



University of  
Louisville  
Budget Model  
Committee  
Report – Faculty  
Senate Meeting

12/4/2019



# Committee Membership

Jim Begany, co-chair

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Michael Wade Smith, ex officio member

Dan Durbin, ex officio member

# Goals for Today

**Number one:**

To review budget models

**Number two:**

To explain the model that the committee has recommended to the Provost



# Milestones 2019 Meetings

- Modified guiding principles
- Agreed on a framework that will use credit hour tuition allocation to incentivize units across campus

# Guiding Principles

- Commit to a conversion from a centralized to a decentralized approach
- Keep an academic focus front and center
- Expand incentive opportunities
- Analyze via common information systems and metrics
- Support responsibility and authority for end goals
- Allocate resources to accomplish institutional goals
- Communicate broadly and act timely
- Align incentives with the University Strategic Plan
- Recognize institutional barriers in changing budget models

# Key Observations

- ✓ **There is no single best budget model that works for all institutions.** Institutional culture, budget history, and campus circumstances (e.g., state budget cuts, tuition freezes) influence the right budget model for an institution at any given time. Moreover, each model has its own strengths and weaknesses. Any model will need to be supplemented with “patches” to mitigate its natural disadvantages.
- ✓ **Budget models do not make decisions, people do.** Each model encourages or discourages specific kinds of behavior, but all resource allocation decisions are made by individuals. The impact of the budget model, therefore, depends more on the quality of decision-making than on the inherent strength of the model. Budget models are not a silver bullet, and measuring their direct impact on finance is challenging if not impossible.

• Budget Model Review, Transitions, and Outcomes :Exploring Alternative Budget Models eab.com

**Cate Auerbach**  
*Research Associate*  
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# Overview

## Spectrum of Budget Models for Higher Education Institutions

### Incremental Budget Models

Based on the previous year's budget, only allocates new revenue

- ✓ Stabilizes funding for academic programs
- ✓ Allows high-level strategic input into priority setting
- ✓ Reduces accountability for yearly expenditures, does not reflect changing institutional priorities

### Zero-Based Budget Models

Rebuilds budgets each year

- ✓ Solicits input from units, eliminates unnecessary costs
- ✓ Requires significant labor and time from units and administrators

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# Overview

## **Spectrum of Budget Models for Higher Education Institutions**

### **Performance-Based Budget Models**

Awards funding based on performance, defined by outcomes standards (e.g., graduation rates)

- ✓ Increases transparency, incentivizes specific behaviors
- ✓ Requires time consuming performance reviews and allocation

### **Activity-Based Budget Models**

Allocates funding based on specific activities and metrics (e.g., revenue generated)

- ✓ Incentivizes desired behaviors
- ✓ Requires tracking and data reporting

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# Overview

## **Spectrum of Budget Models for Higher Education Institutions**

### **Responsibility Center Management (RCM) Budget Models**

Requires units to manage their own budgets

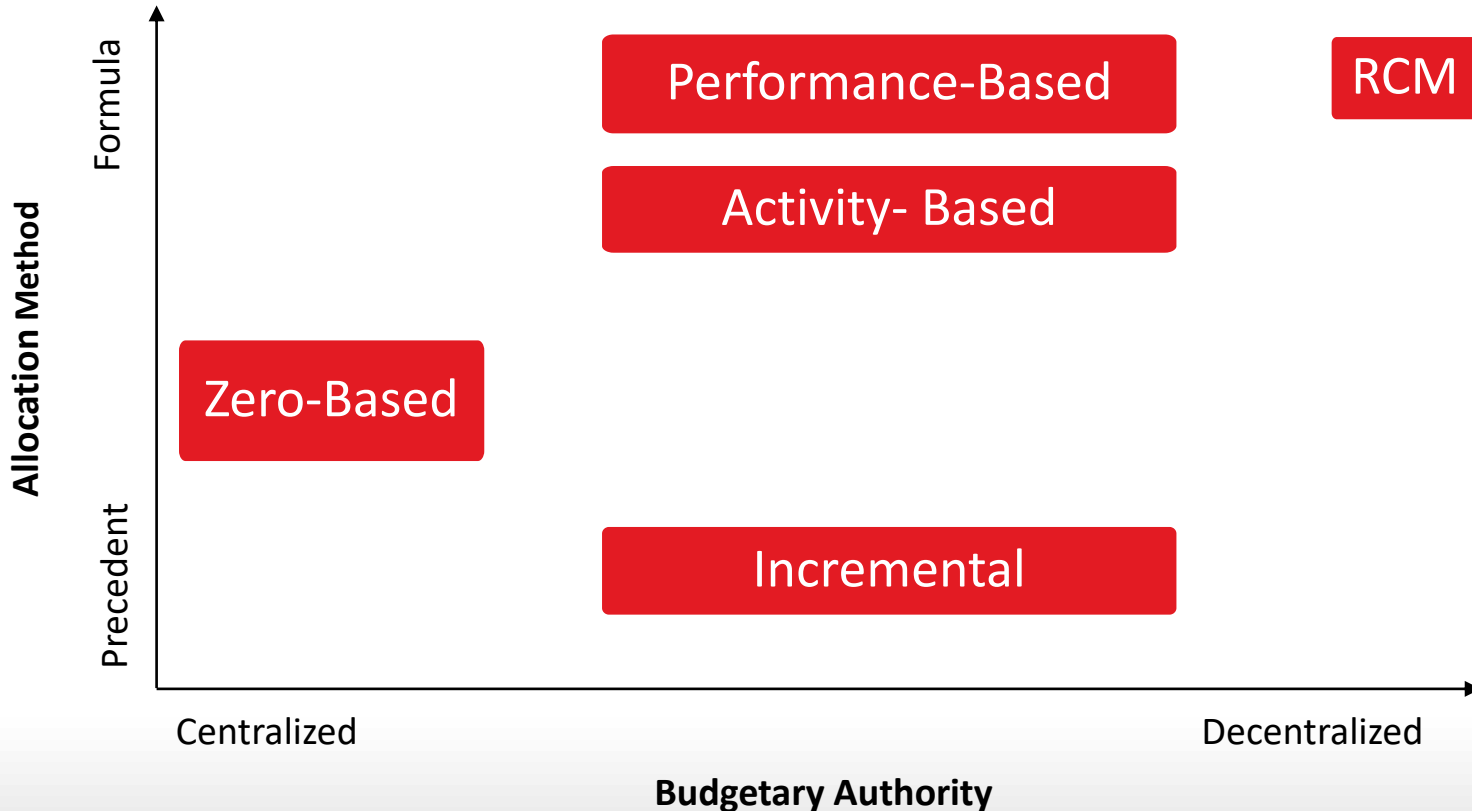
- ✓ Increases accountability, motivates revenue generation and expense reduction
  - ✓ Assigns decision-making authority to academic units
- ✓ Causes competition among departments, difficult to implement

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# Budget Model Framework of Allocation and Authority



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# Budget Model Concept Overview

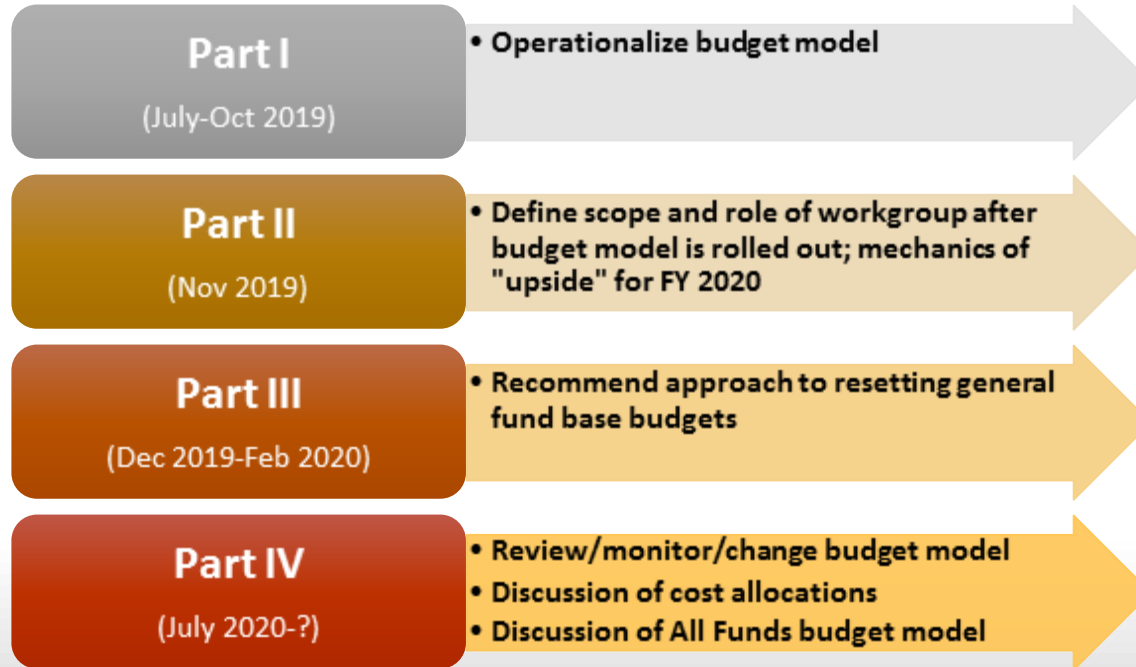
- **Problem:** UofL's current budget model does not consistently promote or reward academic units for instructing more students or teaching more credit hours; it fails to provide leadership with the mechanisms and funds to make strategic budgetary allocations; and it does not link student outcomes to the state performance funding model.
- **Goals:** Design a budget model that incentivizes entrepreneurial behavior, promotes/encourages student success, provides a stable platform for planning, allows for the strategic allocation of the university's limited resources, and promotes transparency.

## Allocation of Tuition Revenues based on credit hours instructed by a unit

- The concept allocates a percentage of undergraduate tuition revenues according to credit hours instructed by a unit. A percentage of graduate, professional, and non-tuition revenue generated by the unit would also be allocated to the academic unit. A unit-specific subsidy is provided in the initial year(s) to hold each unit's budget harmless.

# Timeline

As of July 2019





# Per Credit Hour Revenue Allocation

70% of UG Res. Rate	\$324.00
Graduate Allocation	75.0%
Prof. Allocation	85.0%
Direct Rev. Allocation	100.0%

	FY 2018 Actual Credit Hours						Tuition Revenue Allocation (Model)						D Budget Subsidy Allocation	Total = C + D Total Budget Allocation
	FY 18 Adopted GF Budget	FY 2018 Actual Expenses	Undergrad	Grad	Prof.	Subtotal	Undergrad	Grad	Prof.	A	B	C = A + B		
Arts and Sciences	65,014,380	66,665,248	172,467	9,318	-	60,303,442	55,879,308	4,424,134	-	1,679,834	61,983,276	3,031,104	65,014,380	
Business	23,101,580	20,678,282	50,739	6,234	-	22,018,406	16,439,436	5,578,970	-	1,052,076	23,070,482	31,098	23,101,580	
Dentistry	27,463,400	27,680,723	3,944	1,327	25,183	23,283,606	1,277,856	668,667	21,337,082	4,165,045	27,448,650	14,750	27,463,400	
Education	20,384,201	20,242,107	48,221	16,733	-	21,499,177	15,623,604	5,875,573	-	1,720,808	23,219,986	(2,835,785)	20,384,201	
Graduate School	11,688,509	10,618,945	-	-	-	-	-	-	-	180,078	180,078	11,508,432	11,688,509	
Kent School	6,645,702	6,523,926	5,161	10,968	-	5,081,857	1,672,164	3,409,693	-	153,133	5,234,990	1,410,712	6,645,702	
Law	10,484,336	9,779,130	-	-	10,796	7,378,690	-	-	7,378,690	58,959	7,437,649	3,046,687	10,484,336	
Medicine	43,458,941	42,116,582	-	4,423	29,065	24,058,631	-	1,813,348	22,245,283	1,474,826	25,533,457	17,925,484	43,458,941	
Music	7,486,613	7,666,848	9,174	1,080	-	3,392,841	2,972,214	420,627	-	407,220	3,800,061	3,686,552	7,486,613	
Nursing	7,186,077	7,134,411	27,159	2,775	-	10,470,500	8,799,516	1,670,984	-	734,679	11,205,178	(4,019,101)	7,186,077	
Public Health	4,661,976	5,519,284	4,799	3,046	-	2,772,128	1,554,876	1,217,252	-	122,314	2,894,442	1,767,534	4,661,976	
Speed School	26,880,495	26,443,530	47,335	8,596	-	18,517,512	15,336,540	3,180,972	-	1,434,867	19,952,379	6,928,116	26,880,495	
Academic Subtotal	\$ 254,456,210	\$ 251,069,017	\$ 368,999	\$ 64,497	\$ 65,044	\$ 198,776,790	\$ 119,555,514	\$ 28,260,221	\$ 50,961,055	\$ 13,183,838	\$ 211,960,628	\$ 42,495,582	\$ 254,456,210	
Support Unit Subtotal	\$ 250,402,690	\$ 238,130,142	\$ -	\$ -	\$ -								\$ 250,402,690	
Total General Fund	\$ 504,858,900	\$ 489,199,159											\$ 504,858,900	



# *Undergraduate tuition rate:*

70% of the resident undergraduate rate (less mandatory fees) multiplied by the number of credit hours instructed to the unit of instruction. As tuition rates increase, so would the dollar amount allocated to the unit for each credit hour instructed. Allocations for students who pay less than the resident tuition rate (e.g., military, dual credit) would be still calculated at the 70% regular tuition rate. In the case of inter-unit cross-listed courses, affected units should negotiate agreements with each other. International students would be calculated at the undergraduate tuition rate unless a different tuition rate is applied.

# *Graduate tuition rate:*

75% of graduate tuition revenue (less mandatory fees) will be allocated to the student's home unit. Courses taught by one school exclusively for another, courses that have multiple faculty from multiple schools teaching a course, courses that are cross-listed between schools, and courses that embed a fee into the tuition rate are small in number and will require unit-specific discussion with the provost as outlined in area 3 discussed below.



## *Professional tuition allocation:*

85% of professional tuition revenue (less mandatory fees) to a student's home unit. The committee reached a consensus decision that all Doctoral students will be included in this category along with Law, Dentistry and Medicine.

# *Budget Subsidy Allocation (BSA)*

A unit's budget subsidy allocation (BSA) is funding provided to the unit to ensure that each academic unit's general fund budget, after applying the proposed tuition model factors, is held harmless. The committee recommends a process for units to justify the subsidy in future years as described in section 3 below. The committee also recommends that the "at risk" amount of the subsidy be limited to 1% of the general fund budget in FY 2021 and that it be reviewed annually. The committee recognizes that the university may benefit from an institutional review and update of processes (RedBook) to make the university more organizationally nimble in responding to financial requirements.

## *State performance funding model to the new university budget model*

The committee recommends that the provost allocate additional funding earned through the state performance funding model to scholarships and other strategic priorities, with an emphasis on activities that will help improve UofL's performance in the state model. The policy should be reviewed annually or if the state's allocation methodology changes.

# Outstanding Items

When will “upside” adjustments be made to an academic unit’s allocation of funds under the model? For example, if Unit A budgets \$1 million, but through the model achieves \$1.1 million, will the additional \$100,000 allocation occur in the current or subsequent fiscal year?

Similarly, when will downward adjustments be made?

The workgroup needs to establish criteria to determine whether terminal masters degrees (e.g. Master of Fine Arts) should be considered in the professional category in the budget model.

# Outstanding Items

When and how would changes to the budget balancing amount for a unit become effective?

If a unit increases tuition revenue but the overall university does not? How will this be reconciled?

How will merit and faculty promotions be handled under the model?



- Questions
- Thank You!