

University Fiscal Health Advisory Committee  
Lighty 405  
August 16, 2018  
10:30 a.m. to Noon

1. Brief update on FY 17 results - Kelley Westhoff/Stacy Pearson
2. Budget Model Discussion (continued) - Stacy Pearson
3. This meeting will continue to focus on areas 1 and 7 below

Committee charge and responsibilities (Stacy Pearson)

1. Examine current budgetary practices and propose new budget models for the future.
2. Suggest strategic ways to enhance revenue.
3. Suggest strategies for streamlining administrative operations to decrease costs.
4. Review programs or initiatives proposed for discontinuation to determine the larger impact on the campus community and student experience.
5. Examine administrative costs versus instructional costs and submit recommendations for making our ratio comparable to our peer institutions.
6. Solicit suggestions from the greater WSU community about general university budget matters and provide responses to ideas on a periodic basis.
7. Facilitate communication about the budget in a transparent and informative manner with the university community. (Here we will review a draft of the July minutes and discuss how best to communicate

Run-Rate Improvement for Core (PBL) + Other Funds by Area June 2018 YTD								Preliminary - Need to confirm other special circumstances that affect year-end results.
		Expenditures			Allocations			Run-Rate Improvement
AREA		FY 2017 as of 06/30/2017	FY 2018 as of 06/30/2018	Increase (Decrease) Over FY 2017	FY 2017 as of 06/30/2017	FY 2018 as of 06/30/2018	Increase (Decrease) Over FY 2017	Allocations - Expenditures
1	PROVOST & EXECUTIVE VICE PRES	11,384,686	11,503,021	118,335	11,471,660	11,653,909	182,249	63,914
3,30,41	COL AG HUMAN & NAT RES SCI	95,092,666	92,207,822	(2,884,844)	94,779,461	98,341,397	478,019	3,492,027
4	ENROLLMENT	11,910,040	11,610,362	(299,677)	11,504,233	11,485,247	(18,986)	280,692
5	COLLEGE OF ENG VOILAND	42,882,297	43,307,898	425,601	40,228,669	43,152,361	2,923,692	2,498,091
6	COLLEGE OF NURSING	11,571,320	10,264,063	(1,307,256)	10,233,711	10,332,757	99,046	1,406,302
8	E S FLOYD COLLEGE OF MEDICINE	18,296,366	25,382,573	7,086,207	9,373,873	16,426,562	7,052,689	(33,517)
11	VET MEDICINE COLLEGE OF	58,041,249	56,285,318	(1,755,931)	56,112,852	58,811,696	2,698,845	4,454,776
12	CARSON COLLEGE OF BUSINESS	27,425,169	28,483,478	1,058,309	28,248,249	28,821,184	572,935	(485,374)
13	COLLEGE OF EDUCATION	11,797,482	11,234,895	(562,588)	11,632,900	12,351,569	718,669	1,281,257
14	MURROW COLLEGE OF COMM	9,071,350	8,937,571	(133,779)	8,742,718	9,224,784	482,065	615,844
15	PHARMACY & PHARM SCIENCES	12,129,359	12,399,496	270,136	11,923,231	13,346,626	1,423,395	1,153,259
16	GRADUATE SCHOOL	3,580,211	3,098,596	(481,614)	3,751,215	3,594,348	(156,867)	324,748
18	LIBRARIES	13,034,230	12,576,754	(457,477)	12,904,629	12,687,134	(217,495)	239,982
31	COLLEGE OF ARTS AND SCIENCES	70,234,432	69,901,486	(332,946)	67,164,114	71,141,666	3,977,553	4,310,499
	Provost	396,450,857	397,193,332	742,476	378,071,513	401,371,241	23,299,728	22,557,252
	VP information Systems	25,284,316	23,802,041	(1,482,275)	21,634,080	24,943,115	3,309,035	4,791,310
	VP Finance & Administration	66,302,892	68,333,964	2,031,073	70,422,266	70,831,804	409,538	(1,621,535)
2	STUDENT AFFAIRS	85,080,480	88,621,877	3,541,397	88,755,108	94,051,832	5,296,724	1,755,326
17	INTERNATIONAL PROGRAMS	5,145,857	4,236,129	(909,728)	4,057,928	4,024,199	(33,730)	875,998
19	ATHLETICS	47,614,411	50,598,372	2,983,960	38,430,050	38,290,923	(139,127)	(3,123,088)
22	PRESIDENTIAL UNITS	10,339,261	10,904,889	565,628	10,088,354	11,184,212	1,095,858	530,230
26	GENERAL EXPENSE	6,837,945	7,245,877	407,932	8,408,148	5,835,813	(2,572,335)	(2,980,267)
28	UNIV MARKETING & COMMUNICATION	12,224,094	12,071,688	(152,406)	11,648,527	11,400,884	(247,643)	(95,237)
35	OFFICE OF RESEARCH	14,963,935	15,512,509	548,574	16,999,257	15,891,569	(1,107,688)	(1,656,262)
39	EXTERNAL AFFAIRS	2,019,874	1,934,160	(85,714)	1,995,401	1,920,326	(75,075)	10,639
48	UNIVERSITY DEVELOPMENT	4,590,888	5,573,261	982,372	5,531,082	5,655,638	124,556	(857,816)
59	ACADEMIC OUTREACH & INNOVATION	14,208,323	12,888,546	(1,319,777)	14,326,599	15,240,325	913,726	2,233,503
	VP/Other Areas	203,025,069	209,587,309	6,562,240	200,240,454	203,495,720	3,255,266	(3,306,975)
40	WASHINGTON STATE UNIV - EVERETT	3,340,910	3,869,434	528,524	3,448,111	4,284,989	836,878	308,354
56	WASHINGTON ST UNIV - TRI-CITIES	25,278,966	24,315,331	(963,635)	23,340,552	24,433,028	1,092,477	2,056,112
57	WASHINGTON ST UNIV-SPOKANE	17,411,246	18,081,360	670,115	17,605,757	16,512,155	(1,093,602)	(1,763,716)
58	WASHINGTON ST UNIV-VANCOUVER	44,299,831	45,886,793	1,586,962	44,344,455	47,482,777	3,138,322	1,551,360
	Campuses	90,330,952	92,152,918	1,821,966	88,738,875	92,712,949	3,974,074	2,152,109
	Total Areas 1-59	781,394,086	791,069,565	9,675,480	759,107,188	793,354,828	34,247,641	24,572,161
\\po-fs1.ad.wsu.edu\BO\FY2018\FY18 Tracking\June YE\All Area Reports\FY18 Fund Summary and Reconciliation V2 jsk 7-27-18.xlsx\Explanations								
Overall, expend up, revenue up 3X exp growth								

\* Raw data as of June 30th. Not adjusted for organizational changes or one-time allocations to or from areas.

## Talking points for FY18 Financial Recovery Efforts

### 1. University Run Rate

- Good news – run rate improved from -\$30M to -\$7M, a run rate improvement of \$23M against our target of a \$10 M improvement
- Continuing challenge – run rate is still negative, which continues to erode University reserves

### 2. Run Rate Improvement

- Most of the improvement occurred in core funds

	\$ millions	
Core Funds	\$ 19	83%
Other Funds	\$ 6	
Central reserves decline	\$ (2)	
	<u>\$ 23</u>	100%

### 3. Core fund improvement

	\$ millions
Increased revenues/allocations	\$ 25
Increased expenditures	\$ (6)
Net Core Fund improvement	<u>\$ 19</u>

- Good news - primary driver is increased revenue/allocations
- Continuing challenge - overall spending **increased**

### 4. Sources of new Core Fund revenue/allocation

	\$ millions
New Appropriations	\$ 9
New Tuition	\$ 8
Increase in F&A	\$ 1
One time allocations	\$ 7
New revenues/allocations	<u>\$ 25</u>

- Good news:
  - New approps=COM, Salary increases, M&O & Provisos
  - New tuition= COM, DVM rate increase, Pharmacy enrollment increase, campus increases + Enrollment Based Budget additional allocations to colleges
- Continuing challenge:
  - One time allocations from Central to Units (CAS, NURS, IT) make unit results look better than actual and decreases Central resources

## 5. Core fund expenditures

	<i>\$ millions</i>
Increase Salaries & Benefits	\$ 10
Decrease other exp	\$ (4)
Net increase in expenditures	\$ 6

- Good news:
  - About half of University units decreased spending over FY17
  - About half of the salary and benefit increases were state funded
- Continuing challenges:
  - Expenditure decreases were in good/services which indicates one-time in nature
  - Increases in salaries are permanent costs going forward
  - About half of University units increased spending over FY17

## 6. Improvement in Other funds & Central reserves (See #2 above)

- Other funds improved roughly = Moore v. HCA that was \$7M expense in FY17, \$0 in FY18
- Central reserves declined further because of new unfunded commitments

## 7. Next steps

- Finalizing FY19 targets in light of FY18 results
- Confirm and reconcile results with Controller's Office / WSU financial statements
- How best to address unfunded Central commits ~ \$10M at FY18 end

Source file: <\\po-fs1.ad.wsu.edu\BO\FY2018\FY18 Tracking\June YE\All Area Reports\Analysis of FY18 Results.xlsx>



# Budget Process and Model Discussion (*Continued*)

August 16 2018





# Fiscal recovery and budget model

Develop a budget strategy and methodology that accommodates planned growth and provides funding for strategic initiatives to include:

- Develop a budget model that promotes and incentivizes revenue growth and provides sufficient funding for central reserves
- Develop a methodology to manage expenditures to increase net revenues
- Revise policies and procedures with a focus on effective and efficient processes while remaining compliant
- Leverage the Modernization Project to specifically identify and implement efficiencies in business and HR processes, communicate these improvements to the campus and measure impacts over time
- Develop a process and template to provide thorough information for new academic and administrative program proposals that includes detailed analyses and metrics.
- Use a similar methodology to evaluate current programs that are being considered for revision or elimination in order to meet strategic goals and reallocate resources
- Achieve a healthy central reserve for two purposes: 1) emergencies and unplanned needs; and 2) a strategic initiative fund for Drive to 25 initiatives. Develop a formal process to review, approve and fund these initiatives that requires ongoing review and assessment.
- Work with the Provost to establish specific goals for faculty hiring and tenure commensurate to the academic and research goals.



# Budget Model Overview



# Common Higher Ed Budget Models

- **Centralized**
- **Incremental**
- **Zero-based (actually not so common)**
- **Responsibility Centered Management (RCM)**
- **Performance or Outcomes Based**



# Centralized and Incremental Going Strong



- Centralized model in which administration takes data-driven, strategic approach to identifying competitive opportunities at unit- and institution-level
- Promotes unit-level financial accountability through strong central oversight and guidance
- Center often dictates unit-level initiatives and provides the resources to invest



**University of  
Notre Dame**

- Incremental budget model with targeted investments made through a thorough vetting and prioritization process
- Units present priorities for upcoming three years through a business case detailing a clear business plan, long-term implications of requests, and alignment with strategic plan
- Revenue-sharing agreements for professional and online Master's programs led to new program launches in law, business, and architecture



# Incremental Budget Model CHALLENGES

- Revenues are managed centrally while the activities that generate revenues are primarily managed in the Colleges
- Leaders compete for a finite amount of incremental resources to increase budgets within their area, if incremental resources are available in a given year
- Budget is focused on controlling expenses
- Inconsistent negotiated agreements have been implemented to try and address limitations which may be creating unintended incentives
- Units historically-based “permanent” budget rolls forward each year with limited adjustments (compensation increases, benefits)
- Strategic re-allocations are difficult and the focus is on annual, short-term decisions rather than on long-term plans



# Responsibility centered management (RCM)

- **Delegates operational authority** to schools, divisions, and other units within an institution, allowing them to prioritize their academic missions
- Each unit receives all of **its own revenues and income**, including the tuition of its enrolled students
- Each unit is also **assigned a portion of government support** (where applicable)
- Units are also **responsible for their own expenses**, as well as for a **portion of expenses** incurred by the university's general operations



# Moving Away from RCM

Institution	RCM Lifespan	Reason for Model Change	New Model Characteristics
University of South Carolina	2003-2011	RCM model yielded insufficient central funding and control over resource decisions to navigate state budget cuts	Mostly incremental
University of Oregon	2010-2016	RCM model yielded insufficient central funding and control over resource decisions to advance institutional strategic goal of enhancing research profile	Still in development
University of Kentucky	2011-2015	Leadership anticipated RCM model would divert units' focus away from strategic priorities of student success	Incremental with performance pot for strategic initiatives



## Performance/Outcomes or Activity Based

- Awards funds based on a number of **defined outcomes standards**.
- Awards financial resources to institutional **activities that see the greatest return** (in the form of increased revenues) for the institution.
- Can use a variety of methods to deal with **indirect costs**

recently





# Why Change the budget model?

## ➤ External factors

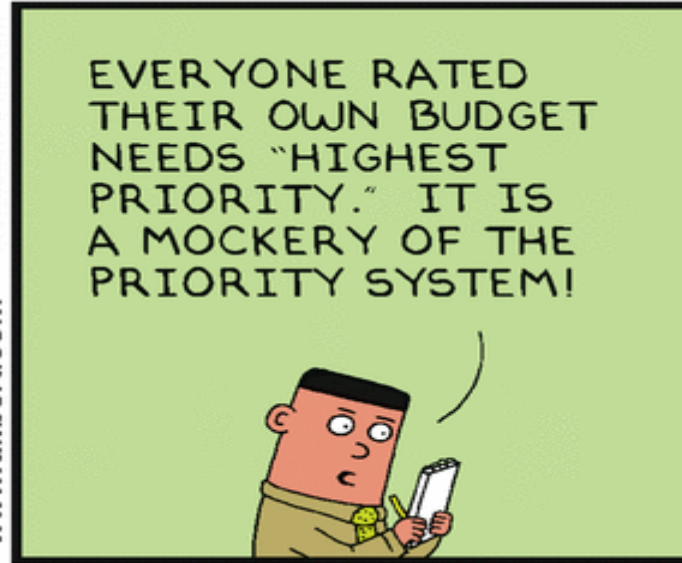
- Instructional budgets shifted from a state-funded model to a student-funded model
- Increases in state support per student is not keeping up with inflationary increases
- Limited ability to increase tuition
- Flat enrollments, increased competition for students, particularly non-residents, as well as concurrent enrollment, necessitates an emphasis on enrollment management

## ➤ Internal challenges

- Historical budget allocations are not clearly rationalized
- Strategic reallocations are difficult to identify and evaluate
- Size and complexity of the organization and the budget has grown making it more difficult to manage centrally
- Financial planning and academic planning are out of alignment providing incomplete information for decision makers



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**Integrated Planning of Enrollment and Budget (IPEB)** is a model that allows units to experience the impact of well-considered strategic planning and good financial decision making. IPEB rewards achievement of specific strategic initiatives.

- **Strategic Enrollment Management plans are the building blocks of the budget.** Anticipates enrollment changes related to student success, retention and demand. Units identify resources needed for growth supported by data.
- **Impacts on other units matter and are assessed.**
- **Subsequent year's expenditure budgets need to take into account multiple factors, but primarily based on performance.** Consideration given to impact on student success, quality of curriculum, support of unfunded research and ability for future revenue generation.
- **Supporting units are expected to continue to find efficiencies and reduce costs.**
- **No funds are “swept.”**
- **All for one or one for all** meaning that there are subventions (subsidies) built into the model and units support one another. High growth in some areas can mitigate losses to supporting colleges.

# This coming year...

## PROGRAM SITUATION ASSESSMENT

PRODUCTIVITY:  
Cred. Hrs, Gross  
Rev., Res. Exp

PROFIT & LOSS:  
Revenue and  
Direct Expenses

TRENDS:  
Headcount and  
Degrees

Scholarship:  
Department  
specific metrics

*Invest/Divest for  
Resource Planning*

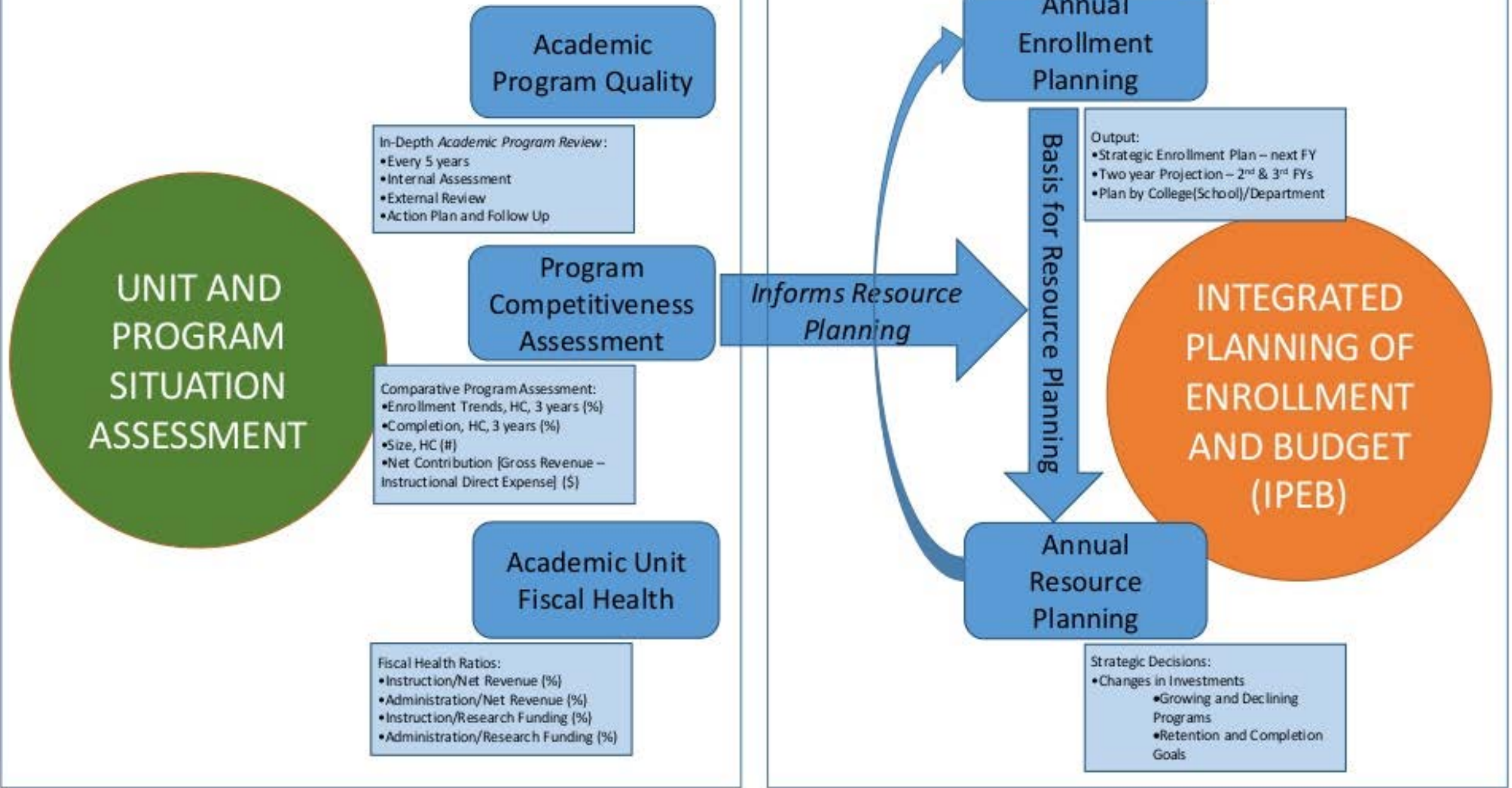
Annual  
Enrollment  
Planning

Basis for Resource Planning

Annual  
Resource  
Planning

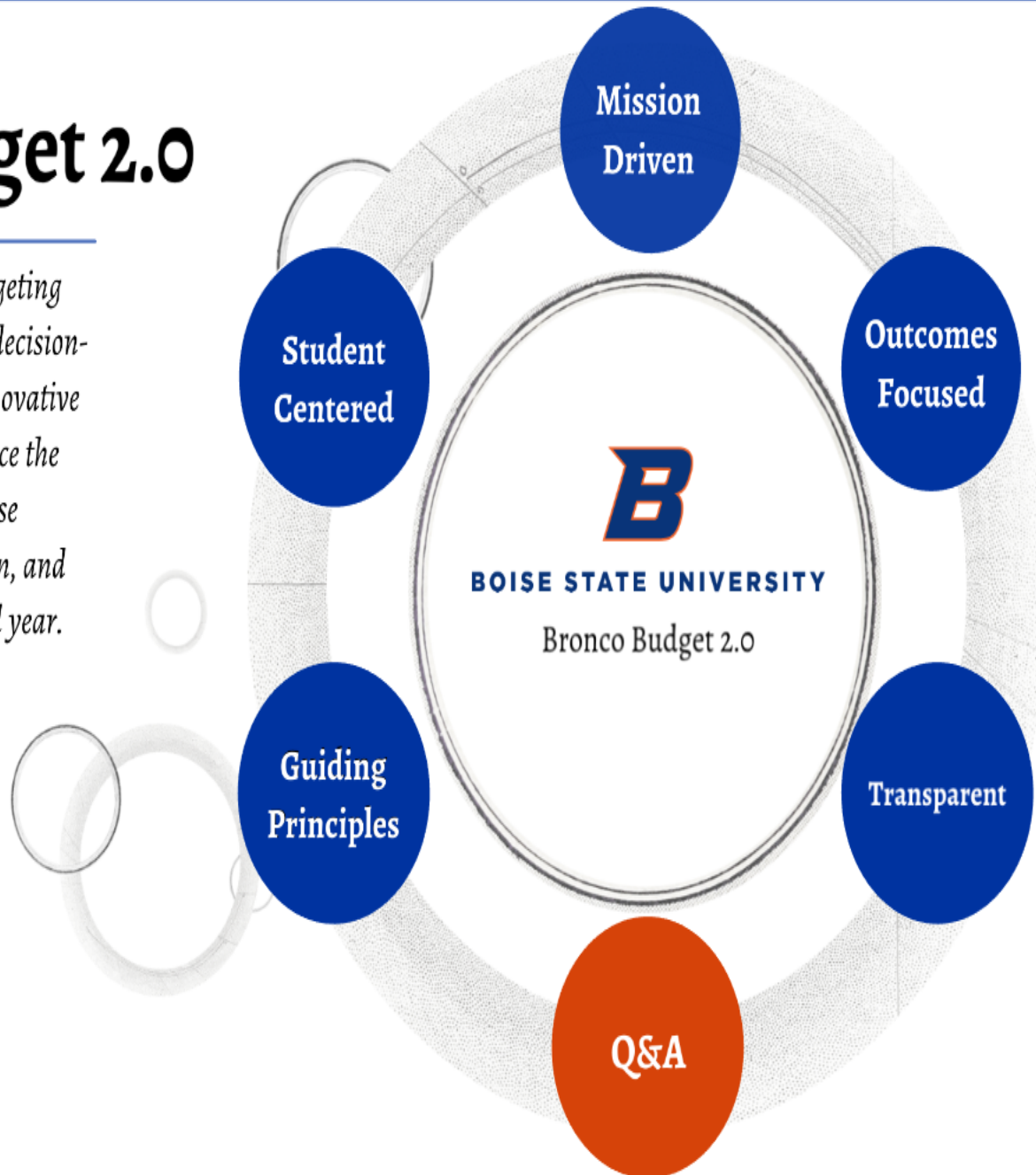
INTEGRATED  
PLANNING OF  
ENROLLMENT  
AND BUDGET  
(IPEB)

# NEXT STEPS?



# Bronco Budget 2.0

*A student-centered approach to budgeting designed to support more informed decision-making, foster collaborative and innovative programs and practices, and reinforce the alignment of College plans with Boise State's vision, mission, strategic plan, and priorities for the academic and fiscal year.*

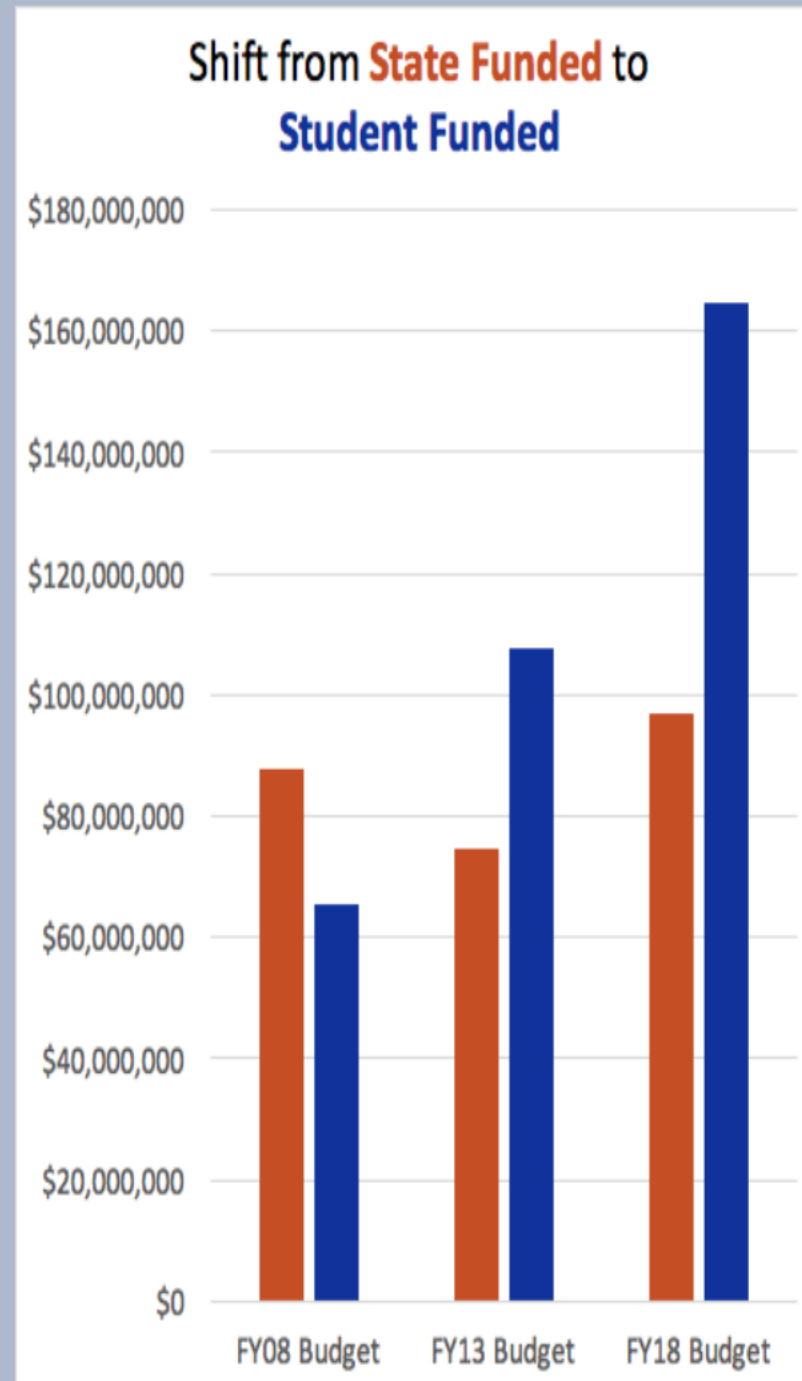


## The BIG SHIFT

Over time, students have become by far the largest investor in their educational cost. Recognizing this shift, Bronco Budget 2.0 prioritizes student investment by ensuring a portion of the tuition and fees a student pays goes towards supporting the Colleges that are providing their instruction and educational support.

For undergraduate students, Bronco Budget 2.0 considers:

- the courses the student enrolls in
- the student's major(s)
- the College(s) in which they earn a degree.



Bronco Budget is designed to empower Colleges to innovate and embrace opportunities that generate positive programmatic and financial results.

Colleges can "do the math" to understand the financial implications associated with opportunities and decisions. This adds clarity and brings predictability to understanding the budgetary impact of programmatic decisions.

Colleges can fund innovation through BB2.0 tuition revenues without having to negotiate new tuition revenue sharing agreements on a proposal by proposal basis.

	BB 2.0 Value FY18 & FY19
<b>Undergraduate Students</b>	
SCHs Instructed	\$130
Majors Supported	\$800
Degree Graduates	\$2,000
<b>International Undergraduate Students</b>	
Int'l SCHs Instructed	\$200
Int'l Majors Supported	\$1,600
Int'l Degree Graduates	\$4,000
<b>Graduate Students</b>	
Graduate SCH	\$240

Definitions: <https://ir.boisestate.edu/bronco-budget-2-0-definitions/>

# Tentative List of Metrics

- 1: Enrollment headcount
- 2: SCH by subject
- 3: SCH by budget
- 4: SCH by budget by faculty type
- 5: Student progression metrics
- 6: Distinct graduates
- 7: Faculty FTE
- 8: Extramural funding expenditures
- 9: Extramural awards
- 10: Instructional expenditures
- 11: Instructional expenditures per SCH
- 12: Enrollment and weighted enrollment per FTE faculty
- 13: SCH and weighted SCH per FTE faculty
- 14: SCH by faculty type per FTE faculty
- 15: Distinct graduates and weighted distinct graduates per FTE faculty

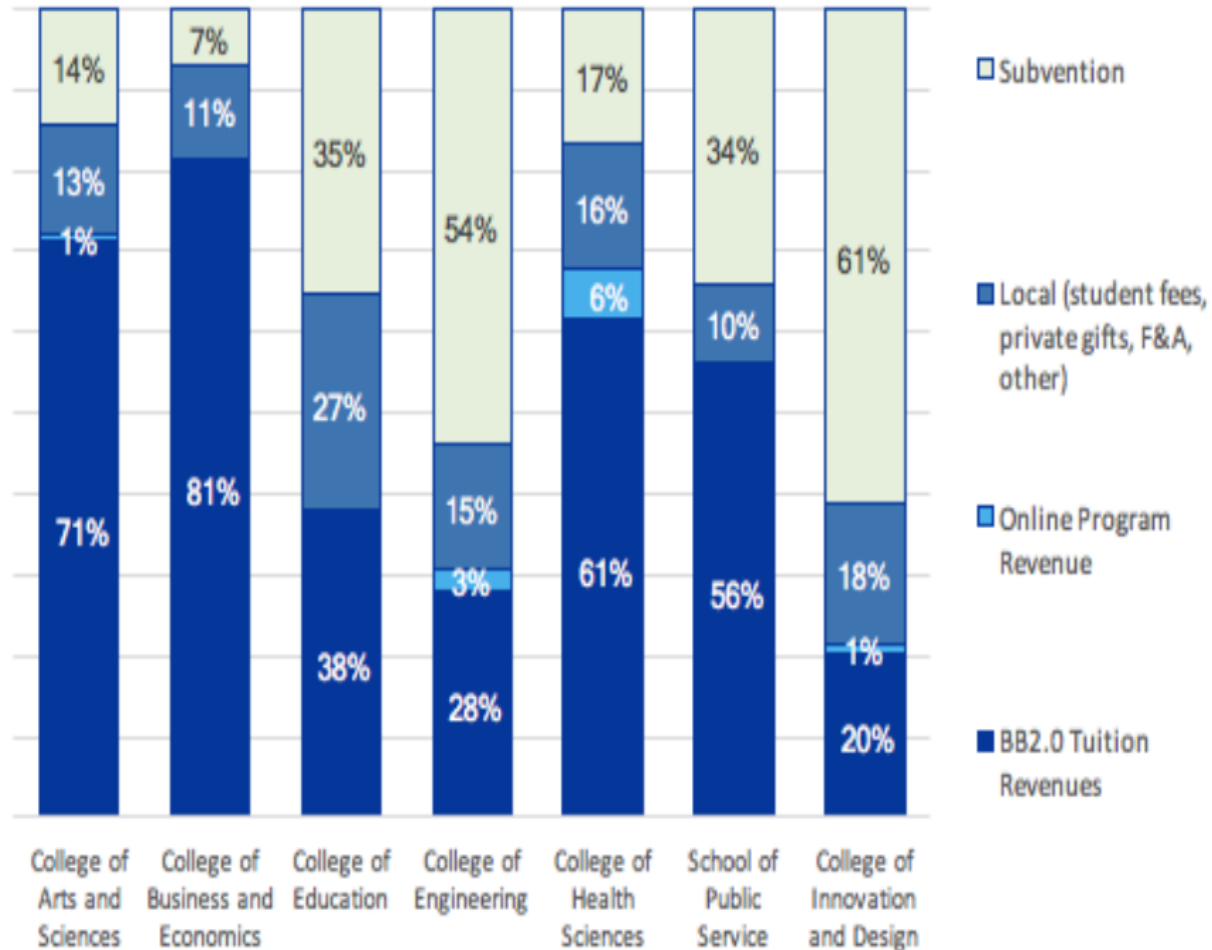
## Additional helpful college and department level data

1. Graduating Student Survey (interactive dashboards with data broken out by college and department) --> see [ir.boisestate.edu](http://ir.boisestate.edu)
2. Undergraduate Student Transitional Data, commonly referred to as "Fate & Source analysis" (retention/progression by department and plan and a host of demographics) --> available via the IR Data Exchange Folders
3. Commonly used Department Chair Reports, including DFW reports, course fill rates, and registration analytics --> see <https://reporting.boisestate.edu/department-chair-student-data-reports/>
4. College Enrollment Dashboard --> see [ir.boisestate.edu](http://ir.boisestate.edu) or <https://analytics.boisestate.edu/default.aspx?bookid=be002c2b-02eb-4f08-9ac7-f80012c26676%7CispasFalse%7Creporta743b449-66aa-4447-8071-eabfe63daba2%7Cws1%7Cwsbo%7CisDisabledAnalyticsFalse%7CisDashboardPanelOnTrue>
5. Other descriptive and demographic data about majors, graduates, course enrollments, etc. --> available in Pyramid analytics (or contact Pyramid Help at [pyramid@boisestate.edu](mailto:pyramid@boisestate.edu))

BB2.0 provides a more transparent view of each College's budget. Subvention is the amount of funding the university is investing in the College for mission and cost of instruction differences. The remaining budget elements show how much revenue the College is generating to fund their own direct expenses.

## Transparent

FY18 Original Budget by Source by College  
(excluding Research Grants & Contracts)





## Key Aspirations for Budget Model



### Align Stakeholders to Financial Realities

- Faculty and other stakeholders do not understand budgetary limitations or trade-offs facing institution, resulting in CBOs devoting significant time to campus education efforts
- Budget model can serve as a clear education tool, informing campus of financial realities



### Automate Smart Resource Allocation Decisions

- One-time divestment from historical funding levels to shift resources to new opportunities requires involved, contentious conversations
- Budget model allows CBO to embed smart decision making into the model, automatically shifting funds across unit lines
- Deans focus on increasing financial independence by making smart reallocations within unit and working towards institution-wide goals

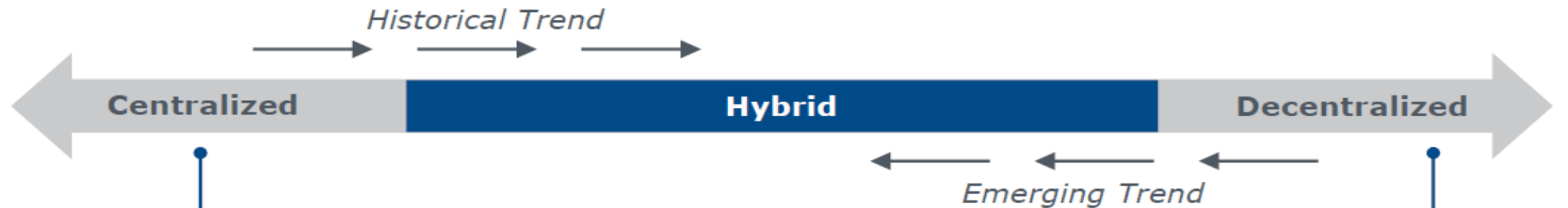


### Create Work-Around for Weak Strategic Planning

- Inclusive, committee-based decision making leads to overly broad strategic plans without clear prioritization for funding initiatives
- Budget model serves as proxy for strategic plan, setting up funding and incentives to move toward strategic goals that advance the institution's mission and financial health



# Movement Toward Hybrid Budget Models



CBOs struggle to determine which institutional goals are best achieved through decentralized incentives versus central investment and oversight

## *Advantages:*

- Resources available for central investment
- Senior leaders able to drive institutional vision

## *Limitations:*

- May not incent unit revenue growth or cost control
- Difficult to maintain in periods of stagnant growth
- May not accommodate changes in enrollment patterns

## *Advantages:*

- Creates unit-level financial accountability
- Automatically shifts resources to areas of high growth

## *Limitations:*

- Yields few resources for central strategic investment
- Devolves decision-making power to units at expense of central strategic vision
- Shifts resources to units based on year-to-year performance and market trends rather than institutional priorities



## Increasing Levels of Focus on Unit Profit and Loss Statement



### Level 1: Incremental Budgeting

- Majority of institutional resources tied up in unit base budgets
- Guaranteed level of unit funding undermines incentives for financial accountability



### Level 2: Greater Financial Transparency

- Institutions provide unit-level P+L to show net contributors and net 'takers'
- Transparency creates political pressure to improve unit finances



### Level 3: Revenue and Cost Allocation

- Revenue and cost allocation creates P+L transparency and financial accountability
- Incentives to grow existing programs, reallocate resources, and reduce cost consumption



# Important Budget Model Design Decisions

1

## Create Unit-Level Financial Accountability

Allocate some revenues and costs to align unit-level operational responsibility with institution-wide financial imperatives



2

## Preserve Mission-Critical Activities

Protect mission-critical but financially dependent units from harm in the new model to protect institution brand, and build central reserves for major investments



3

## Incorporate Institutional Strategic Goals

Align stakeholders with strategic goals through performance funding, seed funding, and governance policies





### **Core Budget Model Mechanics**

- Allocating Revenues
- Allocating Costs
- Building Central Reserves
- Subventing Mission-Critical Units
- Incenting Strategic Goals

### **Actions to Support Model Changes**

- Conducting Program Prioritization to Identify Opportunities for Strategic Reallocation
- Supporting Deans with Academic Analytics and Market Analysis
- Implementing Vacancy Review Policies
- Driving Central Administrative Unit Efficiencies



# Guiding Principles

## The Budget Model Should:

- Promote aspirational goals and a shared purpose
- Deliver transparency, clarity and predictability
- Provide incentives that promote excellence, academic quality and financial sustainability throughout the university
- Encourage innovation and entrepreneurship by assuring direct benefits to units willing to engage in responsible risk taking
- Foster interdisciplinary scholarly and teaching activity
- Provide sufficient resources to support University-wide strategic initiatives
- Allow for informed and forward looking decision-making
- Promote efficient and effective services



# Preserving Mission and Institutional Strategic Goals

## Decision Point

## EAB Guidance

8. How do we ensure sufficient central reserves for strategic investments?



Institutions should create a separate 3-5% tax on all revenue to fund central strategic reserves, and promise to use a portion of funds on unit priorities to win buy-in for tax.

9. How overt or hidden should subvention be?



Institutions should make subvention as overt as possible to avoid perverse incentives and maintain P+L transparency.

10. How do we motivate units receiving subvention to still make financial improvement?



Institutions should set a clear end date for units on bridge subvention and allocate subvention with strings attached for mission-critical units to continuously motivate units.

11. How do we incent student success goals through the budget model?



Institutions can use financial incentives and seed funding to encourage units to achieve student success goals. Institutions should monitor and correct for perverse budget model incentives that may impede student success.

12. How do we incent research growth through the budget model?



Institutions can use financial incentives and seed funding to encourage units to achieve research growth goals. Institutions should monitor and correct for perverse budget model incentives that may impede research growth.








13. How do we incent targeted new program launches through the budget model?



Institutions can use financial incentives and seed funding to encourage units to launch targeted new programs. Institutions should monitor and correct for perverse budget model incentives that may impede new program launches.

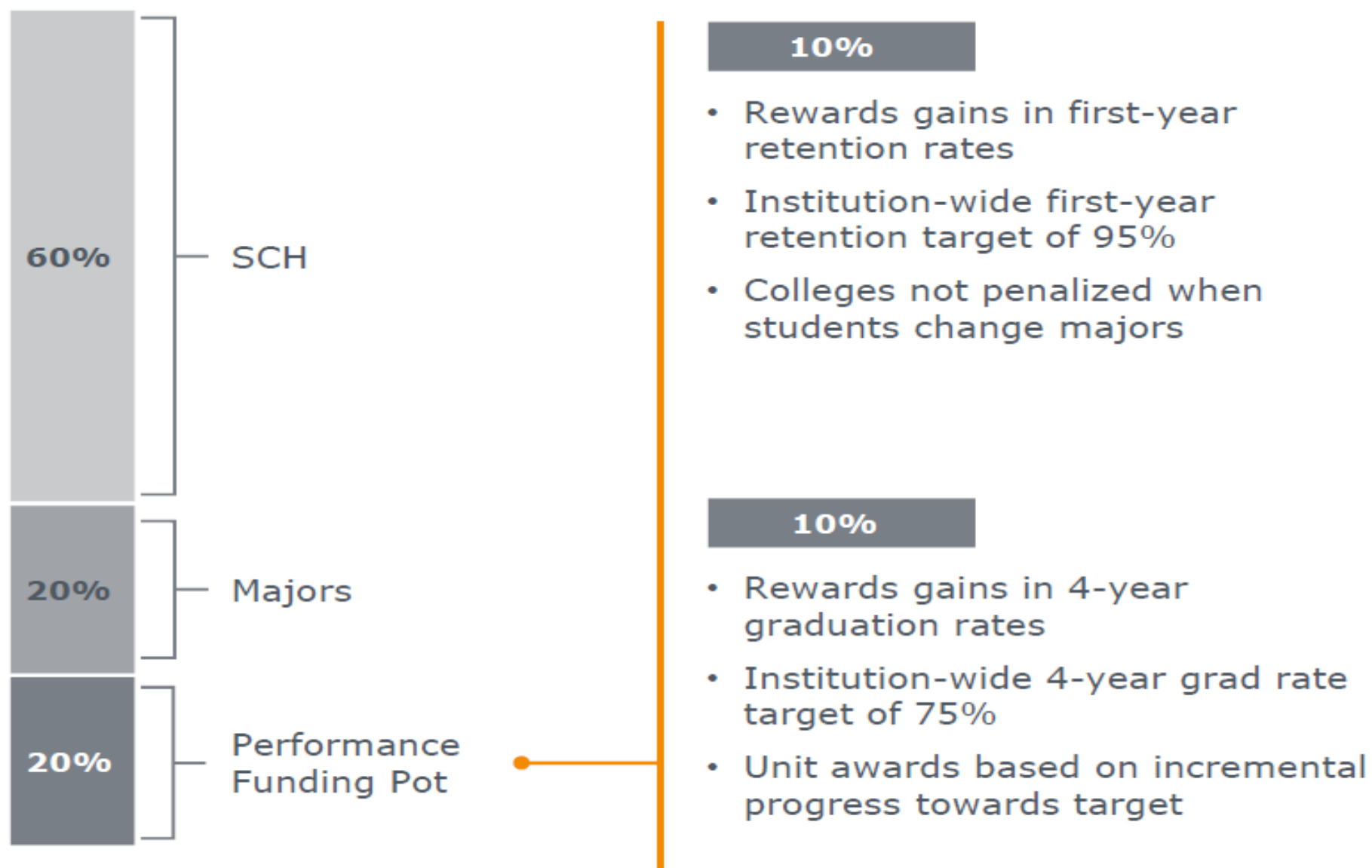


# Revenue and Cost Allocation Decision Points





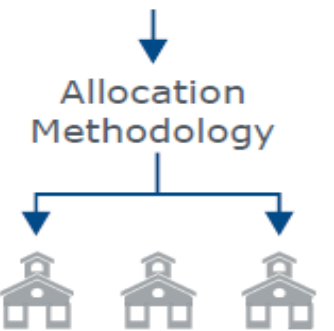
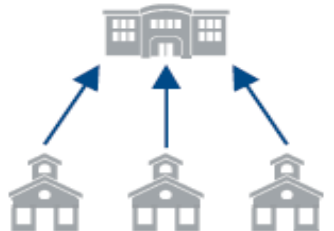
Decision Point	EAB Guidance	
1. What percentage of tuition revenue should we allocate through an activity-based formula?		Most institutions should allocate bulk of revenue (70% or more) via an activity-based formula to break up base budgets and create P+L <sup>1</sup> incentives for units.
2. How should we weight SCH versus majors in tuition allocation?		Most institutions utilize a split between 85/15 and 70/30, but more important for senior leaders to set range and let deans pick exact split for buy-in.
3. Should we use enrollment smoothing to allocate tuition revenue?		Allocate tuition revenue based on prior-year enrollment or current-year projections and establish central loan pool to quickly reward growth and smooth unit budget volatility.
4. Should we allocate any forms of differential tuition revenue?		Aside from rare exceptions, institutions should not allocate out-of-state tuition, financial aid, or weighted credit hours to avoid perverse incentives and keep units focused on right priorities.
5. Should we allocate unrestricted state appropriations?		Institutions can either allocate state funds along with tuition or hold centrally for subvention or strategic investments. Senior leaders must decide on which method to use early in the design process.
6. How do we allocate overhead costs to maximize incentives and maintain buy-in?		Institutions should aim to allocate 4-6 overhead cost pools and 1-2 drivers per pool to strike a balance between simplicity and precision.
7. How do we regulate unit spending to protect institution finances and strategic goals?		Institutions should integrate oversight of unit-level spending decisions with ongoing central resource planning to ensure unit alignment with institutional finances and strategic goals.



## UC Riverside's Tuition Revenue Allocation Formula



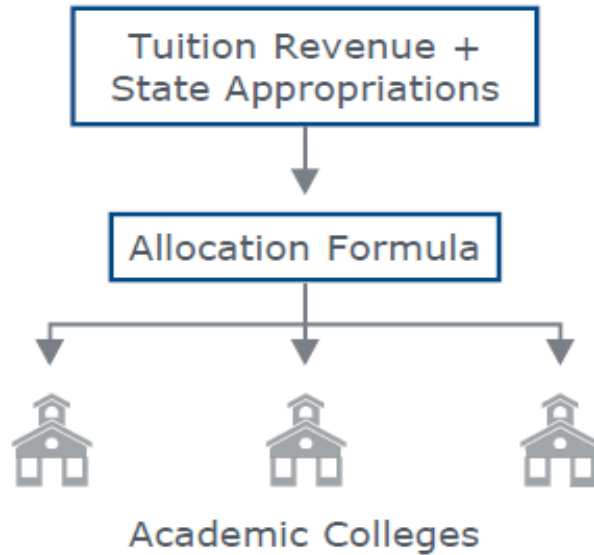


Allocation Approach	Step 1	Step 2	Step 3	Sample Institution
<b>Front-End</b> Center takes three central costs off-the-top before allocating revenue to the colleges via revenue allocation formula	<p>Revenue</p>  <p>Central Admin</p>	 <p>Central Admin pulls out:</p> <ul style="list-style-type: none"><li>• Central overhead</li><li>• Subvention</li><li>• Strategic initiatives</li></ul>	 <p>Allocation Methodology</p>  <p>Academic Colleges</p>	<b>Simon Fraser University</b> 35% of all revenues taken off-the-top for central costs, indirect costs, and institutional priorities
<b>Back-End</b> Revenue flows straight to the colleges via revenue allocation methodology, then center recoups three central costs	<p>Revenue</p>  <p>Academic Colleges</p>	 <p>Colleges charged:</p> <ul style="list-style-type: none"><li>• Central overhead</li><li>• Subvention</li><li>• Strategic initiatives</li></ul>		<b>University of Pennsylvania</b> 20% tax on undergraduate, graduate, and professional tuition for subvention and strategic initiatives; allocates central overhead costs to colleges through six cost pools



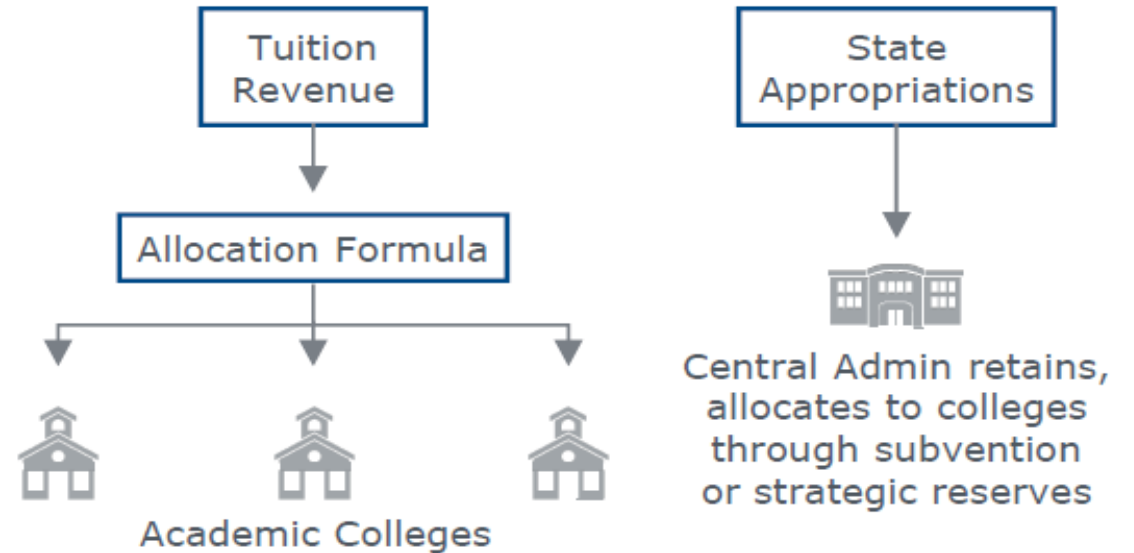
# Hold State Funds Centrally

## Supplements Tuition



Allocates state appropriations to colleges to supplement tuition based on course and degree completions

## Retained at the Center



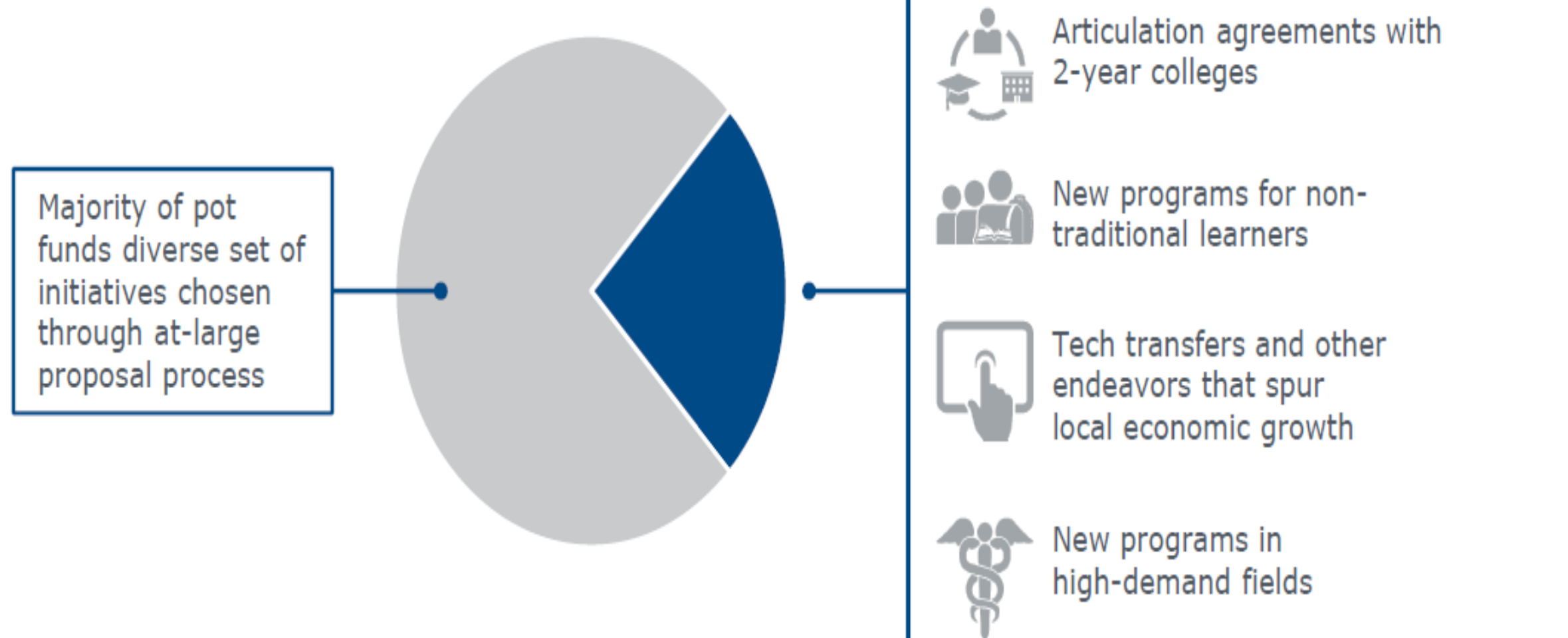
## Most Shifting Toward Retaining State Dollars Centrally

- Institutions increasingly retain state money centrally as states divest from higher education
- Holding state appropriations centrally increases central spending discretion and shields colleges from state funding volatility

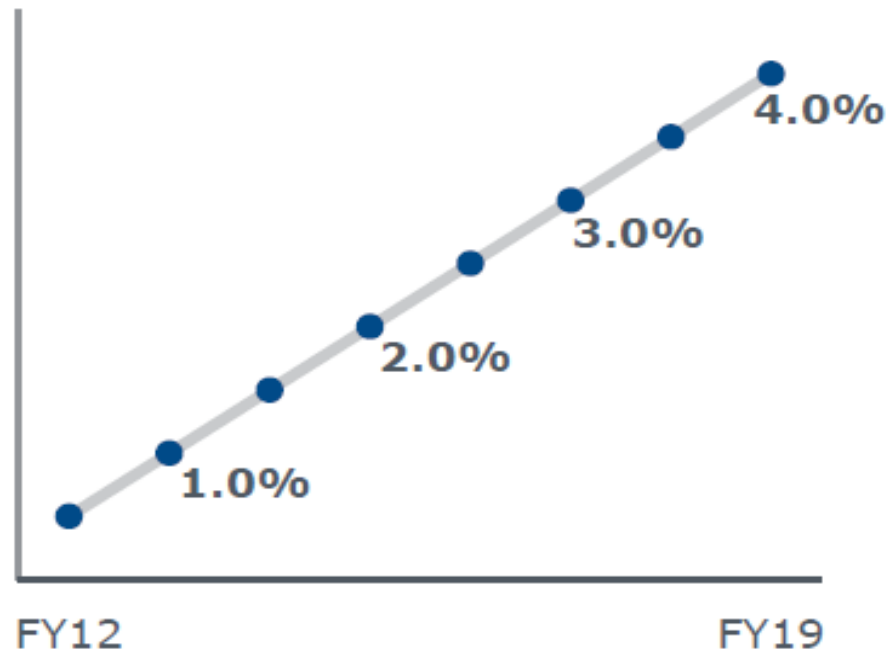


# Strategic Reserve Fund

## Example Strategic Reserve Fund



## Incrementing Up Tax Rate Over Several Years



- Provost Fund financed through tax on traditional undergraduate net tuition
- In FY14, tax generated \$3M
- In FY19, tax will generate \$9M

## Earmarking Portion of Strategic Funds for Faculty Priorities



### Faculty Equity Fund

\$1M of central dollars earmarked for a **Faculty Equity Fund**, used to help the institution become nationally competitive in the marketplace and improve faculty retention



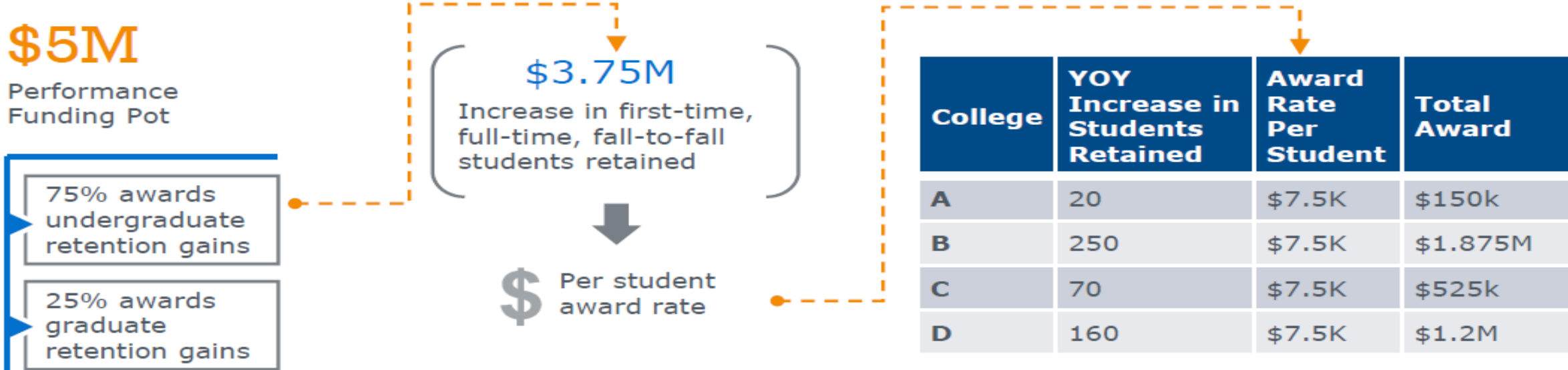
### New Academic Program Fund

Approximately 20% of central dollars are earmarked for an **Academic Program Fund**, used to develop new academic programs at the university





# Kentucky's Performance Funding Award Allocation



## Year One Results

10/11

Of UK's undergraduate colleges improved retention, received funding awards

32.6%

Percentage increase in number of students retained by College of Business and Economics, largest award recipient



One college focused on SCH production to "game" RCM revenue allocation, did not receive funding



## Strategic goal of improving student outcomes through course redesign

Administrators sought three key benefits from course redesigns:

- Decrease DFW rate of low completion courses
- Reduce long-term instructional costs
- Free up faculty time and adjunct funds for higher-return activities



## Seed funding provided on matching basis

- UMD system provided matching funds to institutions up to \$20K
- Institutions used funds to redesign courses by collapsing sections, flipping classes, and planning active learning modules

# 7%

Average drop in DFW rate (e.g., from 20% to 13%)

# 100%

Efforts sustained past 2-3 year design and implementation period

# \$1.8M

Total cost savings and avoidance across 57 courses





Institution places programmatic emphasis on summer courses to accelerate student time-to-degree



Budget model monitoring reveals departments are cutting under-enrolled summer courses to control costs



Provost incentivizes college to offer graduation-critical summer courses with additional funds



## **Provost Instructional Needs Funding**

- Time-to-degree critical courses guaranteed revenue allocation based on course enrollment targets, regardless of actual enrollments
- 300 out of 700 summer courses deemed critical and eligible for backfill funding
- Eligible courses include:
  - ✓ 100-level courses that are prerequisites for staying on-track in major
  - ✓ 100-level courses required of a large number of students
  - ✓ Upper division writing courses required of a large number of students



### Units Complete Standard Budget Template

- Units submit annual budget templates with P+L data
- Templates force units to report key performance indicators of central interest

### Reported Student Success KPIs

- Average class sizes
- % of classes taught by adjuncts
- Number of faculty course releases
- Student:advisor ratio
- First-year retention rate
- 4- and 6-year graduation rates



### Center Monitors KPIs for Unintended Consequences

- Center tracks KPI data by college for inverse relationships that indicate units are sacrificing quality for revenue gains
- Provost intervenes and course corrects as necessary, reviewing 3-year KPI trends

”

“We want to make it clear that student success is a priority for UCR. We track it and built it into our revenue allocation model.”

*Maria Anguiano, CBO  
University of California, Riverside*

# Get the Budget Model Machine to work for **you**

## The 13 Most Important Decision Points to Align Your Budget Model and Strategic Priorities

Seeking to boost unit-level accountability for revenue improvement and cost control, institutions across the country are tinkering with their budget models. But budget model changes involve hundreds of decisions and can lead to many unintended consequences.

Whether considering a wholesale model redesign or making targeted improvements, **focus on the 13 budget model design decisions below to align your model to your strategic goals**, ensuring that the remaining outstanding decisions fall into place.

Learn more with the Business Affairs Forum's full study, which contains specifics about each of these decisions as well as resources for implementation, available at: [eab.com/baf/budgetdecisions](http://eab.com/baf/budgetdecisions).

 Creating Unit-Level Financial Accountability

 Preserving Mission-Critical Activities

 Incorporating Institutional Strategic Goals

### Tuition Revenue Allocation Percentage

Allocate bulk of revenue (70% or more) via an activity-based formula.

### Enrollment Smoothing

Allocate based on prior-year actual or current-year projected enrollment; a central loan pool smooths unit budget volatility.

### Differential Tuition Allocation

Do not directly attribute out-of-state tuition or financial aid; avoid weighted credit hours.

### Tuition Revenue Allocation Weighting

Define a range for SCH versus major weighting between 85/15 and 70/30; let deans set final weighting.

### State Appropriation Allocation

Either allocate formulaically or use for subvention/strategic funds; decide early which option to use.

### Overhead Cost Allocation

Allocate 4–6 overhead cost pools most likely to incent behavior change, with 1–2 drivers per pool.

### Strategic Reserves Funding

Create a separate 3%–5% tax on all revenue to fund central strategic reserves.

### Subvention Methodology Transparency

Make subvention as overt as possible to avoid perverse incentives.

### Effective Subvention Incentives

Set a clear end date for units on bridge subvention and ensure long-term subvention is not a blank check.

### Unit Spend Monitoring

Integrate oversight of unit-level spending decisions with ongoing central resource planning.

### Budget Model Boosters

Institutions can use budget model financial incentives and seed funding to reinforce—rather than undercut—strategic goals.



### Incenting Student Success

**Example:** Include student retention and graduation improvement metrics in revenue allocation formula.



### Incenting Research Enterprise Growth

**Example:** Include grant funding in revenue allocation formula.



### Incenting Targeted Program Launches

**Example:** Implement targeted revenue-sharing agreements.



EAB

Business Affairs Forum

To learn more about **aligning your budget model** to strategic goals, download the full study.

[eab.com/baf/budgetdecisions](http://eab.com/baf/budgetdecisions)

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# Get Started on a Strategic Budget Process!

## Proposed Next Steps

- Set up organizational structure to lead the process
- Use the data and progress from the FY2018 expenditure reductions and goals for FY2019 to launch a strategic budgeting process
  - identify key policies and processes for discussion and revision in the following areas and others
  - Spending, reserves and carryforwards
  - Revenue enhancements and investment strategies
  - Enrollment Based Budgeting
  - Tuition waivers and discounting
  - F&A allocations
  - Other?
- DATA and SYSTEMS are a challenge!
- Budget strategies to fund the Drive to 25