Incentive-based Budgeting (IBB)
Why move to IBB?

1. Links resources with strategy, empowers academic leadership
2. Creates incentives that promote and support financial stability and financial sustainability
3. Increases transparency
4. Encourages innovation and entrepreneurship
5. Encourages multi-year and all-funds* budgeting at all levels

* e.g., General Fund, income/expense, gift, endowment, and other restricted funds
Nearly one-quarter of US public doctoral universities have moved to some form of incentive-based budgeting\(^{(1)}\). Many more institutions (public and private) are in the process of adopting such a model. Among the major doctoral institutions\(^{(2)}\) using some form of IBB are:

<table>
<thead>
<tr>
<th>American University</th>
<th>University of Alaska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auburn University</td>
<td>University of California-Davis</td>
</tr>
<tr>
<td>Brandeis University</td>
<td>University of Connecticut</td>
</tr>
<tr>
<td>California Institute of Technology</td>
<td>University of Delaware</td>
</tr>
<tr>
<td>Clemson University</td>
<td>University of Florida</td>
</tr>
<tr>
<td>Duke University</td>
<td>University of Illinois</td>
</tr>
<tr>
<td>Florida International University</td>
<td>University of Iowa</td>
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<tr>
<td>Harvard University</td>
<td>University of Michigan</td>
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<tr>
<td>Indiana University</td>
<td>University of Minnesota</td>
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<tr>
<td>Iowa State University</td>
<td>University of New Hampshire</td>
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<tr>
<td>Marquette University</td>
<td>University of Oregon</td>
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<tr>
<td>Northeastern University</td>
<td>University of Pennsylvania</td>
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<tr>
<td>Ohio State University</td>
<td>University of Rochester</td>
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<tr>
<td>Purdue University</td>
<td>University of Southern California</td>
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<tr>
<td>Syracuse University</td>
<td>University of Virginia</td>
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<tr>
<td>Temple University</td>
<td>University of Washington</td>
</tr>
<tr>
<td>Texas A&amp;M University</td>
<td>Vanderbilt University</td>
</tr>
<tr>
<td>Texas Tech University</td>
<td>Washington University</td>
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</tbody>
</table>

\(^{(1)}\) Source: Academic Impressions webcast, “Moving to a Responsibility-Centered Budget Model, Session 2”
IBB models generally have four components:

1. Some portion of tuition and research revenues are allocated to the colleges and schools (and the other incentive centers) that generate them.

2. Cost pools* are established to fund necessary university-wide infrastructure and administrative services.

3. Some portion of facilities costs are allocated to the colleges, schools and other incentive centers in proportion to their usage.

4. A pool of resources is allocated to the President/Provost to invest in strategic initiatives.

* e.g., Finance, HR, OIR, SFS, Admissions, OVPR, etc.
How is IBB different from UVM’s current model?

**UVM’s Current Model**

1. Tuition & Fees
2. State Appropriations
3. Other Revenue

   President/Provost
   General Fund

   - Schools & Colleges (Expenditure Authority)
   - Administrative Services* (Expenditure Authority)

**Standard Incentive-based Models**

1. Tuition & Fees
2. State Appropriations
3. Other Revenue

   President/Provost

   - Schools, Colleges, and other Incentive Centers
   - Administrative Services* (Expenditure Authority)

* e.g., HR, IT, Finance, Administrative Facilities Services, Registrar's Office, OIR, etc.
IBB is *not* “each tub on its own bottom”

<table>
<thead>
<tr>
<th>Question</th>
<th>Tub</th>
<th>IBB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do colleges share services (i.e., marketing, IT, HR)?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Do the President and Provost maintain a pool to shape the University’s direction?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Do the colleges/schools have their own financial policies and audited financials?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
What are the strengths of IBB?

1. IBB facilitates academic and financial decisions being addressed simultaneously, *i.e.* strategic plan and budget are linked

2. Strong incentives for financial sustainability

3. Transparency

Other benefits

- Encourages entrepreneurship
- Multi-year budgeting
- All-funds budgeting
What are some key questions we will need to answer?

1. Which units will be incentive based centers?
   
   *Obvious candidates: Schools/Colleges, Res Life, Dining, Bookstore*
   
   *Less obvious candidates: Athletics, Parking, Graduate College, Honors College, Telecom, Davis Center*

2. How will tuition be distributed?
   
   *What percentage based on SCH vs. enrollment?*
   
   *Is I/S and O/S tuition-blended?*
   
   *How does financial aid get distributed?*

3. How will F&A recovery be distributed?
   
   *Many schools distribute a very high percentage to the unit generating the F&A*
Key questions (cont’d)

4. Will space costs and other administrative costs be allocated to administrative units?
   
   NO → simplifies the effort
   YES → better accounting of true costs

5. For which purposes should cost pools should be created?
   
   Many cost pools → greater transparency, more complexity
   Fewer cost pools → less transparency, less complexity

6. By what means are the Strategic Initiatives of the President/Provost funded?
What are some best practices with implementation?

1. We will operate with a set of *guiding principles*

2. The entire campus will be *actively engaged*

3. Stretch goal is **two years**, more conservative goal is **three years**

4. The steering committee and sub-committees will be able to do most of their work **without looking at budget numbers**

5. Accept that this will be an *evergreen process*, with continual assessment and improvement
What are some of the best practices with model?

1. Conduct a review of the budget model regularly – annual assessment and adjustments, re-visit the model every 3-5 years

2. Keep it simple – the fewer and simpler the rules, the more time for meaningful conversation

3. Implement an Administrative Unit Review to ensure that units are getting good service

4. Allocate sufficient funds to President/Provost for University-wide strategic initiatives

5. Implement a one-year lag in the formula for revenue allocation to address volatility

6. Earmark funds for collaborative programs

7. Ensure accountability

8. “Hold units harmless” in the transition – the focus is on increasing the overall resources of the University in a strategic way, not on short-term budget reallocations
### Examples: Elements of Different Models

<table>
<thead>
<tr>
<th>Element</th>
<th>Minnesota</th>
<th>Michigan</th>
<th>New Hampshire</th>
<th>Arizona – RCM1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Undergraduate Tuition</strong></td>
<td>25% - major 75% - unweighted SCH</td>
<td>50% - major 50% - unweighted SCH</td>
<td>75% - weighted SCH (2-rear rolling average)</td>
<td>72% - SCH 25% - majors 3% - # of degrees</td>
</tr>
<tr>
<td><strong>Undergraduate Aid</strong></td>
<td>State appropriation</td>
<td>Charged to units on same pro rata basis as tuition</td>
<td>Portion not covered by State funds is netted against tuition before allocation above</td>
<td>Netted against tuition before allocation above</td>
</tr>
<tr>
<td><strong>Graduate Tuition</strong></td>
<td>100% - unit</td>
<td>75% - unit 25% - SCH</td>
<td>85% - unit</td>
<td>100% - unit</td>
</tr>
<tr>
<td><strong>Indirect Cost Recovery</strong></td>
<td>100% - unit</td>
<td>100% - unit</td>
<td>10% - PI 24% - Administration 66% - unit</td>
<td>Same as pre-RCM</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td>3 cost pools: O&amp;M, Utilities, Debt/Leases</td>
<td>Building-specific charges for: Utilities, Maintenance, Custodial, Refuse/recycling, Grounds</td>
<td>Single cost pool, based on net square footage</td>
<td>Single cost pool for facilities costs (excluding utilities and debt service) based on square footage</td>
</tr>
</tbody>
</table>
Guiding Principles for IBB

as presented in memos from President Sullivan to Faculty and Staff

1. Creates incentives that promote academic quality and excellence

2. Creates incentives at all levels of the University that promote financial sustainability

3. Encourages innovation and entrepreneurship throughout the University

4. Provides transparency, clarity, and predictability

5. Can be easily understood, is easy to implement and operate, and is flexible

6. Can operate in all cycles of the economy, whether robust or downturn
Proposed Process and Timeline

**September 2013**
Steering Committee appointed

**October 2013**
Subcommittees appointed

**January 2014**
Interim report to the President

**June 2014**
Final report to the President

**July 1, 2014 (start of FY 15)**
Current budget model and IBB run in parallel

**July 1, 2015 (start of FY 16)**
Complete transition to IBB

Anticipated Subcommittees:
- UG Tuition Revenue and Aid
- Graduate Tuition and Aid
- Non-Degree and Online Tuition and Aid
- Research and Indirect Cost Recovery
- Facilities and Space Costs
- Cost Pool Methodology
- Other Fees