

Strategic Budgeting Workgroup

November 14, 2006

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Purpose

1. Evaluate alternatives to move away from incremental budgeting and equip UCSC to fund its most strategically important needs
2. Make recommendations to Dave



Other processes

- P&B and DK collecting information on 5-year needs
- Assess adequacy of funding of some units
 - What are we asking them to do
- Analysis of budget bases and balances
 - Flexibility questions



Questions from 10/26 meeting

1. How to make more funds available for allocation
2. How to allocate funds in a way that is effective strategically

Range of techniques is available



Steps

Today: review options in more depth

Jan: look at applying options at UCSC

March: formulate recommendation to DK

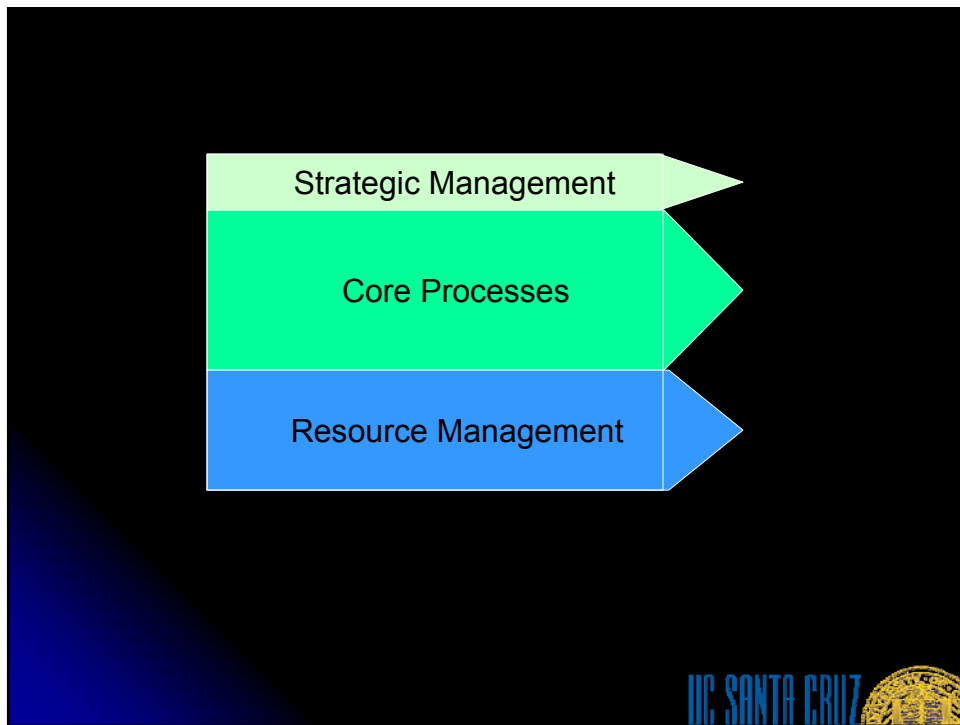
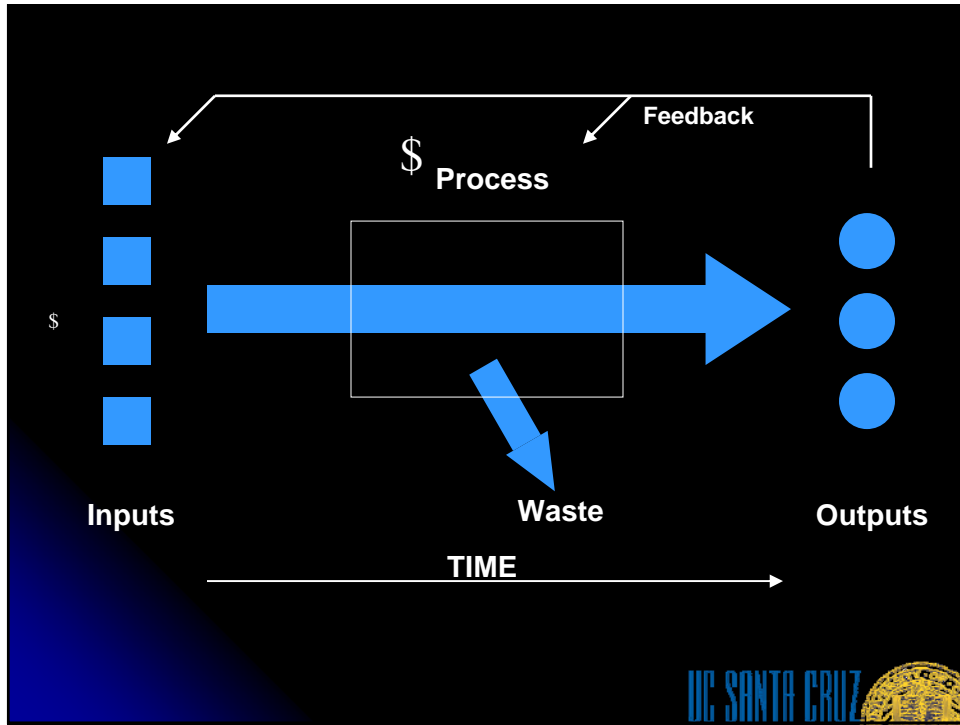
May: DK and committee discuss his choices

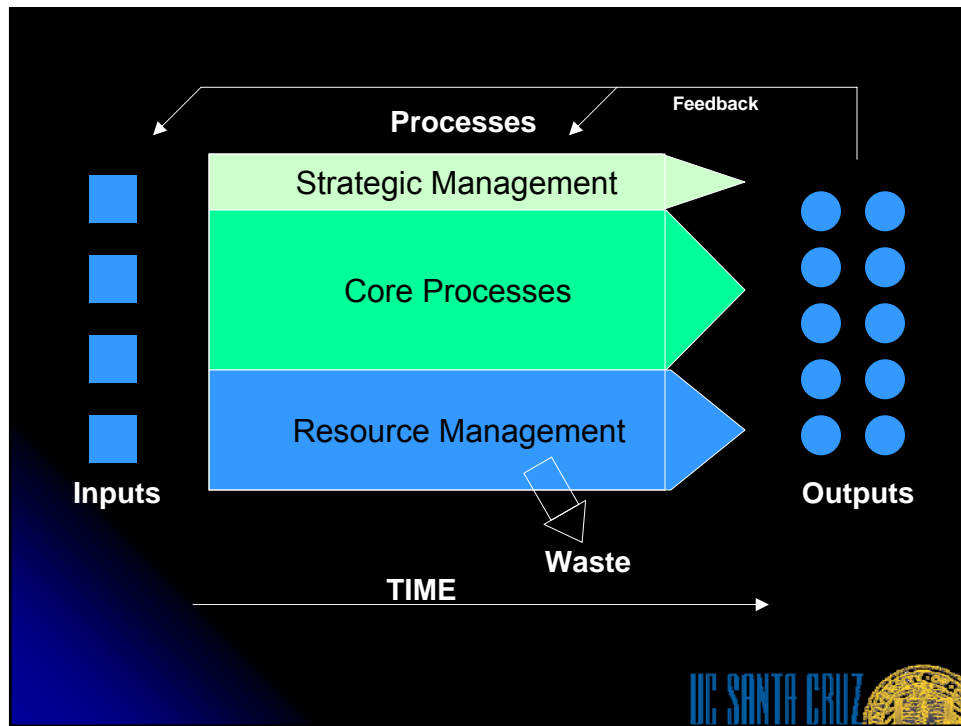


Ground rules

- Institutional perspective
- Purpose not to criticize previous decisions or systems
- Acknowledge the complexity of resource allocation and alignment
- Openness to the potential in every alternative
- Think about new methods, and how to make the methods UCSC uses or has used more effective







Factors shaping implementation

- Location within organization of
 - Authority
 - Accountability
 - Resources
- Are these three aligned?
- At the right organizational levels?

A range of options

- Most universities use some combination of these techniques
- What happens at the center and units is relevant
- Not all options will work out for Santa Cruz -- but the best starting position is that each one of the ideas might hold promise for UCSC



Decision factors

- Scale/\$ range
- Impact
- Incentives (desirable and not)
- Preferred model for decision-making and authority (e.g., degree of decentralization)
- Parallels in practices at different organization levels
- Strategic clarity
- Restrictions and policy
- Complexity/cost



Models in detail

- Reallocation (assembling resources)
 - Tax budgets **
 - Sweep carry forwards **
 - Capture salary savings **
 - Eliminate or reduce programs **
 - Transfer funds between units
 - Redirect fund streams
 - Hold back some incremental funds
 - Cost cutting
 - Reduce quality of service or work conditions
 - Process improvement
 - Mandate internal reallocations in units



Models in detail

- Allocation (distributing resources)
 - Resource realignment/resetting **
 - Responsibility Center Management **
 - Leadership discretion **
 - Initiative processes **
 - Across the board increments/decrements
 - Activity-Based Budgeting
 - Formula budgeting
 - Process budgeting
 - Zero-Based Budgeting



Tax budgets

- Often done to provide a central fund for major initiatives
- Examples: UW, Ohio University
- UW University Initiative Fund (UIF)
 - <http://www.washington.edu/uif/>



UW UIF

- 1997-2002
- 1% levy on “state appropriated and many locally funded operating budgets”
- Three rounds of funding proposals
- First round for interdisciplinary programs, subsequent rounds allowed unit-specific programs
 - \$6.8M for academic programs, \$1M administration
 - Examples
 - Center for Nanotechnology
 - The Puget Sound Regional Synthesis Model
 - Graduate Program in Biomedical and Health Informatics
 - Streamlining Support Services through Web-Based Technologies



UW UIF

- **Benefits**
 - Innovations funded and secondary stimulus effect
 - Helped counteract limitations on interdisciplinary efforts
 - Leveraging
 - Planning to respond to reductions
 - Provides permanent funding
- **Downsides**
 - Reductions in ongoing capabilities and ability to respond to opportunities, erosion of infrastructure
 - Decline in morale
 - Misalignment of UIF proposals and unit plans
 - Creation of mini-departments
 - Smaller units disadvantaged



Sweep carry forwards

- Traditionally, many universities swept carry forwards to the center at the end of the year



Salary savings

1. Empty positions
2. Difference between actual salary and budgeted salary
 - Savings can get swept to center or units
 - Many privates budget savings
 - UW Salary Savings Plan
 - <http://www.washington.edu/admin/pb/home/pdf/ss-faqs.pdf>



UW Salary Savings Plan

- "Automated method to track and control the savings realized when the net amount of salary paid from a budget is less than the total amount budgeted."
- Gives Deans or VPs the option of collecting unspent salary into a reserve budget to be used at his/her discretion. Known as "Dean's Reserve" or "Salary Recapture."
- Can be used with centrally funded and budgeted positions.
- Only for faculty, classified and professional staff
- Each Dean or VP has total discretion regarding use of reserves.
 - Some keep reserves to fund division initiatives, others return funds to unit that generated savings.
- Participation voluntary.
 - Requires budget revisions and shadow tracking systems.



Salary savings

- UCSC in effect currently has the UW system
 - Salary savings stay with the unit, used for things like S&E expenses



Eliminate or reduce programs

- Most often in cases of exigency
- Nebraska budget cuts in 2003
 - Dept of Industrial Systems Technology
 - Dept of Health and Human Performance
 - Museum Research Division
 - Eliminated instruction in Portuguese
 - 15 tenured positions



Eliminate or reduce programs

- Tulane: Katrina
 - 14 doctoral programs and 5 UG degrees
 - Other doctoral programs combined
 - 45 → 18
 - 233 faculty (180 from medical school)



Resource realignment

- Intentionally and significantly shift institutional resources from one unit or function to another
 - Not including reorganization
- Ohio State University budget rebasing
 - Ohio University now looking at it



OSU rebasing

- Institutional Goal: top 10 public university
 - Student profile
 - Diversity
 - Top 10% students
 - Student outcomes
 - Retention
 - Grad rates
 - Academic impact
 - Federal research funding “market share”
 - Citations
 - Patents and licenses
 - Finances
 - Dollars revenue per student



OSU rebasing

- Academic Plan
 1. Develop a world-class faculty
 2. Develop academic programs that define Ohio State as the nation's leading public land grant university
 3. Enhance the quality of the teaching and learning environment
 4. Enhance and better serve the student body
 5. Create a diverse university community
 6. Help build Ohio's future



OSU rebasing

- Traditional core colleges
 - A&S, Med & Public Health, Business, Eng, Law, FAES, Ed
- Selective investment programs
 - Greatest potential to “help Ohio State progress toward meeting the goals outlined in the Academic Plan. These programs were identified through a rigorous process of peer review...”
 - 17 departments in Eng, Hum, Law, Math & Phys Sci, Med & Public Health, Soc and Beh Sci
- Professional Colleges
 - Dentistry, Human Ecology, Nursing, Optometry, Pharmacy, Social Work, Veterinary Medicine



OSU rebasing

- Looked at net contribution of resources.
 - Resources consist of
 - State Share of Instruction
 - Plant Operation and Maintenance
 - Student Fees
 - IDCs
 - Less allocations for Phys Plant, Stdt Svcs, Res Admin, and Central Admin
- Compared cross-subsidy patterns with academic priorities, and developed a plan to reduce the net contributions from and to certain areas.
- Changes are phased in as reductions or increases to base allocation each year.
- Will be reviewed in 5 years (now?)



OSU: college contributions

College	Total Resources	Net Expenses	Net Resources – Expenses	% of Resources
Selective Investment Colleges				
Engineering	\$77.7M	\$83.1M	\$(5.4)M	(7.0)%
Humanities	\$76.4M	\$68.2M	\$8.2M	10.8%
Professional Colleges				
Dentistry	\$17.4M	\$21.2M	\$(3.8)M	(21.8)%
Veterinary Medicine	\$24.1M	\$22.4M	\$1.7M	7.2%



OSU rebasing goals

College	Current Financial Status	Five-Year Change in terms of FY00 Formula
Selective Investment Colleges		
Engineering	7.0% transfer to	No change
Humanities	10.8% transfer from	Reduce to between 7.5% and 5%
Professional Colleges		
Dentistry	21.8% transfer to	Reduce to 10-15%
Vet Medicine	7.2% transfer from	No change

http://www.rpia.ohio-state.edu/budget_planning/budget_restruct.htm



RCM

- Treat individual colleges, divisions, and other units as “business units”
- Units are credited with most revenues
- They manage the funds and are responsible for allocating them to costs
- Revenue-generating units taxed to fund or subsidize central administration
- Central administration maintains funds for campus-wide priorities
- Units retain carry forward deficits and surpluses.
 - Responsible for covering deficits in future years



RCM examples

- Michigan, Indiana
- Harvard and many other privates
- Iowa State moving to it
 - <http://www.iastate.edu/~budgetmodel/>



RCM goals

- Increase local incentives for cost effectiveness and revenue generation
- Increase local accountability, control, authority
- Increase all-funds approach
- Decrease involvement of senior leaders in budget detail
 - Modified from presentation by Griffith and Proulx from UNH



RCM requirements

- Principles to attribute revenues and costs
- Reporting
- Strong local financial management
- Clarity about strategic goals



Iowa State Budget Model



Leadership discretion

- Most common form of allocation process
 - Individual decision-makers
 - Budget committees
- Usually informal decision criteria
 - Judgment
 - Opportunism
- Can priorities be made more formal, stable, and clear?
 - E.g., committee ranking system



Initiative processes

- Very common
- Not comprehensive system
 - Good for new stuff, not to fund core functions
- Big impact in transformation of some urban universities from commuter schools to Metropolitan Universities
 - Something to “put us on the map”
 - George Mason
 - UWM



Other options: reallocation

- Transfer funds between units
- Redirect fund streams
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Other options: distribution

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What techniques are of interest?



Reallocation models (assembling resources)

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Allocation models (distributing resources)

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Questions

What does UCSC need to take into account in making any choices/decisions?

What do you want to know more about?

What issues/opportunities do you see with any of the options?



Methods used at UCSC

- UCSC uses or has used many of these methods
 - Activity-based budgeting
 - Leadership discretion
 - RCM (partial)
 - Recharges
 - Across the board
 - Salary savings (local level)
 - Initiatives

