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:

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

\(^1\) 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**

- Tuition & Fees
- State Appropriations
- Other Revenue

  President/Provost
  
  General Fund
  
  - Schools & Colleges (Expenditure Authority)
  - Administrative Services* (Expenditure Authority)

**Standard Incentive-based Models**

- Tuition & Fees
- State Appropriations
- 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>
ACADEMIC UNITS
(COLLEGES/SCHOOLS)
AND OTHER REVENUE CENTERS

REVENUES
Tuition
Fees
IDC (F&A)
Short course fees
Gifts
Sales
Royalties
etc...

ALLOCATED COSTS
Utilities
Facilities operations
Debt
Leases
Libraries
Research support services
IT
Admissions
Academic support services
etc...

ALLOCATED STATE APPROPRIATIONS

STRATEGIC INVESTMENTS
(PRESIDENT/PROVOST)

Example for discussion only
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*
4. How will **space costs** and other administrative costs be allocated to responsibility centers?

*Does everyone pay the same “per square foot” cost?*

*Or is it a function of “type” of space?*

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?
Guiding Principles for IBB @ UVM

President Sullivan, Fall 2013

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
“IBB Team”
(Year 1: Development)
Budget development = **Budget framework** + **Decision-making process**

DEVELOPMENT

Year 1 (FY14)

Year 2 (FY15)

IMPLEMENTATION

(parallel model)
Communications and “Getting to Yes”
What are some best practices with implementation?

1. We will operate with a set of guiding principles

2. We need you all to participate in the communication of this work

3. The entire campus will be actively engaged

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

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

6. 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 or multi-year time 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
Steering Committee

Subcommittees

UG Tuition Revenue and Aid
Graduate Tuition and Aid
Non-Degree, Summer & Online Tuition and Aid
Other Income and Fees
Research and Indirect Cost Recovery
Facilities and Space Costs
Cost Pool Methodology
October 4
Subcommittees finalized

Mid-October
Retreat & Subcommittee work begins

November & December
Steering Committee meets once per month to discuss subcommittee progress

January 24th
Subcommittee recommendations due

January 31st
Provost’s interim report to President due

April & May & June
Financial modeling & Steering Committee continues review

February & March
Steering Committee reviews allocations & Discussions with units

June
Final report due to President

FY15
Meet as needed
### Examples: Elements of Different Models

<table>
<thead>
<tr>
<th></th>
<th>Minnesota</th>
<th>Michigan</th>
<th>New Hampshire</th>
<th>Arizona – RCM1</th>
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</thead>
<tbody>
<tr>
<td><strong>Undergraduate Tuition</strong></td>
<td>25% - major</td>
<td>50% - major</td>
<td>75% - weighted SCH (2-rear rolling average)</td>
<td>72% - SCH 25% - majors 3% - # of degrees</td>
</tr>
<tr>
<td></td>
<td>75% - unweighted SCH</td>
<td>50% - unweighted SCH</td>
<td></td>
<td></td>
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<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</td>
<td>85% - unit</td>
<td>100% - unit</td>
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<tr>
<td></td>
<td>25% - SCH</td>
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<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>
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<tr>
<td><strong>Facilities</strong></td>
<td>3 cost pools:</td>
<td>Building-specific charges for:</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>
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<tr>
<td></td>
<td>• O&amp;M</td>
<td>• Utilities</td>
<td></td>
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<td></td>
<td>• Utilities</td>
<td>• Maintenance</td>
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<tr>
<td></td>
<td>• Debt/Leases</td>
<td>• Custodial</td>
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<td>• Refuse/recycling</td>
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<tr>
<td></td>
<td></td>
<td>• Grounds</td>
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Objectives, guiding principles
Operational aspects
Re-cap, Q&A, discussion, next steps

David Rosowsky
Provost

Alberto Citarella
Budget Director

David Rosowsky
Provost
Guiding Principles for IBB @ UVM

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Four imperatives for the new BUDGET MODEL, in order for it to operate effectively and support the financial health of the University...

1. MISSION AND GOALS. IBB must encourage behaviors that support the University’s missions and goals *(President’s Strategic Action Plan, 2013)*

2. REVENUE ENHANCEMENT. IBB must provide incentives where appropriate to enhance revenues and encourage appropriate risk taking

3. EFFICIENCY/COST CONTROL. IBB must provide clear incentives for units and individuals to control costs and act to optimize the use of physical, financial, technological, and human resources

4. PREDICTABILITY. Rules and policies must be applied in a consistent manner and enable decision-makers to predict, with reasonable accuracy, what the consequences will be of their operational and investment decisions – the model should be clearly understood by all
Three operating assumptions for the imperatives to be met...

1. **TRANSPARENCY.** Decisions related to subsidies, investments, reallocations, etc. should be transparent, readily understood, and calculated so the model can be easily administered and implemented centrally and in local units.

2. **INFORMATION RICH.** The budget model, framework, and decision-making process should foster an “all funds” discussion using detailed information about true costs and service levels – decision-making should be informed by facts.

3. **ADAPTABILITY/AGILITY.** Implementation should provide a means to “cushion against shocks” as units adapt themselves to different external realities and changing market conditions.
Delivering on the promise

IBB-2015

**FY14**  IBB Development
- Interim report (January 2014)
- Final report and recommendations (June 2014)

**FY15**  IBB run in parallel (July 2014), vetting and refinement

**FY16**  IBB Implementation (July 2015)
Next Steps

Week of September 23rd
- Confirmation of subcommittees

Week of September 29th
- Notification to subcommittee members; campus communication
- Steering Committee meets October 4th
  - Discussion around Responsibility Centers
  - Initial conversation regarding subcommittee work

October
- Possible Retreat
- Subcommittee work begins

Homework
- Read “Responsibility Centered Management”