BUDGET MODEL REVIEW 2008

Written Comments from Meetings with Vice Chancellors, Deans, and Other Key Individuals

Provost and Vice Chancellor for Academic Affairs – Jack Kay

No written comments have been received.

Vice Chancellor for Student Services and Enrollment Management – Mary Jo Sekelsky

In response to your request for feedback and specific suggestions on how to improve the current budget model, I offer the following:

- ✓ The "New" Budget Model sought to decentralize decision-making and introduce accountability to all budget units. Additionally, academic units received incentives to grow enrollment within their respective college, schools, or office. Several academic units recorded double-digit percentage increases from this model in the last three fiscal years. Meanwhile, all support units were limited to single-digit percentages. While I have no quantitative basis to doubt the equitability of the present distribution formula, it may behoove the University to revisit this issue with a specific focus on the support units. As you know, enrollment growth of the sort experienced this fall necessitates corresponding increases in staffing and services.

- ✓ A glaring need, not new to the current budget model, calls for a creative solution. The issue involves high-ticket, one-time expenditures, projects, and/or initiatives that necessitate current rather than base funds. Short of splitting expenses with other divisions including the college and schools in Academic Affairs, there is no consistent recourse to fund such items. For example, the Constituent Relationship Management (CRM) communication proposal languishes in ITS for lack of $200,000+. In like manner, SSEM struggled a number of years ago to assemble $50,000 for implementation of the Curriculum Advising and Program Planning (CAPP) module. It would be most helpful if there was a central pool or source that could be tapped for such expenditures. Possibly oversight could be vested with the Chancellor's Advisory Committee for Budget and Strategic Planning. This body could be empowered to review proposals and allocate available funds. I envision a process similar to the once-a-year allocations from the Technology Fee Committee. The central pool would be funded at a variable level each fiscal year, and all requests would be judged on their merits—no guarantees, but at least a *possible* funding source for nontraditional expenditures.

SSEM budgets were relatively stagnant under the old budget process. Other than merit, we typically received no budget increases—regardless of the demonstrated need and/or thoroughness of our preparations for the former BP/CAC. Once in a blue moon, a Chancellor would award us a small increase presumably to stop the hemorrhaging in Admissions and sometimes Registrar's. The old process was a dead end for support units. Therefore, our above suggestions notwithstanding, it would be disingenuous of us not to express our overall satisfaction with the New Budget Model. We now have a semblance of hope for receiving modest increases in a fair, equitable, and timely manner. Additionally, the quarterly reviews from your office and assistance from Jerry and his team in Accounting have been most appreciated in recent years.

Assistant Vice Chancellor for Institutional Advancement – Renee Zienteck

No written comments have been received.

Graduate Programs – Vahid Lotfi

This memo is in response your request for written comments regarding the budget model. In preparing my comments, I shared your request for feedback with the directors that report to me and received one written response. Parts of that response are embedded within my comments.

From my perspective, overall the budget model has worked quite well and should not be phased out. The model should be fine tuned and continue to serve as the budgeting tool for the campus. One of its primary goals has been to encourage enrollment growth. This goal was well understood at the graduate level and immediately began to produce results. I firmly believe the presence of the budget model has played a critical role in the significant graduate enrollment growth that the campus has enjoyed in the last five years. (It should be noted that the earlier version of the budget model in the form of "special incentive" programs predates the budget model by about three years.)

A second (but not explicitly stated) benefit of the budget model (at least for most of the administrators) has been the elimination of a rather tedious and cumbersome yearly effort of writing budget proposals that almost always resulted in no action by the university. This exercise was not only a waste of time but it often resulted in moral problem and skepticism.

Below, I will state a few of the issues and concerns that I have come to learn about the model.

- ✓ Potential for course/program duplication - I am sure many people are pointing this out. While it is true that the model has the potential to encourage duplication of academic courses and/or programs, I believe this issue appears to have been significantly overstated and may not be as serious as everyone claims. First, alleged duplication of courses has happened in only one (and possibly two) school(s); one a very limited number of cases. Second, the phenomenon has already subsided and is not being observed any longer. Third, I believe with the development and strict enforcement of an adequate policy, one should be able to mitigate this potential risk.

- ✓ Apparent lack of policies/procedures within schools/the college to redistribute the income from the budget model down to the department level (when possible) – many faculty and academic support staff believe their departments are underfunded. Either the funds do not go back to the department or they are not given adequate information about the budget model. Hence, many faculty and academic support staff do not see the benefits of the budget model at all. One immediate consequence is faculty frequently contact some of the service units asking for funding. Examples include ITS getting calls from faculty to buy them a computer. Other service units are contacted by faculty, asking for travel support, etc. It is recognized that this is not a shortcoming of the budget model; however if the budget model is to succeed and to become more widely acceptable by the faculty, the deans should be encouraged to develop clear policies on how to redistribute the funds down to the department level when possible and to better inform the faculty.

- ✓ Underfunded Service units – some service units remain underfunded and there does not appear to be a process by which such service units (within and outside academic affairs) can seek funding to address increased service demands. They must rely on the revenue from the budget model. In some cases, funding from the budget model is not adequate to address their needs. To overcome this challenge (within the associate provost group) we have taken turns with respect to redistributing our funds down to the units. That is, one year we funded a staff position in ITS and in another year we have transferred funds to the Office of Research and International Center. I believe we should consider creating a central pool exclusively for service units and their funding needs (the funds would be awarded on an annual basis via submission of proposals, etc.).

  On appositive note, the 3% tuition return (to the Office of Graduate Programs) from the graduate enrollments has worked exceedingly well. Our office will issue a report by the end of the fall semester, detailing how the funds from this source have been used and its immediate benefits in growing the graduate enrollment and maintaining high quality service.

  The current challenge is the International Center which is greatly underfunded but has the potential to assist with enrollment growth. We should either establish a tax similar to the 3% return from the graduate tuition or increase the base funds in this unit.

Thank you for the opportunity to share my views on the budget model.

College of Arts and Sciences – D.J. Trela

Thank you for the opportunity to complete a survey on the current budget model, and also to meet with you and others recently to discuss the “New Budget Model”. I am glad the model is under review and that there is an opportunity to consider its effectiveness, as well as modifications that might make it more effective.

My comments on the model cover several distinct areas, including curriculum duplication, input into budget targets, methods of charging for benefits and percentage returns for the four major academic units, including the College and the three professional Schools. I also touch on the tuition plateau, although I recognize that is not a part of the current model. First I wish to offer general support for the model as it has operated over the past three years.

I believe the budget model has provided units with solid incentives to build new academic programs, particularly at the graduate level. The revenue return of 80% for four years has helped the College add faculty positions in select areas that have exhibited growth. This would not have been possible under the static budget model, or at all events, would not have been as easy, with post requests needing to be funneled through various Committees, including AAAC and BP/CAC, both of which had authority make recommendations independent of those put forward by academic units. Timing of budget allocations under the old model also tended to delay searches. Even if funding was identified and allocated, the subsequent search delayed hiring by at least a year. The model does not completely insulate against state cuts in funding, and it remains to be seen how effective the model will be if enrollment plateaus or declines. In the current climate of enrollment growth and program expansion, the model is generally an effective means of responding to, or anticipating, enrollment growth.

Budget Targets—After three years I do not have as strong a knowledge of how budget targets are set as I would like. I understand the targets to be data-driven best estimates regarding anticipated enrollments. I understand the setting of tuition rates to be partly data-driven, but also rooted in political realities involving the educational market, state government, Regental displeasure, etc. However, I believe that Deans are effectively shut out of virtually all current discussions related to university-wide budgeting. While this may not be a budget model question *per se*, I would advocate for greater involvement of the Deans in all significant discussions and decisions that need to be made regarding budgeting and planning at the University, and particularly in efforts to address significant strategic objectives. Perhaps Deans being added to the VC+ group would be of help here. It strikes me as ironic that four Deans who collectively oversee the largest proportion of the Academic Affairs budget have less formal input into, and less access to, the Provost and Chancellor than elected faculty representatives of two committees who may themselves never have administered a budget of any size at the University.

Zero-based budgeting—A chief complaint about the current model is that when it was set up there was no effort made to determine whether unit budgets were adequate to meet expectations. I understand that implementation of a new model was the primary motivator, and that an actual examination of existing budgets would have distracted all of us from that purpose. Such an examination would probably have turned up inadequate funding in all units reviewed, and without additional infusions of revenue little could have been done to address chronic inequities.

I arrived as Dean in 1999, at which time the College annually ran deficits of $250,000 in the accounts used to pay part-time faculty. By the end of fiscal 2007, those annual deficits had at least doubled. Had the budget model not been in place, the numbers would have been worse. However, had there been some adjustment of this critical budget line, the College would be able to support at least seven more full-time, tenure-track faculty than it currently can. We cover this deficit by using funds from vacant positions. In effect, the vacant positions delay our ability to hire replacement faculty by at least a year, and sometimes longer.

While full-blown implementation of a zero-based budgeting process might not be feasible, under our current structure there seems to be no budgetary appeal an under-funded unit can make. Where can or does meaningful examination of such a request, with the potential for a re-setting of a base budget, take place? *Our old system of budgeting had significant shortcomings, but there at least was an orderly process through which budget requests could be routed and reviewed before final decisions were made at the Chancellor level. My recommendation then is the establishment of a clear process for just such a review, with an opportunity at least once every three years , to request enhanced funding based on .*

Percentage of tuition return to the College and Schools—All of us recognize that some programs important to institutional mission will have high costs, and that those costs must be partly offset through the operations of equally important programs that happen to have lower costs. CAS tuition revenue helps subsidize higher costs in SHPS and SOM. What some CAS may forget is that a good deal of CAS revenue is dependent on the existence of SHPS and SOM. If programs in those units did not enroll students and utilize CAS service and general education courses, CAS credit hour counts would be significantly lower, our faculty would be smaller, and students would suffer from diminished educational options.

The problem with the current model is that there are a lot of high, or higher-cost programs in the College as well, but the current model does not take account of this, as it does for SHPS and SOM. I recommend that revisions to the model take into account higher cost CAS programs, and selectively raise revenue returns for those programs to help the College better cover actual costs of instruction. I can envision several possible examples of such a revision:

- ✓ Graduate programs automatically receive a higher rate of return, pegged presumably at the 60% currently received by SHPS and SOM.
- ✓ Cost per credit hour generation be examined within the College, and revenue returns be adjusted based on higher vs. lower cost programs. In general, higher cost programs in the College are housed in the hard sciences and in some fine arts areas—equipment and lab-intensive programs. Higher cost programs would see a return of 60%, with lower cost programs remaining at 50%.
- ✓ Revenue returns be based on a distinction between lower-level and upper-level undergraduate tuition rates. In one model, upper-level credits would generate a higher rate of return, possibly 55 or 60%, based on the assumption that upper-level classes with generally smaller class sizes and taught by tenured faculty cost more than lower-level courses, where lecturers are more frequently the teachers.
- ✓ The same distinction noted in the bullet above could be realized if the University bit the tuition differential bullet, and adjusted tuition rates so that there was a genuine differential. It is disappointing to me that in budget discussions over the past several years no progress has been made on this front.
- ✓ Some combination of the above, although I would caution against too complicated a series of percentages, ratios or returns.

- ✓ I strongly recommend that we phrase out the tuition plateau either all at once or over the next several years. Such a change could be grandfathered so that current students are not affected.

I recognize that at the end of the day a budget model is a tool rather than a solution to a problem. ***If I were able to make only one change in the current model, it would be recognition of higher cost programs in CAS, and the working out of an adequate mechanism that channeled more revenue to those programs. I can't stress the importance of this sufficiently.***

Charges for Benefits—I believe Deans should be provided with more information about actual benefit costs on an annual basis, so that they can make more intelligent, cost-conscious decisions about staffing within their units. I am aware that benefits as a percentage of salary varies widely depending on salary. Benefits costs are essentially the same for all of us, but at lower salaries amount to a much higher percentage of salary. While salaries of two half-time staff might be the same, calculation of benefits makes two positions more expensive than one. The same holds true with 50% appointments of Lecturers I or II. Given the generally lower salaries of Lecturer III's (vs. tenure track faculty), it is conceivable that a Lecturer III appointment could be more economical than multiple appointments of Lecturers I or II at lower salary rates, but with higher overall benefit costs. When the ability and expectation of Lecturer III's to engage in service activities beyond their teaching is factored in, the College could be far better off with such an appointment. *More detailed information about benefit charges by type and salary range provided periodically could enable academic units to make more cost-conscious decisions that are still consistent with academic need.*

Because the College and other academic units face any number of unfunded mandates, including sabbatical costs, costs related to modified duties leaves, short and long-term sick leave, reassigned time for special projects or for serving as Department Chairs or Program Directors, I do not favor a system that allocates a fixed amount of benefit funding annually that may result in a surplus or deficit for the academic unit. I prefer that we retain a system that holds units harmless for benefit costs, but do favor a more systematic program that educates those of us with budgetary authority about the true costs of our decisions.

Curriculum Duplication—I believe this issue has proven less troublesome than I feared. Given the large role the College plays in providing service courses and general education, course duplication is most likely to affect its overall enrollment, and may inordinately impact particular Departments, such as math or English. When Schools devise courses that provide essentially the same content as existing courses offered through the College, there could be a credit hour, revenue and enrollment shift from one academic unit to another. I believe Academic Affairs should take reasonable steps to avoid such shifts, but am not certain how effective 'taxes' are likely to be.

One of the primary examples of course duplication pointed to is the development of EHS 120 by SEHS. (Another is the appropriation of the elementary math curriculum by the same unit.) This course is now accepted as the equivalent of English 112. Having come to understand at least one of the motivations for creation of this course—allowing pre-service elementary education and social work majors some understanding of their chosen disciplines before they start with major coursework—I have to conclude there is a valid pedagogical purpose for the course, even though it is the equivalent of English 112. Its creation, it can be argued, is not designed to siphon credit hours away from the College and into SEHS. The problem with the course primarily concerns the lack of consultation on the part of SEHS and CAS prior to creation and development of the course. Had there been collegial discussions about the needs of SEHS students, and whether or not a modification of an existing CAS course could have helped achieve those needs, discussions would likely have taken a far different path than they did. I fault here an inadequate communication structure rather than a budget model, although the motivation of additional revenue could conceivably be a factor. On balance, I believe that a Provost's office demonstrating appropriate over-site of curricular processes, along with collegial discussions among faculty, are the best bulwarks against unwarranted duplication.

I recommend a formal policy, administered through the Provost's office, that requires advance consultation, gives to the controlling unit the option of devising a modified course to serve needs of the new student population, and gives the proposing unit the option to proceed if the controlling unit cannot produce a satisfactory modified course.

<u>School of Health Professions and Studies – Betty Velthouse and Donna Fry</u>

Donna Fry

Here is some of the feedback about the budget model that we discussed in the meeting last Thursday when you visited SHPS.

- ✓ The original proposal for the budget revision included doing three-year averaging of the budget to level out the budget when programs go through up/down cycles in enrollment. This has not been implemented. I would recommend that your office draft several models with 3 year averaging to see if this would work well for departments or not.
- ✓ I would support having a program development/expansion fund with carry-over capability to allow us to grow funds to invest in program development or expansion. It costs a lot to launch a new program and requires development time which means hiring faculty and staff in advance of income being generated by tuition revenue. Such a fund would enable departments to launch new programs. This could be housed within the units.

Betty Velthouse

I would have phrased it a little differently, but I agree with Donna's second point. It should be possible for a unit to put money in <u>a 'savings account'</u> for a year or so to build up <u>the start-up funds</u> to initiate a new program AND/OR to enable a unit <u>to fiscally plan</u> for (save for) a change in curriculum that will interrupt their income (revenue) for a year or two.

Thanks for your time with us.

<u>School of Management – Jack Helmuth</u>

The budget model makes sense in my opinion. It is objective in rewarding performance and the rules are simple and straight forward. I have been at universities without such a budget model and the transaction costs and inefficiencies are legendary. At such schools a budget process is started each year, usually at the department level, and flows to the dean's office. The various requests are forwarded to a campus wide committee and/or an administration that subjectively tries to manage all the spending requests for the following year. The bureaucracy, politics, and time commitment to such a process is maddening. I have informally discussed the current budget model with some faculty in the SOM and my comments generally reflect their opinion. There was voiced a concern for the small minority of programs across campus that have declining enrollment. We support the idea of some financial relief for programs while they try to retool their programs.

<u>School of Education and Human Services, Susanne Chandler</u>

Thoughts:

- ✓ The size of a small unit, like SEHS, compounds the difficulty when numbers decrease, as there is no room for adjustment
- ✓ A unit, like SEHS, may be actively engaged in developing new programs to increase numbers, but there is a lag-time between development and implementation, and another lag-time between implementation and revenue share income.
- ✓ Consideration should be given to funding SEHS as a professional school, like SHPS
- ✓ The current budget model does not take into account the costs of services of Teacher Preparation used in CAS but paid by SEHS

<u>Frances Willson Thompson Library – Bob Houbeck</u>

A weakness of the present budget model is that it does not acknowledge the library's need for annual increases in its acquisitions budget. I urge that, going forward, the Thompson Library's general fund acquisitions budget be considered an "academic utility." For budgeting purposes, I suggest that it be treated in a manner similar to the way the institution budgets for water, electricity, and natural gas. Databases and journals are, to scholars, akin to utilities: they are fuel for research and teaching. Most of the Library's acquisitions budget is committed, not to one-time purchases of books, but to the renewal of annual licenses for digital resources and subscriptions to print journals. Licenses and subscriptions inflate in cost each year, usually between 5-10%. As with other utilities, the Library is able to project cost increases for these materials, so would be able to forecast estimates for campus budget planners. In order to stretch its dollars, the Thompson Library works closely with libraries in Ann Arbor and Dearborn to negotiate three-campus licenses and interlibrary loan arrangements, and will continue to do so. But without a revision of the budget model that would provide regular increases in its acquisitions allocation, the Library will not be able to ensure access to the databases and journals necessary to support academic programs.

<u>Educational Opportunity Initiatives (EOI) – Tendaji Ganges</u>

No written comments have been received.