



To: Faculty and Staff of the University of Vermont

From: David V. Rosowsky, Provost and Senior Vice President

Date: December 11, 2014

Subject: Incentive-based Budget Model – Campus Update #3

I am writing with the semester's final update on the progress of our incentive-based budgeting (IBB) initiative. The focus of this update is Algorithm 7, which allocates the expenses of the Cost Centers to the Responsibility Centers.

In IBB, each university unit is either a Responsibility Center (RC) or a Cost Center (CC)<sup>1</sup>. A Cost Center, such as Payroll or Admissions, is a unit that does not generate revenue, but supports the Responsibility Centers by providing centralized services. In Algorithm 7, the approximately 80 Cost Centers are grouped into six different cost pools. The cost pool expenses are then allocated to the RCs based on cost drivers, one of which is graduate student-credit-hour-based FTE (24 graduate SCH = 1 graduate student FTE).

During the parallel model year, it was discovered that the algorithm, as originally structured, could present barriers to the creation of new graduate programs. Obviously this is counter to the intent of IBB. Since our [Academic Excellence Goals](#) call on us to increase enrollments in graduate and professional programs; and to expand distance offerings (many of which will be at the graduate level), we needed to ensure that the model reflected and supported these priorities.

Through discussions with the IBB Steering Committee and the deans, an alternative proposal surfaced around which there was strong support. Thus, the model has been revised such that the allocation of any cost that uses graduate SCH-based FTE as a driver will be deflated by 80%. As part of effecting this change, there will be a very modest cost-shift from the graduate SCH cost driver to the undergraduate SCH cost driver. This shift is very small, given the ratio of undergraduate-to-graduate enrollments at the University, and does not create a burden for any one college or school.

There are a number of advantages to this approach: (1) it incentivizes the growth of graduate and distance education, (2) it is in keeping with the original structure of the algorithm; and (3) every college or school can benefit from this change.

---

<sup>1</sup> Continuing and Distance Education and the Research Enterprise share the characteristics of Responsibility Centers (generating revenue) and Cost Centers (providing centralized services), and have been categorized as Hybrid Cost Centers.

You can find the current versions of all of the algorithms on the [IBB website](#). A revised final report will be posted in January.

I remain grateful for the thoughtful and diligent efforts of so many members of our community in support of our transition to a new budget model. I wish you all a peaceful holiday season and look forward to seeing you in the new year.