



WISCONSIN
UNIVERSITY OF WISCONSIN-MADISON

Building a New Budget Model

Campus Forum
November 3, 2014

The Budget Model Journey So Far

- What, Why, and Why Now
- Current State
- Other Models
- Recommendations
- Next Steps

What



Why

A new budget model should...

- help ensure existing dollars are used more efficiently
- create greater transparency around allocations to the schools and colleges
- establish clear financial incentives to improve and innovate
- connect resource allocation with our core missions

Being good stewards of our funding is something we should do whether revenues are increasing or declining.

Why Now

“We face many challenges as we attempt to define what it means to be a great public university at a time when state financial support is more limited and when the public conversation about higher education is often more critical than supportive.”

Chancellor Rebecca Blank

“While we must continue to expand resources by increasing both tax support and private philanthropy, this alone will not suffice. It is clear that we must also align and optimize our planning, budgeting and allocation processes.”

Budget Model Review Committee

Budget Model Review Committee – Fall 2013

- Governance committee of faculty, staff and students appointed to advise the Chancellor
- Focused on four areas:
 - Articulation of principles to guide base budget distribution
 - Documenting current process strengths/weaknesses
 - Peer analysis
 - Ensuring effective transition to new budget model
- Produced white paper
 - www.vc.wisc.edu/budgetmodel

Budget Model Review Committee – Fall 2013

Our Current Process...

- Has been incremental or “base-plus” since UW System merger
- Relative changes in academic unit budgets have been largely determined by discretionary allocations or differential reductions when required
- Fully distributes funding provided by the state and/or Board of Regents in the annual and biennial budget processes
- An implicit formal budget model has developed over the past 10 years for select instructional activity: professional programs and “revenue-producing” for-credit instruction

Budget Model Review Committee – Fall 2013

Our Current Process: “Base-Plus” or Incremental Model

Pros

- We know how it works
- Predictable funding
- Reinforces campus culture and maintains academic program stability
- It supported a world-class university

Budget Model Review Committee – Fall 2013

Our Current Process: “Base-Plus” or Incremental Model

Cons

- Not nimble enough to align resources with evolving needs
- Resource allocations are not explicitly driven by outcomes
- Few clear financial incentives to improve or innovate
- Rationale for resource allocation is not always clear
- Minimal transparency in budget process

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Engagement with Stakeholders

- Agreement that a new model is needed
- The model must ensure accountability to campus strategy
- Commitment to transparency is essential
- Transition to a new model must be expedient, but minimally disruptive
- Investments in additional information infrastructure and/or human resources may be needed
- Implementation requires commitment from top leadership

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Peer Review

- Most universities use a hybrid approach to budgeting
- There has been a recent shift away from incremental budgeting among public institutions
- Activity-based budgeting is on the rise among our peers
- Using a limited number of metrics is key to success
- “Budget models do not make decisions. People do.”

Source: Educational Advisory Board research brief, 2013

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Principles and Guidelines

- Recognize/complement state and UW System parameters
- Align funding to missions of teaching, research & outreach
- Acknowledge tradition of shared governance
- Allocate funds *to* schools and colleges, but not *within*
- Flexible, simple, transparent
- Allow for distribution based on both quantitative metrics and qualitative factors
- Avoid large or discontinuous shifts in allocations

Budget Model Review Committee – Fall 2013

Conclusions

- Establish advisory committee to the Chancellor to develop a budget model
- Base model on limited number of metrics
- Continue to follow principles and guidelines
- Initial focus only on activity-based budgets
- Remain committed to broad campus engagement
- Defer issue of cost allocation for centralized services until a later phase of budget model development

Budget Model Development Committee – Spring/Summer 2014

- Governance committee of faculty, staff and students appointed to advise the Chancellor
- Create an activity-based budget model
- Avoid large or discontinuous shifts in allocations
- Create a transparent budget process
- Set fewer rather than many metrics
- Allow for some discretionary funding to be held centrally

What

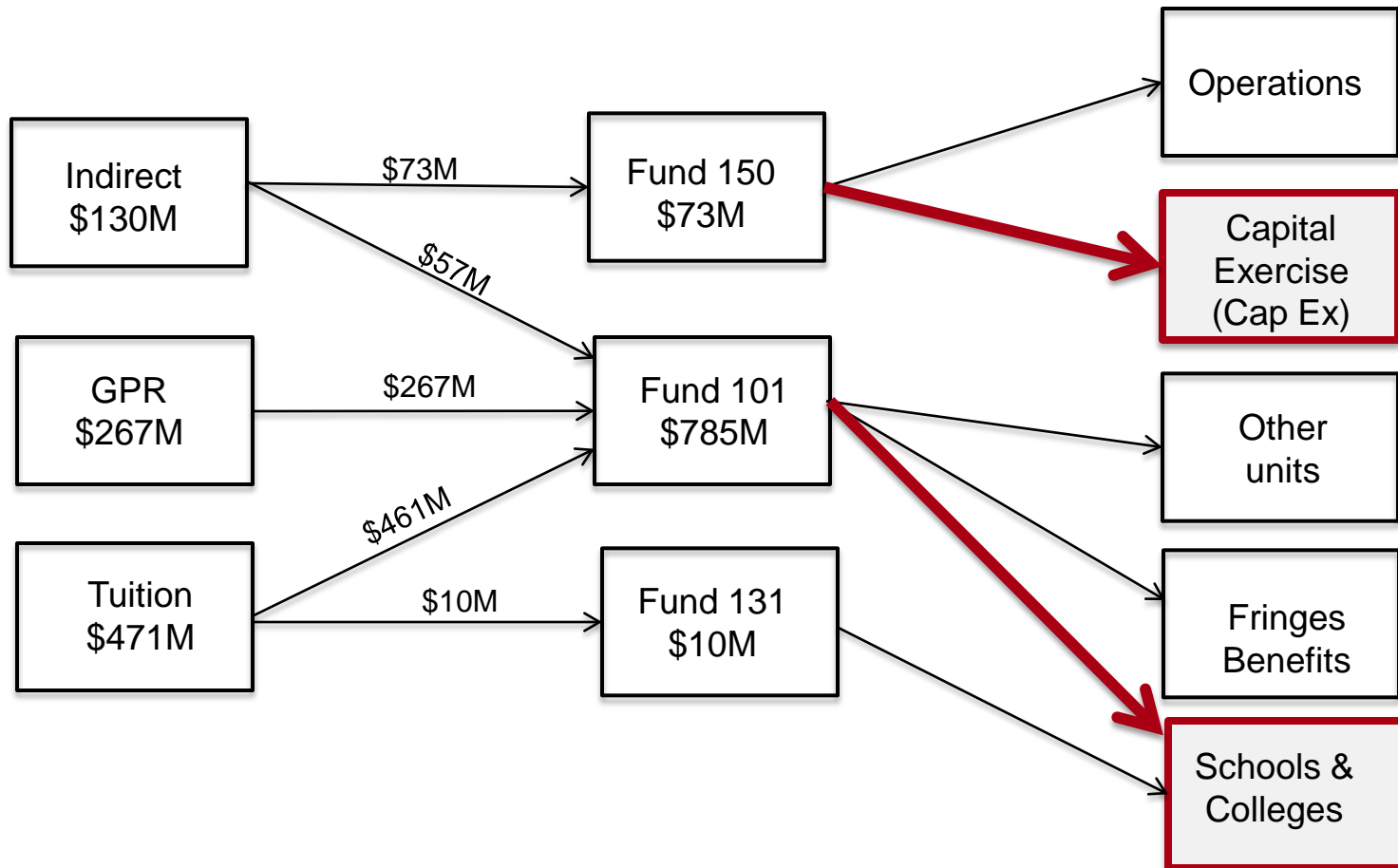


2013-14 Funds Flow

Revenue Sources

Funds

Campus Units



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Considerations for Selection of Metrics

- Measures of instructional and research activity
- Associated with the revenue streams to be allocated
- Does not signal other activities are unimportant
- Consistent with values of simplicity, transparency

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Features of a Good Metric

- Transparent, flexible, (relatively) simple, quantitative
- Credible and accepted; long history of use in other contexts
- Collected for purposes other than budgeting
- Systematically available with high level of fidelity and completeness
- Available in a UW-Madison enterprise system and properly curated (not shadow systems)
- Available in a timely way within the budget cycle
- Available at school/college level

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Recommended Activity-Based Metrics

- Instructional Metrics
 - Unit of Instruction - Credits Follow Instructor (CFI)
 - Unit of Enrollment - Degree Home (Primary Academic Group, PAG)
- Research Metrics
 - Total Research Expenditures
 - Indirect Costs Generated

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Unit of Instruction

Related to the resources
that are committed for
direct instruction

Credits Follow Instructor (CFI)

- Student credit hours are attributed to the academic unit that pays the salary of the instructor of record
- Alignment of credit hours with paid salary is relevant for budget allocation and offsets some of the complexity
- Supports established policies and practices of student enrollment in courses
- Long history of use; calculated at school/college and department level

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Unit of Enrollment

Related to student and academic support services in the school/college

Degree Home (or Primary Academic Group, PAG)

- Each enrolled student has a single school/college that serves as the student's academic home
- Supports established policies and practices of enrollment
- Long history of use
- Available in the student information system for every student

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Instructional Metrics in the Model

- Weighted 80% on instruction (credits), 20% on enrollment
- Based on two years of activity with most recent year weighted at twice the value of the prior year
 - Mitigates impact of extreme fluctuations
 - Maintains an emphasis on recent activity

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Research

- Model applies to both separate Indirect Cost Distribution (Fund 150) and appropriate share of Fund 101
- Based on both direct expenditure and indirect costs generated, equally weighted
 - Establishes incentives to seek funding from agencies that provide indirect costs
 - Recognizes that important scholarly activity may largely be supported by extramural sources that provide limited or no indirect costs
- Based on two years of activity with most recent year weighted at twice the value of the prior year
 - Mitigates impact of inevitable fluctuations in extramural funding
 - Maintains an emphasis on recent activity

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Out-of-scope:

- Professional programs are excluded because they are already subject to a separate budget model (MD, DVM, JD, PharmD)
- Instructional activity and revenue from revenue programs are excluded because they are subject to a separate budget model
- Summer Session has not been addressed; possible future consideration

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Discretionary Reinvestment

- Provides flexibility to invest in strategic initiatives, important campus needs and emerging opportunities
- These investments may not be reflected by instructional, research metrics
- Mitigates potentially large and discontinuous shifts

Continuing Campus Engagement

- October 30 campus forum
- November 3 campus forum
- Feedback sessions
 - Deans
 - Chairs' Chats
 - Governance groups

For Decision Prior to Initial Rollout:

Amount of funding to be determined by the model
and over what period of time.

Questions?