**Budget Model Sub-Committee**

**Report and Recommendations**

The University’s current budget model has been in place for several years and has not appropriately addressed changes in the overall funding structure of the University. The current Budget Model does not reward or encourage new and different strategies and behaviors that are necessary to operate in an evolving higher education environment nor does it adequately recognize and reward high achievement. Over the last decade the University has sustained significant budget reductions from the state, yet the fundamental budget model has remained largely the same. Institutional structures and organizations are now outdated and the University is largely operating as it has for years, but with fewer resources. Shifts to more efficient operational models and strategic investments to enhance quality across the institution are needed to keep the university on track to achieve its mission.

In an effort designed to explore how other Universities have modified their budget models the Budget Model Sub Committee conducted a comprehensive examination of the a cross section of colleges and universities which have recently adopted new approaches to budgeting, including the following:

* University of Utah
* University of Southern California
* University of Minnesota
* Indiana University
* University of Florida
* UNC Chapel Hill
* Arizona State University
* University of Michigan
* Florida State University
* Cornell University
* University of Kentucky
* University of Iowa

The external review provided valuable insight into how budget models at other universities address or determine the following:

* + Basis for Tuition Distribution Formulas (Per Student, Per Credit hour, etc.)
  + How fluctuations in enrollment accounted for (e.g. rolling 3 year average)
  + Degree of financial autonomy at decanal or unit level
  + How revenue shared for non-traditional revenue sources (on-line, summer, etc.)
  + Noteworthy aspects of model
  + Tuition including differentials
  + State Appropriations as Percent of Total Budget
  + Degree Production - 3 year trend (undergraduate - FY 11-13)
  + Which Fund Sources Are Taxed

While the Budget Model Sub Committee has not yet reached consensus on a model to recommend for adoption, it has developed or identified the following principles, objectives and components that could be used to define a new budget model for the University:

* Guiding principles should include the following
  + The budget model and its related policies, practices and processes must be clearly understood, well communicated and transparent
  + The budget model must be fair and equitable
  + The budget model must promote stability and protect the assets of the University
* Key objectives of the budget model should include:
  + Initially hold unit general fund budgets harmless
  + Allocate resources strategically
  + Incentivize entrepreneurial activity
  + Reward high achievement
  + Allow for central strategic initiative funding pool
* High level assumptions include:
  + No budget model is perfect
  + By definition, a budget allocates scarce resources to unlimited needs
  + Implementation will most likely occur over a period of years
  + Cost of education and per credit hour tuition decisions will impact the type and operation of any budget model
* General framework of a potential budget model could include the following:
  + A new budget model should have an all-funds budget approach
  + Unit general fund budgets should be held harmless
  + Units to receive all of their own general fund revenues *up to* hold-harmless expenditure amount
  + Units to receive all of their own non-designated, non-general fund revenues
  + Utilize a three-year average of actual expenditures
  + Exclude, or limit, carryover in the calculation
  + Units initially should receive a high percentage (95%-97% of the general fund amount needed to balance their budgets)
    - Rate gradually decreases over time
    - Difference used for performance and strategic initiatives
  + A new budget model should have a performance funding component
    - Quality and success measures tailored to each unit
    - High-achievement performance is rewarded
  + A new budget model should create a mechanism to fund strategic Initiatives
    - Limited resources initially, but growing over time
  + Administrative expenses should be funded before unit revenues are allocated

The Budget Model Sub-Committee recognizes that significant input is needed from a broad section of campus constituents before it finalizes a recommendation for adoption. The Committee recommends that a formal vetting process commence upon the start of the fall semester to review the current principles and framework and that the Sub Committee be further charged with receiving input and then developing a final set of recommendations.