

University Fiscal Health Advisory Committee
Lighty 405
July 18, 2018
10:30 a.m. to Noon

1. Brief update on FY 17 results - *Joan King/Kelley Westhoff*
2. Budget Model Discussion - *Stacy Pearson*



Budget Process and Model Discussion

July 18 2018





First a little history...

Great Recession of 2008

- State Appropriation declines significantly
- Meanwhile enrollments continued to increase
- Significant increases in tuition to offset large decline in appropriations
- Faculty and staff reductions
- Administrative restructuring

Significant changes to WSU over the past decade including

- Total revenue has increased by 37 percent
- Expenditures have increased even more, by 43 percent
- State “bought down” two years of tuition increases
- Enrollment has increased by 30 percent, but net tuition revenue has grown at a much slower pace
- Research and development expenditures have increased by 28 percent

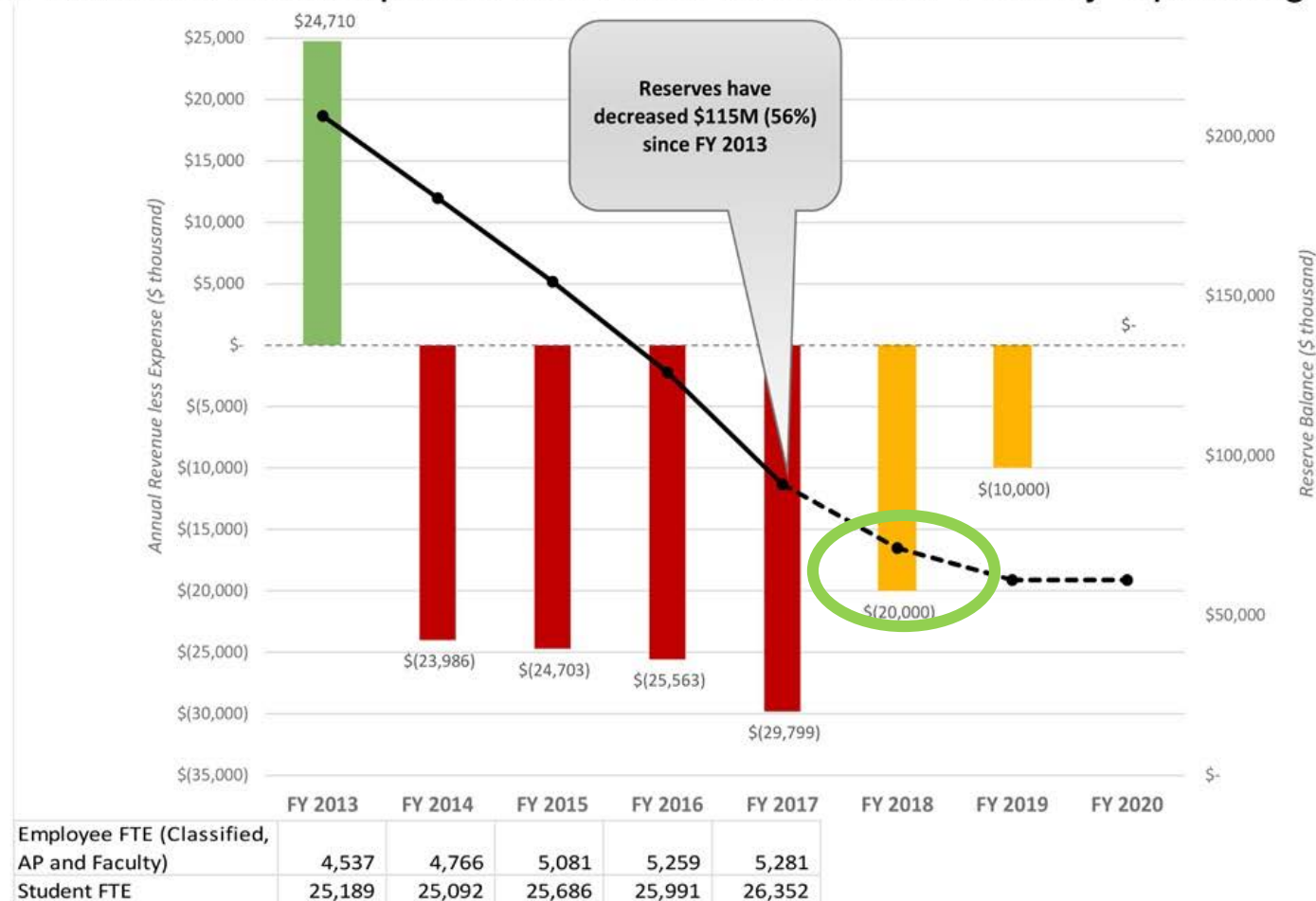
During this period of significant change, a comprehensive and strategic budget planning and allocation process was contemplated, but not implemented



Where Are We Today?

Deficit Spending Results in a 56 percent Decline in Operating Reserves in 4 Years

Annual Revenue Less Expense and Reserve Balance: Primary Operating Funds





How Did We Get Here?

University reserves declined by \$48.9 million in one fiscal year, due to internal loan write offs and spending in excess of revenues

An executive decision was made in FY2013 to *forgive or “write off” \$26.7M in internal university loans* for a variety of different projects including:

- Golf Course & Clubhouse - \$10.1M (project initiated during President Rawlins tenure and fundraising goals were not met)
- Deficit coverage for WSU Athletics when new AD was hired - \$3.8M
- Additional accumulated deficits for WSU Athletics - \$4.5M
- Spokane Real Estate purchase - \$5.3M
- Relocation costs for Veterinary Medicine - \$1.8M
- Loan for Parking Renovations - \$1.2M

Additionally, the following amounts were expended without an identified funding source, resulting in *spending in excess of budgeted revenues by \$22.2M*:

- FY14 WSU Athletics annual deficit - \$13.3M
- Overspending Financial Aid funds - \$2.7M
- ESF Medical School consultants - \$1.7M
- WSU Everett IT purchases - \$1.2M
- All other areas - \$3.3M

In total, \$48.9 million of loans and expenditures were covered by University reserves since no funding sources were provided for these activities.



How Did We Get Here?

Deficit spending has continued through the most recent fiscal year resulting in further depletion of reserves and creating serious financial instability

- Multiyear spending in excess of revenues and operating budget by some colleges, campuses and areas
- Large investment in facilities with insufficient new revenues for debt service and maintenance
- Medical school start up without new operating revenues
- 5 percent Grand Challenge budget reallocation
- ***Lack of cohesive budget and financial planning policies and processes***

Revenue Enhancement programs are not consistently evaluated for ROI

- Inconsistent arrangements for allocating new revenues and incentivizing new revenue generating programs

Resulted in:

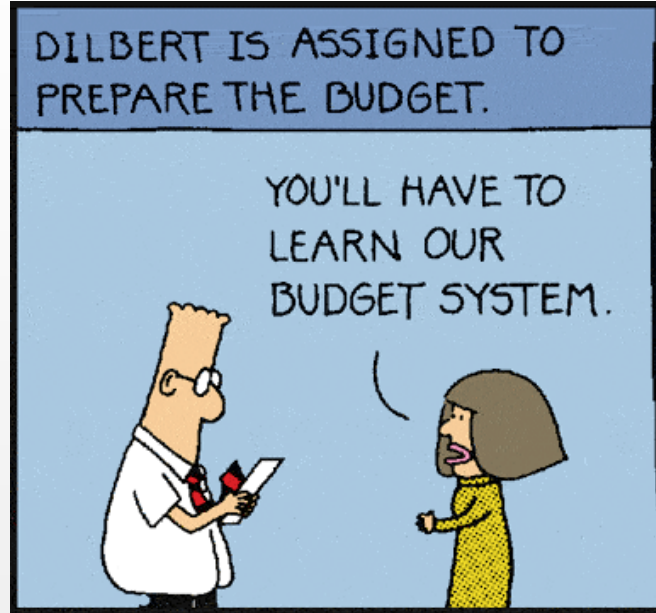
- Significant decline in reserves, both central and some areas
- Deficits in reserves require subsidization from central and areas with positive balances
- Approximately two months of operating reserves, extremely low.

Different than the Recession

- State of Washington has increased state funding since the recession, but not aligned with enrollment increases
 - Most funds are designated for specific purposes
- Increased hiring and personnel costs to recover from the recession without a commensurate increase in state funding other revenues
- Many positions and programs funded from one time funding and/or reserves that are steadily declining
- Net tuition revenues are flat despite increasing enrollments
- Significant investments in new facilities without new revenues, bonding and maintenance



What is your budget model?



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What is WSU's Model?

- **Centralized?**
- **Incremental?**
 - Same as last year +/-
 - How is new funding allocated?
 - How are new obligations or emergencies funded?
- **Residual?**
 - Revenues from a variety of sources
 - Outflows are diverted for a variety of purposes
 - Based on “special deals” negotiated on a case-by case-basis



WSU's Budget Process Could be described as:

Appears to be mostly an "incremental budgeting" in that areas generally received their previous year's allocation and any "plus ups" provided by the legislature or president

- Decrements were usually assigned across-the-board (ATB)
- New initiatives also funded from ATB reallocations
- Could be described as "***residual budgeting***" where revenues come into the university from a variety of sources (e.g., tuition, grants and contracts, service fees)
- Outflows are diverted from these revenue streams for various purposes, with any ***residual hitting the central budget***
 - Many based on formulas or "special deals" negotiated on a case-by-case basis



Last Decade or so

Budget allocations were largely made piecemeal through the fiscal year, mostly in the form of additional expenditures or programmatic decisions that resulted in future allocations (e.g., Student Information System, School of Global Animal Health, and ESF College of Medicine)

- Academic Affairs Program Prioritization (A2P2) process was an attempt to establish academic priorities and reallocate revenues and expenditures accordingly
- Professional programs, tuition comes to the university, 89 percent is allocated to the academic college, and the residual 11 percent hits the central budget
- Research grants comes into the university, direct expenses are diverted to the academic units, a portion of F&A is allocated to the department and college, a fraction is peeled off to unit such as the Office of Research and Libraries, and the balance (remaining F&A) hits the central budget



Has resulted in

- Drawdown of reserves and a lack of central funding to support strategic initiatives and address basic overhead costs
- Not enough money hitting the central budget to cover the increasing demands for funding to cover increasing administrative and overhead costs paid out of the central budget
- Additional stress has been placed on the central budget due to large investment in strategic initiatives (e.g., ESFCOM, the Spark, WSU-Everett)
- Inability to fund emergencies and unplanned large expenditures (e.g., Felicia, Moore vs HCA)
- Continual permanent budget reductions on the colleges and areas to cover financial commitments that would be addressed at the university-level in a well-functioning fiscal enterprise (e.g., salary programs, 5% reallocation program)



Has resulted in

- Insufficient investment in the academic enterprise
- Reduction in permanent faculty which is the primary resource for generating revenues for both new programs and sustaining current programs.
- Colleges unable to invest in faculty and complementary resources to increase research output.

In addition, the lack of reliable data makes it difficult to quantify impacts. Yet recent analyses point to a reduction in tenured faculty and increases in non-tenured faculty and administrative staff. There is an indication of a much greater investment in non-academic endeavors that should be considered as we develop a new budget model

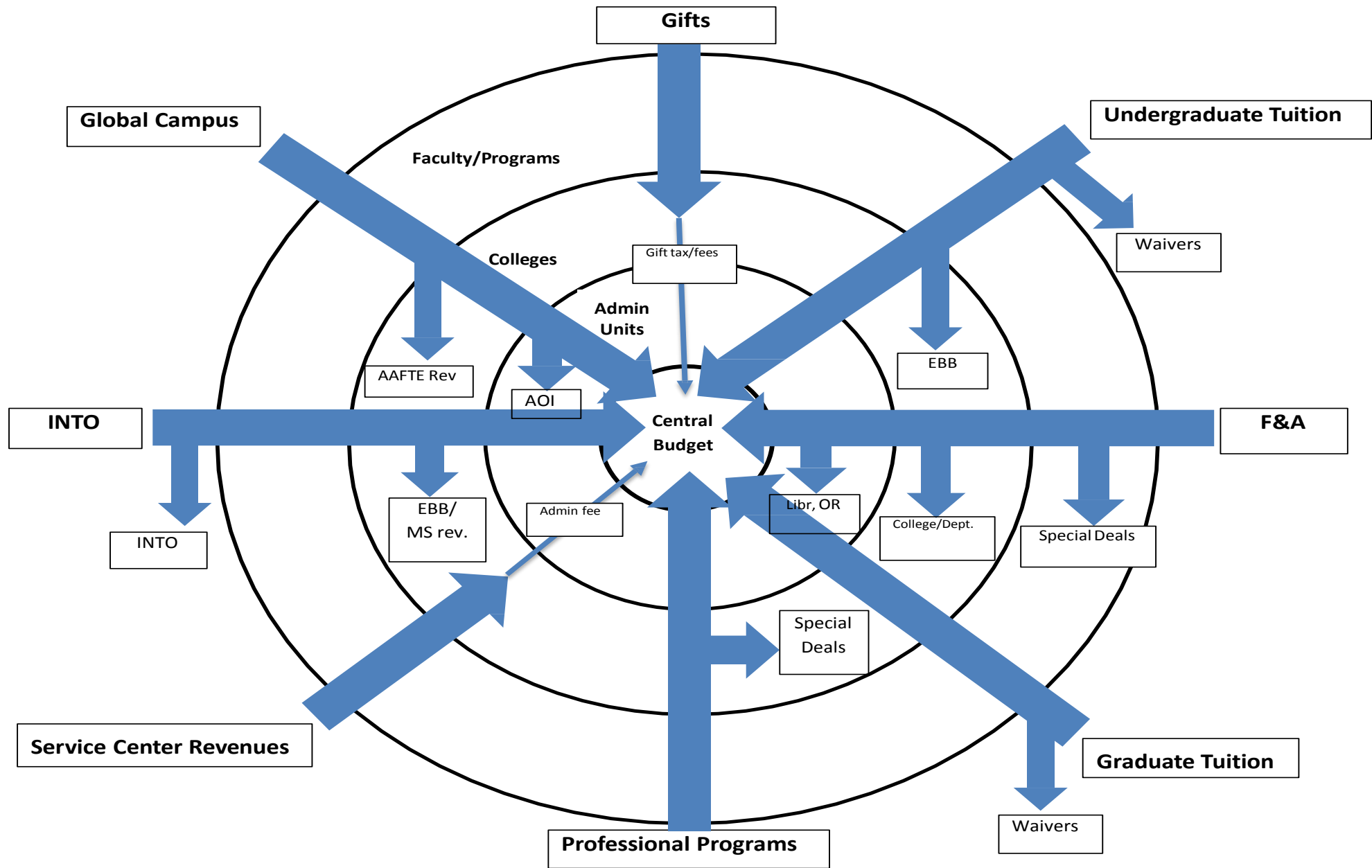


For Example:

Schematic representation of the budget model for the academic enterprise of the university and captures the essence of ***“residual budgeting”***

- Eight major revenue streams generated by academic colleges:
 - undergraduate tuition
 - F&A
 - graduate tuition
 - professional programs
 - service center revenues
 - INTO
 - online education (Global Campus)
 - Gifts

Amounts “peeled off” from the revenue stream are shown as leaving the revenue stream, and the balance hits the central budget. These revenue streams account for over two-thirds of the total revenue generated by the university.





Ways to Increase Net Revenue for Central Reserves

- Increase the flow of dollars entering the pipeline
- Reduce the outflows from the pipeline

Transition challenges are difficult:

- Increasing the net tuition revenue for the central budget can be achieved by reducing waivers, however this can have a negative impact on overall enrollments.
- Decreasing amounts distributed to colleges via EBB. However, these funds have been used to cover instructional costs needed for increased enrollment.
- New incentives for online activities could inadvertently redirect resources from on-campus instruction with negative financial and mission impacts.



Takeaways and Next Steps

- Continued spending in excess of annual revenues has driven operating cash and investment balances to a dangerously low level; it is unsustainable
- Recovery actions are critical to restoring financial health
- Continue to reduce spending and improve run rates
- Build a strong central reserve
- ***Set strategic priorities and start the implementation of a strategic budget and financial planning process while we are in recovery***
 - Align budget allocation and spending decisions to meet these priorities
 - Incentivize and invest in programs that generate revenue to help fund these priorities
 - Realign less productive or strategic programs and reallocate resources
 - Implement or change policies and processes that negatively impact revenue generation and budget reallocation



Tuition and Waivers

Growth in enrollment and net tuition revenues are impacted by:

- Continued increase in tuition waivers resulting in a very high discounting rate
- 15 percent reduction in tuition from the State legislature resulting in reduced tuition revenues since state subsidy did not offset the amount due to the base calculation.
- Demand has increased for high cost programs

Recommend that we increase fundraising for central scholarships and better utilize existing scholarships to reduce waivers and:

- Modify waiver policies
- Increase nonresident UG students, resident new freshman and transfers
- Employ differential tuition



Other Recommendations

- Increase the average F&A rate from research grants and reallocate the utilization to strictly cover research infrastructure and administration.
- Revisit the percentage of tuition and “special deals” for professional programs and develop a uniform structure based on services provided to the program. This structure should allow for differential rates and return funds to the University, not just depts.
- Increase enrollment growth from INTO, particularly for programs and campuses with capacity
- Establish more holistic policies for Global Campus to provide appropriate incentives, expand online offerings and generate additional revenues (but not at expense of on-campus offerings)
- Improve distribution of online learning opportunities across campuses, specify faculty incentives.



Other Recommendations

- Revise the distribution model for employee benefits to incentivize units to reduce benefit costs and eliminate the deficit in the central benefits pool
- Discontinue the practice of allocating revenue streams for unrelated purposes which lead to misguided incentives. For example late fees and application fees.
- Revise PBL definitions that imply that positions be on “permanent” budget since PBL is no longer guaranteed as permanent and the University is reliant on other revenue sources for permanent operation.
- Focus budget process on academic priorities, not just administrative fixed costs.
- Develop a model that funds tenure track faculty based on enrollment increases, new academic programs and contributions from other campuses.
- Stop taxing the academic units for one time and permanent reductions



Fiscal recovery and budget model

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

- Increasing revenues
- Improving efficiencies to accommodate growth without a commensurate increase in expenditures.
- Identify incentives to stimulate and reward revenue growth, but that also provides regular funding for central reserves.
- Develop a process to vet new program approvals by requiring detailed analyses, metrics and process for revision or elimination of programs that are not meeting intended goals.
- Develop a process to both fund a central reserve and approve how strategic initiatives will be funded from this reserve. Ensure that the reserve is sufficient to cover unplanned expenditures and emergencies
- Establish goals for faculty hiring and tenure commensurate to the academic and research goals.



Get Started on a Strategic Budget Process!

- **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
 - Tuition waivers and discounting
 - F&A allocations
 - Enrollment Based Budgeting
- **Budget reallocation strategies to fund the Drive to 25**



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

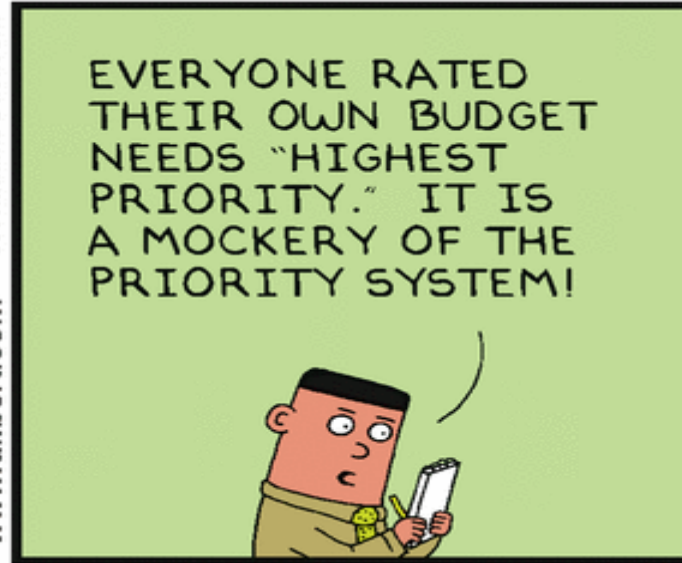
- Instructional budgets shifted from a state-funded model to a student-funded model
- Increases in state support per student is not keeping up with inflationary increases
- Limited ability to increase tuition
- Flat enrollments, increased competition for students, particularly non-residents, as well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

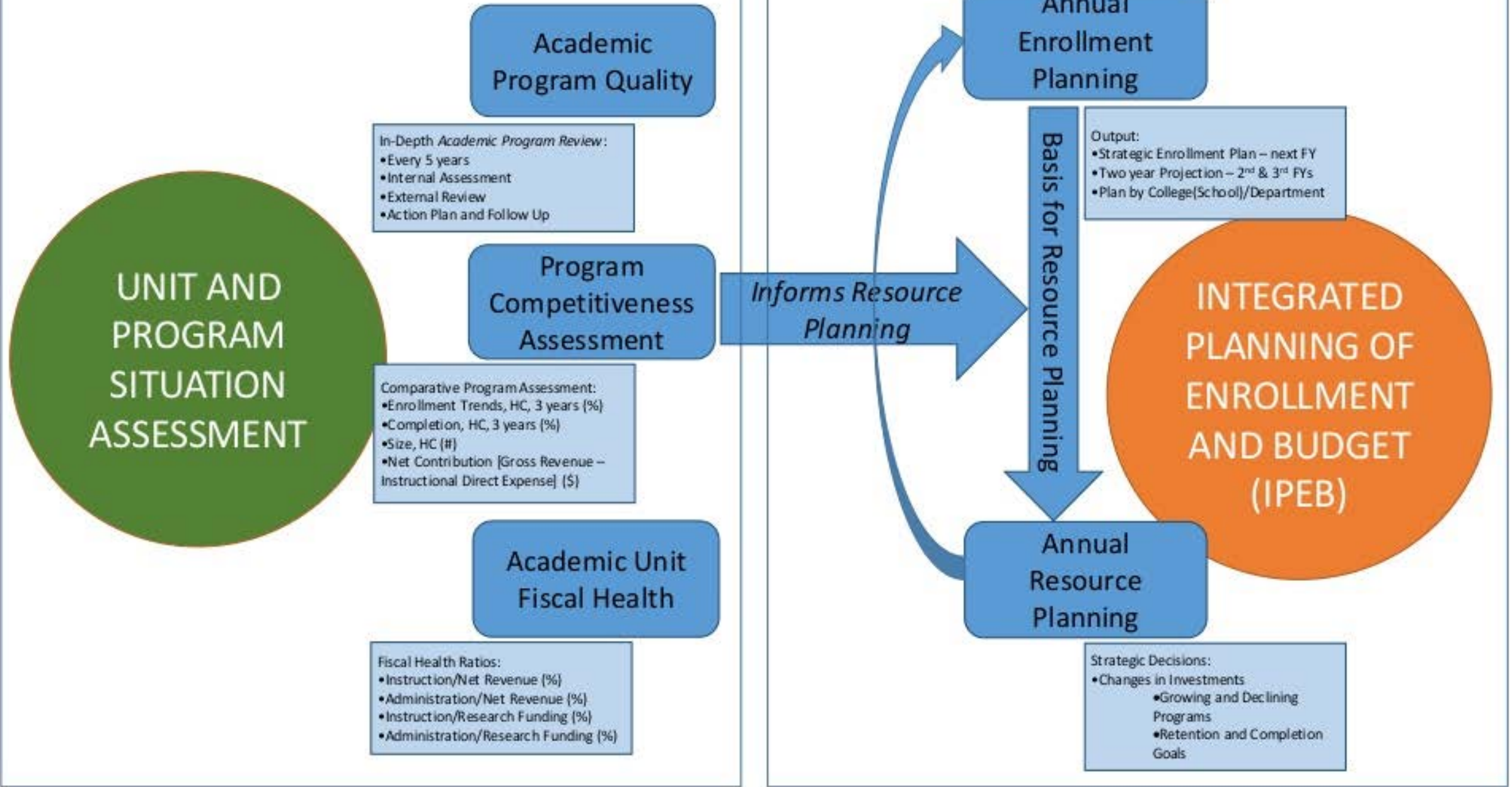
Annual
Enrollment
Planning

Basis for Resource Planning

Annual
Resource
Planning

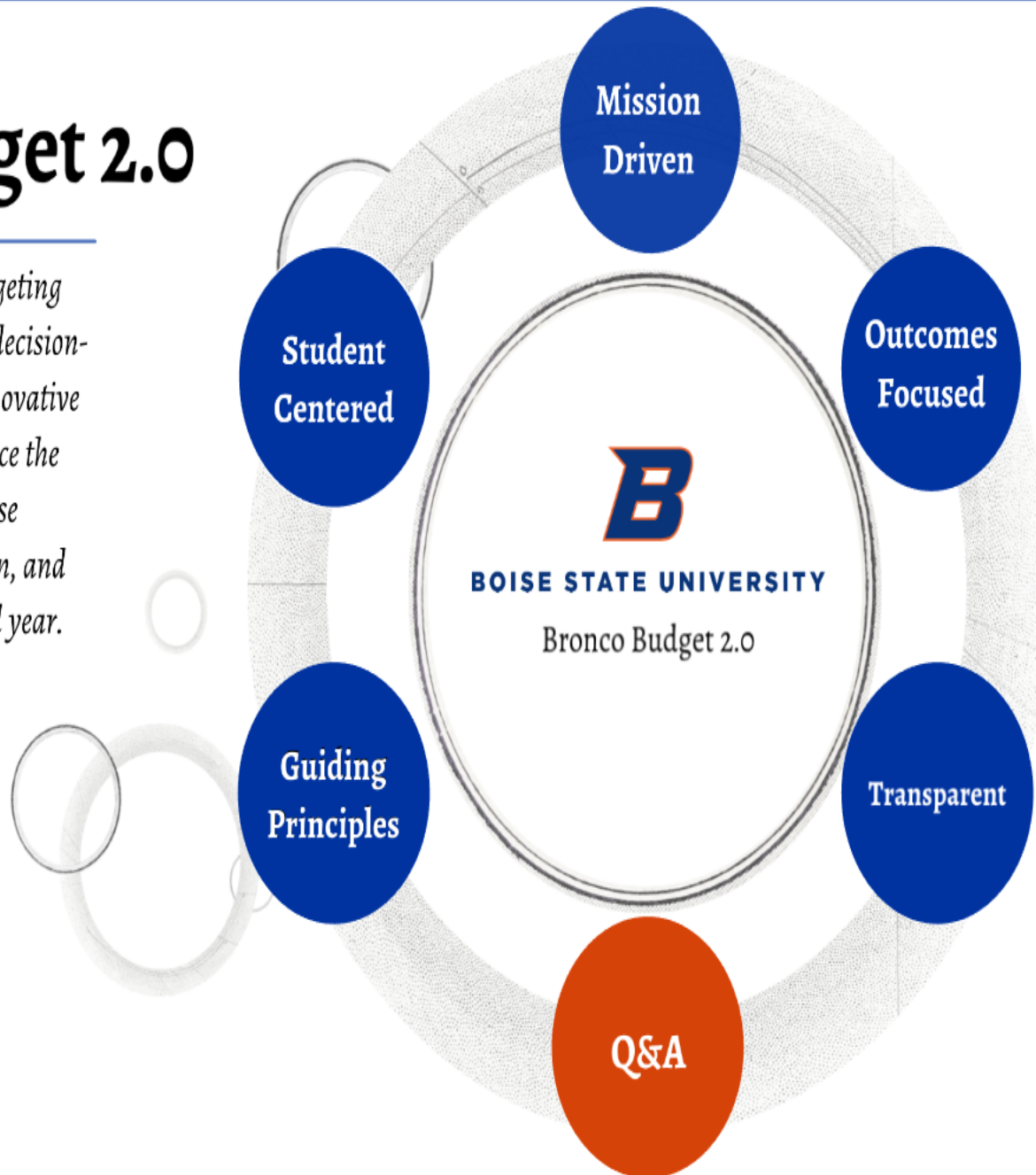
INTEGRATED
PLANNING OF
ENROLLMENT
AND BUDGET
(IPEB)

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.

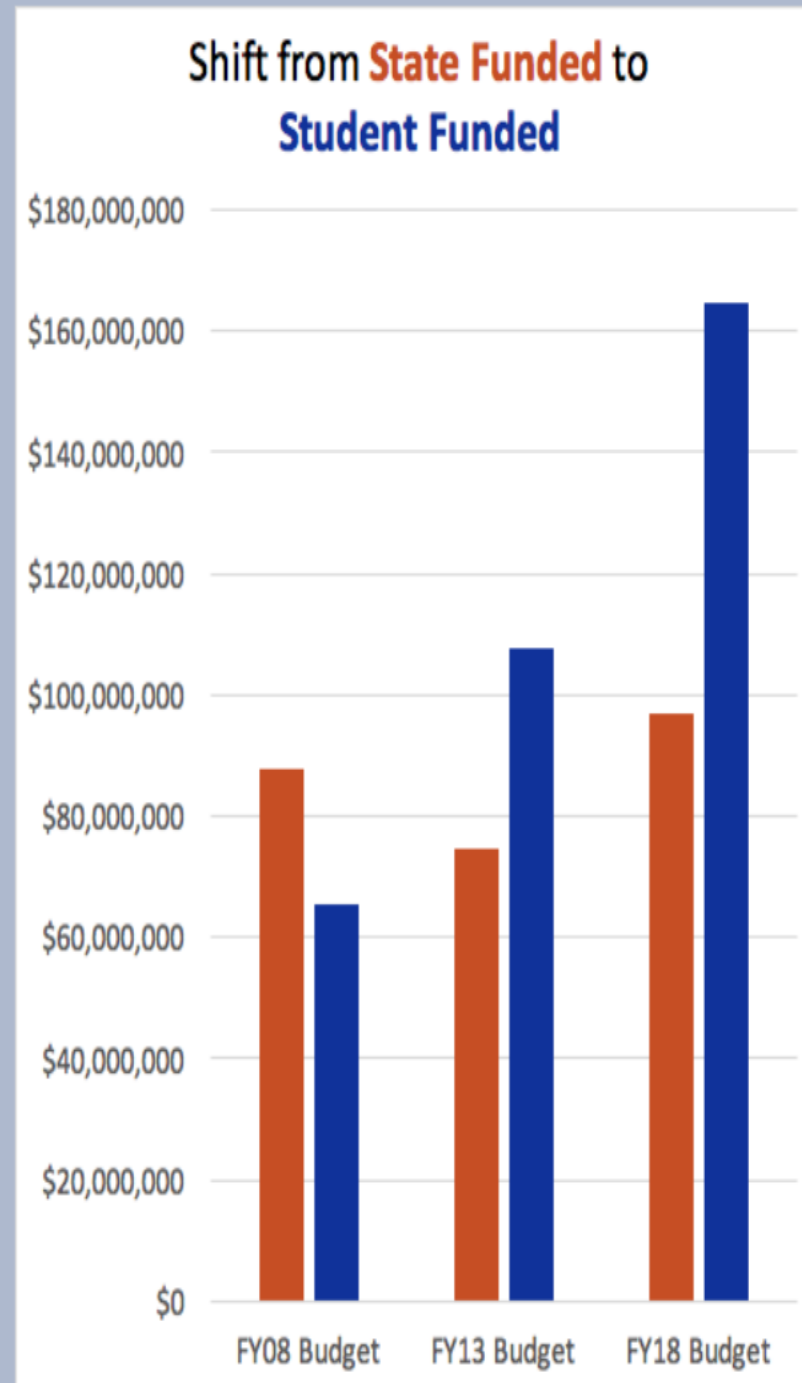


The BIG SHIFT

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
Undergraduate Students	
SCHs Instructed	\$130
Majors Supported	\$800
Degree Graduates	\$2,000
International Undergraduate Students	
Int'l SCHs Instructed	\$200
Int'l Majors Supported	\$1,600
Int'l Degree Graduates	\$4,000
Graduate Students	
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

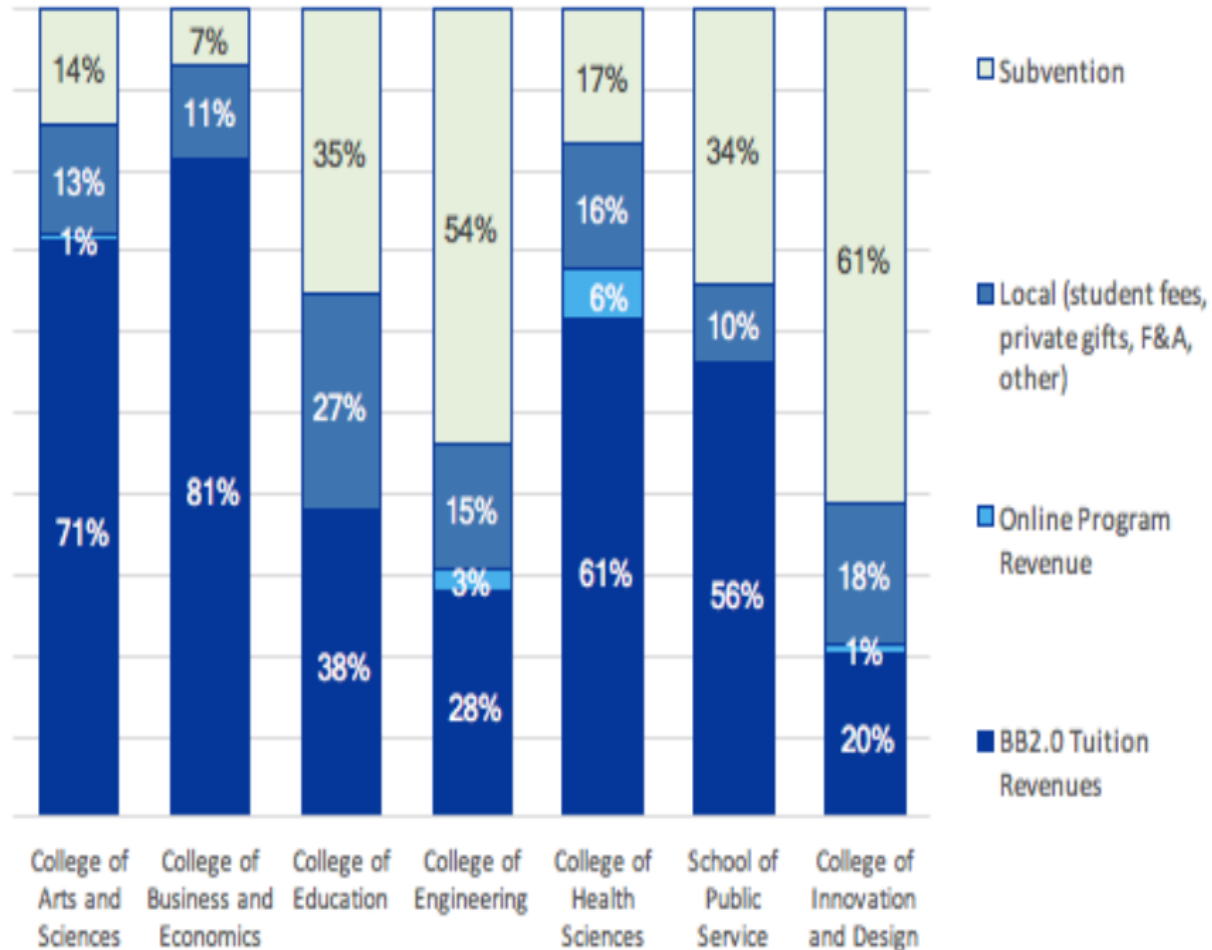
Additional helpful college and department level data

1. Graduating Student Survey (interactive dashboards with data broken out by college and department) --> see ir.boisestate.edu
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 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)

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

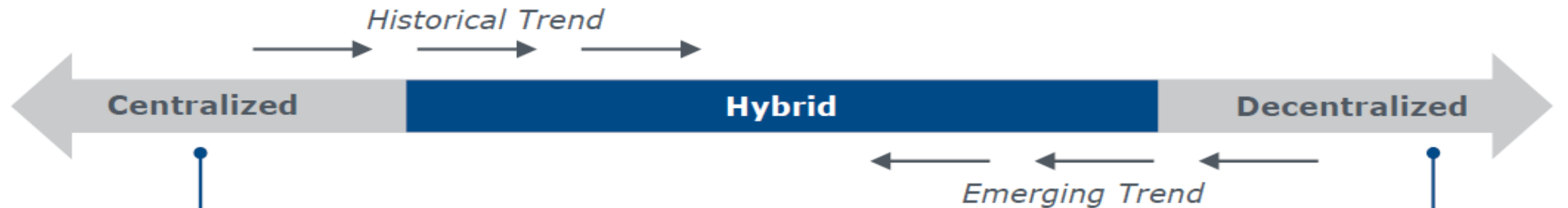


Create Work-Around for Weak Strategic Planning

- 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.

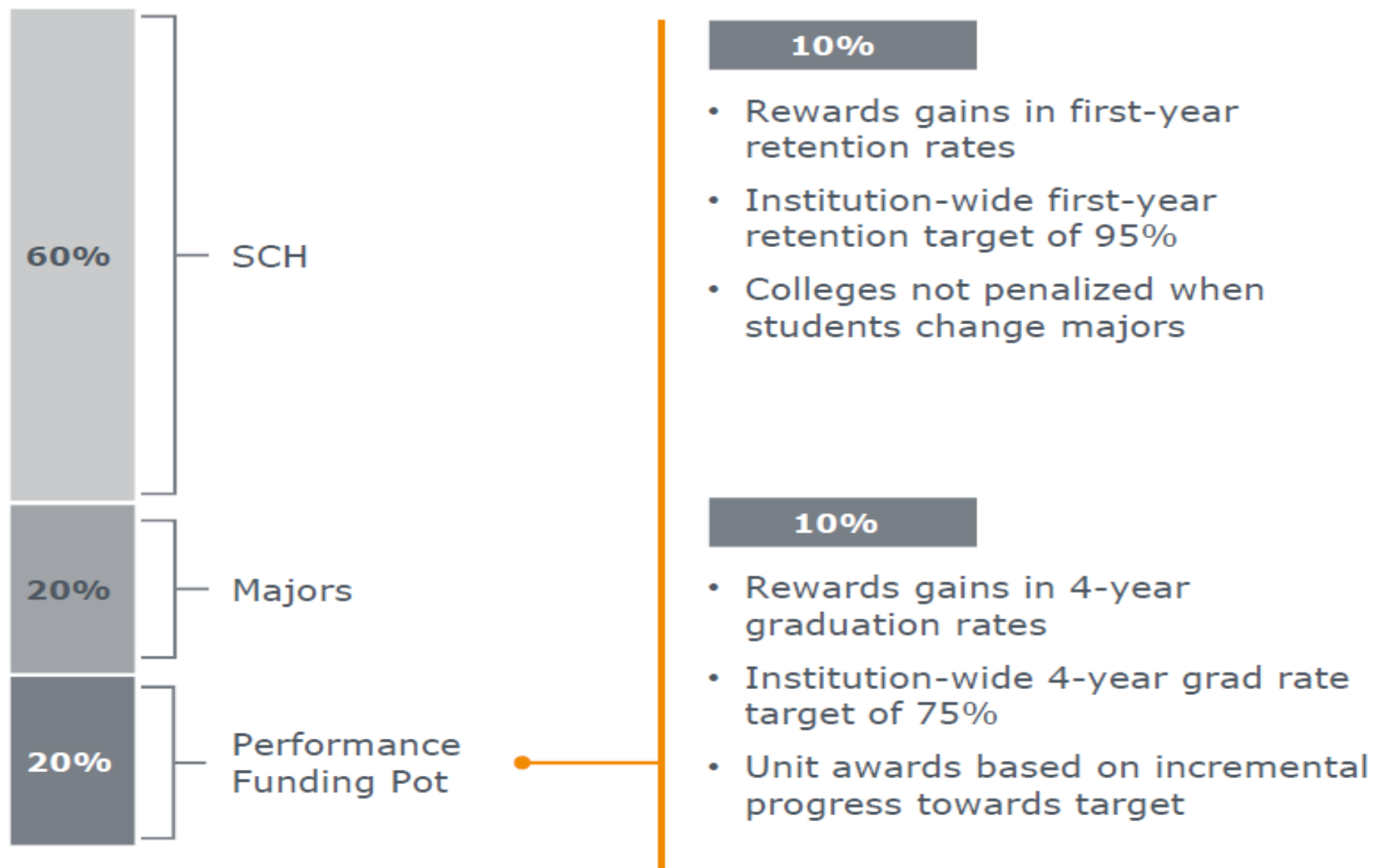


Revenue and Cost Allocation Decision Points





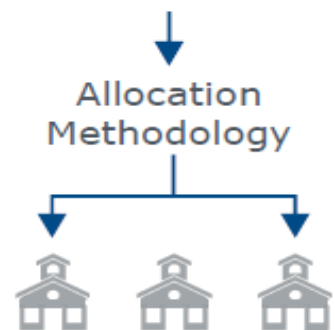
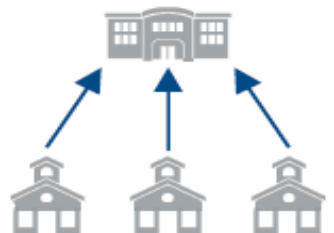
Decision Point	EAB Guidance	
1. What percentage of tuition revenue should we allocate through an activity-based formula?		Most institutions should allocate bulk of revenue (70% or more) via an activity-based formula to break up base budgets and create P+L ¹ incentives for units.
2. How should we weight 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



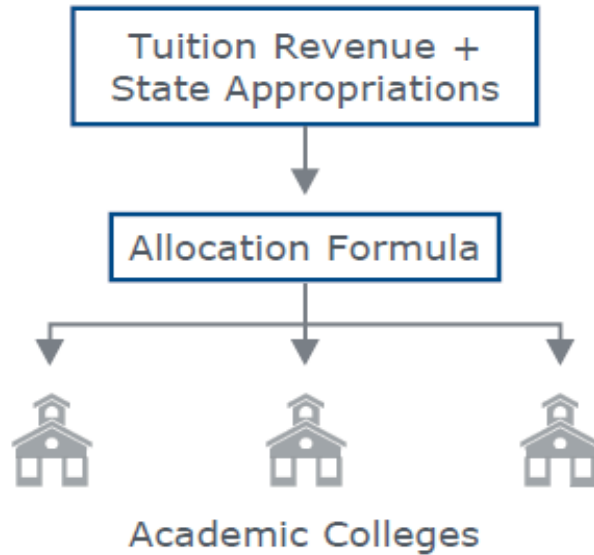


Allocation Approach	Step 1	Step 2	Step 3	Sample Institution
Front-End Center takes three central costs off-the-top before allocating revenue to the colleges via revenue allocation formula	<p>Revenue</p>  <p>Central Admin</p>	 <p>Central Admin pulls out:</p> <ul style="list-style-type: none">• Central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



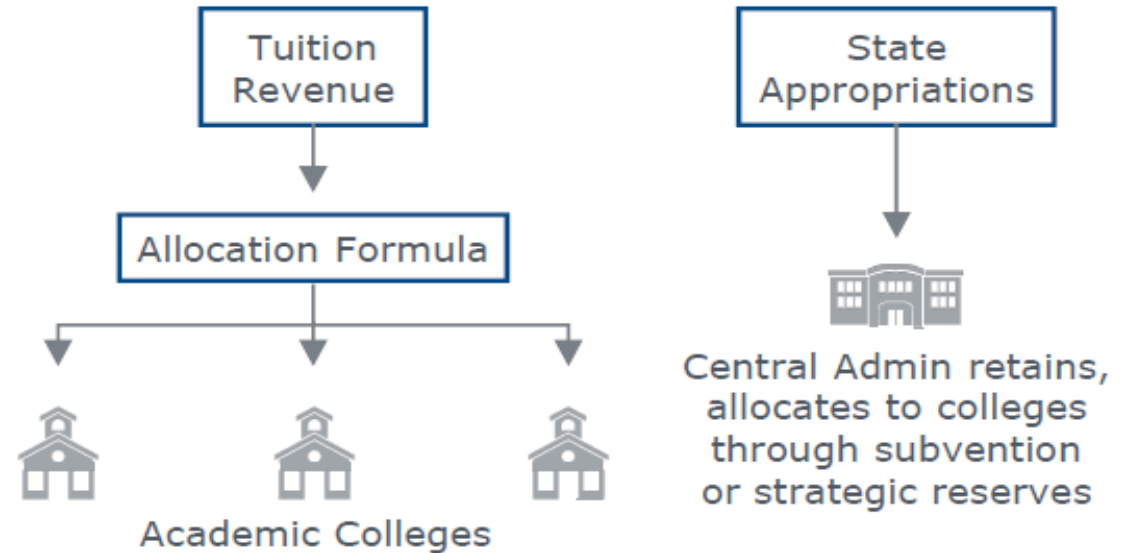
Hold State Funds Centrally

Supplements Tuition



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

Retained at the Center



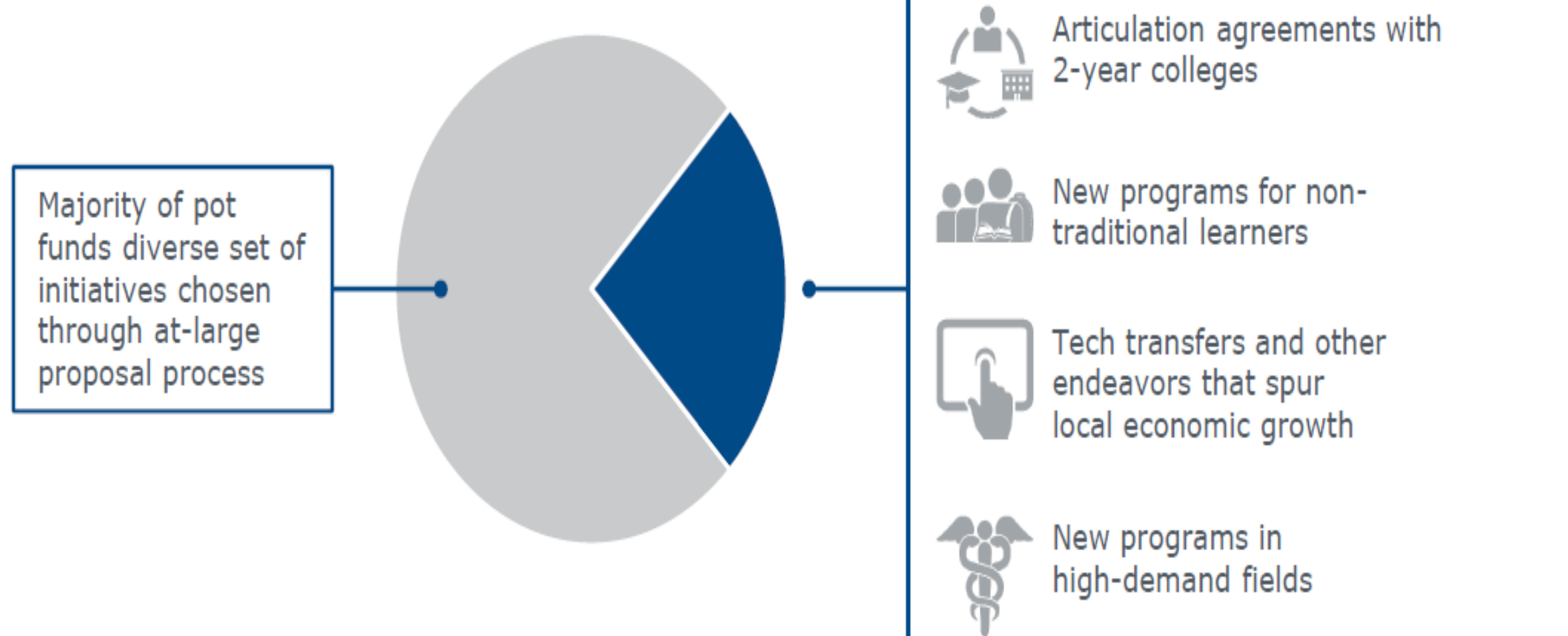
Most Shifting Toward Retaining State Dollars Centrally

- 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

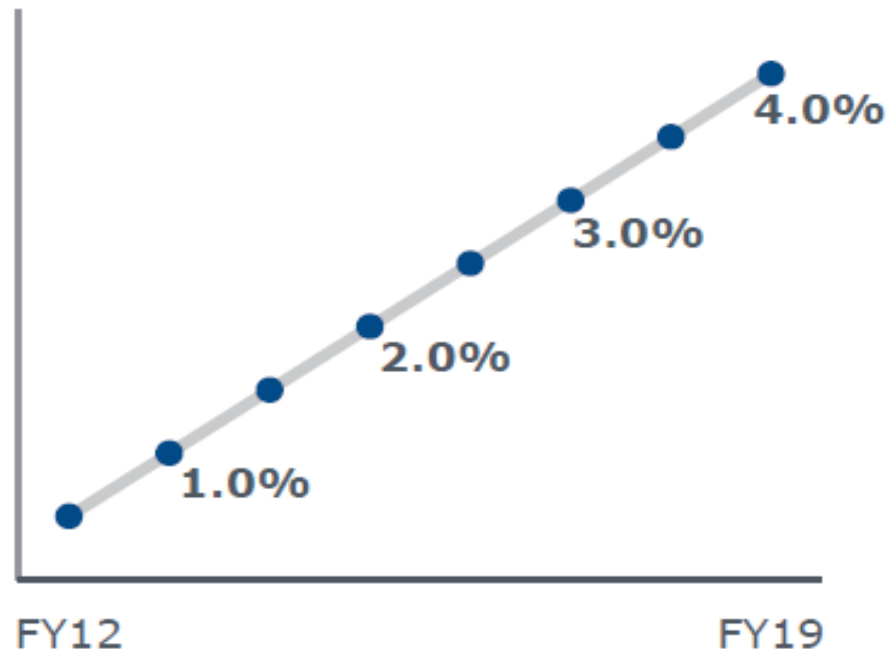


Strategic Reserve Fund

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



PRAIRIE VIEW
A&M UNIVERSITY



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



OHIO
UNIVERSITY



Kentucky's Performance Funding Award Allocation

\$5M

Performance
Funding Pot

- 75% awards undergraduate retention gains
- 25% awards graduate retention gains

\$3.75M
Increase in first-time, full-time, fall-to-fall students retained

\$ Per student award rate

College	YOY Increase in Students Retained	Award Rate Per Student	Total Award
A	20	\$7.5K	\$150k
B	250	\$7.5K	\$1.875M
C	70	\$7.5K	\$525k
D	160	\$7.5K	\$1.2M

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 incents 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.

 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.