



TO: Faculty and Staff of the University of Vermont

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

DATE: June 6, 2016

SUBJECT: Incentive-based Budget Model – Campus Update #5

I write to you as we bring to a close our first year under an incentive-based budget (IBB) model. As you know, the new budget model was developed and implemented over a two-year period in accordance with a set of [guiding principles](#). These included creating incentives to promote academic quality and excellence as well as financial sustainability; encouraging innovation and entrepreneurship; and providing transparency, clarity, and predictability. By adhering closely to these guiding principles, creating a broad and inclusive committee structure, taking our time to be both thoughtful and careful, and regularly communicating progress, we were able to move successfully as a campus through the development and implementation of the new budget model.

The resulting IBB model is *transparent*, it is *predictable*, it is *easily understood*. The model supports *academic quality*, it distributes *budgetary responsibility*, it provides *clear incentives*, and it allows for *multi-year planning*. Our extensive engagement and preparation allowed for a seamless transition that already has yielded a number of important advances. As I reflect on the significance of this milestone, I want to again express my sincere gratitude to the many faculty, staff and administrators who have invested countless hours in this effort, and who remain committed to unleashing the potential and opportunity the [new budget model](#) offers.

Over the past eighteen months, we've experienced a period of unprecedented curricular innovation, in part due to the good and creative thinking of our faculty members, in part as a result of the budget model's incentives, and all for the benefit of our students who deserve the most compelling array of academic programs we can provide. At the close of this memo you'll find a listing of our newest programs.

As I discussed in the most recent issue of [Across the Green](#) (April 2016), beyond new academic programs, the transition to IBB has incented and enabled new approaches as well as transparency, dialog and engagement that will enable units to make decisions consistent with their highest priorities, and create the best overall educational experience possible. Examples include:

- The colleges/schools are able to make multi-year investments in new academic programs and new scholarly activities, monitoring for progress and verifying that expectations (e.g., enrollments, degree completion, scholarship, visibility, rankings) are being met.

- Budgets of the colleges/schools have been hardened to reflect (a) long-time ongoing commitments from the University to the unit, and (b) expense commitments that had been paid previously from (e.g.) gift accounts or other one-time sources.
- The colleges/schools are taking a more thoughtful, strategic, and creative approach to summer including (a) more strategic student-centered offerings; (b) more consistent, equitable, and appropriate class sizes; (c) increased online and hybrid offerings to reach and attract broader audiences; and (d) a focus on efficiency to increase effective net revenue back to the academic unit.
- The colleges/schools are thinking strategically about true costs of extramural research, and in particular how to accommodate grants that are central to meeting the unit's highest priorities but do not pay full indirect costs.
- The colleges/schools are looking carefully at the true costs of externally funded centers and grant-funded service activities to fully understand the level of subsidies that must be provided by the unit to support them.
- The faculty and deans are engaged in forward-looking discussions about library holdings and acquisitions (in particular, serials subscriptions), with full benefit of actual cost and actual usage statistics. The deans will be engaging with their faculty in trade-off analyses and discussions in the coming year.
- The faculty in the colleges/schools are actively engaged in student recruitment and retention efforts, and to the success of their students upon graduation.

We knew that over time, the model would encourage important conversations and activities such as these. What is remarkable is the pace at which the Responsibility Centers (RC's) have embraced, understood, and capitalized on the opportunities the model provides.

#### Increased Net Tuition Revenue Projections for FY17

As a result of the recruitment and retention efforts noted above, we not only recruited a very high-quality class, we're anticipating that our FY17 net tuition revenue will exceed projections by about \$4M. This is a direct result of the efforts of Vice President Kostell and her entire team, as well as the efforts of the colleges and schools. This additional one-time revenue (beyond initial revenue projections) goes directly to the colleges and schools in accordance with the IBB model. The colleges and schools can then discuss and identify strategic priorities for new investment, or choose to strengthen existing areas of the budget.

#### Subvention Reductions

While it is clear that our academic community has a firm grasp on most aspects of the IBB model, "subvention" and its relation to the Strategic Investment Fund (SIF) is less well-understood. While complete details may be found in the [About Subvention](#) document on the IBB website, I use this opportunity to provide further clarification in response to questions we have received.

### *What is subvention and why do we have it?*

As part of our transition to IBB, each college and school received a subvention (subsidy). The primary purpose of this was two-fold. First, IBB is an entrepreneurship and accountability model, not an autonomy model. Subvention, a common feature of IBB models, integrates what otherwise would be a completely decentralized system, by allowing for the rebalancing of revenues necessary to support core academic offerings that do not generate enough revenue to meet expenses.

Subvention has always been part of the University of Vermont budget model. That is, the University budget has always included internal reallocations between colleges/schools with the ability to generate revenue in excess of their costs and those that require support regardless of how efficiently they operate. What has changed? In IBB, this subsidization – or subvention – is now visible. Recall that *transparency* was one of the underlying principles of IBB.

Subvention's second purpose was to provide a budget neutral transition to the new model. This ensured year-one balanced revenues and expenses in each Responsibility Center, and provided additional time for the RCs to develop their knowledge, strategy and plans around the new model.

Subvention can also be used to ameliorate sudden budgetary shifts that could result, for example, from reductions in enrollments, changes in the state appropriation, decreased F&A revenue, or major unforeseen expenses critical to campus operations.

### *Where does subvention come from?*

The source of subvention funding is undergraduate net tuition revenue, from which \$40M is allocated to the subvention pool before the remainder is distributed to the colleges and schools in accordance with Algorithm 1. The subvention pool is then *fully allocated* to the colleges and schools consistent with the two purposes discussed above – budget neutrality (in Year 1) and maintaining the University's broad portfolio of programs.

### *Why is the amount of subvention being reduced?*

Subventions are being reduced at a very modest rate of 1-4% per year, over a period of 4-5 years, to incent change (e.g., focus on student retention and success, new revenue generation, increased efficiencies). It is important to understand that subvention represents a very small portion of any college's or school's budget, and the reduction is on that small portion of the unit's budget only – not its entire budget. For example, the College of Arts and Sciences received a 1% reduction in subvention for next year, this represented a \$123K reduction on a revenue budget of more than \$104M, or less than 1/8<sup>th</sup> of one percent.

While there will be modest reductions over the next 4-5 years, subvention is expected to continue indefinitely, allowing for the rebalancing of revenue that is necessary at any university.

Eliminating subvention, as has been suggested by some, would have the undesirable result of forcing sudden and dramatic downsizing by some colleges and schools. This is, of course,

counter to the goals of the budget model. The University, as a whole, benefits from its broad portfolio of academic programs, some of which will always require the differential investment and support provided by subvention.

*How does this relate to the Strategic Investment Fund (another common feature of IBB models)?*

The savings from the modest subvention reductions that will take place over the next several years will be used to grow the Strategic Investment Fund (SIF) from its current \$4M to \$8M. There is no plan to grow the investment fund beyond \$8M, and we anticipate it will take 4-5 years to achieve this level of funding.

Excerpt from [IBB Campus Update Memo #4](#), May 11, 2015 –

“Part of the planned and phased [subvention] reduction will be used to create a Strategic Investment Fund to enable the president and provost to invest strategically in new initiatives, respond to opportunities, and continue to invest in the University’s physical and intellectual infrastructure. Such a fund is critical to the success of these types of decentralized budget models, according to every university that has made such a transition over the last two decades.”

While lower than comparable funds at other institutions, we believe this modest investment fund, representing about 1.25% of our total university budget, will enable us to make critically important strategic investments in academic priorities – whether academic programs and personnel<sup>1</sup>, infrastructure to support teaching or research<sup>2</sup>, interdisciplinary programs<sup>3</sup>, or academic support initiatives<sup>4</sup>. While the majority of the strategic investment funds will be directed to academic units and programs, they may also be used to make other investments that directly support our academic mission; diversity recruitment efforts, campus or facilities upgrades or repairs, or initiatives around academic advising or student retention – for example. This year, I presented an overview of the factors that guide investment decisions and examples of strategic investments from the last several years to the Faculty Senate Executive Council and the full Faculty Senate. This presentation was well received, I was thanked, and asked if I would be willing to make such a presentation each year. I am happy to do so.

The President and I are committed to maintaining resources we can invest in the highest university-wide priorities. We are committed to increasing diversity on our campus, investing in interdisciplinary programs, attracting the best and brightest students, recruiting and retaining a world-class faculty, and creating the best possible learning and discovery environment at the University of Vermont.

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<sup>1</sup> Examples: staffing for the new Writing Gen Ed requirement, EPI grants, STEM K-12 education grants, expansion of Henderson Fellows program

<sup>2</sup> Examples: Royall Tyler Theatre and Southwick Recital Hall upgrades, general purpose and Kalkin classroom upgrades, new biomedical engineering lab

<sup>3</sup> Examples: Humanities Center, Faculty Activity Network (FAN), Fostering Interdisciplinary Scholarship, Arts and Research (FISAR) program, REACH program, and SPARK-VT program

<sup>4</sup> Examples: retention coordinator, undergraduate student research coordinator, renovation and relocation costs for academic and student support services, support for advising and degree progress tracking

We are excited by the curricular innovation, interdisciplinary activity, recruitment efforts, and new campus-wide research and scholarship initiatives that are resulting from and being enabled by IBB. Your individual and collective efforts are both necessary and appreciated. I wish you a wonderful summer – here in Burlington or wherever you may be.



### New Academic Programs (recently approved)

#### *Undergraduate Majors*

Biomedical Engineering B.S.  
Data Science B.S.  
Economics B.S.  
Food Systems B.S.

#### *Graduate Degrees and Certificates*

Complex Systems and Data Science M.S.  
Epidemiology (Certificate)  
Food Systems Ph.D.  
Medical Laboratory Science M.S.

#### *Undergraduate Minors and Certificates*

Art  
Behavioral Change Health Studies  
International Politics  
Jewish Studies  
Musical Theatre  
Neuroscience  
TESOL (Certificate)  
Writing