




TO: Thomas Sullivan, President

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

DATE: December 21, 2018

SUBJECT: IBB 2.0 Final Report of the Incentive-based Budget Model Steering Committee

On behalf of the Incentive-based Budget (IBB) Model Steering Committee, I am writing to provide you with the Committee's final recommendations for IBB Model 2.0.

## BACKGROUND

In FY14 the University engaged in a year-long university-wide effort to develop an incentive-based budget model. In FY15 the new IBB model and the existing budget model ran in parallel. In FY16 the transition was completed when the IBB model went live on July 1, 2015. Since FY14, the IBB Steering Committee has met regularly, first to develop the model, and then to watch the model "at work." The Committee recommend refinements in response to challenges that became apparent early in the model's operation. As noted in the [IBB Model 1.0 Report](#), the model was to undergo a major review in FY20. That major review – the development of IBB Model 2.0 – was initiated in November 2017 and concluded in December 2018. Preliminary recommendations have been communicated to campus throughout the Model 2.0 process. Upon your approval, the Steering Committee's recommendations will become final and will be implemented in the next planning cycle (this spring), and become effective July 1, 2019 (FY20).

## COMMUNICATIONS TO THE CAMPUS COMMUNITY

The commitment to the open and transparent process established for the development of Model 1.0 is evident in the Model 2.0 process, which has included the following communications:

- Updating the [IBB website](#)
- Posting results of the November 2017 IBB [Model 1.0 Review](#)
- Issuing [Campus Update Memo #6](#) (November 2017) requesting IBB Model 2.0 Steering Committee nominations; announcing the Model 2.0 Input Surveys
- Posting results of the [Model 2.0 Input Surveys](#)
- Issuing [Across the Green](#) Memo (January 2018) providing an update on the Model 2.0 process and timeline
- Issuing [Campus Update Memo #7](#) (April 2018) announcing the three areas of the model that would be refined in Model 2.0
- Issuing [Campus Update Memo #8](#) (August 2018) announcing a revised IBB Model 2.0 timeline and preliminary recommendations to modify Algorithm 7
- An IBB 2.0 Update at the September 24, 2018 Faculty Senate Meeting

- Issuing [Campus Update Memo #9](#) (October 2018) outlining preliminary recommendations to modify Algorithm 1
- An IBB 2.0 Update at the October 29, 2018 Campus Leadership Meeting
- Issuing [Campus Update #10](#) (November 2018) outlining preliminary recommendations to modify Algorithm 6

## THE STEERING COMMITTEE’S PROCESS

In Spring 2018, after reviewing the [campus feedback](#), the IBB Steering Committee identified three major areas for refinement in Model 2.0, to be addressed in the following order:

Algorithm 7 – Support Center<sup>1</sup> Pools: To review (a) the headcount cost driver in particular, and (b) to determine whether the formula can be simplified.

Algorithm 1 – Undergraduate Net Tuition: Focusing on (a) the weightings, and (b) whether the 85/15 split should be revised vis-à-vis the role, if any, it plays in curricular/course offering decisions.

Algorithm 6 – Facilities: Investigating whether the current methodology can/should be revised to account for space weighting by functional use, remediation obligations, and utility costs.

Several important issues outside of the algorithms were also included in the Model 2.0 work plan:

- (1) the role and authority of the Educational Stewardship Committee,
- (2) whether and how to incorporate retention and 4-year graduation rates into the model,
- (3) whether refinements to the metrics used to evaluate the model are warranted, and
- (4) an exercise that maps all elements of the IBB Model (the Guiding Principles, algorithms, incentives, checks and balances) to the [President’s Strategic Action Plan](#) and the [Academic Excellence Goals](#).

The IBB Steering Committee met formally eleven times during the Spring and Fall 2018 semesters, and held several informal “brown bag lunch” discussions.

They hosted three focus groups for Deans, Department Chairs, and Academic Program Directors in early May to gather feedback on potential changes to Algorithm 7.

The Steering Committee also hosted eight focus groups for the Associate Deans, the Academic Business Managers, the original Algorithm 1 Subcommittee, the Staff Council, and four sessions for Deans, Department Chairs, and Academic Program Directors, to gather feedback on potential changes to Algorithm 1.

## RECOMMENDED IBB MODEL 2.0 ALGORITHM REVISIONS

### ALGORITHM 7 – SHARED SERVICE POOLS

The feedback on Algorithm 7 centered on the headcount assessment. The intent of the assessment, at approximately \$9,000 per head, is to cover Support Center (SC) expenses in SCs whose costs are driven

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<sup>1</sup> In January 2018, we transitioned from the term “Cost Center” to “Support Center” in recognition of the essential partnerships between the support units and the academic units (“Responsibility Centers”).

by the number of faculty and staff employed by the University regardless of whether they are full-time or part-time. Feedback from the campus-wide surveys suggests that the headcount assessment is perceived as (1) a disincentive to hiring part-time faculty, (2) a burden to departments that are heavily reliant on part-time faculty, and (3) an impediment program innovation which may require new faculty hiring at a rate that initially outpaces revenue generation.

**The Steering Committee recommends revising the headcount methodology such that the part-time faculty/staff assessment is half the full-time assessment.** This responds to the call for change, eases part-time faculty hiring expenses without overly disincenting full-time faculty hiring, and supports programs reliant on part-time faculty, all while still acknowledging Support Center expenses associated with all employees.

On the question of whether the Algorithm 7 formula should be simplified, the Committee feels that the current level of detail provides a necessary level of transparency upon which the campus relies, and did not recommend further changes to Algorithm 7's pools or drivers.

#### ALGORITHM 1 – UNDERGRADUATE NET TUITION

The current algorithm:

*Algorithm 1: Undergraduate Net Tuition*

*Undergraduate Net Tuition is defined as gross tuition less financial aid (the netting occurs before the revenue is allocated).*

*Undergraduate net tuition will be allocated as follows:*

- *85% based on a college's or school's percentage of the two-year trailing average of Student Credit Hours (SCH) taught (based on the home unit of the instructor of record). The SCHs will be weighted to reflect the relative national costs of instruction by college/school<sup>2</sup>; and,*
- *15% based on a college's or school's percentage of the two-year trailing average of majors.*

The intent of Algorithm 1 as originally recommended by the Steering Committee and as currently structured is two-fold. It provides colleges and schools with incentives to offer innovative, high-quality undergraduate programs and to focus on student recruitment and retention while accounting for the differential cost of instruction via the weighting of student credit hours.

Based on the campus feedback, the IBB Steering Committee reviewed the following Algorithm 1 components in particular: (A) the student credit hour (SCH) weightings (see bullet 1 above), and (B) the 85/15 split (SCH/major; see bullets one and two above).

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<sup>2</sup> Based on the Delaware Study of Instructional Costs and Productivity

## A. The Student Credit Hour Weightings

Feedback on the algorithm from the campus-wide surveys suggested that the SCH weightings, while understood by some, are perceived by others as inequitable, disadvantageous to particular units, a barrier to cross-college collaboration, and overly complex. The focus group feedback was consistent with the survey feedback, which demonstrated overwhelming support for the elimination of the weightings.

**The Steering Committee recommends eliminating the SCH weightings in Algorithm 1.** The Steering Committee's rationale included (1) the advancement of two of IBB's guiding principles: transparency and simplicity, (2) the belief that an unweighted SCH will continue to incentivize the colleges and schools to develop and maintain quality academic programs, and (3) the desire to respond to clear and consistent campus feedback, in turn, increasing trust and confidence in the budget model.

A universal unweighted SCH will vary little from the current weighted SCH in all but three of the units. Removing the SCH weightings will not prohibit leadership from exercising discretion in the differential valuing of particular University priorities or high-impact practices<sup>3</sup>. In fact, the Steering Committee felt strongly that it was essential to preserve this discretion.

A universal, unweighted SCH will affect high-cost instruction units. The Steering Committee believes that accounting for the differential cost of instruction (DCI), one of the algorithm's two primary functions, must continue to be facilitated by the model. With the removal of SCH weightings, this will be done through subvention. Subvention plays two distinct roles as part of this change.

First, one-time subvention adjustments will be made to allow for a budget neutral transition from weighted to unweighted SCH. This one-time "re-set" mitigates any sudden shocks – either positive or negative – to the system and recognizes the DCI in the context of our current enrollment mix.

Second, the use of subvention to account for the DCI forces the institution to make more intentional and strategic future enrollment decisions. Decisions about changes to the enrollment mix (both within and among units) must be deliberate because any significant and sustained growth in high-cost disciplines may require further subvention increases. This would, in turn, result in off-setting subvention decreases in other units. This possibility is mitigated in the following ways:

- (1) Subvention increases are not necessary in all cases of enrollment growth, but they *may* be necessary if the planned growth is significant, sustained, *and* in a high-cost discipline.
- (2) A subvention increase would *only* be necessary for the difference between the weighted and the unweighted SCH value for the incremental growth (not the entire value of a SCH).
- (3) Continuation of the Provost's four-year record of extreme restraint regarding subvention adjustments. In Model 1.0 annual subvention changes were less than one quarter of one percent of the annual budget (0.25%).

## B. The 85/15 Split

Feedback on the 85/15 (SCH/major) split expressed concern that the split negatively affects course offerings. The Committee reviewed data about course offerings since the adoption of IBB 1.0 and came

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<sup>3</sup> The only existing example of this is the Honors College multiplier (3 to 1), which will remain in place.

to the conclusion that it was appropriate to maintain a split, and that any potential change would be marginal at most. **Given the substantial revision related to the weights and the fact that an 85/15 split is typical at other RCM schools, the Committee recommends against further changes to the algorithm.**

#### ALGORITHM 6 - FACILITIES

The intent of Algorithm 6 as originally recommended by the Steering Committee, and as currently structured, is to allocate facilities expenses based on a unit's footprint as defined by its Assignable Square Footage (ASF), and to incent the efficient use of space.

Feedback on the algorithm from the campus-wide surveys was not as uniform as that received for the other algorithms the Committee addressed, nor were potential resolutions as clear. The Steering Committee received a variety of minor suggestions aimed at different aspects of the algorithm, but a consistent and specific problem in need of a solution did not emerge.

In preparation for the Steering Committee's deliberations, we reviewed facilities methodologies in use at other RCM universities. While approaches vary, we were unable to find a methodology with which a campus was fully content. This, understandably, mirrors our own experience. As we know, space is expensive, deferred maintenance needs and new/expanded facilities are driving that expense up, space assessments consume a significant share of a Responsibility Center's (RC) budget, RCs have varying levels of satisfaction with particular spaces within their footprint, and there is little a unit, or the University, can do to alter much of this.

The Steering Committee considered several specific facilities suggestions. The first was to refine the algorithm such that it allocates facilities costs by functional use (i.e., charging more for a square foot of lab space than a square foot of office space). On the basis of its potential to disincent research and add complexity, the Committee did not support this approach. With an eye for conservation and efficiency, the Committee also considered whether we should allocate actual, rather than aggregated, utilities costs to each RC. Unfortunately, the complex physical infrastructure that delivers utility services across campus does not provide the data necessary for this approach, and this, too, has the potential to disincent research and add complexity. Finally, the group considered whether a budget should be created to support units with significant remediation and abatement obligations (largely related to asbestos). The Steering Committee did not support this proposal on the grounds that it would be difficult to determine which unit should have access to these limited resources, and under what conditions.

The Steering Committee also considered several different overall approaches, namely allocating space costs by a driver other than Assignable Square Footage. Allocations based on Unrestricted Expenses and Faculty/Staff FTE were explored. The financial impacts of these approaches on RC budgets were modest, largely because the total facilities expense that must be allocated remains the same regardless of the driver by which it is allocated. Further, these approaches would result in significant distortions to the model, driving the headcount assessment from \$9,000 to more than \$22,000, and the unrestricted expense assessment from 17% to almost 40%. As a result, the Committee concluded that allocating space by a driver other than ASF ran counter to [Guiding Principle #4](#) by reducing transparency and also reduced incentives to maximize the use of existing space.

**On the basis of the above, the Steering Committee recommended no changes to Algorithm 6.**

## IBB MODEL 2.0 CONSIDERATIONS OUTSIDE OF THE ALGORITHMS

### EDUCATIONAL STEWARDSHIP COMMITTEE

The [Educational Stewardship Committee](#) (ESC) was established in 2015, and is a free-standing joint committee of the Provost's Office and the Faculty Senate. The purpose of the ESC is to ensure campus-wide good stewardship and coordination of the University's educational mission. The Committee is charged to provide recommendations to (1) safeguard the integrity of the University's educational mission with respect to stated tenets, particularly as those tenets may be impacted by the incentive-based budget model; and (2) to provide recommendations to promote excellence in teaching and learning and the educational experience. The ESC reports to both the Provost and the Faculty Senate Executive Council.

Some of the IBB 2.0 feedback centered on the role and authority of the ESC. The IBB Steering Committee met with ESC Co-Chairs Associate Provost Brian Reed and Professor and Department Chair Rosemary Dale to discuss the committee's activities. The outcome of that meeting, and for further discussion with, and at the discretion of, Faculty Senate leadership: (1) the ESC's work was recognized as valuable but lacking visibility, and perhaps in need of more frequent reporting to the Faculty Senate; and (2) the possibility that both the ESC and the budget model have sufficiently matured such that the ESC could be lead by the Faculty Senate, independent of the Provost's Office.

### INCORPORATING RETENTION AND FOUR-YEAR GRADUATION RATES INTO THE MODEL

Given their importance to the University, and their centrality to both the [Strategic Action Plan](#) and the [Academic Excellence Goals](#), there was some discussion of whether retention and four-year graduation rates should be more explicitly incorporated into the model. The group concluded that retention is currently and sufficiently embedded throughout the model, and that a more explicit incenting of the four-year graduation rate would require the generation of data at the individual student level, which would run counter to [Guiding Principle #5](#), by introducing an unwarranted layer of complexity into the model.

### METRICS AND EVALUATING THE MODEL

In March 2017 the IBB Metrics Working Group proposed a set of metrics to help understand whether, and how well, IBB is working. The consensus of the group was that we cannot credit (or discredit) IBB directly with any measure of institutional performance. As has been articulated to campus throughout the process, IBB is not a panacea. In and of itself, it will not reduce expenses, create efficiencies, or generate new revenue. IBB is not a surrogate for leadership, for vision, or for innovation. However, it is reasonable to consider whether the model enables strategic decisions and innovation; whether it provides adequate opportunities for success to all units; whether it may be providing the right "behavioral nudges"; whether the institution has made progress since its implementation; and whether the negative outcomes some predicted during the transition have, in fact, resulted.<sup>4</sup>

To those ends, the working group suggested a three-pronged evaluative approach: (1) a review of university-wide "Indicators of Success" selected to monitor prominent IBB concerns, (2) a qualitative Survey of the Deans, and (3) consideration by the Budget Director, Vice President for Finance, and

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<sup>4</sup> The [Educational Stewardship Committee](#) monitors and responds to concerns on an on-going, real-time basis.

Chief Budget Officer. This approach was reviewed and approved by the IBB Steering Committee, the Provost, the President, and its first results were [posted](#) on the IBB webpage in November 2017.

The Indicators of Success were [updated](#) in November 2018 to include FY18 data. The data now reflect trends from FY13 (a pre-IBB baseline) through FY18 (our third year operating under IBB).

The data tell a very strong and positive story, and it is clear that the most prominent IBB concerns expressed during the model's development in FY14 have not come to fruition. We will continue to monitor and update the [University-wide Indicators of Success](#) annually.

## MAPPING THE MODEL TO THE STRATEGIC ACTION PLAN AND THE ACADEMIC EXCELLENCE GOALS

At one of its December 2018 meetings, the Steering Committee participated in an exercise to begin mapping the elements of the IBB Model (the [Guiding Principles](#), [algorithms](#), incentives, checks and balances) to the [President's Strategic Action Plan](#) and to the [Academic Excellence Goals](#). This work will continue in the spring.

## OTHER MODEL 2.0 ELEMENTS AND CONSIDERATIONS

### SUBVENTION

The IBB implementation in FY16 was budget neutral. That meant that each Responsibility Center's revenues and expenses balanced in year one (the budget neutral year), and that each RC was able to maintain its pre-IBB level of expense that was supported by its FY15 base budget. This was accomplished by providing each RC with a revenue subvention (subsidy). In order to incent revenue generation and expense efficiencies, between FY17 and FY19, subventions were reduced between 1% and 4%. To be clear, only an RC's subvention, *not its entire budget*, was reduced. As a result, subvention reductions typically equated to only a quarter of one percent per year of a given RC's revenue. Funds released as a result of these reductions were reallocated to the Strategic Investment Fund (SIF). The original plan was to reduce subventions annually until the SIF reached \$8M. It became necessary, however, to provide the College of Arts and Sciences with an increased subsidy beginning in FY18. That subsidy was funded through a reallocation of SIF funding. The SIF goal was then reduced from \$8M to \$7M to mitigate the impact of the increased CAS subsidy on the other colleges and schools. Once the SIF reaches \$7M there will be no further annual reductions to subventions. However, as discussed on page four, the elimination of SCH weightings may necessitate future subvention adjustments related to strategic enrollment decisions.

### STRATEGIC INVESTMENT FUNDS

A Strategic Investment Fund available to the President and Provost is an essential component of our IBB model and is a recommended practice for responsibility centered management (RCM) budget models. The fund is used to support the initiatives that are the highest priorities of the President and Provost. The SIF budget was established at \$4M in FY16, and has increased to \$5.4M in FY19, with a goal of \$7M in total.

The Provost reports annually to the Faculty Senate through the Financial and Physical Planning Committee on the fund's use. On average, SIF funds have been allocated as follows over the last three years:

## Strategic Investment Fund Use by Category FY16 to FY18

Research and Scholarship	35%
<i>e.g.</i> , faculty grants, facilities, major equipment, matching funds, grant support	
Teaching and Learning	25%
<i>e.g.</i> , General Education (FWIL), assessment support, classroom improvements	
Student Success	10%
<i>e.g.</i> , Career Center, internship coordinator, retention, UG research coordinator	
Campus and Culture	30%
<i>e.g.</i> , building repairs, campus improvements, diversity initiatives	

### IBB MODEL 3.0

The Steering Committee will continue to meet to assess the model's performance and impact. The next major review of the model will occur in FY24, with the implementation of IBB Model 3.0 in FY25.

### CLOSING

The transition to an incentive-based budget model reflects a significant administrative and cultural shift, neither of which are easy undertakings for large and complex organizations. Along the way there have been bumps in need of smoothing, decisions that needed re-thinking, and it is true that the impact of the model has not been felt evenly across units. That said, the [University-wide Indicators of Success](#) all suggest that the shift has been positive. As challenging as this transition may have been for some, the University as a whole is now better positioned to achieve financial sustainability than it was under the prior budget model. Collectively, our understanding of the form and function of IBB models has deepened and matured. As we enter this second phase of IBB, we will benefit from a heightened focus on the potential and possibilities that the model incents and enables, rather than a focus on singular elements of the model itself.

Finally, let me express my thanks to the members of the Steering Committee for their careful and deliberative efforts to respond – respectfully and responsibly – to the important IBB campus feedback that was received. I am grateful for the time, talent, and wisdom they have shared on behalf of our University and its future.