



Education  
Advisory  
Board

Business Affairs Forum

# Optimizing University Budget Models

Strategic Lessons for Maximizing Revenue  
and Mitigating Risk



February 25, 2015

# Bowling Green State University

Bowling Green, Ohio



1 | Beyond Incremental Budgeting

2 | Lessons from RCM Leaders

3 | Budget Model Design Principles

# Sound Familiar?



## Common Signs That Something Is Wrong With Your Budget Model



### Inadequate Resources for Institutional Priorities

- Health Sciences lacks resources to grow despite strong demand
- Provost cannot fund new multidisciplinary research initiative
- Engineering, Business turn away qualified students due to lack of capacity
- Researchers have no funding to travel to critical conferences
- Business dean keeps trying to negotiate for additional funds



### Little Transparency About Cost and Revenue Drivers

- CBO cannot answer board's questions about which departments lose money
- Department chairs demand resources while restricted funds go unspent
- Provost can't explain why Physics costs 8x more than Chemistry
- Engineering dean complains that she is subsidizing other colleges



### Few Incentives for Revenue Growth or Cost Control

- A&S dean refuses to launch new revenue generating masters program
- Education keeps refilling positions despite declining student demand
- Huge increase in photocopier purchases just before end of budget cycle
- Summer enrollment well below capacity
- Biology building leaves lights on all night

# Good People in a Bad System

## Rational Responses to Poorly Aligned Incentives



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### Faculty Stereotypes

- Think in silos
- Resistant to change
- Oblivious to financial considerations



### Administrator Stereotypes

- Overpaid
- Obsessed with change
- Reduces everything to financial considerations

## A Different View

Both struggling to help students and support mission in the face of increased competition, growing responsibilities, and flat or declining budgets

# More Than Just A Flow of Funds

## Budget Models Support (or Don't) Institutional Priorities



To many it's just dollars and cents...

...but budgets express the university's most important goals and priorities

UNIVERSITY OF CALIFORNIA, BERKELEY  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION** (unaudited)  
 Years Ended June 30, 2013 and 2012 (In Thousands of Dollars)

	CAMPUS*		FOUNDATION	
	2013	2012	2013	2012
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$639,860	\$623,967		
Grants and contracts, net:				
Federal	368,791	408,202		
State	88,853	95,333		
Private	189,837	171,385		
Local	7,023	4,491		
Educational activities, net	87,207	81,485		
Auxiliary enterprises, net	172,288	165,021		
Campus foundation private gifts			\$114,131	\$110,406
Other operating revenues, net	74,059	57,294	2,529	3,328
<b>Total operating revenues</b>	<b>1,828,508</b>	<b>1,862,758</b>	<b>116,660</b>	<b>113,734</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	1,056,041	990,852		
UCRF benefits	159,753	86,477		
Retiree health benefits	129,134	119,024		
Other employee benefits	241,777	231,286		
Supplies and materials	178,609	156,565		
Depreciation and amortization	188,471	189,917		
Scholarships and fellowships	121,652	138,683		
Utilities	38,286	35,904		
Campus foundation grants			139,913	110,802
Other operating expenses	401,416	341,297	4,091	4,205
<b>Total operating expenses</b>	<b>2,552,139</b>	<b>2,278,625</b>	<b>144,004</b>	<b>114,862</b>
<b>Operating loss</b>	<b>(923,631)</b>	<b>(672,867)</b>	<b>(27,344)</b>	<b>(1,128)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	283,378	268,991		
State financing appropriations	24,226	19,508		
Bull America Bonds federal interest subsidies	10,304	15,512		
Federal Pell grants	38,655	39,789		
Private gifts, net	177,468	180,488		
Investment income:				
Short-Term Investment Pool and other, net	38,863	39,620		
Endowment, net	29,204	30,657		
Campus foundation			1,477	9,431
Net appreciation (depreciation) in fair value of investments	158,095	(79,764)	128,923	(17,387)
Adjustment to gift annuities and trust liabilities			8,116	(5,223)
Interest expense	(89,386)	(64,419)		
Other nonoperating revenues (expenses), net	7,613	(263)		
<b>Net nonoperating revenues (expenses)</b>	<b>674,220</b>	<b>444,819</b>	<b>148,526</b>	<b>(17,179)</b>
<b>(Loss) income before other changes in net position</b>	<b>(249,411)</b>	<b>(228,048)</b>	<b>121,182</b>	<b>(18,307)</b>
<b>OTHER CHANGES IN NET POSITION</b>				
Capital gifts and grants, net	46,638	14,876		
State capital appropriations	207	3,305		
Permanent endowments			48,812	72,808
Other changes	87,130	79,911		
<b>(Decrease) increase in net position</b>	<b>(115,436)</b>	<b>(131,056)</b>	<b>166,994</b>	<b>54,621</b>
<b>NET POSITION</b>				
Beginning of year, as previously reported	3,804,533	4,581,578	1,344,085	1,286,464
Cumulative effect of change in accounting treatment		(645,969)	(2,475)	

- How do we strike a balance between teaching and research?
- How much financial aid can we afford to give out this year?
- How much should we devote to athletic programs?
- What is the right faculty to student ratio?
- How many adjuncts are too many?
- Which academic programs are our top priority?



“The budgets of a university are the surest single indicator of what it is committed to do and what it is stuck with... Underneath the rhetoric of leadership... is a hard logic in putting institutional funds where necessity permits.”

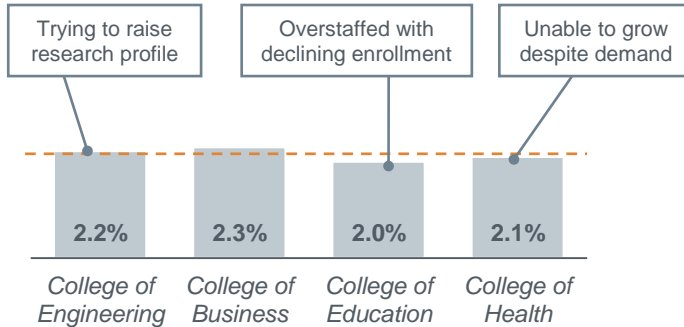
*Frederick Balderston,  
Managing Today's University, 1974*




# A Model That No Longer Works




## Incremental Budgeting Ignores Differential Opportunities and Costs

### Revenue Growth Allocated Equally Despite Different Needs and Opportunities






 **66%** Proportion of universities using incremental budgeting

### Advantages

-  Simple for academic leaders to understand and manage
-  Equitable sharing of resources reinforces campus culture
-  Minimal disruption from year to year minimizes political squabbling

### Disadvantages

-  No link between investments and outputs
-  Creates disincentives to grow revenue or control costs
-  Difficult to maintain when revenues no longer growing



# Seek Within You

## Tight Financial Environment Demands New Focus on Reallocation



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### Chief Business Officers

*“New spending at my institution will come from reallocated dollars not an increase in revenue”*



57%

Agree or  
Strongly Agree

### Provosts

*“Most new funds for academic programs will come from reallocation rather than new revenue”*



66%

Agree or  
Strongly Agree

“

“We’re not seeing the same student growth that we used to and our governor is saying that we’re not going to get the tuition bump we were expecting. **If we’re going to do anything new, then it’s got to come out of what we already have.** And folks around here don’t want to hear that.”

*Chief Business Officer,  
Regional Public University*

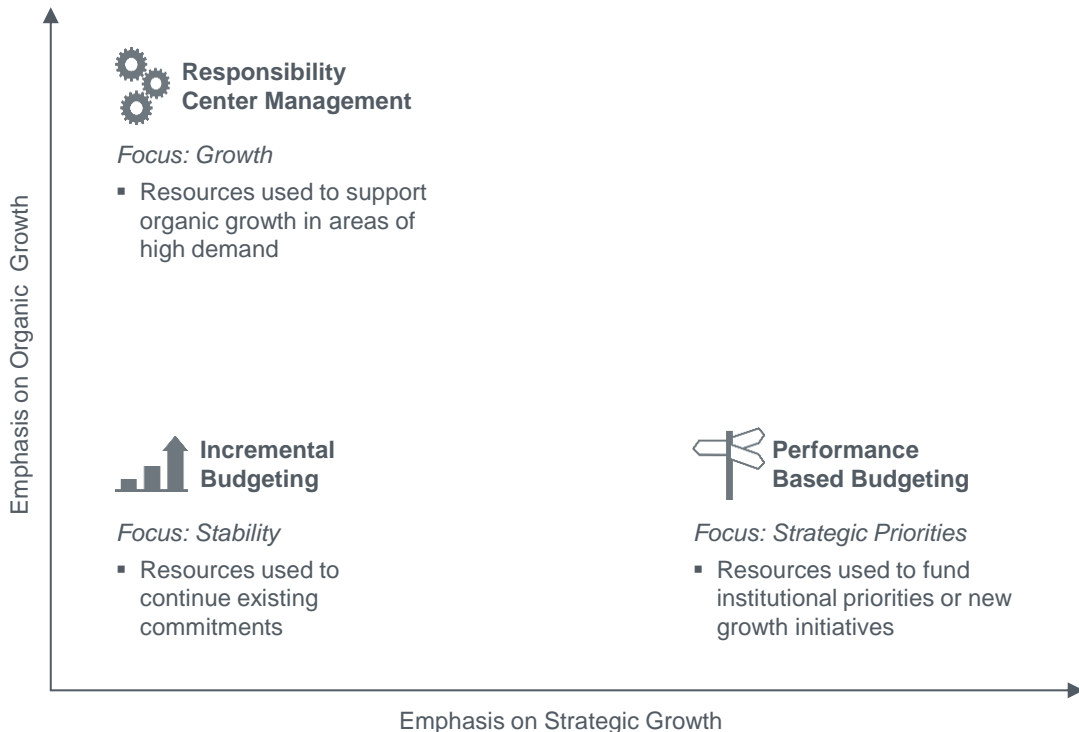
Source: Inside Higher Education “Survey of College and University Business Officers” 2013; Inside Higher Education “Survey of College & University Chief Academic Officers” 2014; EAB interview and analysis.

# Fitting Your Environment

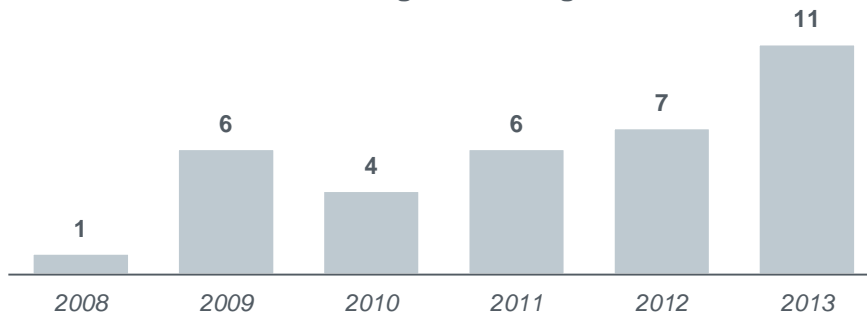


## Optimal Budget Model Depends on Market Conditions

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## EAB Research Briefs on Budgets or Budget Models



## Popular EAB Resources on Budgeting

*“Encouraging Accountability Through Hybrid Budget Models”*

*“Incentivizing Stable Growth with Enrollment and Revenue Targets”*

*“Optimizing Resource Allocation at Smaller, Private Universities”*

*“Building Collaboration and Preventing Course Duplication in RCM”*

*“Allocating Costs for Centrally-Provided Services”*

*“Facilities Chargeback Structures”*



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# Solution or Fad?

## Number of Institutions Adopting RCM Growing Rapidly



# Why Change?

## Desire for Growth and Transparency Drive Budget Model Shifts



### Financial Changes Motivating Most Budget Model Transitions



#### Taskforce Considers Budget Alternatives

##### Pressure on Funding

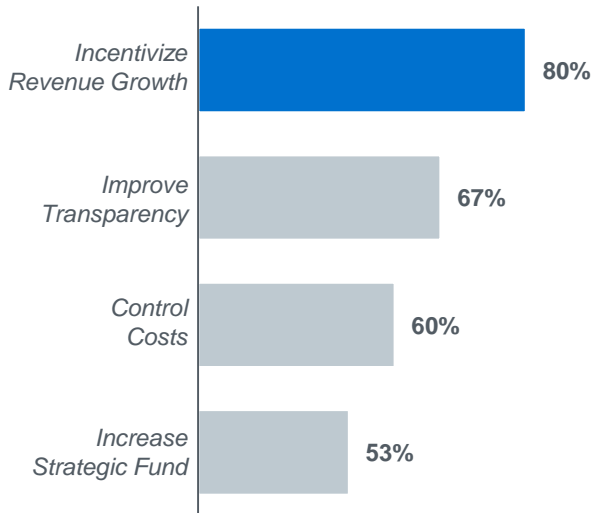
"As the nation's public universities receive less state support, they are finding it necessary not only to develop new sources of funding, but to adopt new budget approaches"

##### Rising Ambitions

"If Kent State is to become an academically and financially stronger institution, it must rethink how financial resources are allocated, transferring a greater role in these decisions to academic leaders and faculty. "

### Revenue and Transparency Are Leading Justifications for Moving to RCM

Budget Taskforce Reports (n=40)



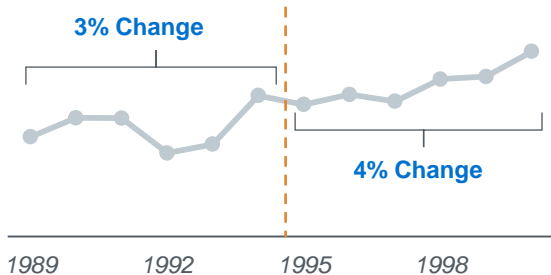


# Looking for Proof

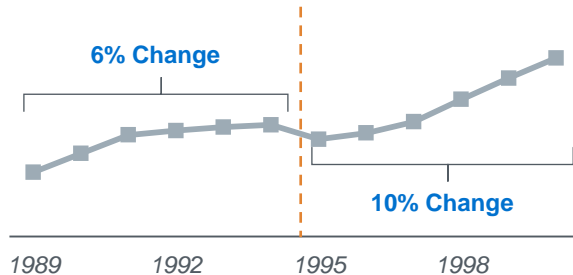
## Enrollment and Revenue Impacts Difficult to Quantify at Michigan

### Change in Student Enrollment Before and After Budget Change

University of Michigan

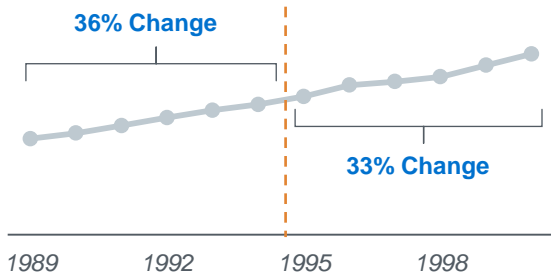


State of Michigan

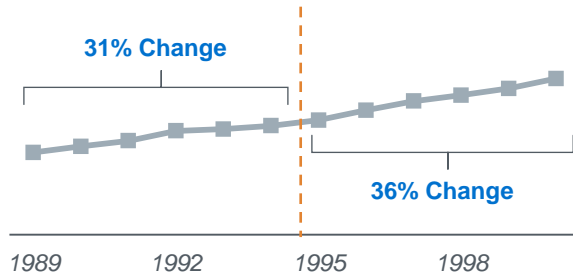


### Change in Total Revenue Before and After Budget Change

University of Michigan



State of Michigan



# A Mixed Bag

## Difficult to Find Topline Benefits at Other RCM Institutions as Well

	Enrollment <sup>1</sup>		Revenue <sup>2</sup>	
	Increased After Budget Change	Outpaced State Average	Increased After Budget Change	Outpaced State Average
Duke (1991)	✗	✓	✓	✓
Univ. of Michigan (1995)	✓	✗	✗	✗
Central Michigan Univ. (1999) <sup>a</sup>	✗	✗	✓	✗
Univ. of Minnesota (2000)	✓	✗	✗	✓
Univ. of Utah (2000)	✓	✓	✓	✓
Brandeis Univ. (2001) <sup>b</sup>	✓	✗	✗	✗
Univ. of New Hampshire (2001)	✓	✓	✓	✓
Ohio State (2003)	✓	✓	✗	✗
Syracuse (2006)	✓	✓	✗	✗

### Notes

<sup>a</sup> Large state budget cut after implementation

<sup>b</sup> Model implemented in phases over multiple years

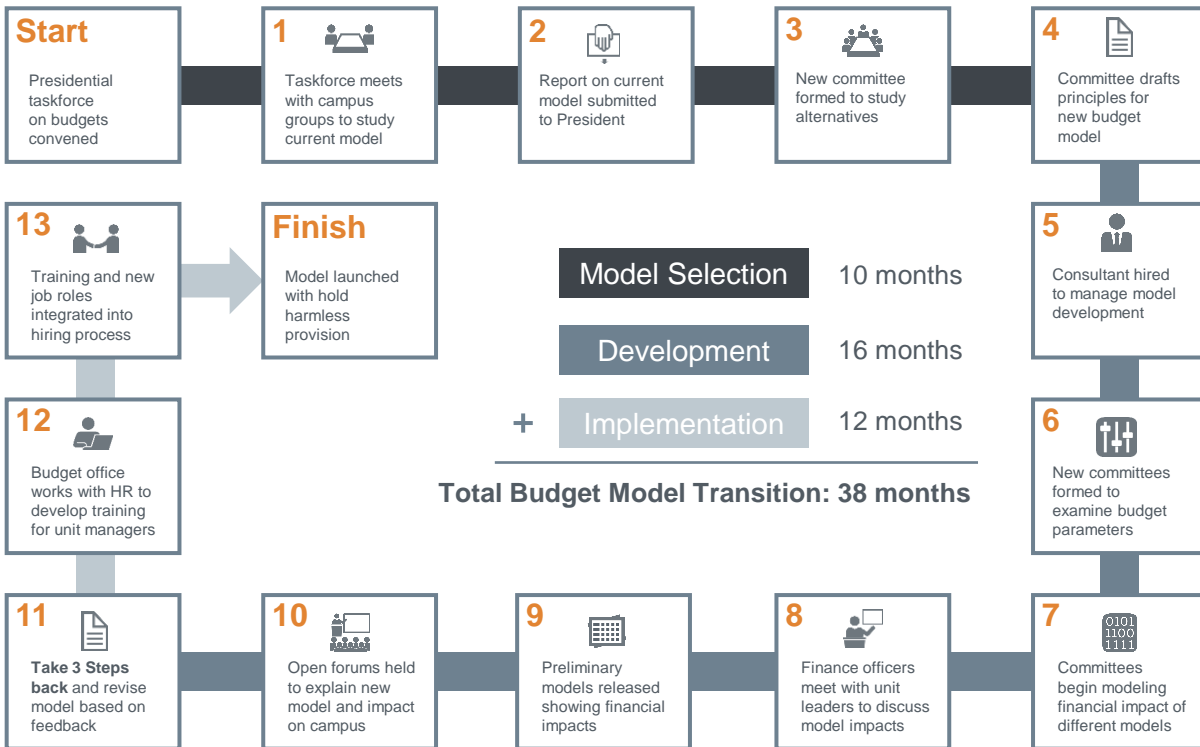
1) Enrollment was measured as total FTE  
2) Revenue was measured as Total Revenue excluding Auxiliary Enterprises



# The Price of Change



## RCM Transition Requires Significant Time and Money



# Where We Can Help

## EAB Resources to Assist Budget Model Transitions

Model Selection

Development

Implementation

### Existing Resources

#### *Budget Model Profiles*

- “Optimizing Resource Allocation at Smaller Private Universities”
- “Comparing RCM Budget Models”
- “Exploring Alternative Budget Models”

#### *Model Design Assistance*

- “Categorizing Institutional Support Costs”
- “Facilities Chargeback Structures”
- “Benefits Budgeting Across the University”

#### *Implementation Guidance*

- “Organizing and Staffing Non-Duplicative Central Budget Offices”
- “Implementing an RCM Budget Model”
- “Encouraging Cross-Unit Investments in an RCM Environment”

### Coming Fall 2014



Executive Briefing on Industry Trends and Sustainability



Online Insight Center on University Budget Models



Campus Presentation on Alternative Budget Practices



Expert Advice to Guide Committee Process and Progress

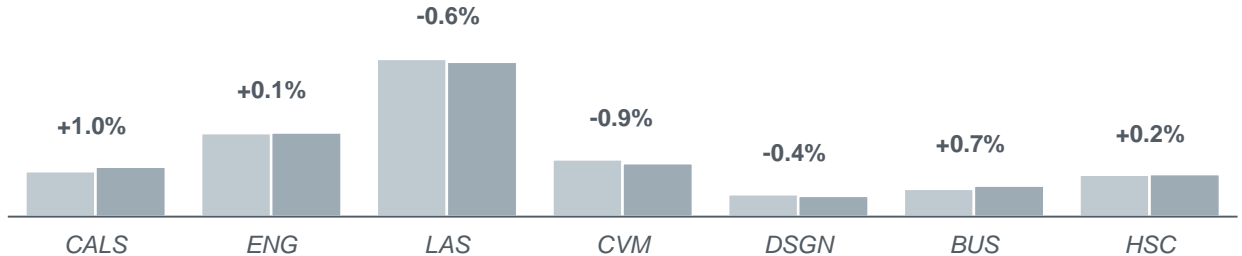


# A Radical Change... in Slow Motion

## RCM Requires Cultural Transformation, But Financial Changes Come Slowly

### Minor Changes in College Share of Resources

Share of Academic Revenue, Iowa State University, FY09 vs FY12



### Mitigating Transitional Friction



**Learning Years**  
(1 Year)

One-year data-baselining period to familiarize units with new allocation formula



**Phased Implementation**  
(4-5 Years)

Increase amount of funds subject to formula in predetermined increments



**Hold Harmless Period**  
(Indefinite)

Use reallocation to hold unit budgets to pre-implementation levels



**Stop-Loss Measures**  
(Indefinite)

Set limit on how much individual units can gain or lose in a single year

## Major Budget Overhaul Requires New Administrative Skillset

### Tongue-in-Cheek Job Description

#### DEAN WANTED

**Description:** University seeks highly qualified Dean for College of Forestry

#### **Skills**

- Change management
- Business development
- Fund raising
- Financial accounting

#### **Qualifications**

- Five-years experience in RCM budgeting environment
- Comfortable managing P&L for multi-million dollar organization
- PhD in Morphology with concentration in Cycads preferred

# Defending RCM



## Simple Solutions to Common Complaints About RCM

	Common Concern		Typical Solutions
<b>Perverse Incentives</b>	Competition for students	→	Split-revenue models and curricular review committees blunt incentives
	Departments incentivized to create low quality classes	→	Curricular review committees, faculty senate oversight blunt incentives
	Financial barriers to multidisciplinary work	→	Standardized MOUs, financial incentives, and startup funds ease collaborations
<b>Program Costs</b>	High cost to teach programs disadvantaged	→	Course fee and weighted credits compensate high cost programs
	Small programs unable to finance operations	→	Subvention funding provides resources to support small units
<b>Institutional Priorities</b>	Enrollment incentives at odds with completion agenda	→	Incorporate performance funding into allocation models
	Limited resources for institution-wide initiatives	→	Subvention and revenue recapture pool resources for investments

# Bad Timing

Hard to Overcome Major Revenue Drop During RCM Transition

## University of Idaho

### Budget Design

### Strategic Mistake

### Outcome

Large portion of tuition revenue allocated to units

*Underestimated central resource needs*



Unable to manage revenue volatility without tuition revenue control

Differential fees used as subvention mechanism

*Underestimated political barrier to differential tuition*



Can't properly subsidize units without additional funds

Central administration funded through state appropriations

*Over-reliant on state funding for service unit budgets*



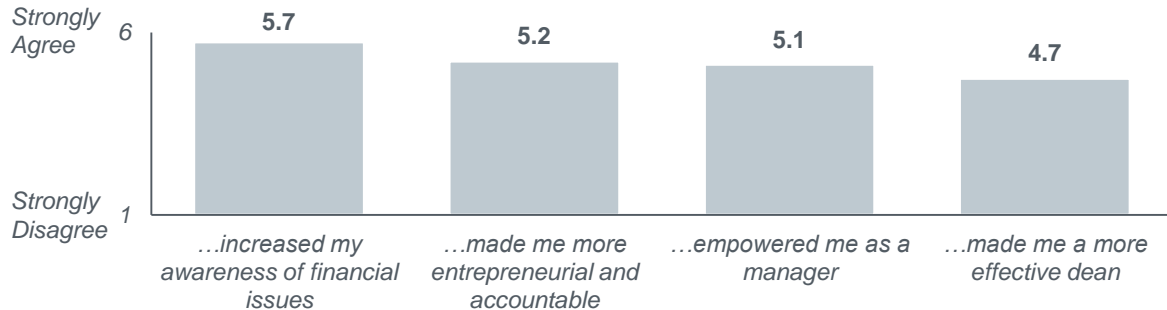
Difficult to respond when state allocation unexpectedly cut

# The Zeal of a Convert

Deans (Who Survive) Prefer RCM

## National Survey of RCM Deans Finds Strong Support

*"I believe that RCM has..."*



“

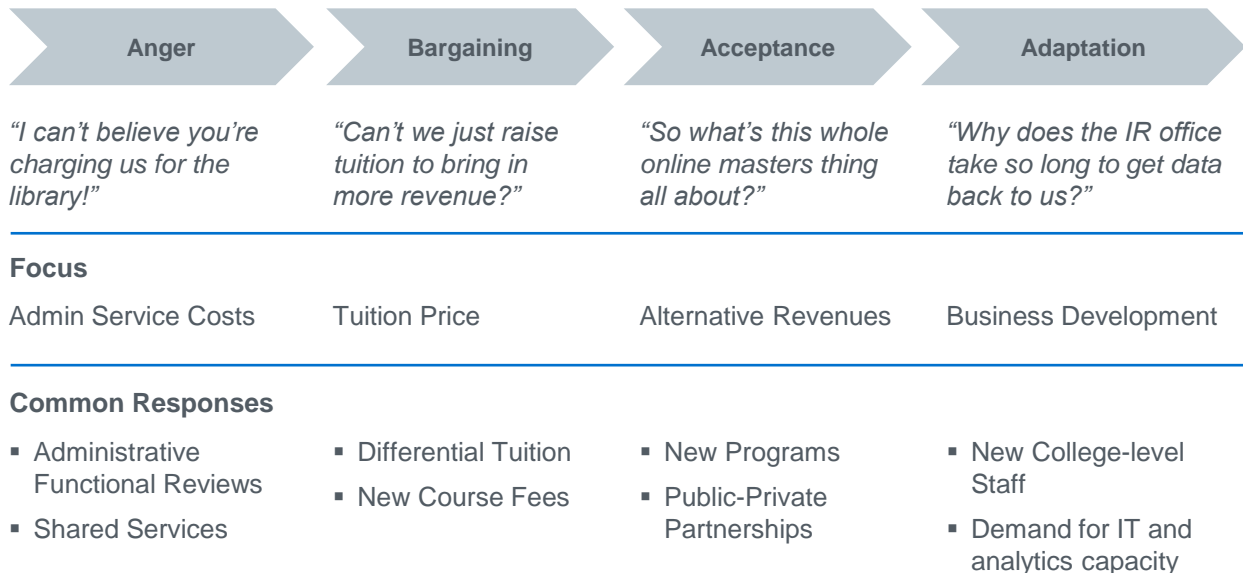
“RCB/RCM is a powerful idea; it can empower academic leaders of colleges and schools to guarantee that their budgets will follow rather than lead their academic mission.”

*Douglas C. Wager,  
Chair, Dept. of Theater, Temple University*



# Life After RCM

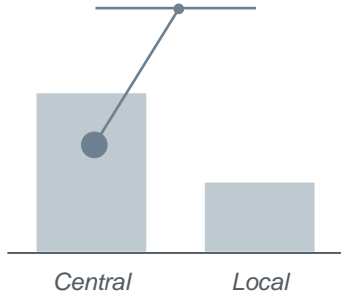
## The Four Stages of RCM Adjustment





# The Staffing Pendulum

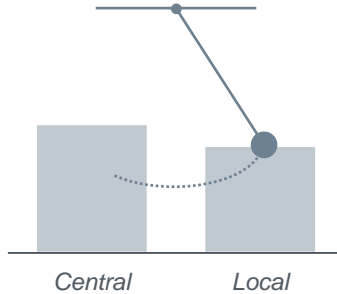
## The Difficult Balance Between Central and Local Staff



Unexpected budget shortfall



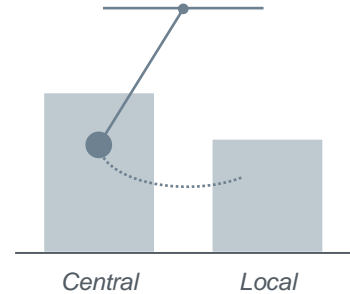
University cuts central services



Quality of central services declines



Local units hire administrative staff



Local units duplicate central services



Services re-centralized, but units keep local staff

# The Many Meanings of RCM

## Different Approaches at Large-, Mid-, and Small-Sized Institutions

### RCM-Heavy



- Large academic units
- Distinct student markets
- Large philanthropy and research revenue
- Colleges employ financial support staff
- Units possess significant financial autonomy
- Large portion of revenue allocated to units

### RCM-Hybrid



- Medium academic units
- Regional student market
- Limited discretionary funding at unit level
- Financial support staff within central administration
- Few units financially independent
- Revenue allocated to units, with significant subvention

### RCM-Lite



- Small academic units
- Overlapping student markets
- Most costs managed centrally
- Colleges lack financial support staff
- Use cost accounting to set margin targets for units
- University overhead funded out of margin contributions



# Asking the Wrong Questions

Typical RCM Debate Distracts from Important Strategic Budget Choices

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## Low Priority Questions Driving Campus Debate

Are incentives in an RCM model good or bad?



Will RCM reduce our costs and expenses?



Is RCM too decentralized for our institution?



Should we do RCM?



## Key Lessons For a Productive Conversation

All budget models create incentives and disincentives

RCM requires more expensive staff, which may raise costs

Important financial decisions are made by units in any budget model

RCM is a collection of budget practices that can be adapted in any model



## Better Questions to Guide Discussions

Do we adequately incentivize the behaviors we want to encourage?

Are resources better spent on institution-wide investments or individual unit growth?

Does the administration have enough funding to implement our strategic plan?

What elements of our budget model should we change to achieve our strategic goals?

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# The Periodic Table of Budget Model Elements



SCH  
Majors  
Prog Margin  
Gen. Fund

**Ug**  
Undergraduate  
Tuition

SCH  
Majors  
Prog Margin  
Gen. Fund

**Gr**  
Graduate  
Tuition

SCH  
Majors  
Prog. Margin  
Gen. Fund

**Sa**  
State  
Appropriation

SCH  
Prog. Margin  
Gen. Fund  
MOU

**Pm**  
Professional  
Masters

Generating Unit  
Gen. Fund

**Ar**  
Auxiliary Revenue

Bill to Unit  
Expense Tax  
Gen. Fund

**Ds**  
Debt Service

Net Ass. Sq. Ft  
Qual. Ass. Sq. Ft  
Bill to Unit  
Staff FTE  
Gen. Fund

**Rf**  
Research Facilities

Student FTE  
Revenue Tax  
SCH  
Gen. Fund

**Aa**  
Academic Affairs

ICR  
Faculty FTE  
Rarch. Expense Tax  
Gen. Fund

**Rs**  
Research Expense

Revenue Tax  
Expense Tax  
Rev Cap  
Carry Fwd

**Dv**  
R&D Funding

Budget Control  
Fund Allocation  
Strategic Planning

**Pr**  
Priority Setting

SCH  
Gen. Fund  
MOU  
Growth

**Su**  
Summer Term  
Tuition

PI  
Dean/Dept  
VP-R  
Gen. Fund

**Icr**  
Indirect Cost  
Recovery

Gen Fund

**Er**  
Endowment  
Revenue

Net Ass. Sq. Ft  
Qual. Ass. Sq. Ft  
Bill to Unit  
Staff FTE  
Gen. Fund

**Fc**  
Facilities

Faculty FTE  
Staff FTE  
Revenue Tax  
Expense Tax  
Gen. Fund

**Gn**  
General  
Administration

Faculty FTE  
Student FTE  
Revenue Tax  
Gen. Fund

**Lb**  
Library

Gen. Fund  
Revolving Fund  
Debt  
Bill to Unit  
Carry Fwd

**Ce**  
Campus  
Enhancement

Revenue Tax  
Expense Tax  
Pos Con  
Diff. Tuition

**Sb**  
Academic Subsidy

SCH  
MOU  
Gen. Fund

**Xt**  
Extension Credits

MOU  
Gen. Fund

**Nc**  
Non-credit  
Revenue

Gen Fund

**Pi**  
Unrestricted Gifts

Avg. Rate  
Bill to Unit

**Fa**  
Financial Aid

Faculty FTE  
Staff FTE  
Student FTE  
Gen. Fund

**Bs**  
Business Services

Faculty FTE  
Staff FTE  
Student FTE  
Shared Exp

**It**  
Information and  
Technology

Revolving Fund  
Gen. Fund  
Bill to Unit  
Loan Pool

**Pl**  
Program Launch

Rev Tax  
Exp Tax  
Shared Exp  
Debt

**If**  
Campus  
Infrastructure

**Revenue Allocation**  
Methods to allocate  
university revenue to units

**Cost Allocation**  
Methods to assign expenses  
for university overhead

**Strategic Funding**  
Sources of funding for  
strategic objectives

**Performance Targets**  
Mechanisms to inflect  
unit behavior

Gain-Sharing  
Margin Targets  
Improvement Goals

**Mr**  
Unit Margins

Degrees Awarded  
Credit Milestones  
Unit Goals

**Ss**  
Student Success



# It Doesn't Have to Be All or Nothing

## Piecemeal Approaches to Revenue Allocation

### Common Metrics and Methods for Allocating Revenue

#### *Unit Focused*



#### **Student Credit Hours**

Revenue distributed by credit hour production



#### **Majors**

Revenue distributed by college of major



#### **Degrees**

Revenue distributed by degrees granted

#### *Program Focused*



#### **MOU**

Arranged revenue share for new programs



#### **Growth**

New revenue over baseline shared with units



#### **Program Margin**

Units own profit above pre-determined margin

#### *Institution Focused*



#### **VP-R**

Grant revenue given to VP-Research office



#### **Dean/Dept**

Grant revenue given to college dean



#### **PI**

Grant revenue given to principal investigator



# Aligning Incentives with Targeted Growth

## Incentives to Identify and Fund Professional Masters

SCH  
Prog. Margin  
Gen. Fund  
MOU

**Pm**  
Professional Masters



### Student Credit Hours

Revenue distributed by credit hour production



### General Fund

Revenue pooled into university general fund



### Program Margin

Units own profit above pre-determined margin



### MOU

Arranged revenue share for new programs

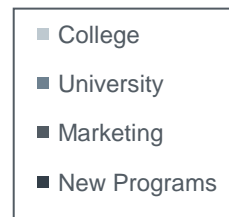
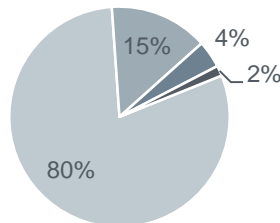


### New Program Screen

- ✓ Adequate student demand
- ✓ Revenue model indicates financial viability
- ✓ Student market will not cannibalize existing BSU programs



### Gross Revenue Share

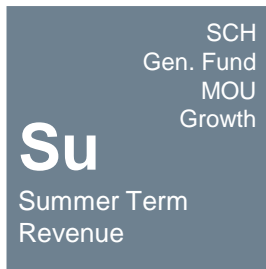






# Aligning Incentives with Targeted Growth, Pt. II

## Growth Incentives to Increase Summer Term Utilization



### Student Credit Hours

Revenue distributed by credit hour production



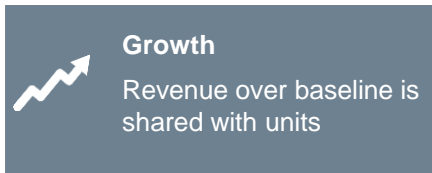
### General Fund

Revenue pooled into university general fund



### MOU

Arranged revenue share for new programs

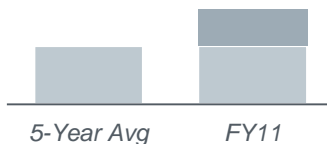


**CLEVELAND STATE UNIVERSITY**  
*engaged learning*

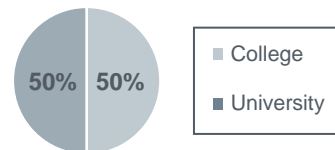
Baseline set as rolling 5-year revenue average



Calculate gross revenue above baseline



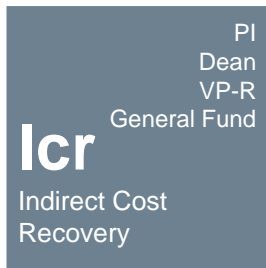
Revenue above baseline shared with units





# Aligning Incentives with Targeted Growth, Pt. III

## Supporting and Incentivizing Research Through ICR Allocation



**PI**  
Grant revenue given to  
Principal Investigator



**General Fund**  
Revenue pooled into  
university general fund



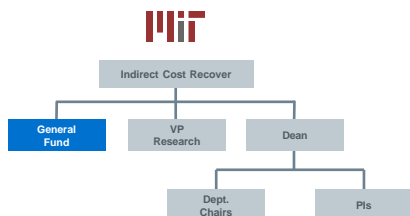
**Dean/Dept**  
Grant revenue given to the  
dean or department



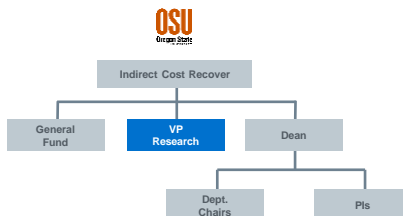
**VP-R**  
Grant revenue given to  
VP-Research office

## ICR Allocation Approaches Span Allocation Spectrum

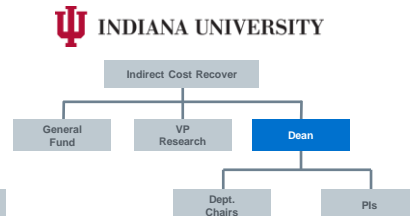
*Most Funds Retained in  
General Fund*



*Most Funds to VP  
for Research*



*Most Funds to Deans*







# To Charge or Not to Charge

## Little Return From Metering Most University Services

### Hard to Measure

### Easy to Measure



- Office of President
- Institutional Research
- Bursar
- Registrar
- Payroll
- Public Safety
- Admissions

- Library
- IT Administration
- Student Affairs Office
- Advancement
- Purchasing

- Campus Utilities
- VP-Research Office
- Financial Aid

- Classroom Space
- Laboratory Space



Low Return from  
Metering Usage

Medium Return from  
Metering Usage

High Return from  
Metering Usage



# Keeping it Simple

Most Institutions Using Similar Metrics For Cost Allocation

## Common Cost Allocation Metrics, By Expense Area

Expense	Revenue Tax	Expense Tax	Faculty FTE	Staff FTE	Student FTE	SCH	
General Administration	✓	✓	✓	✓	✓		
Business Services	✓	✓	✓	✓			
Academic Affairs	✓	✓			✓	✓	Student majors, Graduates
Library	✓		✓		✓	✓	
Information Technology	✓		✓	✓	✓		Fee-for-service
Facilities				✓			Asgn Sq.Ft, Qual. Asgn Sq.FT
Research Expenses	✓	✓	✓				ICR, ICR Tax

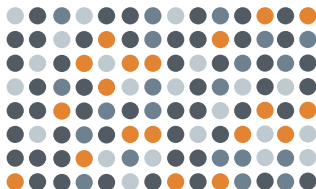


# Diminishing Returns to Complexity

USC Sees Downside to Complicated Cost Allocation Methodology



**100+ cost allocations with unique formulas**



**Four cost pools driven by single metric formula**



Expensive to manage

Easy to criticize individual metrics

Few allocations simplifies management

Cost pooling reduces measurement bias

## An Exercise in Futility?



“

“These allocation formulas are inevitably somewhat arbitrary, and **a remarkable amount of decanal attention has been paid to revising the formulas**... the formulas are not used in determining the budgets of the service units themselves. The main incentives faced by deans, (and other unit heads) regarding central service costs, are to complain about the attribution formulas and about the level of costs themselves. **Beyond complaint, there is little that the deans can do.**”

*Nancy Cantor & Paul Courant,  
University of Michigan*



# Keeping It Simple

## Adjusting Space Costs for Quality

Net Ass. Sq. Ft  
Qual. Ass. Sq. Ft  
Direct Bill  
Gen. Fund

**Fc**  
Facilities



### Bill to Unit

Units charged for total cost of service



### Quality Assigned Square Ft

Rate based on quality of space occupied



### General Fund

Costs pooled and paid out of general fund revenues



### Net Assigned Square Ft

Rate based on total square feet occupied



### New space classified by cost of maintenance

High Cost = 1.10  
Average Cost = 1.00  
Low Cost = 0.90



### Assignable square feet calculated for each facility

1,220 sq. feet  
15,000 sq. feet  
28,000 sq. feet



### Standard base rate assigned to weighted space

\$14.00



**Facilities Cost**







# The Center Cannot Hold



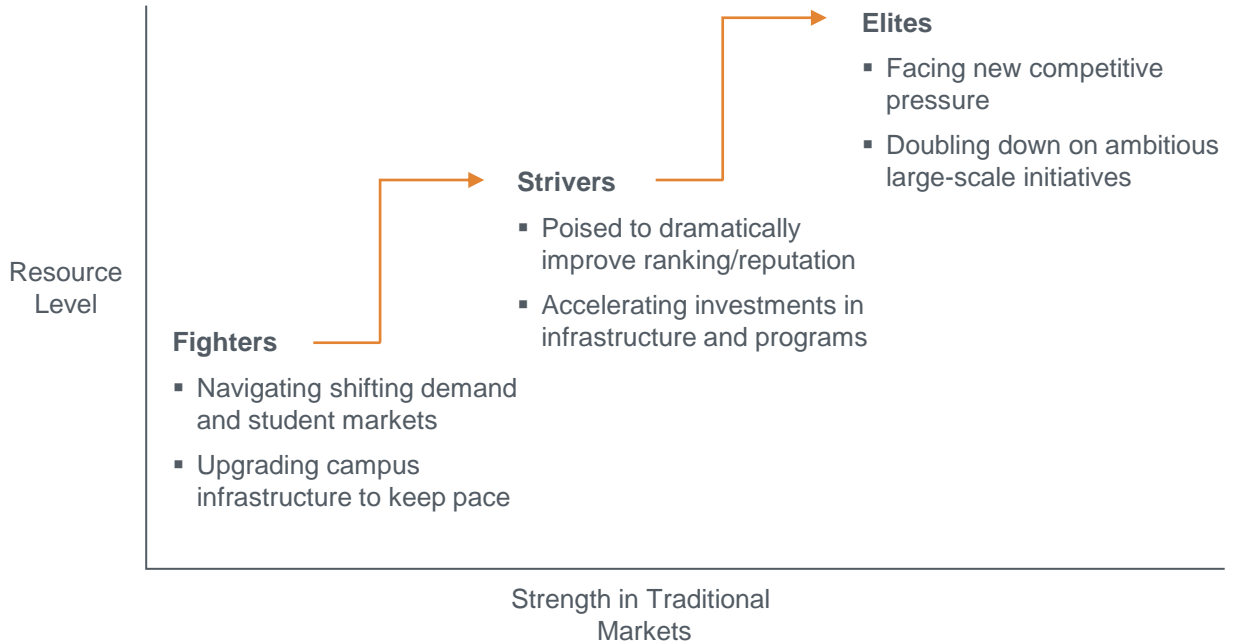
“How do you have enough central resources to do institutional, cross-university initiatives, particularly when the units themselves do not have the resources to achieve their individual strategic plans? ...You can't run a \$2.4B business without central resources - there aren't enough.”

*Hank Webber,  
Washington University – St. Louis*

# Go Big or Go Home



## Central Strategic Funds Increasingly Critical



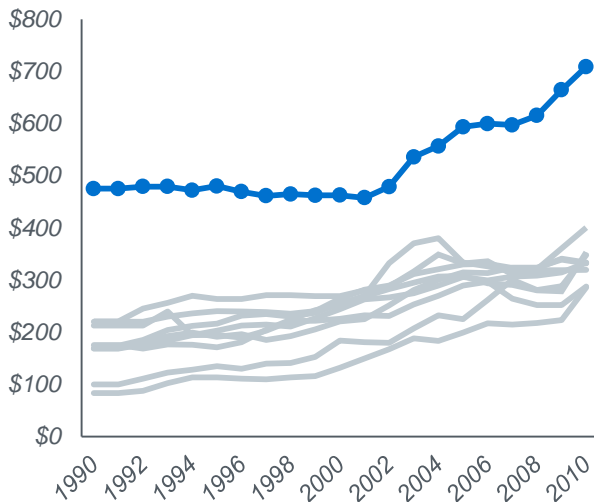


# It Isn't Easy at the Top

## Johns Hopkins Innovates to Maintain Leadership

### JHUs Historic Dominance in Research Funding and Support

*Federal Research Funding (in millions),  
Constant Dollars*



### Leadership Focused on New Collaborative Ventures...

#### TEN × 2020

A Vision for Johns Hopkins University Through the Year 2020

##### A Coordinated Strategy

"We will invest strategically in new and exciting collaborative ventures... cementing our status as one of the world's leading interdisciplinary universities"

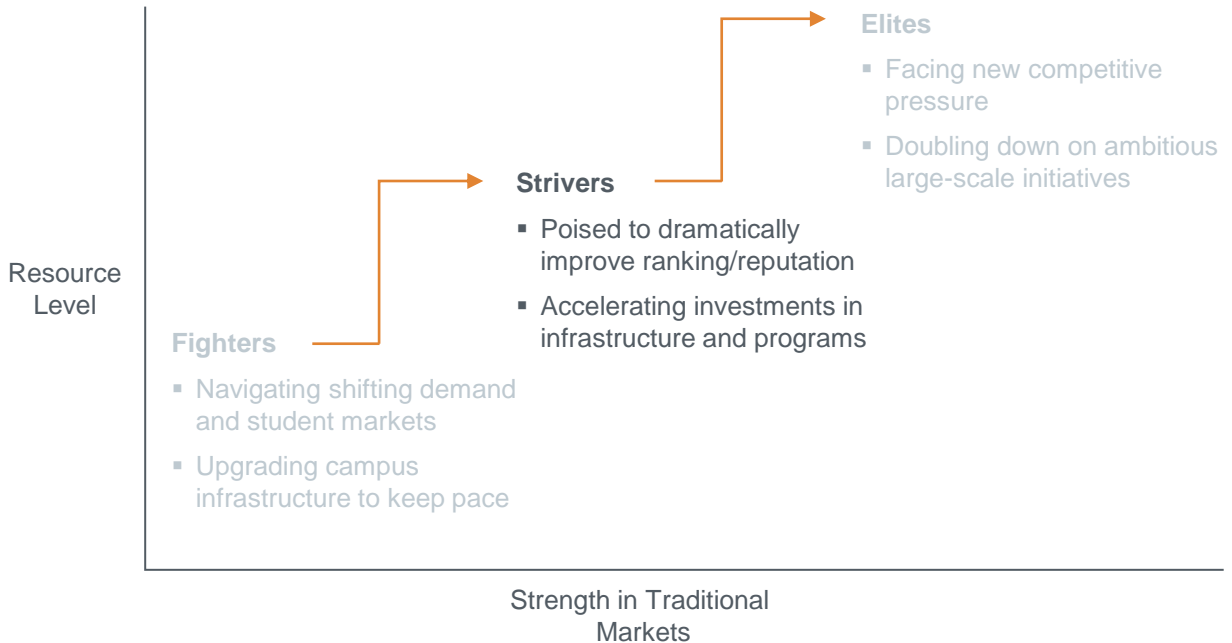
### ...And Major Investments

- "Cancer center set to expand with \$65M gift"
- "\$250M for cross-disciplinary work"
- "\$100M gift for need-based financial aid"

# Go Big or Go Home



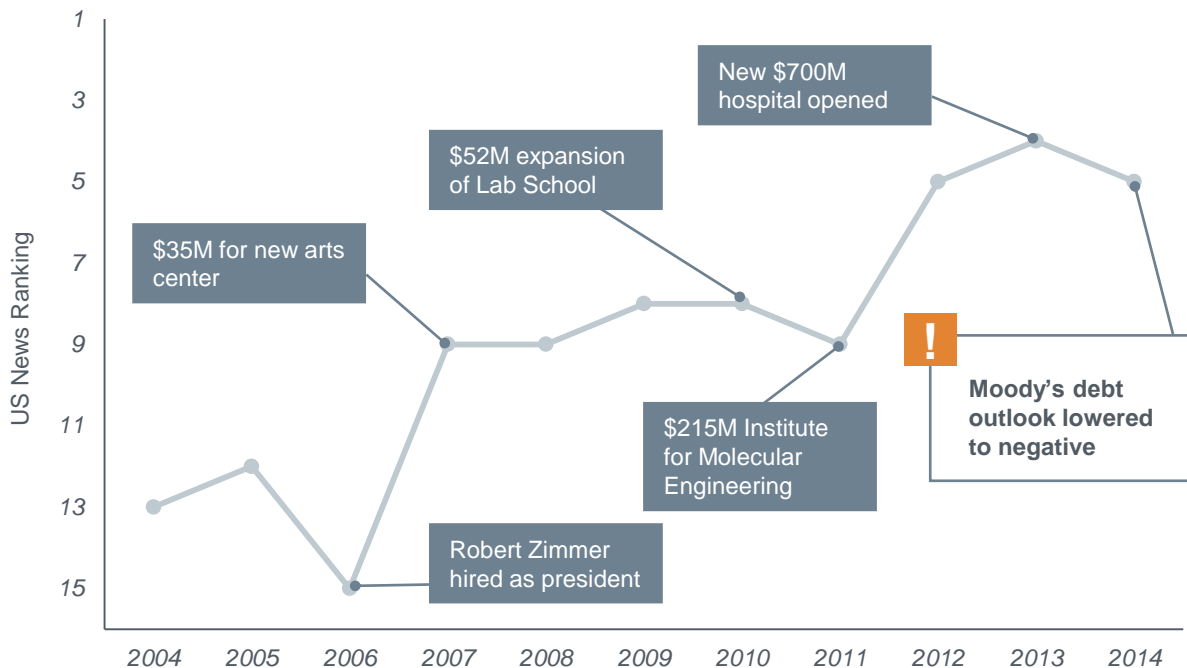
## Central Strategic Funds Increasingly Critical





# Competing with the Big Boys

Series of Major Investments Moves UChicago into the Elite



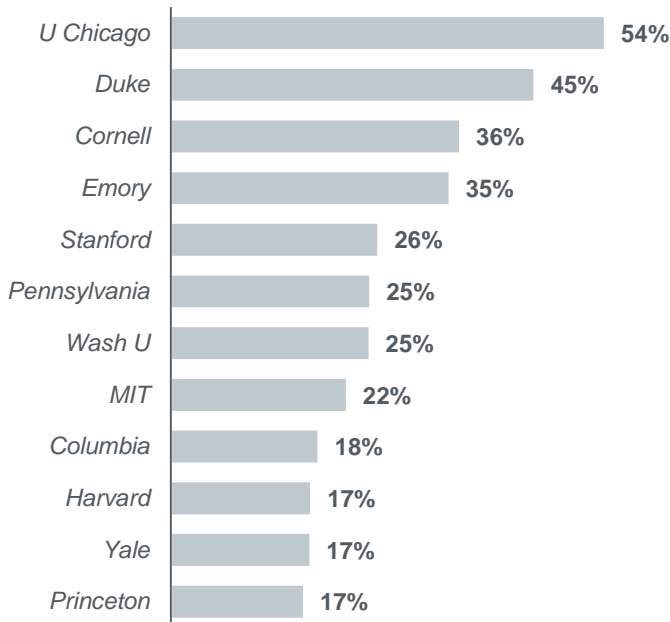


# High Risk, High Reward

## Chicago's Debt Strategy Poses Risks

### Chicago Becomes Most Leveraged Wealthy University

*Debt to Endowment Ratio, 2013*



“

“There's a risk of underinvestment. If we are in a position where we can't provide an adequate facility for people in astronomy and astrophysics, for example, they're going to go elsewhere because there are other places that will.”

*David Greene,  
EVP-Strategic Planning*

“

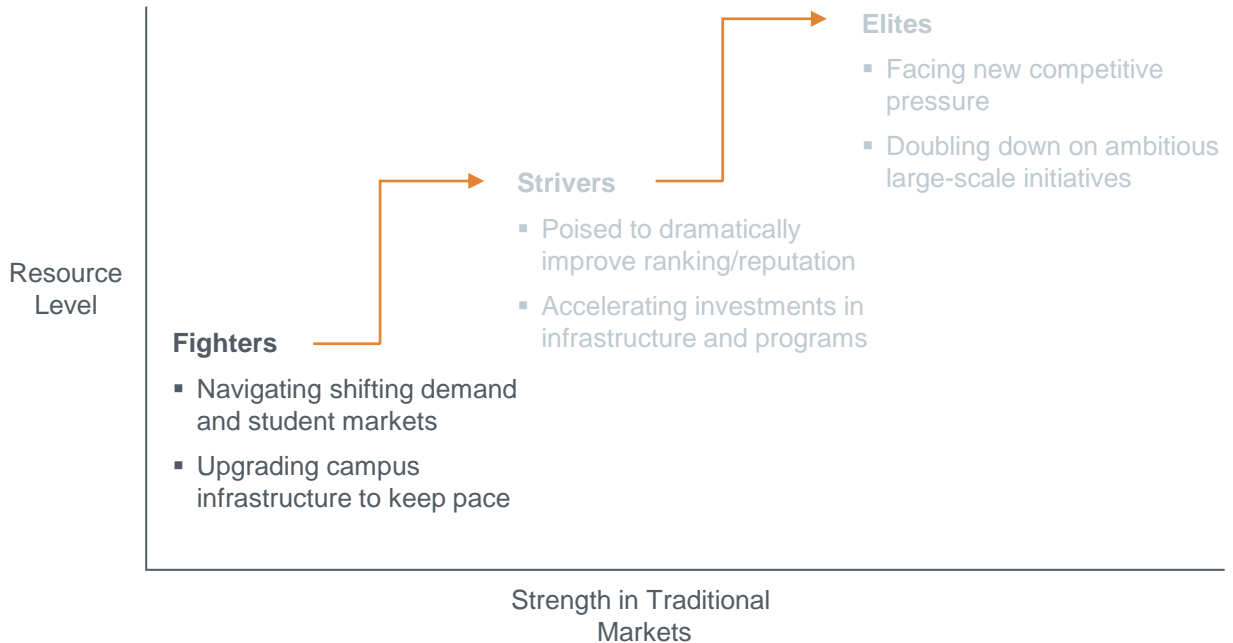
“We well understand that borrowing for some of these investments entails risk... We cannot, however, scale back our academic and programmatic ambitions in a way that risks our future excellence as a university.”

*Robert Zimmer,  
President*

# Go Big or Go Home



## Central Strategic Funds Increasingly Critical








# If You're Not Going Up, You're Going Down

## Amid Challenging Market UNCG Expands Campus, Upgrades Capacity

### The Best Laid Plans....

**UNCG Prepares Largest Campus Expansion In School History**




\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**State Budget Cuts \$4M, UNCG to Cut Faculty, Class Sections, Graduate Assistantships**



\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### Doing Nothing: The Greater Threat

“

“It would be easy to postpone a project, but we're in a competitive environment and facilities play a role in where students—particularly traditional age college students choose to go. If you don't have the facilities, then you're going to be behind the eight-ball and it'll be hard to catch up.”

*Reade Taylor,  
UNC-Greensboro*

Source: John Newsom. "Students, Faculty Protest University Spending at UNCG" *News & Record*; Katie Arcieri "UNC-Greensboro gears up for major expansion" *Triad Business Journal*; EAB interviews and analysis.

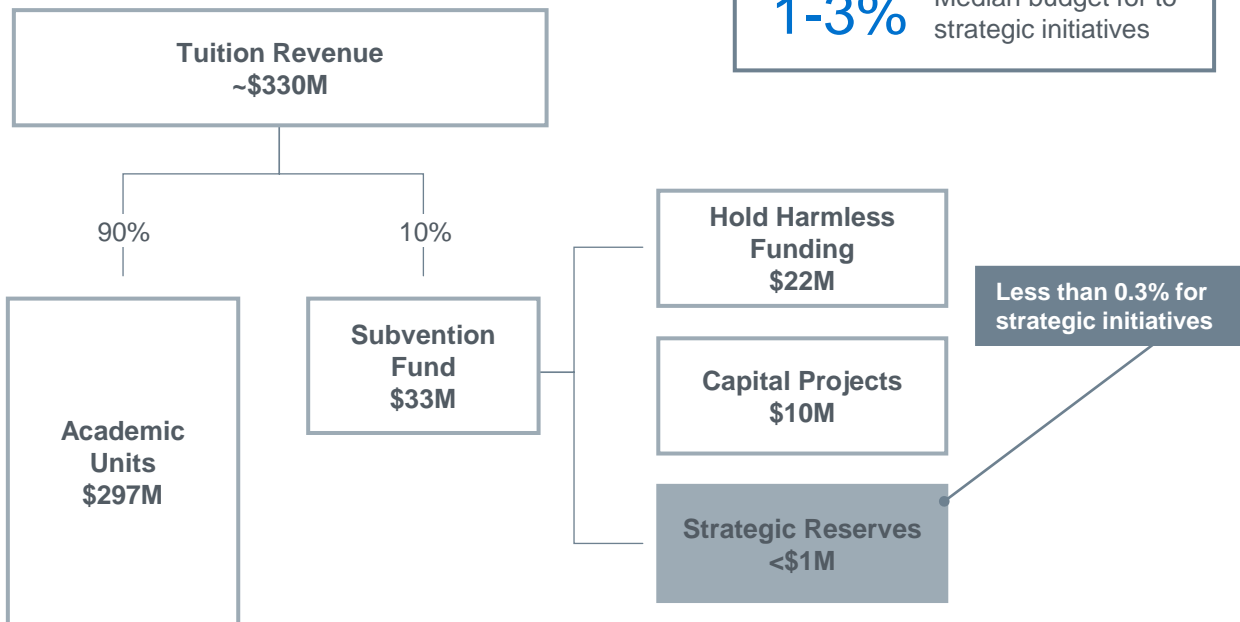


# Prior Commitments

Even in an RCM Context Funding Strategic Reserves Poses Challenges

## Tuition Revenue Distribution Model

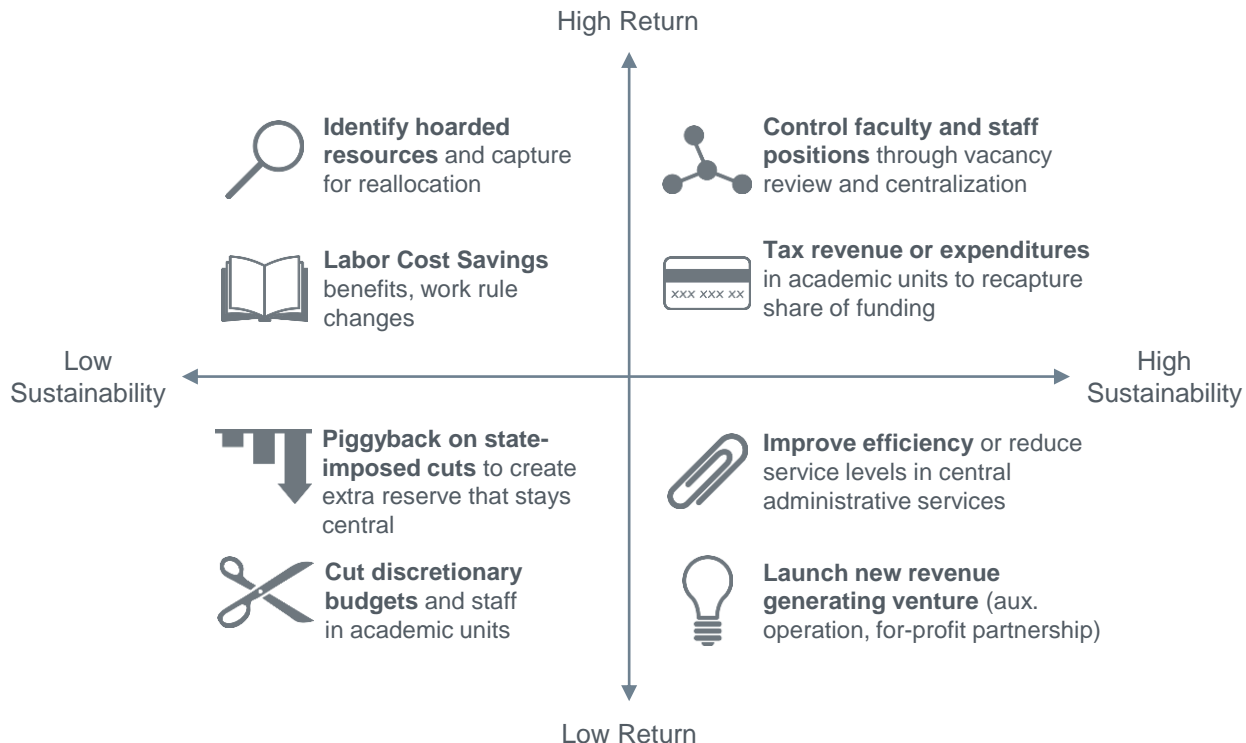
*Public Research University*





# Building a War Chest in Tight Times

## How to Create Centralized Funds in a Decentralized Model



# Mission Mismatch

## Budget Change Leaves Campus Poorly Aligned With University Mission



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# Rensselaer

**Adopted RCM in 1990s with focus on revenue and enrollment growth**



**New president redesigns budget model around campus strategic plan**

- ✗ Not enough central revenue to invest in university-wide initiatives
- ✗ Majority of enrollment growth in Humanities School, not institutional priority (Engineering)

- ✓ Central resources grown through centralizing faculty lines and revenue allocation
- ✓ Academic budgets set based on unit's alignment with the institution's five strategic goals

## The Other Side of the Spectrum— RPI's Annual Performance Budgeting Process

**Performance plans developed by each unit**

- Activity budget tying each cost to institutional priority
- Budget covers all funds (unit resources and new requests)

**President reviews plans and sets budget allocations**

- Plans ranked according to institutional priorities
- Allocations based on performance ranking

**Units adjust performance plans based on actual allocation**

- Final budgets required to demonstrate how funding will be used to support institutional priorities

# In the Long Run, All Costs are Variable

## Identifying Opportunities to Reallocate Resources

### Typical Timeframe for Resource Turnover

#### Short Term



**6 Month  
Contracts**

#### Medium Term



**3 – 5 Year  
Commitments**

#### Long Term



**1-6% Annual  
Turnover**





# From Enrollment to Outcomes

## Integrating Performance-Based Mandates Into Your Budget Model

55

### Potential Unit Level PBF Tactics

#### Department Incentive

Bonus funds tied to department-specific metrics

#### Milestone Bonus

Incentive payments tied to student completion milestones

#### Outcome Allocations

Share of college revenue for # of degrees awarded

#### State to School Conversion

Incorporate state PBF metrics into campus allocations



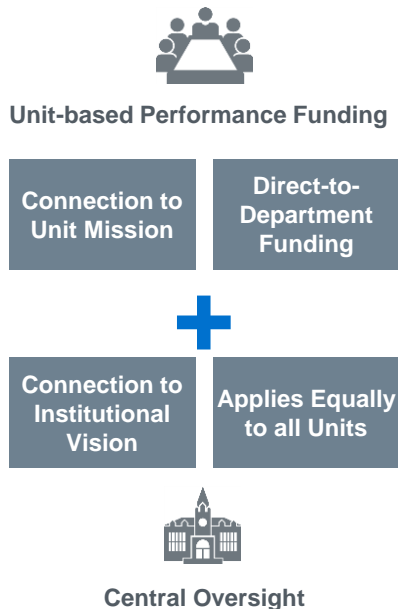
**Can performance based funding work at the college or department level?**

**Will student success incentives change behavior?**



# Integrating the Institutional Mission

## Institutional Priorities Inform Unit Performance Funding Targets



University of Wisconsin  
**Eau Claire**

### Strategic Accountability Matrix (SAM)

- Institution-level collection of 25 metrics broken into nine categories:
  - Sustainability (financial)
  - Development (gifts, grants)
  - Tuition
  - Student Progression
  - Course Availability
  - Student Interest
  - Student Demographics
  - Advising
  - High-Impact Experiences
- Metric performance connected to \$400K annual merit pool, split 80/20 between departments and colleges (avg. dept. payout ~\$9K)
- Merit payouts connected to departmental progress towards individual & collective goals on each metric





# Breaking Down the Fundamentals

## Scoring Integrates Differences in Dept. Mission, Customized Goals

### Sample SAM Score Sheet

**Flexible Weighting:** Metrics are weighted differently for each department (0, 1, or 2) to accommodate differences in department missions

**Department-Specific Goals:** Deans and provost negotiate expected values for each metric – scores based off difference between goal and performance

Performance payout based on weighted sum of scores

Strategic Accountability Matrix	Tactical								Weighted Score	Perform. Share
	Student Progression									
	Department/Program	SCH Lost Due to WRF				30 Credits First Year				
Weight		Expected	Actual	PR	Weight	Expected	Actual	PR		
Department A	1.0	371	1,232 ↓	3.32	1.0	80.0%	62.4% ▼	0.78	0.99	3.24%
Department B	1.0	7	136 ↓	18.50	1.0	80.0%	16.7% ↓	0.21	2.31	7.52%
Department C	1.0	294	287 →	0.98	1.0	80.0%	49.4% ▼	0.62	0.85	2.77%
Department D	1.0	708	1,865 ↓	2.63	1.0	80.0%	50.5% ▼	0.63	1.16	3.79%
Department E	1.0	42	173 ↓	4.08					1.61	5.23%
Department F	1.0	471	1,086 ↓	2.31	1.0	80.0%	53.8% ▼	0.67	0.96	3.12%
Department G	1.0	381	518 ▼	1.36	1.0	80.0%	47.9% ▼	0.60	1.08	3.52%
Department H	0.0	95	199 ↓	2.09	0.0	80.0%	59.9% ▼	0.75	1.01	3.29%
Department I	1.0	66	473 ↓	7.15	1.0	80.0%	47.5% ▼	0.59	1.35	4.40%
Department J	1.0	142	560 ↓	3.93	1.0	80.0%	44.3% ▼	0.55	1.09	3.55%
Department K	0.0	401	134 ↑	0.33	0.0	80.0%	58.9% ▼	0.74	1.19	3.86%
Department L	1.0	1,879	1,384 ▲	0.74	1.0	80.0%	46.4% ▼	0.58	0.88	2.86%
Department M	1.0	463	869 ↓	1.88	1.0	80.0%	51.9% ▼	0.65	1.05	3.42%
Department N	1.0	265	687 ↓	2.60	1.0	80.0%	40.4% ▼	0.51	0.98	3.18%
University of Wisconsin - Eau Claire		12,919	19,979	154.6%		80%	50%	62.5%		

# Everything But the Kitchen Sink



## List of Metrics Included in Strategic Accountability Matrix

### High-Impact Experiences:

- % of majors participating in collaborative research or creative activities
- % of majors participating in an internship
- % of majors participating in an intercultural immersion experience

### Student Interest:

- Share of applicants submitting ACT scores expressing interest in the department
- Number of new freshman majors
- Total number of majors

### Citizenship:

- SCH delivered in general education-eligible courses

### Mini-Session Utilization:

- Winter session undergraduate SCH delivered
- Summer session undergraduate SCH delivered

### Advising:

- % of freshmen with degree plans
- % of NSSE respondents that approve of departmental advising

### Student Progression:

- SCH lost due to DFW
- % of majors earning 30 credits in their first year
- % of majors earning 60 credits in their first two years

### Tuition:

- Tuition paid by students for department courses
- Tuition paid by majors
- Winter and summer session tuition

### Development:

- Extramural grant \$
- Program revenue \$
- Fundraising \$

### Sustainability:




- Total earned income
- Direct expenditures
- Earned income ratio (income/expenditures)



# Early Signs of Success

## Two Years In, SAM Inflecting Department Behavior

### Early Lessons from SAM's Success

- 
**Incent Collective Performance:** Each department's payout modified based on university-wide progress, encouraging collaboration
  
- 
**Give Departments Free Rein on Policy Solutions, Spending:** Chairs apply their local knowledge regarding policy changes, how to distribute merit money
  
- 
**Provide "Hold Harmless Period":** Base initial two years of payments on share of faculty FTE, not merit pool, to acclimate departments

### "Green Shoots" Visible in Departmental Responsiveness to Metrics



#### Modifying Curriculum to Improve Transfer Success:

One department saw below-target DFW and progression among transfer students, now modifying curriculum to align with 2yr partners



#### Investing in Quality to Attract Majors:

Service department with few majors now investing more in advising and undergrad research to attract students



#### Increasing Support for At-Risk Groups:

Finding an achievement gap between URM and white students, one department added supplemental instruction to gatekeeper courses

# Discussion Questions

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1. What surprised you most about today's presentation?
2. What are some actions that you would like to incentivize differently at Bowling Green State University?
3. What is one actionable item that you think it would be feasible to consider within the next 6-12 months?



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