

Executive Summary

We, the members of the Budget Advisory Committee, are writing in response to the request of President Sullivan for feedback and recommendations on the Budget Self Study. We believe a review of the Budget Self-Study was a meaningful exercise. We hope that users of our report will find it informative in assessing the capability of the current budget process to support President Sullivan's focus, decision-making criteria and budget operating principles. The committee recognizes that the focus of the current budget process may have been effective in serving prior administrations' goals and principles.

In general, our observations regarding the current budget process can be distilled down to five points:

1. With the exception of some minor recommendations for change, the committee agrees that the Budget Self-Study accurately portrays the current budget process.
2. The lack of linkages among the vision, mission, long-term strategic plan and the one year budget cycle makes an assessment of the ability and effectiveness of the current budget process difficult.
3. The lack of a consistent set of metrics identified as key drivers of the strategic plan makes an assessment of the current process difficult.
4. Because so much of the decision-making process was previously conducted by central administrators, it is difficult now to incentivize or to hold accountable the leaders of the various academic and administrative units.
5. The type of budget model used will not solve a large percentage of the perceived issues with the budget process. Addressing points 2, 3, and 4 above are viewed as critical to achieving a match between the process and the president's vision.

Support for our conclusions is included in the detailed document below.

Introduction

We are writing in response to the request of President Sullivan for feedback and recommendations on the Budget Self Study. This response has two areas of focus: (1) comments regarding the accuracy of the description of the budget process currently in place, and (2) comments on how well the current budget model supports areas of presidential focus, decision-making criteria and budget operating principles.

Comments Regarding the Accuracy of the Description of the Budget Process

Overall the Budget Advisory Committee believes that the UVM Budget Self-Study is an accurate description of the current UVM budget model. The description is succinct yet there is sufficient detail given so that someone unfamiliar with UVM would likely understand. There are specific places in the document where the language should be altered to correctly describe the process. These are itemized below.

1. In the excerpt below from page 6, the second sentence implies that the input from representative organizations have an impact on the final decisions. The committee is not convinced that this is the case. The timing of the input is usually at the later stages of budget

development. While the representative organizations welcome the opportunity to comment, it seems to occur too late in the process to effect any substantive change.

The University's budget is centralized in that the most significant budgetary decisions are made by the President and the Provost, subject to approval by the Board of Trustees. These decisions are supported by extensive analysis and input from a wide range of representative organizations (e.g. Faculty Senate, Staff Council, Student Government Association, and Graduate Student Senate) across the campus but final decisions about unit budgets take place centrally.

2. Again on page 7, there is a statement that the input of the governance groups may result in modifications to the draft budget (quoted below). If this has been the case, it would be helpful to provide examples. As stated above, it has been our experience that the input may be sought after decisions have been, in essence, made.

The input of the governance organizations is brought back to the Budget Group for consideration and may result in modifications to the draft budget. In years when budget reductions or wage freezes have been determined to be necessary, options have been developed about which input from these groups has been sought.

3. It is stated on page 8 that 'Every effort is made to assure that the budget process described above is as transparent as possible.' While this may be true at some levels of the process, there is definitely inconsistent transparency throughout the different academic and administrative units.
4. On pages 8 and 9, the discussion of the pros and cons of centralized vs. decentralized approaches are, as stated, examples. This is fine as long as it is clear that there are a much broader range of challenges in both approaches.
5. Finally, the description of carry over on page 9 (second item #1 under 'decentralization in the current model') could be clearer. Academic units are able to carry over unspent funds but the provost does have authority over those funds and must give approval for their release.

Comments Regarding the Ability of the Current Budget Process to Support Areas of Presidential Focus, Decision-Making Criteria and Budget Operating Principles

The Budget Advisory Committee recognizes that it may not be aware of all the activities that occur as part of establishing the annual operating budget. As a result, there may be existing activities that link the current budget process to areas of Presidential focus or his stated operating principles, and as such may address some of the observations listed below. Further, the committee recognizes that the focus of the current budget process may well have been very effective in serving prior goals and principles.

Budget Model and Presidential Focus - Observations and Recommendations

1. *Affordability and Financial Access to Higher Education*
 - **Observation:** As the Budget Self-Study notes, net tuition revenue is a large part of budget deliberations. Constraints on the use of endowment funds and low state appropriations

contribute to this fact. Based on the self-study it does not appear that the budget process is designed to address affordability, rather it is driven by the cost structure currently in place. That is, the budget process seems to result in identifying the tuition dollars needed to support the cost structure in place.

- Recommendation: Specific tuition targets for the next three to five years should be explicitly quantified and communicated as part of the overall long-term strategic plan.
- Observation: The current reporting structure, at least as it relates to establishing the annual budget or reporting budget versus actual results, does not identify or communicate the cost to educate a student.
- Recommendation: Determining/reporting the cost of educating a student at UVM will help define the obstacles in place when addressing “affordability”.

2. *Quality Enhancement*

- Observation: The Budget Self-Study does not provide any indication that metrics are used to measure quality.
- Recommendation: Metrics specific to quality enhancement should be established by an established committee separate from the budgeting group. Thereafter, those metrics should be measured and communicated.

3. *Strategic Alignment of Budgets with Priorities*

- Observation: It is difficult to align the one year budget process with the long-term strategic direction of the university at large. This is in part due to the incremental nature of the budgeting process (i.e., start with last year and adjust up or down accordingly). In addition, there does not appear to be a long-term strategic plan that links to the budget model.
- Recommendation: Clearly communicate how the unit level annual budget targets support the long-term strategic plan.
- Observation: It is difficult to understand the strategic alignment of units across campus. For example, the athletic department budget is considered part of administration. It is difficult to understand how much general fund money actually supports the athletic department, or whether the athletic department provides excess funds to the general fund. If athletics are viewed as enhancing the student experience, it is difficult to assess an appropriate level of funding for that activity.
- Recommendation: Clearly define and rank the importance of the non-academic programming that support a positive student experience. Then cost them out so that decisions can be better informed.

4. *Revenue Enhancement through the Comprehensive Campaign*

- Observation: The establishment of the UVM Foundation seems to have precluded the comprehensive campaign from being part of the annual operating budget process other than to identify some minimal contribution of donated funds to the general fund. There does not appear to be anything in the budget process that is done to link the long-term plan for the Foundation and the long-term strategic goals of the university at large.
- Recommendation: Scenario planning in this instance is viewed as crucial. As part of the budget process, any targets for fundraising that might impact the support of specific general fund activities should be identified and communicated accordingly. For example, the first

\$50,000 of unrestricted funds raised specifically supports the Writing in the Disciplines program, the next \$50,000 raised funds one of the Gen Ed initiative, etc.

- Observation: Few or no practical incentives are present in the budget model to enhance revenue through expanded academic offerings. As the self-study notes, revenues from new programs flow back to central. While it is possible to provide incentives to the academic units in a centralized system, it may be more practical to do so through a decentralized budget process. Along those same lines, decentralization may be a more pragmatic way to increase accountability across both academic and administrative units.
- Recommendation: Establish incentives for units to expand offerings.
- Recommendation: Any assessment of new programs proposed at the unit level should be accompanied by an analysis of the support required from other areas whether academic or administrative.

5. *Cost Effectiveness and Efficiency Across the University*

- Observation: While we recognize that it is possible for a centralized budget process to incentivize cost effectiveness at the unit level, the budget process does not address cost efficiencies that may be attained across units through structural realignment.
- Recommendation: University-wide structural effectiveness assessments are not currently part of the annual budget process. We recommend that such analysis continue to be evaluated and inform future budget cycles.
- Recommendation: Establish a process whereby academic units identify the “within unit” cost of programs on a per student basis. This should help inform program expansion/contraction decisions.
- Observation: As part of the budget process, there does not appear to be metrics to ensure money is appropriately allocated across administrative units (i.e., which units may have too many resources and which may not have enough) or whether any administrative unit is operating as efficiently as possible.
- Recommendation: The costs of administrative functions should be benchmarked against best practices with results shared with appropriate representative organizations on campus.
- Observation: As part of the budget process, there does not appear to be a consistent set of key academic metrics that support the attainment of long-term strategic goals.
- Recommendation: Independent from the financial aspects of the budget process appropriate academic metrics need to be established and widely understood by the UVM community.
- Recommendation: Once key academic metrics and progress toward benchmarks are established, those metrics should be used to quantify the financial targets that support the long-term strategic plan. Additionally, these metrics should be measured and reported by the academic units.
- Observation: As documented in the Budget Self-Study, “Institutional Support” is accounted for in the budget model as centrally managed costs, which makes it very difficult to disentangle how much support goes to academic units and how much goes to other functions. Therefore, it becomes difficult to measure cost effectiveness and efficiency at the academic unit level or administrative unit level.
- Recommendation: Report “Institutional Support” in a way that makes it transparent as to how much of those dollars actually support academic versus administrative units.
- Observation: Decentralization may allow for better accountability at the administrative and academic unit level.

- Observation: Should a decentralized budget process be considered, determining appropriate measures of effectiveness and efficiency can be problematic. The comparison of the cost of delivering one credit hour across academic units is problematic. For example, the cost to deliver one unit of chemistry is expected to be more than the cost to deliver a unit of history. Assuming we want to continue delivering units of chemistry, the implications of using expense ratios to determine which programs might be expanded or contracted is worrisome.
- Recommendation: Be as transparent and communicate very clearly when the budget process relies on cost-based metrics for decision-making purposes.

Budget Model and Decision-Making Criteria - Observations and Recommendations

- Observation: The decision-making criteria seem excellent and represent appropriate principles to drive a decision model. However, some criteria are elusive. For example, criteria 2, 3 and 7 seem to be weakly or poorly addressed by the lack of a functional vision, mission and goals statement that then drives the strategic planning process which, in turn, drives the budget process. These three criteria are:
 - Reflects centrality to mission, vision and focus
 - Fosters comparative advantage and multiple strengths
 - Promotes distinctiveness/uniqueness of the University

There is very limited and broad reference only to particular areas of study and inquiry in the vision statement, and the related goals do not get to the level of being foci, which is implied by the first criterion above.

- Observation: There is a lack of coherence among the vision, mission, long-term strategic plan and the budget process.
- Observation: There is little discussion of UVM's "comparative advantage", key elements of "multiple strengths", and/or "distinctive/uniqueness". Without specifics, these very important decision-making criteria will serve little value in budget processes.
- Observation: The general view is there are too many decision-making criteria to be meaningful. Where does one focus? Do decision-makers use the criteria that best fits his/her objective? Are there some criteria that apply at the institutional level and some that apply at the unit level or department level?
- Observation: The criteria seem to represent input into the decision maker's decision model. There seems to be a disconnect between establishing input criteria to a decision model yet measuring results on differing, and perhaps conflicting, metrics.
- Recommendation: Simplify the decision criteria to those items that support a strong mission statement and clear set of strategic goals.

Budget Operating Principles - Observations and Recommendations for the Budget Process

1. *Align Resources and Revenues with University Strategic Priorities*

- Observation: The committee cannot assess the effectiveness of the alignment of resources and revenues with the strategic plan because in the recent past there has not been a discussion of the links between the budget process and the strategic plan.

2. *Ensure Long-Term Structural Balance*

- Observation: The committee is not privy to the information related to long-term planning that occurs as a result of, or in conjunction with, the budget process.

3. *Promote Transparency*

- Observation: As the Budget Self-Study notes, there are inconsistent levels of transparency across academic and administrative units.
- Recommendation: The committee recommends that a mechanism be established such that the strategic principles driving the budget process are uniformly communicated to all appropriate representative organizations in a timely fashion.
- Observation: “The general approach...to try to resolve...larger budget challenges before making them public and causing the entire campus community to be concerned...”(pg. 8) could be backfiring. That is, the kindness of this approach may be trumped by the mistrust that can spin off from trying to keep concerns under wraps in a large organization. For example, there have been times when the FPPC has been informed of looming budget deficits that will be “taken care of” within the central administration.
- Recommendation: All changes to the budget should be uniformly disclosed.
- Observation: The committee recognizes that the administration is always willing to respond and explain matters that warrant additional clarification during the budgeting process when requested. We appreciate this effort. However, this mode of operation requires committee members to do the “digging” to figure out what *should be* asked.
- Recommendation: The committee believes that by linking the budget process with a long-term strategic plan, this mode of operating will diminish.

4. *Advance Clarity*

- Observation: Many members of campus-wide representative organizations struggle with the issue of clarity as it relates to the budget process.
- Recommendation: The committee recommends that the links between strategic principles and budget targets be clearly articulated.
- Recommendation: Clarity and transparency might be enhanced if each of the academic unit’s revenue and expense base budgets were made available to appropriate representative organizations in a timely fashion.
- Observation: An example of the difficulties around clarity in the current budget process is in the way certain units get classified relative to “income expense” versus “general fund” accounts. For example is CE really an income expense unit? In many cases CE generates revenues using existing personnel from academic units without bearing an equal portion of costs associated with that faculty member. Alternatively, academic unit faculty members are delivering academic credits to CE without getting credit at the unit level. Effectively you overstate the “profitability” of CE while understating that of the academic unit.

- Recommendation: Assess the purpose of classification of units like CE in conjunction with measuring academic unit performance.

5. *Achieve Predictability*

- Observation: The university administration has been reluctant to provide the FPPC information on alternative scenarios in part because of a philosophical belief that sharing a “worst” case scenario is not warranted. Here again, the committee recognizes that this may be well-intentioned so as not to waste time on “doom and gloom” scenarios that may not come to fruition.
- Recommendation: The committee advocates the use of multiple scenarios in the budget process. It would be helpful to run base case / worst case / best case budget scenarios to share with at least a limited number of appropriate representative organizations. This allows for more proactive advanced planning to be in place to better handle fluctuations in the budget versus actual results.

6. *Enhance Flexibility*

In general, the committee would like further clarification on the operationalization of this budget principle.

- Observation: This principle seems to be in conflict with bringing “predictability” to the process.
- Observation: If funds are being reallocated as part of managing the budget to actual results, make this as transparent as possible.

7. *Provide Incentives to Increase Academic Quality, Enhance Revenues, and Promote Productive Creativity and Efficiencies*

- Observation: As part of UVM’s deployment of a centralized budget process, there are few, if any, incentives being offered to make fundamental behavioral changes.
- Recommendation: Identify and communicate the effectiveness of incentives in driving behavior that supports the long-term strategic plan.

8. *Provide Ease of Administration During Times when Revenues are Growing and When They are Shrinking*

- Observation: The budgeting process seems unnecessarily cumbersome.
- Recommendation: Streamlining the budget process may help the ease of making budget changes as economic conditions change.
- Recommendation: A long-term strategic plan should help identify areas where the university can tolerate fluctuations in budget to actual results.