

SUMMARY OF KEY BUDGET MODEL ISSUES WITH RECOMMENDATIONS

The current budget model used by UM-Flint was developed over several years by the Vice Chancellor for Administration and Director of Financial Services based on input from faculty and staff. The new budget model was first implemented in fiscal year 2005-06 based upon the recommendation of the Chancellors Advisory Committee on Budget and Strategic Planning with approval by the Chancellor. The primary objectives of the new budget system were to provide a financial incentive to grow enrollment and to decentralize financial decision-making.

When the new budget model was approved, it was recognized that a new budget system would need to be in effect for a sufficient period of time before an appropriate evaluation of its impact could be conducted. There was agreement that a review of the new budget model take place after three years to determine if the new budget model was meeting its stated objectives and to solicit input on possible changes to the new model. It was also agreed that any changes to the budget model would be made on a prospective basis only.

The third year under the budget model concluded at the end of June 2008 and the evaluation process is now complete. Our goals were to obtain, evaluate and summarize feedback and suggestions during the fall 2008 semester and to formulate, review and finalize recommendations for change. The evaluation steps included: 1) faculty/staff survey; 2) suggestions from Vice Chancellors, Deans and other key individuals; 3) suggestions from a select group of unit budget administrators; and 4) recommendations of Chancellor Advisory Committee on Budget and Strategic Planning. Changes resulting from this process will be communicated early in 2009 and go into effect July 1, 2009.

The Vice Chancellor for Administration and Director of Financial Services worked closely with the Chancellors Advisory Committee on Budget and Strategic Planning during the evaluation process.

Strong Support for New Budget Model

Respondents indicated strong support for the new budget model. Some positive findings include:

- The budget model provided a financial incentive for enrollment growth.
- The budget model provided financial support for new academic programs.
- The budget model coupled with the 10% carry forward rule provided funding for new initiatives.
- Decentralization of financial decision-making was generally seen as a positive change.

Conclusion

There is strong support for continuation of the new budget model with some changes.

Funding for New Programs

Issues

- Funding is needed earlier. Academic Departments incur costs prior to any revenue generation.
- Funding is needed for a longer period of time. Academic Departments indicated that they are struggling to fund the continued costs of a new program after the new program agreements.

Suggested Solutions

- Adjust the carry forward policy to allow academic departments to carry forward funds specifically earmarked for program development. Academic Department would need to make requests through the Dean's Office to the Provost and Vice Chancellor of Administration for review and approval. Request must include a budget, timeline and program description. Academic Department must report annually on the progress (budget vs. actual financial statement and narrative on progress). The Associate Provost must be included in the review and approval process for any new graduate programs.
- Look at the possibility of creating an incentive fund in the 2010 or 2011 budget. Consult with the Chancellor, Provost and BP/CAC on the appropriate place to house these funds and the process for requesting and approving start-up funding. Require reporting on how the funds were allocated. Require reporting on how the funds were used.

Other Possible Solutions

- Consider extending the length of the special program agreements. This would have a negative impact on support units.
- Consider changing the revenue split to allocate more funding to academic programs. This would have a negative impact on support units.

Recommendation

- Adjust the carry forward policy to allow academic departments to carry forward funds specifically earmarked for program development as outlined above.

Allocation of the Marginal Increase in Annual Funding

Note

We allocate out the entire increase in annual funding to fixed cost increases, initiative funding and to academic departments (new programs 80%, traditional programs 50% - 60%) or non-academic departments (new programs 20%, traditional programs 40% - 50%). Any change in these allocations will increase funding for certain groups and decrease funding for other groups.

Issues

- Overall concern that both academic and non-academic departments are under-funded.
- Should SEHS receive 60% of marginal revenue as SOM and SHPS currently do?
- Should certain programs within CAS like the arts and sciences receive 60% of the marginal revenue as SOM and SHPS currently do?

Suggested Solution

- The Provost and Associate Provost are currently reviewing the budget for SEHS. Changes may be implemented to their budget based on this review. One open issue is the loss of funds due to expiration of a Mott Foundation grant. Had SEHS been treated as SOM and SHPS in the new budget model, they actually would have lost budget. Their enrollment is declining and they would have given back funding based on lost enrollment at 60% instead of 50%.

Discussion

- The Committee discussed the issue of costs for CAS programming in the arts and sciences and concluded there was a need for a higher rate of return to support the cost of these programs. An increase of the return rate from 50% to 55% was suggested.
- The Committee also discussed the need for a separate budget for accreditation costs. Accreditation costs for SEHS is a current issue but various academic programs require periodic accreditation.
- The open issues related to the SEHS budget were discussed by the Committee and it was suggested that the return rate remain at 50% for now and then be reassessed after the review process was completed.

Recommendations

- Increase the return for CAS to 55% of marginal revenue from the current 50%.
- Continue SHPS and SOM at 60% of marginal revenue.
- Until the full review of budget issues is completed for SEHS, retain the current 50% return rate. Note that increasing the return now would allocate a higher proportion of a deficit to SEHS. Reassess the return rate once the budget review process is completed.
- Establish a separate budget for accreditation costs.

Inclusiveness in the Development of the Annual Budget

Issues

- Academic Departments responsible for generating the revenue feel that they should be involved in setting the enrollment assumptions used in the budget.
- Deans and Executive Officers would like to be more involved in the establishment of the annual budget and other budget related issues.
- Faculty governance as it relates to setting the annual budget.

Suggested Solutions

- Financial Services & Budget will continue to get enrollment projections from the Admissions Office and Graduate Programs Office. However, we will also consult with the Deans before finalizing any enrollment assumptions we use. We will communicate the final assumption used to the Deans.
- Establish a regular fall meeting on budget issues requiring study in advance of budget preparation. The objective would be to identify areas we want to seriously consider for change in the next budget cycle. This meeting should include the Chancellor, Provost, Associate Provost, Deans, Vice Chancellors, and Financial Services & Budget.

- Establish a regular spring meeting to discuss budget assumptions (rates, enrollment, state appropriation and merit salary), fixed cost increases and initiatives. The same group identified to attend the fall budget meeting should attend the spring budget meeting.

Recommendations

- Financial Services & Budget will consult directly with all academic units on budget assumptions.
- Establish regular fall and spring budget meetings with all key participants.

Decentralize the Budget Model beyond the Departmental Group

Issue

- Should budgets be decentralized beyond the level of the Group, e.g. by department within CAS?
- Some of those surveyed believed their enrollment was growing, but they were not benefiting financially from the enrollment growth.

Suggested Solution

- Decentralizing the budget beyond the college level is a decision the college should make. This has happened in some areas (SHPS as an example). It is up to the administration of CAS in conjunction with faculty governance to address this issue.

Recommendations

- This issue needs to be resolved within CAS. Financial Services & Budget will provide administrative support as needed.

Investment Pool for Academic Initiatives

While we recognize that this was an issue for a number of units, creating initiative funding does go against the primary principle of the model (allocating funding to where revenue is generated). It should be noted that the number of funds created and the amount set aside will limit our ability to allocate funding through the model (i.e. those generating revenue will receive less).

Issues

- The Provost expressed a desire to have an investment pool to fund academic initiatives that promote academic excellence and transcend the needs of the individual schools and college.
- It is recognized that funds invested by the Provost in academic initiatives generate a return to the schools and college. One recent example is the Honors Program initiative.
- There were varying opinions on how this fund could be established or administered.
- Some funds are now reserved centrally as part of the budget to address unplanned costs that arise during the year as approved by the Chancellor.

Suggested Solution

- Establish an investment pool to promote academic excellence under the control of the Provost.

- In order for the amount of the investment pool to grow over time, designating a percent of tuition revenue was discussed as a possible solution.
- Based on the current year's budget, ½% of total tuition revenue would generate about \$250K for the academic excellence pool controlled by the Provost.

Other Possible Solutions

- For Funding:
 - Central tax on current budgets and future budget increases to create the fund.
- For Administration of the fund:
 - Establish the initial budget at ½% of budgeted tuition revenue and then adjust to actual at the end of the year.

Recommendation

- Establish an Investment Pool for Academic Initiatives under control of the Provost equal to ½% of total tuition revenue. This fund will transcend the schools and college and be used to promote academic excellence.

Course Duplication

Issues

- Prior to the switch to the new Budget Model there were concerns that the model would facilitate course duplication as academic groups tried to increase their operating budgets. At the time we shifted to the new budget model, we felt this was an issue for the Provost and Academic Affairs to resolve.
- Through the survey and interviews we learned this was not as big an issue as most originally thought it would be. However, it is still a concern.

Suggested Solution

- We still believe this is an issue for the Provost and Academic Affairs to oversee and resolve.

Possible Solutions

- Require the Provost to sign off on new course offerings.
- Implement a tax on course duplication. Academic Department duplicating the course would take on all the associated costs, but give some percentage of the additional budget received back to the department that originally owned the course. Academic Affairs would have to agree on when, what percentage and what base to tax on.

Recommendation

- We recommend that this matter be referred to the Provost for resolution.

Fringe Benefits

About eight years ago a decision was made to allocate the cost of fringe benefits to units in order to report the full cost of operating a unit. In many cases, the cost of fringe benefits is the second largest expense after salaries. Previously, the cost of fringe benefits was accounted for the entire

campus in one central location. At this same time an accounting practice was initiated to adjust the budget for fringe benefits to actual at the end of the year. This practice, in effect, held units harmless from any fluctuations in the cost of fringe benefits. A central pool of funds is maintained in order to make the annual unit adjustments, both up and down.

Issue

- Do we want to continue the current practice?

Possible Solution

- Discontinue the annual fringe benefit adjustment and eliminate the central pool used for fringe benefit adjustments.

Recommendation

- Eliminate the current practice of annual fringe benefit adjustments.

Inadequate Base Budgets at the Time of Converting to the New Budget Model

This is a difficult issue to substantiate and even more difficult to resolve. We could initiate a review based on HEIDI or IPEDs data to compare our budget allocation against peer institutions. However, we would have to do this for every department and understand that all funding is currently allocated. The resolution of underfunding would have to come through reallocation (cutting some to reallocate to others) or through distribution of marginal increases in our available funds (which would either drive up tuition rates, cause reductions in certain areas over time or require us to discontinue some of the current programs or services).

Response

- While HEIDI and IPEDS data are relevant, there are inherent limitations in the data itself.
- It must be recognized that the adequacy of existing budgets is not an issue associated with the budget model itself.
- Detailed review of all existing budgets would be a major undertaking and is not recommended.
- Determination of a need for additional funding will not resolve the issue if funds are not available.

Funding Issues that the Current Budget Model May Not Adequately Address that will Require Further Investigation

Any change in funding to these areas would have to come through a tax, change in the percentage allocated or “taken off the top” before we allocated funding through the budget model. It would mean either a decrease in current funding or decreasing the amount of additional future funding others receive.

- Increasing costs and demand for publications at the Library. Possibly linking budget increases to industry standards for annual increases in publication costs. We would then treat this like any other fixed cost increase (utilities, fixed cost contracts or recharges for Ann Arbor services).

- General Education Reform. We have proposed to treat as a “new program” giving it 80% of the marginal revenue it generates for the transitional period.
- There was some concern about what to do when enrollment declines. We were asked to consider “averaging enrollment”. We believe this will complicate the model making it harder to administer and understand. It would slow down the loss of funds during the time of declining enrollment. It would also slow down the distribution of additional funds during a time of growth. At this time, we believe further study is required. Financial Services & Budget will do some modeling to explore the possibility of implementing averaging in the future.