



TO: Faculty and Staff of the University of Vermont

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

DATE: October 12, 2018

SUBJECT: Incentive-based Budget Model – Campus Update #9

I am writing to provide an update on Incentive-based Budget (IBB) Model 2.0<sup>1</sup>. The IBB Steering Committee's most recent work has focused on Algorithm 1. The Committee recommended the following changes to President Sullivan, which he has subsequently approved.

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>1</sup> Please see [Campus Update #8](#) for information on the IBB Model 2.0 process and its revised timeline.

<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 to the conclusion that it was appropriate to maintain a split, and that any potential change would be

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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.

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.**

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Preliminary recommendations on Algorithm 6 will be released in the weeks ahead. When that recommendation has been developed, the Steering Committee will have concluded its work on the IBB Model's algorithms and will then turn its attention to the other issues outside of the algorithms.

cc: Tom Sullivan, President  
Alberto Citarella, University Budget Director  
Incentive-based Budget Steering Committee