



## Incentive-based Budgeting (IBB) at UVM: About Subvention

### WHAT IS SUBVENTION?

Subvention is a budgetary tool available to the Provost that allows for the rebalancing of revenues to guide the direction of the University in accordance with the strategic priorities established by the President. The mechanics of subvention include taking a portion of the overall undergraduate net tuition revenue, designating that funding as the subvention pool, and then allocating that revenue to responsibility centers as described in this document.<sup>1</sup>

Subvention is determined and adjusted based on university goals and objectives and the unique roles and characteristics of particular academic units. It can also be used to ameliorate sudden budgetary shifts<sup>2</sup>, thereby providing responsibility centers time to adjust accordingly. The use of subvention for these purposes is common to incentive-based budgeting models.

Some responsibility centers will always require subvention. Subvention is a common feature of nearly all IBB models as there are core academic offerings at any research university that simply do not generate enough revenue to meet expenses. The need for subvention should not be viewed as a value judgment on a unit's worth or productivity. The University, as a whole, benefits from its broad portfolio of academic programs. Some programs will require strategic, differential investment and support.

An incentive-based budgeting model is an entrepreneurship and accountability model, not an autonomy model. IBB creates a decentralized system integrated by subvention.

Subvention is separate and apart from the President's and Provost's Strategic Investment Fund (SIF). The Strategic Investment Fund is used to support new and emerging university initiatives that align with the institution's highest priorities. If funding is allocated from the Strategic Investment Fund to a Responsibility Center (RC), that allocation will be for a fixed period of time and for a specified purpose. Funds from the SIF are therefore not an addition to the continuing funds available to an RC, but rather represent a short-term (one-time) investment.

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<sup>1</sup> In the first year, (FY16), subvention will be allocated such that each responsibility center's net revenues and net expenses are equal – allowing for a budget neutral implementation of IBB Model 1.0.

<sup>2</sup> These 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.

## GUIDING PRINCIPLES FOR SUBVENTION ALLOCATION

The following principles, developed in partnership with the deans, have been established to guide the Provost's decisions about subvention allocations to the colleges and schools (Responsibility Centers) under IBB. These principles are intended to both align with and support the President's *Strategic Action Plan* and the undergirding *Academic Excellence Goals*. Further, they are consistent with the *IBB Guiding Principles*.

- Recognizes the disparity of costs in the delivery of programs by discipline (beyond that for which the algorithm can reasonably account).
- Promotes consistent levels of efficiency (relative to comparator data) across the responsibility centers.
- Supports graduate and professional degree programs in strategic areas, ensuring a portfolio of programs appropriate for a research university of our scale.
- Recognizes the central role of research in our mission, with emphasis on maintaining research capabilities in high-priority, high-impact areas.
- Ameliorates sudden budgetary shifts (see footnote 2), thereby providing responsibility centers time to adjust accordingly.

## HOW WILL SUBVENTION WORK?

The source of subvention under IBB is net undergraduate tuition revenue. This, too, is common to IBB models. Net undergraduate tuition is our single largest revenue stream at UVM. Some public universities also include a portion of the state appropriation in their subvention pool. This is the case when state appropriations represent a relatively large share of general fund revenue. This is not the case at UVM. Our state appropriation is very modest, less than one-quarter of our net undergraduate tuition revenue. Further, since our state appropriation is fully allocated for specific purposes, it cannot be included in our subvention pool for rebalancing purposes.

To achieve budget neutrality as we moved into IBB, all responsibility centers received a subvention in FY16. The Provost will determine a multi-year subvention strategy for each unit in consultation with individual deans. This will be reviewed annually.

In order to incent the generation of revenue and the realizing of efficiencies within the units, all responsibility centers will develop budget strategies that accommodate a decrease in subvention of 1%-4% per year from FY17 through FY20 (after which this strategy will be revisited and revised as needed). A reduction in subvention does not necessarily equate to a reduction in total available resources, as responsibility centers control multiple revenue streams.

The actual reduction for each unit will be based on strategic considerations, guided by the principles in the previous section. Funds released as a result of the decreases in subvention to the colleges/schools will be used to grow and sustain the Strategic Investment Fund<sup>3</sup> for use by the President and Provost.

Beyond FY20, decisions about subvention will be made on a case-by-case basis as part of the budget process and, as noted above, will be determined in the context of the University's goals and objectives as well as the unique circumstances of each academic unit. This articulation of plans for subvention provides each responsibility center with the information necessary to develop its own "multi-year, all-funds" budget strategy, chief among the objectives of IBB.

D. Rosowsky, Provost and Senior Vice President

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<sup>3</sup> As discussed in the June 30, 2014 [Report of the IBB Steering Committee](#), a strategic investment fund is an essential component of the IBB model. This fund will be used to provide one-time support for strategic initiatives that are the highest priorities of the President and Provost.