While this scenario is easy, and allocates sufficient funding to Fire and Police to cover their officers’ salary increases, it doesn’t tie to either our principles or to the BIA drivers.

4. **Fund Public Safety salary increases & 5% growth to A&FS, HR and Police (excludes Fire from non-salary increases)** – This scenario provides the following benefits:

   o Allocates funds specifically for current year public safety officer negotiated increases, consistent with planning principle to protect public safety.

   o Provides 5% increase to offset benefits and non-public safety salary increases to all ARM service providers except Fire.

      o Excluding Fire from the additional 5% is a small move in recognizing that auxiliary have been paying a higher rate than core funds.

      o Allocating two streams to the Police Department recognizes that TAPS is now paying for police coverage. The inflationary funding allocated to the Police Department provides approximately $48,000 that can be allocated towards an additional officer.
**Recommended.** This scenario is true to funding principles of protecting public savings and aligning allocations to Campus / BIA methodology. However, the pure allocation methodology over allocates by $7,000 which could be a direct reduction to the Police department or an advance on next year’s allocation.

5. **Fund 50% of Public Safety increases, redirect reduction in Firefighter increases to Police. Allocate 5% inflation to non-public safety units.** - The benefit of this scenario is that it provides $75,000 to the Police department to fund a new officer in recognition of the TAPS funding. However, to accomplish this only 50% of the fire fighter increases are funded. This funding shortfall in the Fire Department will require use of one-time funds and operational changes / restructuring. Due to the ongoing conversations about consolidation with the city and county fire departments it may be unwise to not fully fund these increases.

Should the merger of fire departments come to fruition, the model for the campus contribution to the new organization would be subject to change.

**Not Recommended.** This model is a direct tradeoff between Fire and Police. The Police Department has significant one-time funds that could bridge funding of a new officer partially funded from the increase allocated in scenario 4. Changing the salary funding strategy of fire fighters in the midst of consolidation talks seems penny wise and pound foolish.

**BUDGET PLANNING FOR 2012-13**

During 2011-12, ARM Vice Chancellors Office and the unit budget officers will evaluate the impact and process for redistributing the auxiliary indirect cost funds and general funds between units. The analysis will need to consider (1) implications of benefit costs ( will be easier if core-funded benefits are decentralized) (2) cost / benefit of the workload associated with the base budget realignment.

Based on the BIA principle of limiting increases to 5% per year, we can plan that the 2012-13 growth increment of this source will be $158,000. Presuming scenario #4 is implemented, the first $14,000 base, and $21,000 in one time funds would be allocated to the Police department to fund the entire year of officer increases as well as offset this years over-allocation. Approximately $137,000 will be available for allocation. These funds shouldn’t be committed until we understand how the new campus budget model will impact ARM units.
## ARM Allocation Scenarios

### Scenario 1
- **Status Quo (2010-11 amounts)**
  - **ARM allocation**
    - **Allocation**: $3,167,872
    - **Increase**: $150,851

### Scenario 2
- **Pro-rata based on BIA allocation methodology**
  - **ARM allocation**
    - **Allocation**: $3,167,872
    - **Increase**: $150,851

### Scenario 3
- **5% increase Across-the-Board**
  - **ARM allocation**
    - **Allocation**: $3,167,872
    - **Increase**: $150,851

### Scenario 4
- **Public safety increases, 5% inflation excluding Fire**
  - **ARM allocation**
    - **Allocation**: $3,167,872
    - **Increase**: $150,851

### Scenario 5
- **50% Public Safety increases, 5% others, $75k to Police**
  - **ARM allocation**
    - **Allocation**: $3,167,872
    - **Increase**: $150,851

### Uses
- **Accounting, finance and cashier**
  - **Allocation**: $486,792
  - **Increase**: $14,029
- **Human resources**
  - **Allocation**: $285,069
  - **Increase**: $140,828
- **Purchasing**
  - **Allocation**: $58,382
  - **Increase**: $78,667
- **Fire - Suppression**
  - **Allocation**: $1,085,147
  - **Increase**: $54,257
- **Fire - Prevention**
  - **Allocation**: $123,444
  - **Increase**: $6,172
- **Police**
  - **Allocation**: $978,187
  - **Increase**: $60,310

### ARM Discretion / TBD
- **Allocation**: $150,851

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1. Units receive the amount allocated by the DCA process in 2010-11
2. Allocates ARM allocation pro-rata based on BIA methodology = 96% BIA raw calculations
3. 5% to 2010-11 DCA amounts across the board
4. Fully fund public safety salary **current year** increases, fund 5% growth to others. Variance of $32k to Police to help purchase officer to cover TAPS
5. This scenario covers 50% of the **current year** public safety increases, and redirects the reduction in firefighter merit funding to the Police Department.

### Public Safety Salary Increases -- Collective Bargaining

<table>
<thead>
<tr>
<th>Category</th>
<th><strong>Current Year</strong></th>
<th><strong>Base</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire - Prevention</td>
<td>$7,392</td>
<td>$7,392</td>
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<tr>
<td>Fire - Suppression</td>
<td>$48,504</td>
<td>$48,504</td>
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<tr>
<td>Police</td>
<td>$11,401</td>
<td>$18,552</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,297</strong></td>
<td><strong>$74,448</strong></td>
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