

**Budget Model Review – Budget Administrators  
Select Members of the Accounting and Reporting Group  
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**Participants:** Sue Fabbro (Provost's Office), Roxanne Brunger (CAS), Rob Montry (SSEM), Denise Shroud (SHPS), Peggy Suess (SHPS), Jo Klingler (SHPS), Reva Kidd (SHPS), Joy Ebenhoeh (Chancellor/Provost Office), Bea Kendall (SEHS), Shaquana Burton (VCIA) and Christy Brownell, Shelbie Rathbun and Jerry Glasco (Financial Services & Budget)

Overall the group was supportive of the new budget model. They felt that it supported growth and provided them an opportunity to increase their operating budget. Supporting comments included:

- The New Budget Model altered the annual budget process and presentation requests to the Chancellor's Advisory Committee for Budget and Strategic Planning. We rarely if ever received any budget increases from our presentations to BP/CAC under the former process. The New Budget Model offered the prospect that it would no longer be necessary to devote an inordinate amount of time and staff to such an exercise.
- I have noticed a couple issues with the structure of the New Model, but I'm supportive of the concept.
- I was leery of the new model in that I thought that it may cause rift between departments, schools and college in competition for tuition revenue. I think that has happened somewhat, but to a greater degree it has enhanced innovation in generating tuition revenue that may have never happened under the old model. More collaboration is taking place in the form of articulation agreements, internationalization, transfer enrollment and for the first time with Ann Arbor (engineering program). Also, I believe that the Genesee Early College has been easier to establish and manage with the new model providing growth through tuition revenue return.
- The New Budget Model has sustained and enhanced various academic affairs initiatives rather than perhaps eliminating them or putting them on the back burner. Some of these initiatives include the Scholarship Day Competition, the Blue Ribbon Commission, General Education Reform and Dual Enrollment.

The group made the follow suggestions regarding the Budget Model:

1. Include Executive Officers and their Budget Administrators in the budget process earlier:
  - a. Get enrollment projections directly from academic departments.
  - b. Input from EO's and Budget Administrators on tuition rates (note: Budget Administrators acknowledged that part of this decision is politically driven).

- c. Input from EO's and Budget Administrators on tuition differential and tuition plateau (note: Budget Administrators acknowledged these issues need to be looked at in the fall of one year to implement by the fall of the following year).
  - d. Get budget information (merit salary, fixed cost increases, initiatives funded, ect.) out earlier to assist in departmental budget planning.
2. Discontinue the annual exercise of doing the "Departmental Planning and Action Worksheets". Accountability is already built into the system.
3. Discretionary pool for funding one-time initiatives that it would not be feasible for a departmental group to save for. We had a great deal of discussion on this and there wasn't a consensus on where the funds should reside or what the process should be. Discussion ranged from a central pool at the Chancellor's level to allowing funds to flow through the budget model as is and making decisions at the Executive Officer level. Whatever is decided the process should be well documented and communicated to the EO's and their Budget Administrators.
4. There is a great deal of confusion and miscommunication regarding the annual merit program.
  - a. Many are still under the impression we are still operating a positional budgeting system. We need to get the word out that this is not the case.
  - b. There is some confusion about whether or not the merit program is funded. The budget assumptions (rate, enrollment and state appropriation) are set so the merit program is funded at the campus level. It does not guarantee the program is funded at the department level. Communications that come out with the merit program do not make this clear. We need to get the right message out.
  - c. What are the options for a department if their budget increase is not enough to cover the merit program for their group?
  - d. Announcing a merit program at a given rate creates an expectation on the part of employees and makes it difficult to alter increases for performance or equity issues.
  - e. Some concern about funding being shifted away from PA and Clerical salaries. This was not allowed in the old positional budgeting system.
5. Standard process for requesting new programs. Those that have seen the new process and worksheet thought it was a step in the right direction. We need to document and communicate these processes for requesting and approving new program requests.
6. Most were uncomfortable with making any changes to adjusting fringe benefit budgets to actual at the end of the year. There was support for looking at "all benefits recorded as compensation" and treating it as a benefit instead of compensation when we adjust fringe benefit budgets to actual at year end. If we changed this, we would need to build this into a future budget.
7. Another benefits related comment related to moving funds between the departments to cover supplemental pays and requiring benefits to be included. It was stated that this removes funding from supply lines that could be used for other purposes. Our current rule is that if you move or add salary budget, you must also fund benefits at 30%. For individual transactions, it can be true that the benefit impact is not always 30%. However, there is always some benefit impact on these transactions. Right now were between \$100K and \$200K underfunded for the campus on benefits. We would need to close that gap and add an additional reserve if we decided to change

the rule of requiring benefit funds to be moved/added each time salary funds are moved/added.

8. Most were in favor of keeping the current carry forward process. There were some concerns about allowing a departmental group to start the year with a deficit. However, the alternative which would require everyone else to contribute to resolving the deficit was not appealing to the group. They would like to receive the carry forward information earlier to assist them in making commitments for the coming year. They would like to get the carry forward and budget information at the same time.
9. The general consensus was that the group would like to avoid taxes or internal recharges.
10. The Commencement Budget is underfunded. A fee was requested, but not approved.

Dennis Fattaleh (Business Administrator for School of Management) was unable to attend the group meeting on the budget model. Dennis did provide us comments we felt should be shared. However, it should be noted that the rest of the group did not discuss some of these topics. Below is a summary of Dennis' comments:

- Overview:
  - I am in agreement that the old process of making a presentation to the BP/CAC was time consuming and ineffective. I do contend the new model shifts the paradigm for the academic units from a more purest approach to what our academicians believe should be taught to one of what the market demands, and forces the academic units to become stakeholders in meeting those demands in a competitive environment with the University of Phoenix, et al.
  - The new model does seem to leave support units out of the process and unable to affect their futures. What we have noticed is “push-back” from support units seeking to increase their own budgets. It’s beginning to feel as if we have vultures at the door and makes is a bit difficult when significant amounts are removed from our budget in mid-year. A solution might be a hybrid model with the academic units using the new model and the support units using a version of the old.
- Tuition Fluctuation – One aspect of the new model that is causing me to rethink how I manage and project SOM’s budget is the fluctuation in budgeted tuition revenue. When the new budget model was first introduced, there was a notion of perhaps introducing a three-year rolling average for revenue sharing. I do feel it’s imperative that the model be adjusted to smooth out the revenue streams to afford academic units the ability to more comprehensively plan.
- Fixed Costs – This is an issue that does not affect SOM, at least not at the moment, but may other academic units and is more or less food for thought. Taking the model to the extreme, it is possible for a unit to reach a state of paralysis and unable to function. A shrinking budget could cause a unit to reduce its offerings, thus not meeting market needs. This could have a spiraling affect on enrollment for all units. There needs to be a “stop-gap” apparatus in place to address this issue before it becomes a reality and may be a responsibility of a Programs Oversight Committee, which I will address later in this memo.

- Fringe Benefits – I’m not comfortable with the fringe benefit model as I understand it. I believe the model is to zero out fringe benefit costs against budgeted amounts for both overages and underages. This is a disincentive for units to allocate budget dollars to salary lines since it carries a 30% additional allocation to fringe benefit lines.
- Tuition Differentials – With our current system, credit hour costs are aligned with the student and not with the course being offered. The issue here becomes exactly what revenue an academic unit is receiving for teaching certain courses. As units develop collaborative programs to meet market demands, this becomes a disincentive for higher tuition units such as SOM and an incentive for lower tuition units.
- New Program Funding – As I recall, the new budget model provides an 80/20 revenue split for new programs for the first four or five years. From my experience with NetPlus, this is very generous once the program is established and provided SOM with very deep pockets for a few years. However, it was a major contributor to a budget deficit for the first couple years. The new budget model requires academic units to have the excess funds needed to cover the start-up costs experienced in the first couple years. Unfortunately, an 80/20 split of little or no revenue is little or no revenue. With NetPlus, the faculty and marketing costs were still there the first couple years. Also, it took a couple years to get the program fully integrated and to work out the details.
- Programs Oversight Committee – The new budget model has created not only the additional need for academic units to collaborate, but also the competition for revenue. I am aware of one unit in particular that is pulling in courses taught by other units. This results in a management course, for instance, being taught by a non-business unit. The issues raised are whether the non-business unit has the expertise to teach this discipline and whether this is a disservice to our students. A Program Oversight Committee could provide the framework for collaboration between units and assure our students and the quality of our programs remains the central focus. Such a committee would have ultimate authority as to who would teach a particular course, thus assuring it’s taught by the best we have to offer. The committee could also help to identify other market driven needs and perhaps initiate new programs.
- Final Notes –I agree there is confusion regarding the funding of the merit program. I am also in favor of keeping the carry forward process.