Building a New Budget Model

Campus Forum
November 3, 2014
The Budget Model Journey So Far

• What, Why, and Why Now
• Current State
• Other Models
• Recommendations
• Next Steps
What

Selected revenue and funding sources → Distribution of funds to schools and colleges → Schools / colleges determine use of funds
Why

A new budget model should…

• help ensure existing dollars are used more efficiently
• create greater transparency around allocations to the schools and colleges
• establish clear financial incentives to improve and innovate
• connect resource allocation with our core missions

Being good stewards of our funding is something we should do whether revenues are increasing or declining.
Why Now

“We face many challenges as we attempt to define what it means to be a great public university at a time when state financial support is more limited and when the public conversation about higher education is often more critical than supportive.”

Chancellor Rebecca Blank

“While we must continue to expand resources by increasing both tax support and private philanthropy, this alone will not suffice. It is clear that we must also align and optimize our planning, budgeting and allocation processes.”

Budget Model Review Committee
Budget Model Review Committee – Fall 2013

• Governance committee of faculty, staff and students appointed to advise the Chancellor

• Focused on four areas:
  o Articulation of principles to guide base budget distribution
  o Documenting current process strengths/weaknesses
  o Peer analysis
  o Ensuring effective transition to new budget model

• Produced white paper
  o www.vc.wisc.edu/budgetmodel
Our Current Process…

- Has been incremental or “base-plus” since UW System merger
- Relative changes in academic unit budgets have been largely determined by discretionary allocations or differential reductions when required
- Fully distributes funding provided by the state and/or Board of Regents in the annual and biennial budget processes
- An implicit formal budget model has developed over the past 10 years for select instructional activity: professional programs and “revenue-producing” for-credit instruction
Our Current Process: “Base-Plus” or Incremental Model

Pros

• We know how it works
• Predictable funding
• Reinforces campus culture and maintains academic program stability
• It supported a world-class university
Our Current Process: “Base-Plus” or Incremental Model

Cons

• Not nimble enough to align resources with evolving needs
• Resource allocations are not explicitly driven by outcomes
• Few clear financial incentives to improve or innovate
• Rationale for resource allocation is not always clear
• Minimal transparency in budget process
Engagement with Stakeholders

- Agreement that a new model is needed
- The model must ensure accountability to campus strategy
- Commitment to transparency is essential
- Transition to a new model must be expedient, but minimally disruptive
- Investments in additional information infrastructure and/or human resources may be needed
- Implementation requires commitment from top leadership
Peer Review

- Most universities use a hybrid approach to budgeting
- There has been a recent shift away from incremental budgeting among public institutions
- Activity-based budgeting is on the rise among our peers
- Using a limited number of metrics is key to success
- “Budget models do not make decisions. People do.”

Source: Educational Advisory Board research brief, 2013
Principles and Guidelines

• Recognize/complement state and UW System parameters
• Align funding to missions of teaching, research & outreach
• Acknowledge tradition of shared governance
• Allocate funds to schools and colleges, but not within
• Flexible, simple, transparent
• Allow for distribution based on both quantitative metrics and qualitative factors
• Avoid large or discontinuous shifts in allocations
Conclusions

- Establish advisory committee to the Chancellor to develop a budget model
- Base model on limited number of metrics
- Continue to follow principles and guidelines
- Initial focus only on activity-based budgets
- Remain committed to broad campus engagement
- Defer issue of cost allocation for centralized services until a later phase of budget model development
Budget Model Development Committee – Spring/Summer 2014

• Governance committee of faculty, staff and students appointed to advise the Chancellor
• Create an activity-based budget model
• Avoid large or discontinuous shifts in allocations
• Create a transparent budget process
• Set fewer rather than many metrics
• Allow for some discretionary funding to be held centrally
What

Selected revenue and funding sources

Distribution of funds to schools and colleges

Schools / colleges determine use of funds
2013-14 Funds Flow

Revenue Sources

- Indirect $130M
- GPR $267M
- Tuition $471M

Funds

- Fund 150 $73M
- Fund 101 $785M
- Fund 131 $10M

Campus Units

- Operations
- Capital Exercise (Cap Ex)
- Other units
- Fringes Benefits
- Schools & Colleges

Flow:
- Indirect $130M → Fund 150 $73M
- GPR $267M → Fund 101 $785M
- Tuition $471M → Fund 131 $10M
Considerations for Selection of Metrics

- Measures of instructional and research activity
- Associated with the revenue streams to be allocated
- Does not signal other activities are unimportant
- Consistent with values of simplicity, transparency
Features of a Good Metric

• Transparent, flexible, (relatively) simple, quantitative
• Credible and accepted; long history of use in other contexts
• Collected for purposes other than budgeting
• Systematically available with high level of fidelity and completeness
• Available in a UW-Madison enterprise system and properly curated (not shadow systems)
• Available in a timely way within the budget cycle
• Available at school/college level
Recommended Activity-Based Metrics

• Instructional Metrics
  - Unit of Instruction - Credits Follow Instructor (CFI)
  - Unit of Enrollment - Degree Home (Primary Academic Group, PAG)

• Research Metrics
  - Total Research Expenditures
  - Indirect Costs Generated
Unit of Instruction

Credits Follow Instructor (CFI)

- Student credit hours are attributed to the academic unit that pays the salary of the instructor of record.
- Alignment of credit hours with paid salary is relevant for budget allocation and offsets some of the complexity.
- Supports established policies and practices of student enrollment in courses.
- Long history of use; calculated at school/college and department level.

Related to the resources that are committed for direct instruction.
Unit of Enrollment

Degree Home (or Primary Academic Group, PAG)

- Each enrolled student has a single school/college that serves as the student’s academic home
- Supports established policies and practices of enrollment
- Long history of use
- Available in the student information system for every student

Related to student and academic support services in the school/college
Instructional Metrics in the Model

- Weighted 80% on instruction (credits), 20% on enrollment
- Based on two years of activity with most recent year weighted at twice the value of the prior year
  - Mitigates impact of extreme fluctuations
  - Maintains an emphasis on recent activity
Research

• Model applies to both separate Indirect Cost Distribution (Fund 150) and appropriate share of Fund 101

• Based on both direct expenditure and indirect costs generated, equally weighted
  o Establishes incentives to seek funding from agencies that provide indirect costs
  o Recognizes that important scholarly activity may largely be supported by extramural sources that provide limited or no indirect costs

• Based on two years of activity with most recent year weighted at twice the value of the prior year
  o Mitigates impact of inevitable fluctuations in extramural funding
  o Maintains an emphasis on recent activity
Out-of-scope:

- Professional programs are excluded because they are already subject to a separate budget model (MD, DVM, JD, PharmD)
- Instructional activity and revenue from revenue programs are excluded because they are subject to a separate budget model
- Summer Session has not been addressed; possible future consideration
Discretionary Reinvestment

- Provides flexibility to invest in strategic initiatives, important campus needs and emerging opportunities
- These investments may not be reflected by instructional, research metrics
- Mitigates potentially large and discontinuous shifts
Continuing Campus Engagement

• October 30 campus forum
• November 3 campus forum
• Feedback sessions
  o Deans
  o Chairs’ Chats
  o Governance groups
For Decision Prior to Initial Rollout:

Amount of funding to be determined by the model and over what period of time.
Questions?