# Campus Funding Model and Budget Overview

Video Transcript

Welcome everyone to our Lunch and Learn this month.

We have a packed audience, and we still have people coming in.

So I'm going to go ahead and get us started.

This month, we're going to be talking about

campus funding model and budget overview, and I

have the privilege of introducing our speaker this month, who

is Ryan Davis, who has an MBA, and he's currently

the Vice Chancellor of Budget

Planning and Campus Strategy, and the Deputy CFO here

on the Anschutz campus. In this capacity, Ryan directs

campus-level financial planning and analysis activities, which include the annual budgeting and forecasting process, capital project

analysis, and coordination of financing activities,

and evaluation and implementation of campus-wide strategic initiatives.

In his role, Ryan leads the budget office, the fiscal

planning team, the business intelligence and strategic data

and analytics team, central shared services team, the Office of

Digital Learning, and Campus Strategy office.

Wow, that's a lot. I don't even know how he makes time to come talk to us today,

but he has. Before joining the

CU Anschutz Medical Campus in 2016, Ryan served as the

Director of Budget at UT Southwestern Medical Center in Dallas,

Texas. And prior to that, he served as the Finance Manager for

Strategic Financial Planning and Analysis at

SCL Health, now the Intermountain Health in Broomfield,

Colorado. He has extensive experience in the healthcare, higher education,

and financial services industry and brings more than 25 years of

financial management experience to the campus.

He's obtained his Bachelor's in Business Administration from the

University of Colorado Leeds School of Business and received his MBA from

Regis. In his free time... Do you even have free

time?

Some?

Ryan's a Colorado native, enjoys spending time with his wife and two children traveling, skiing, and golfing and hiking.

So please give a welcome to Ryan, and we'll

learn a lot about our new budgeting model.

So Ryan, thank you so much for being here with us this

afternoon.

All right. Thank you for the introduction, Debbie.

See some friendly, familiar faces in the audience. That's great.

Love seeing a packed house.

I know a lot of you probably registered prior to the

announcement on the hold of the new budget model that took place a

couple of weeks ago.

I will talk about that some here towards the end of the presentation, but did shift gears a little bit. Altogether, I think it's

helpful context, though, for

why we do need to change the model and some of the reasoning behind

that. So with that, let's get started.

So I just covered this a little bit, but I always like to start these

conversations with just a financial overview of the campus.

What do we look like through kind of a dollars and cents perspective,

as well as looking at some of the growth metrics associated with our

campus missions over time, and then kind of equating that

into the financial growth that this campus has experienced over time.

From there, I'll talk through the current budget model, the one that we'll use for

at least one more year here, FY27. And then, as I mentioned before, we'll

walk through the basic framework of the budget model

that was going to go into place here on July 1st

that we've now pulled back some aspects of that for further discussion, and

we'll talk about that a little bit as to the reasoning behind that.

So to start with the campus financial overview,

I love this slide because it's kind of crazy looking, but to me,

it really highlights the difference of Anschutz

from the other three campuses within the CU system.

So what you're seeing here is just kind of budget attribution

by campus. This is FY26 budget numbers

between Boulder, which is the top bar, Anschutz is the second, Denver,

third, Colorado Springs is the fourth.

And I always start off by saying, Boulder's the flagship.

According to most, our budget is much, much bigger.

Not bragging or anything, but

Boulder's budget in FY26 was right at $2.6 billion.

Most of that comes from tuition and fees, as you might expect.

Restricted, their research enterprise is obviously quite large as

well.

Skipping down to Denver and Colorado Springs, they're both in the $370 to

$400 million range from a budget perspective.

So obviously, much smaller in scale.

And you'll notice kind of on the state funding,

that far left-hand slice of each of those bars, a more significant portion of Denver and Springs' budget comes from the state,

as opposed to Anschutz, which only about 4% of our total

budget comes from the state at this point, and Boulder is right at about 5%.

So just some big differences there.

The main one, obviously, is that big gray bar in the center of the

Anschutz section. That is the CU Medicine revenues.

That's a little under $2 billion. I think it's at 1.8 for

FY26.

Obviously, the medical campus, we're going to look different, and that's really the

primary difference between us and everyone else.

If we look at our total budget for FY26, we were right

around $3.3 billion, as I mentioned earlier.

Of that, CU Medicine is right around 54% of the total.

Our restricted funds, so that's our gifts, grants, contracts, is

about a quarter of the total budget.

Auxiliaries make up about 11%, and the general

fund or unrestricted fund is about

13%.Really what's driving that,

though, is I think the most important piece here.

Within CU Medicine, where we're talking about the practice plan, there's

6,500 faculty

that in FY25 served around 800,000 unique

patients. Of that, about 765,000 of them were

Colorado residents.

And I think an even more staggering number here is on the

eConsult telehealth side.

Prior to COVID, we got some metrics in this space, and I think we

were right around 1,000 total.

We're up to 263,000 kind of annual eConsults

and telehealth interactions. So significant growth kind of spurred by the

COVID environment there, and it's held strong since.

On the restricted side, again, that's really our sponsored projects and

gifts.

On the sponsored project piece,

1,500 or so PIs across campus

are responsible for, in FY25, around

$

million in research awards.

Of that, I think, and this is important kind of in the model that we'll talk about

later on, 51% of those awards were federal,

and of that 51%, 79% were

NIH-sponsored grants.

Again, significant importance in the current model as well as the new

proposed model,

and I'll explain why here in a few minutes.

And then 49% of that is non-federal, kind of your state, private, local,

other. On the gift side,

Scott Arthur's team continues to generate pretty significant

amounts in the way of gift awards. We're at about a quarter billion

dollars in gift awards in FY25.

That's grown quite a bit, as you'll see on some subsequent slides here in a few

minutes.

But a lot of activity taking place in that subset.

On the general fund, I really think of that really more as our educational

mission. So on our campus, that's five schools, one

college. As of fall '24 census, we were right around

4,500 students, predominantly graduate

students. The undergrad, the 475 that are noted there are

all within nursing.

And of that

4,500 students,

we awarded around a little under 1,500 degrees in

FY24. So, smaller piece of

the overall campus, but equally important mission-wise, I would

contend.

And then our auxiliaries. That's made up of

really a lot of just self-funded types of enterprises.

Graduate medical education is a significant portion of that

auxiliary. It's a little over 100 million of the total.

Hemophilia is also a pretty substantial contributor to

the overall revenue budget in that space.

And then on top of that, you have everyone's favorite, parking.

Things like the central utility plant,

laboratory services taking place within a bunch of departments across the campus, and CU Innovations, and I'll talk a little bit about what they do in this

space here in a minute as well.

So drilling in a little bit deeper.

What I have here is the FY26 general fund budget, so

really that 13% of the total budget.

It is the portion of our budget that is by far under the most scrutiny

by the regents.

That's because that's where our state appropriations reside,

and there's a lot of

compliance that we have to work through on the state side.

The general fund budget itself is

now at this point around 30% tuition and fees, 31% state appropriations, and 35%

ICR.

When I first started constructing this slide,

it was about a third a piece. So really the implications here are

that

indirect cost recovery or F&A, which is the indirect costs that are derived off of

grant expenditure, is growing at a faster rate

than state appropriations, and both of those are growing at a faster rate

than tuition and fee revenue, is really kind of the

underlying theme there.

I mentioned it earlier, but state appropriations themselves, they account for

around 4% of our total budget.

They're about 28% of the general fund, and of that, we really have

three components. We have COF, or the College Opportunity Fund, which is really a

state funding for undergraduate programs, and it's a subsidy for

tuition, essentially,

resident tuition.

Fee for service, or sometimes you'll hear it referred to as SEP, Specialty

Education Program.

That's the bulk of our state funding that we receive.

It's around 100 million of that 120.

And then marijuana funds, and that's something that was new, and you'll see on this

next graph that rolled in when marijuana was legalized in the state.

And we receive, as a campus, marijuana funds annually through appropriation, really through the form of special bills predominantly, and that

functions a lot like a grant would.

Those monies come to us for very specific purposes, so not as fungible as

some of the other sources in this bucket.

So this is a historical look at our state funding.

Just a couple of things I would call out here is first you can see

within this 20, I guess,
year, 23 year history at this point,

when we had the great recession impacts to state funding, that's really occurring

in that '08, '09 and '09,

'10... portion of the data here,

and really what this is showing is

on the state funding side, the black portion of this, we received

significant cuts as far as what we were being appropriated.

And those were actually backfilled.

Those monies were backfilled mainly through ARRA or federal

relief funds to kind of make us whole as a campus.

So took a cut on the state side, received some federal support

in that time period.

You can see that happen again in the COVID year 2020

through 2021,

where our state appropriations were roughly halved, and we received some

backfill through what was referred to as CARES funds from the feds to kind

of true up and make whole our budget.

So every time we've had a recession, at least within the past 20 years, we've

received some form of relief from the federal government.

I wouldn't say that's a sure thing, obviously, but right now the trend

is showing that.

The other piece I would point out here is the tobacco funds.

That's in the gray section. That's actually a result of the

settlement monies that

come to higher ed institutions after multiple

state AGs sued Big Tobacco.

And so those are funds that flow in on an annual basis, really

designed to kind of supplement our normal state funding.

That amount has held steady at right around $15 million, $ million since I've been here over 10 years.

We are seeing some declines in that space here, and I'll talk about kind

of that on the next slide, what we're seeing with tobacco and state appropriations

for the upcoming year.

But that was kind of a new add there in 2008.

And then you can see the marijuana funds, and it's a small subset of money that

flows to the campus. Generally, these special bills are anywhere from maybe

a couple of hundred thousand dollars to $2 million a year.

Generally not ongoing in nature, right?

So they'll come to us for one year or three-year periods and then sunset.

But again, those are supporting really specific activities within our

campus.

The final piece I'll highlight here is just kind of using that high water mark

going back in 2003. If you look at a 20-year

inflation index of 2.43%,

our campus is basically keeping up with that 20-year inflation.

And that really was not the case up until probably eight years

ago, where

the state and the JBC, Joint Budget Committee, really started

increasing what they were investing in higher education within the state.

And during that eight-year period, there were times where we were seeing

sometimes even double-digit growth on our state appropriations.

So they really did a nice job of catching us up to that 20-year inflation mark.

With that, I would say Colorado still ranks in the mid-40s

out of 50 states from a higher ed per pupil funding

perspective. So one of the lowest in the country.

So keeping up with inflation, sure.

Investing in higher education, not so much.

Just looking ahead to the next fiscal year,

this first chart is a little bit wonky because in the

current fiscal year, the state funding model

provided the campus with $115 million in state

appropriations. And then in the middle of this year, I think it was

September maybe, they came back to us and said, "Just kidding.

We need $847,000 of that back." That was part of the state

budgeting work that was taking place to

balance the state budget and the significant shortfall that they were facing.

So we took an $847,000 cut. Looking

forward to next year,

we are basically just getting that back.

So you'll hear some folks say that higher education funding

increased by 0.7% or 0.8%

from '26 to '27. That's the case

of our revised budget. I look at it as our funding stayed pretty much

flat from the beginning of FY26, which

given the current shortfall at the state level, is probably a

positive thing. I would say from a cost perspective,

though, our mandatory costs are growing at a much higher rate, and that includes merit that I'll talk about a little bit later too.

Growing at a much higher rate than

this is supporting. So it kind of creates a structural deficit over time if

that funding doesn't catch back up.

The second part here is I talked about tobacco, how it had kind of remained

pretty flat at that $14 to $15 million mark.

We started this fiscal year at about $14 million.

We have been told that we're going to see a million dollar cut on the tobacco

funding going into next year too. So not great news from the

state funding perspective. And that would apply to both the current

model and if we were to put the new model in place.

It has kind of the same impact for not just central administration, but the schools as a whole.

Just looking at some growth over time.

So this first graph is just showing kind of the campus enrollment.

That top bar is total enrollment.

Second is graduate and the bottom is undergrad.

And really the theme here is just slow but steady growth.

If you look at it on an annual growth basis, it's about

1.5%.

But again, just pretty steady. We're constrained really by the amount we can

grow in a lot of our professional programs just due to accrediting bodies.

So, for example, I think MD program might have

184 slots available per year. That's all they can

fill.

So growth is limited in areas like that.

You have opportunity in areas like public health and nursing and

some of those other pockets, but for the most part, just

slow and

steadyIf

we look at patients served, pretty significant increases here.

That top bar is total patients served by our

clinical faculty. The bottom below that is only

Colorado. That gap between kind of all and Colorado stays

pretty much the same at right around 60,000 or so.

Pretty significant growth in this space.

That's around a 6% compound annual growth rate on a 10-year basis, I think is the math there.

So really a quick, rapidly growing area on

campus, if we look at it from a mission perspective, and you'll see kind of what

that looks like from a financial perspective here in a minute.

Looking at research awards and expenditures, the top bar

here is research awards. Again, steady growth over time.

The black bar below that is expenditure,

below that is F&A.

Or, I'm sorry, direct expenditure and then F&A.

So F&A and direct expenditure would equal that total.

I would highlight here, that F&A growth doesn't look significant,

really just due to scale.

That is some pretty significant growth, though, since 2018 of $
million roughly.

That is a main driver of funding for central administration.

When we get to the budget model, you'll see kind of

why this is so important. And when I talked earlier about the

sponsor project, sponsor mix, and the importance of having a

high federal sponsor

percentage in that total portfolio and why

NIH is so important is

those types of grants produce the most F&A.

They're at a 56% overhead rate.

That just generates more in the way of funding sources for the campus as a whole versus some state grant that might spin off 10% or so.

It also puts pressure on us. So rewind the

clock about a year, year and a half, when we had the federal

executive branch transition. NIH specifically was heavily

targeted for overhead,

and what they were proposing is a cut from

56% to 15% in the way of indirect

costs. That would have a significant impact on our total F&A that

we're generating as a campus and really have widespread downstream

impacts. I think at the time we were estimating it could be upwards of a $ million hit if that actually happened.

Thankfully, it has not.

F&A has remained pretty solid. However,

here in the past few months, we have seen some softening in what we're generating

as a campus from an F&A or indirect cost recovery

perspective. And so when we look forward

for budgeting purposes, we're actually forecasting a decrease in

F&A for the first time in a long time on this campus.

You'll hear folks talk about awards are up, and that's

definitely true. What I think we're seeing is, in some cases,

differences in kind of that sponsor mix, if you

will. And in other cases, we might receive very

large ARPA-H grants, for example.

That drives your award number up, but your F&A number might not

reflect that because a lot of that gets passed through to other organizations that are participating in that grant with you.

So awards can be up, F&A can be flat or down.

We've seen softening, like I said, over the past three or four months and are

projecting about a $2 million decrease year over year in F&A.

I talked a little bit earlier about CU Innovations.

They do some really amazing things.

If you guys aren't familiar with them, I would encourage you to go look them up.

Really innovative stuff. It's not just a clever name.

But part of what they do for the campus is they'll take some of our intellectual

property that researchers are developing, and oftentimes

they'll pursue patents in partnership with those PIs, which ultimately can lead to commercialization, and that results in

royalties

or just outright purchases of that IP that benefits the

campus as a whole. It will flow back through an auxiliary, and then there's a

distribution methodology behind that that goes to department

PI, the chancellor. But it's an

increasingly active space for our campus, and

I would say it's very important and

an area where the chancellor specifically is kind of placing one of his big

bets. Looking at the differentiation of

our campus from other academic medical centers,

I think innovations is one area where he thinks we're

strong in that area, we can continue to invest and really differentiate ourselves.

So summarizing kind of everything that we just looked at in financial terms,

this graph shows really just the raw dollar growth over a 20-year

period with CU Medicine obviously leading the charge.

They have grown significantly since the early 2000s to the tune of about

$1.6 billion.

That's an 11% year-over-year growth,

which is just

really fascinating-- Not fascinating, I think

astounding to see. That's a very strong growth trend.

Gifts are not far behind. Like I said, Scott and his advancement team, I think,

have done a really good job of generating more and more in the way of awards, and that's reflected here of

roughly a

$170 million increase over that

20-year

period.I won't go through this whole

list, but one thing I would highlight, tuition and fees, you'll see that's grown at

about 7.6%. Some of that is due to tuition rate,

obviously. Some of it is due to the enrollment that we were looking at earlier.

Most of it is probably the rate. And that actually checks out if you look at state

appropriations and kind of that 20-year CAGR

that's on the slower end of growth, right?

Those appropriations should be offsetting tuition.

And if the state is not investing kind of

commiserately with

rising costs, then what you're going to see is tuition itself

increase at a faster rate, which is what we're experiencing here.

And it kind of reflects that comment I made about the state not doing a great job

of investing in higher ed,

even though recently,

I will say they have, right up until this next year.

I think this chart is one of my favorites.

It's a bit of an eye chart to read the years on the bottom, but this goes clear

back to 1983. And some of you are probably like, "Well, why did he pick this most random year ever?"

Couple things. First, the practice plan, CU Medicine, was

actually created in 1983.

So prior to that, there was around $17 million in kind of

clinical revenues associated with that activity on campus.

The second reason I chose that is the budget model that we're

trying to replace actually goes back prior to '83.

It's over 40 years old.

The reason I like to look at this chart is just the change in activities over time,

right? So obviously, the clinical enterprise, which is there in green,

has grown at the most significant rate, as we just saw,

making up a larger and larger share of total campus activities.

That purple shaded area is grants, contracts, gifts, right?

Most of that growth is on the gift side, but a lot of it is obviously in just kind

of that consistent growth on the sponsored research piece.

And then you have auxiliaries, which have been pretty flat.

Other, which is mainly ICR, is that light blue, again, growing

at kind of a similar rate to the sponsored research, tuition and

fees, and state appropriations.

The one thing I would point out here, and part of the reason that Chancellor

Elliman, EVC Carothers, and I felt strongly about a model change,

is looking back to when our current model was implemented,

the largest sections within that 1983 portion of the graph

are

state appropriations

and grants and contracts.

And you'll see that the model that we're trying to replace, it is built around

those two missions and those two missions only, and that's the main

funding sources for central administration.

So when that model was implemented, it made a lot of sense.

I would contend it doesn't necessarily make that much sense anymore because our

campus has changed so much.

If we look now just at kind of current day, we're wrapping

up FY27 budget. We'll be presenting to the regents next month on

that. So this is '26, but again, I kind of showed you a

bigger, more consolidated view of this earlier.

But again, CU Medicine making up more than half of our total budgeted

revenues in 2026.

The part that I would highlight here, grants and contracts, both the direct and

then the indirect or F&A combined are around 21,

22% of our total budget or around a quarter.

State appropriations, again, $135 million.

Most of that is fee for service. Some of that is the special bills and

marijuana funding.

But you can kind of get a feel for the mix here.

So if we fast-forward to the current budget model,

it contemplates really full campus activities, right?

So it's looking at the five schools and one college, and it's looking at central administration.

And I think what Terri and I have found as we have socialized the new

model over the past 18 months or now 20 plus months,

there's not a lot of familiarity in some cases with what central

administration is. So

I wanted to break it down in this slide just to kind of give you a quick view as to

the departments that make up

the chancellor and CSA areas or central services and administration

areas, ASA or academic and student

affairs. The graduate school, we kind of lump in with central

administration. They don't really stand alone in our current model like the other

schools. And then commitments and obligations.

And commitments and obligations is a big one,

mainly because it contains ICCA. That is the amount that we

pay to the system office, the CU system office,

for their services. So think employee services, which

runs payroll and administers benefits, or the

PSC, Procurement Services Center,

things like that, UIS, that maintains our core ERPs.

That's the amount we pay in, and so that's reflected in central admin's budget

in that commitments and obligations section.

Beyond that, you can kind of see the various

functions, and a lot of them are back office.

And so as folks are like, "Well, what does central admin even do?"

My response is, if we're doing things the right way, you don't even know we exist,

right? We're keeping the wheels moving.

But I like to pull this slide up because it encompasses a lot.

So when we talk about the current budget model on campus,

it's really focused on the general fund of the campus.

Think back to kind of that attribution chart that I showed.

It's about 13% of our total revenue on campus.

To me, the general fund reflects really the educational

mission.I'll kind of asterisk that because F&A rolls

into the general fund off of restricted.

And it does contemplate GAR and GIR.

GAR being a general administrative recharge on auxiliaries, right?

Right now it's a blended rate, 7% for the most part on expenses on

most auxiliary speed types.

That amount flows into central admin and offsets expenses.

The key part about our model is

central admin is really treated as overhead in our model, right?

There's a little bit of revenue that flows directly to us, but on our campus,

most of the revenues flow to the schools or academic units,

the folks that are actually generating that revenue.

And that's very different than actually a lot of higher ed campuses,

certainly non-academic medical centers.

I don't know that any function that way.

But even a lot of the academic medical centers around the nation, all of the money's flowing into central admin, and it becomes more of an allocation.

We're kind of the inverse of that.

So the model itself, this is a kind of a crazy spaghetti eye chart,

but it's really designed to break down that $3.3 billion of total

revenue.

And where does it go? So

that top section in the middle, that miscellaneous

revenue and tuition and fees, which are really the graduate school, again, we kind

of consider them as part of the central admin bucket.

Those flow directly into central administration.

So of the total 3.3 billion, around 20 million of

that flows kind of directly into central admin as a funding source.

The next two buckets on the left, facilities and admin or F&A or

ICR

and state appropriations flow into the model, and they're allocated.

They're allocated between the schools and college and central

administration, and then everything else flows directly to

the academic units. So of the $3.3 billion

that we've budgeted on campus,

3 billion of that is flowing directly to schools, in some cases,

departments, depending on each school's model.

And really only about 300 million of that total is

considered in the model itself.

That right-hand side is a lot to read, so I'll just skip to this

next one that shows kind of what I'm talking about.

But

when we build the model, we force central admin to

break even, and we do that by looking at what are our total expenses.

In this case, in FY26,

our total expenses are $270 million, which I'll walk through here in

a minute. And then what's our revenue offset?

So we look at those direct revenues. That was $20 million.

We look at what was allocated to us through the model for F&A, which we

take all of it and then pass some of it through, and state appropriations.

As a whole, that got us to 259 million in FY26.

So that left us short by $10.2 million, and that becomes an

expense allocation to the schools, right?

So again, forcing breakeven

within central admin, and that's really if we don't have enough sources

through the model itself, it becomes an allocation and the schools make us whole.

Not so much of a model, right? The allocations themselves are based upon a

singular metric. Their total percentage of general fund

revenue, not a metric.

And so it's old,

outdated. It doesn't really incentivize anything or

create any sort of

desire for efficiencies or anything like that, right?

Especially on the central admin, if you're being made whole every time, is that promoting the right activity?

To give you an idea of what that funding looks like on the central admin side,

that's that pie chart on the right.

And a couple of things I would highlight.

Again, I mentioned the importance of F&A earlier.

Well, this is exactly why F&A is so important.

It makes up currently around 60% of our total funding centrally.

If that were to have gone down by half or $70 million, right,

that becomes an expense allocation to the schools.

Realistically, what it is, is probably Terry and I getting together with

Don and saying, "How do we cut

as many expenses as possible within central administration?" And once that's exhausted, then the delta becomes the allocation.

But that's kind of where the model's shortfall is, right?

It doesn't really help you make those decisions.

That's kind of an arbitrary target that we would be cutting to.

The other piece is fee for service and tobacco is a significant

portion of our overall budget.

One year ago,

the governor wanted to cut $20 million out of our total appropriation.

So again, the implications there of what this means to the

schools through the allocation lens is that's $20 million that then gets passed to

the schools if we're not finding cuts centrally.

Really, we're beholden to two funding sources in the current model, and that is the problem. So Terry and I have talked about two things.

One is how do we diversify funding streams, which is what we were trying to achieve

with the new model.

And the second part is how do we scale or grow with the campus over time?

And I have a slide later on that will kind of show you why that's an issue and

something that we need to address at some point here.

This is a pretty simplistic slide, but it's just kind of illustrating what I was

just talking about. So on the left-hand side, you have all of the funding sources

that flow into central administration through the model.

On the right-hand side, kind of the high-level utilization or

expenses. And I get asked a lot, "Well,

why don't you just give all the F&A back?" Right? Like, "We're generating it.

We should get a chunk of that." And so what happens is I take that

$150 million out of the model, and we're way

out of balance, right? And the current model, the way it handles

that is school allocations pick up the tab.

And so againKind of leaves us handcuffed as to what we're able to do.

I know Terry and I both feel strongly about pushing more F&A out,

but again, unless we have a way to backfill that source or

any amount that we're pushing out incrementally, we can't do it

without cutting expenses. Right?

So,

just a high-level overview of how that model works.

Jumping to the new model. I already talked about this a fair amount

in the previous section, but

Terry says this all the time, "What we have right now is not a model," and I would

agree. It's not really tied to anything.

It's just kind of taking some dollars and shuffling them out the door.

Moreover, it creates that over-reliance on F&A and state appropriations.

Just talked about how those are our main funding sources currently.

The model itself does not scale with campus missions.

So think back on kind of that rainbow-colored

growth chart that I showed.

If you're only funding operations off of F&A and state appropriations, that's the rate at which central admin is going to grow, basically,

without pushing a bunch of money out the door, which we try not to do.

And so, as other areas are growing rapidly,

you're lagging from a funding perspective.

That's compounded by a couple other issues.

One, I talked about campus initiatives and CU innovations and how

Don feels like that's an area where we can differentiate our campus.

Right now, the model does not provide a lot in the way of funding for the

chancellor to invest in strategic initiatives, and so

that's something that we felt like we needed to address.

And the other, I think, bigger

issue is,

as you walk around our campus, it feels pretty new.

We moved here in the late '90s, early 2000s.

A lot of these buildings, this one especially, was built right around that time.

That's not so new anymore, right? For those of you that own houses, you hit

that 25, 30 year mark, and you're replacing major mechanical

equipment, like your HVAC system, your roof.

And we've had the luxury since we've moved here of not really having to invest a

lot of money into deferred maintenance,

let alone facility renewal and kind of that preventative maintenance.

We're at that point where we're actually overdue, I would say,

of starting to carve out more and more of our ongoing budget

to just maintaining our campus in its current state.

So that's an issue that

Terry's predecessor didn't have to worry about.

When I came through the door, we started talking about, well, how do we do this?

Well, in the current budget model,

easier said than done, right? Not a lot of give there.

So that's something that we want to try and address with the

new model. And the final piece here is our

campus continues to grow, right? I didn't

have it in this deck, but if you look at just a pure headcount number,

the growth there is pretty staggering, right?

It's propping up those research and clinical missions and

the driver behind that, and that requires space, physical space in a lot of cases. And so at some point in time, I know we just

got the health science building built, we're going to have to start talking about

what's the next building we build.

Right now, in our model, we just don't have a way to really build

in a debt service and building maintenance and operations expense.

So, something that we'll need to address.

So I talked earlier about the $270 million in expense budget

for central administration. It sounds like a lot of money.

It is a lot of money. I think it's helpful to kind of

show where does that money go.

This bar chart attempts to do that. I've broken it into four color-coded sections.

And so those top sections in white are really what I would consider expense passthroughs, right?

They're expenses on our books, but we're not actually utilizing those

monies within central administration. We're passing them on to somebody else.

So in this case, system office ICCA. I talked about that earlier.

It's around $17.7 million in

2026.

Comes into our model and goes right back out to the system office.

F&A distributions.

Again, we collect all of the F&A revenue centrally, but we're

budgeting an expense as well on our side that becomes the

distributions to the schools. Right?

So right now, the schools in our current distribution policy receive around

10% of the total F&A they generate. We're budgeting that expense.

So of that $270 million, you've got another, I call it $16 million, $
million in expense that we're budgeting

on our side.

The next three are related to buildings, right?

So the

point I would highlight here is $270 million, a lot of money.

About $100 million of that is related to debt service

on some of our buildings, the health science building being the newest

issuance.

We have some deferred maintenance monies that we have started socking away, and the

current model actually gives us a little bit of a mechanism to do that, but I think we can do better. We're far below target.

And then facilities themselves, so this is people in J.

Campbell's shop,

maintaining the grounds and maintaining the facilities.

It's also the utilities budgets, custodial, things like that.

So combined, that's around $100 million, if I remember correctly, out of

that $270 million. The next two I would consider kind

of self-funded, right? I talked earlier about the grad school.

We collect their revenue centrally.

Their expenses are budgeted centrally.

They're kind of budgeted to break even, so they're funding their own operation

through the tuition revenues that they bring in the door.

Advancement is very similar.

Most of their funding comes from the foundation through a Fund 36.

SoIt's budget neutral from kind of a revenue and

expense perspective, but if we're looking at it from a pure expense perspective,

that's around, I don't know, $9 million, $9.5 million

in the current year.

And then finally, you have the remaining expenses.

I would say these are our core support.

This is your HR, and OGC, and Finance,

and my office,

just kind of propping up the missions.

Like I said, if we're doing our jobs correctly, you shouldn't really know we exist.

Big buckets here are

obviously IT. That's a significant spend.

It's an increasing portion of our overall budget.

You get into software contracts, those vendors kind of have you beholden to

them, and they will escalate that price year over year.

So, that's an increasing cost to the campus as a whole.

I see Fred Manly back there nodding. He knows.

VC research, another somewhat big bucket.

If you combine that with things like regulatory compliance and

EHNS and OGC,

that comes out to a pretty significant portion of our overall budget. Remember earlier I said research

itself is around a quarter of our budget. I think we're kind of in alignment there.

Where we're not in alignment is F&A is covering a big portion of this total

budget.

But this just gives you kind of an idea.

I won't go through this in too much more detail.

The part that I want to talk through, though, is, again, if

we're funding central administration based upon two main funding components, which

are state appropriations and F&A,

we're a decreasing share of that overall campus budget over time.

And I think to a certain point, that's fine.

It forces us to be nimble and efficient, and I'm all about that, trust me.

But you get to a point where you can start having service impacts.

You're trying to support far more with what you've

had or, in some cases, less. And that's what this graph on the right is showing.

If you go back only to 2005,

central administration's budget was roughly 15% of the total campus budget.

We are now half of that

in 2025, and less so actually now. I ran those numbers for

'26 this morning. We're at 8.1 and 3.9,

respectively, in the current fiscal year.

If you take the building portion out, again, 10% down to 4%.

So continue to get lean, continue to do more with less,

but at some point, you kind of have to invest in those core support services so

that people that are actually working on the missions can focus on the missions.

I alluded to this fact earlier, but this is the biggest reason that I think we need

to make a change, is F&A in FY26 is covering

58% of the total central admin expenses.

Again, about a quarter of our total campus activity is related to

research. So, a huge disparity in

how it's funding central operations versus the actual activities that we're

supporting.

And it's been that way for a long time.

Again, the model itself, it was focused on education and research when it was first

developed, makes sense.

The problem I think that we're going to face as a campus going forward is

the feds are going to start looking at this, I think, and put it under more

scrutiny, and we need to be able to defend what we're using those F&A monies

for. And if it looks like we're supporting other missions,

guess what? We're not going to get as much F&A.

So, we need to be really intentional, I think, going forward about

how we're diversifying funding within central admin.

Again, pushing more of that F&A out to the schools is one of our

priorities,

but the current model kind of handcuffs us. So, how are we addressing that?

Well, this shows you kind of the current model functionality

versus the new model functionality, and there's some key areas that would be

changing under the new model that I have highlighted here.

The first is on F&A. What we were trying to do is

actually distribute 15% of the total F&A to the

schools instead of 10%.

That's an increase in central expenses.

We obviously need an increase in funding sources to do that, which kind of comes

into play here in a minute.

But that was, I think, Terry, and Don, and I's way of saying, "Too reliant on F&A. The units could use more of

it. We want to push more out. That's something that we can do in this model."

The second piece is really applicable to the auxiliaries.

Again, in the current model, auxiliaries pay a GAR, general

administrative recharge, of 7% on speed types with

salaries, or 4.96 on speed type expenses without

salaries. And what we were trying to achieve is just a flat rate

GAR

to make it easier for planning of 5%.

That actually would have resulted in a pretty significant savings to the

auxiliaries and those cores that I was talking about earlier of

about $3.5 million in total across campus.

Again, kind of pushing money out of the model. So, where do we make up ground?

Well, that really comes into those last two boxes.

What we're trying to achieve is really what I would

call a flat rate GAR structure. And with

that, we were trying to implement a 5% GAR

on Fund 34 or gift expenditures,

as well as Fund 35, which are kind of gift projects, pretty much exclusive to

the School of Medicine.

Those GARs would generate enough in the way of

recharges or sources of funds coming into central admin that they would offset the

top two. This really was not designed to be a money grab for central admin.

In fact, if this had moved forward, we would have been cutting, I think, around $
million in total expenses just to balance back out in this new

model. So, not designed to make central

admin flush with cash. What it was designed to is put something in place

that's scalable over time, kind of grows with the missions, and contracts with the

missions if there is contraction, and diversifies funding

streams.So, I'm sure most

of you in the audience saw the email that came out, what was it, a week ago,

talking about the model itself being delayed a

year while we have further discussions.

I wanted to talk through what that meant for each of these components, because I know there's questions out there, and I've received some from folks.

But really what the implications are here is,

for F&A itself, we're going to continue down the current distribution policy

amount of 10%. We do not have the ability, especially going into this

next fiscal year, to increase that by that 5%.

So, we'll delay that until the new model is put into place.

The second piece is on the auxiliaries.

While we wanted to move to that flat 5% GAR rate,

for FY27, we intend to just stay as is and

continue to assess on that blended 7%, 4.9%

rate.

And really, those two are delayed because of the bottom two. Number one on Fund 34 is we've been

asked by the foundation to delay implementation of that

5% GAR on the gift funds until January 1.

They wanted to have an opportunity to

talk to existing donors, look at existing gift agreements, make sure

that we're in compliance with what's outlined

through those donor agreements, and just make sure that all the

socialization that needed to take place has taken place.

And that speaks to this last piece, the Fund

35 GAR.

We received a lot of feedback over the past few months as we rolled this model out

about, is this portion of Fund 35 going to be assessed? Is it in or out? Is it waived or not?

And we got to the point where I think we felt like we needed to have additional

discussions around what that looks like in the future model.

All of this is really due to we didn't have enough runway for change

management, and I'll own that.

Terry and I had tried to have the new model framework done

by last August or October at the latest to provide

runway into July, and we just did

not meet that mark and really didn't have buy-in from major

stakeholders on campus until, it was March, I guess.

And that really compressed our change management timeline.

And so we were not able to have discussions with the foundation or with the hospital affiliates and folks like that the way we should have.

And so due to that fact,

we've decided to implement this delay.

Really what that means is we're going to keep the old model in place with the

exception of really that partial year of Fund 34 GAR that we'll roll

in. And that Fund 34 GAR couldn't come at

a better time, because I was talking about the state

appropriations decreasing by,

well, a million dollars on tobacco, flat on the fee for

service, and F&A dropping.

If you think about those implications on our central admin funding sources,

plus mandatory cost increases,

that leaves us with a big gap to figure out in this upcoming year that Terry and I

are working on right now.

So that Fund 34 GAR helps offset it a little bit.

But yeah, it's created some challenges.

So,

with that, I think that's all content-wise.

Happy to answer any questions anyone has, though.

Surely, there's got to be one out there.

That end presentation.

Yeah, somebody just needs to open the floodgates, because I know there's questions.

Do we have anything online by chance?

No?

Okay.

Well, I will hang out afterwards in case you are too shy to ask a question in front of the group. Happy to answer and have any conversation you want to.

I appreciate you all coming. I love talking about this stuff.

Hopefully, that's evident.

And yeah, more to come on the new model.