The University of Vermont

Office of the Provost
and Senior Vice President

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.

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- 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.

* Must mention SPA & efficiencies

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 1/8th 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[1], infrastructure to support teaching or research[2], interdisciplinary programs[3], or academic support initiatives[4]. 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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[1] Examples: staffing for the new Writing Gen Ed requirement, EPI grants, STEM K-12 education grants, expansion of Henderson Fellows program

[2] Examples: Royall Tyler Theatre and Southwick Recital Hall upgrades, general purpose and Kalkin classroom upgrades, new biomedical engineering lab

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

[4] 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

COMPARATOR INSTITUTIONS:
Boston College
Boston University
Syracuse University
George Washington University
College of William and Mary
University of Colorado-Boulder
University of Massachusetts-Amherst
University of Connecticut
Stony Brook University (SUNY)
Binghamton University (SUNY)

Dashboard Indicators

PRESENTATION TO THE UVM BOARD OF TRUSTEES, MAY 2016

Dashboard Indicators

INPUT

- Application #'s
- Acceptance rate
- Yield rate
- SAT scores
- Top 25% of HS class
- Pell grants
- Underrepresented minority (ALANA) students
- International students
- Student/faculty ratio

OUTPUT

- Retention rate
- Four-year graduation rate
- Student engagement
- Student satisfaction
- Success rate (post-graduation)
- Graduate enrollment
- Graduate degrees awarded

FINANCIAL

- Endowment assets
- New gifts, pledges, commitments
- State support
- Average net cost-of-attendance
- Average student indebtedness
- Alumni giving rate

INPUT INDICATOR: Number of UG applications

- FALL 2010 (FY11) 23,317
- FALL 2015 (FY16) 25,274
- FALL 2016 (FY17)~22,500

- **Narrative:** Our application numbers have increased in recent years. We predicted and saw a small decrease this year as we eliminated "free" applications for out-of-state students, effectively removing those with little chance or likelihood of attending. UVM continues to be a very attractive school for applicants. Our focus continues to be on acceptance rate and yield (quality indicators), rather than simply growing the pool of applications.

INPUT INDICATOR: FTFY acceptance rate (% of applicants admitted)

- FALL 2010 (FY11) 71%
- FALL 2013 (FY14) 78%
- FALL 2015 (FY16) 71%
- FALL 2016 (FY17) 69%

- **Narrative:** Our acceptance rate peaked at 78% in 2013 but was brought back down in the last two years. Our comparator average has been level at 48% over this period. With new enrollment management strategy, we achieved our goal to be under 70% this year, on the way down to no more than 60% in the next few years.

INPUT INDICATOR: FTFY yield rate
(% of admitted students who matriculate)

- FALL 2010 (FY11) 16%
- FALL 2015 (FY16) 13%
- FALL 2016 (FY17) 16%, expected

- **Narrative:** Our yield rate dropped slightly from 2010 to 2015. Our comparators' average yield rate also dropped slightly (from 27% to 24%) over this same period. A new enrollment management strategy is expected to improve yield. This new strategy set already has improved yield, which currently stands at 17.3%, compared to 14.3% at the same time last year. Even after summer melt, we anticipate a 16% or better yield.

INPUT INDICATOR: FTFY SAT combined verbal + math
(range: 25th percentile - 75th percentile)

- FALL 2010 (FY11) 1100-1270
- FALL 2015 (FY16) 1120-1280

- **Narrative:** Our SAT range has improved slightly, as has the average of our comparators' ranges (1150-1340 to 1170-1370). Our SAT scores are slightly lower than the average of our comparators; however this year we saw a 10 point increase in our average combined score, from 1199 to 1209. The SAT test itself has just changed. We are tracking this and will report when trend data are available.

INPUT INDICATOR: Percentage in top 25% of HS class

- FALL 2010 (FY11) 69%
- FALL 2015 (FY16) 74%

- **Narrative:** Our student quality is improving. This will continue as we become more selective. We do not have data for comparators as not all schools track/report this information.

INPUT INDICATOR: UG underrepresented minority students (UVM: ALANA)

- FALL 2010 (FY11) 8%
- FALL 2015 (FY16) 11%

- **Narrative:** Our UG student body is becoming more diverse, consistent with our commitments to inclusive excellence, access, quality, and building a truly diverse academic community.

INPUT INDICATOR: International UG students

- FALL 2010 (FY11) 1%
- FALL 2015 (FY16) 4%

- **Narrative:** Our UG student body is becoming more international. During this same period, the average among our comparators has increased from 5% to 8%. We are on track to continue increasing our percentage of UG international students to 7-8% in the coming years.

OUTPUT INDICATOR: First-year retention rate

- FALL 2010 (FY11) 87%
- FALL 2015 (FY16) 86%

- **Narrative:** Our retention rate has been relatively steady over this period. The average of our comparators has similarly remained steady at about 91%. Both of these are well above the national averages for publics, but we remain committed to achieving the benchmark of select privates, and have a goal of exceeding 90% in the coming years. New initiatives such as the Academic Success Center and the creation of additional themed housing are designed, in part, to help increase retention.

OUTPUT INDICATOR: Four-year graduation rate (as reported to IPEDS, offset by two years)

- FALL 2010 (FY11) 61%
- FALL 2015 (FY16) 66%

- **Narrative:** Our four-year graduation rate is improving. The average among our comparators has increased slightly from 66% to 68%. Our rate is well above the national average for publics, but we remain committed to achieving the benchmark of select privates, and have a goal to be above 70% in the coming years, and above 75% after that.

OUTPUT INDICATOR: Student engagement and student satisfaction

- **Narrative:** Participation rates in study abroad, undergraduate research, and two or more high-impact practices (e.g., internships or other experiential learning, international travel/study, research or directed inquiry, service learning) are at or above average of our comparators. Percentage reporting excellent/good overall educational experience (90%) is higher than the average of our comparators (88%).

OUTPUT INDICATOR: Success rate

- **Narrative:** We track and report the percentage of our graduates who are employed full-time or enrolled in graduate or professional school. This percentage increased from 88% in 2012 to 92% in 2015*. While, of course, somewhat dependent on the employment market, initiatives such as the Four-Year Plan for Success, the Career+Experience Hub, expanded internship opportunities, and efforts to increase the presence of employers on our campus all are contributing to this trend in success following graduation.

* This information is reported differently by our comparators, making direct comparisons difficult.

OUTPUT INDICATOR: Graduate study

- **Narrative:** Our total graduate enrollment has declined slightly (1961 to 1842) over the last 6 years. The number of Masters degrees awarded has declined slightly from 391 to 362, but is projected to reach 387 in 2016. The number of Doctoral degrees has increased from 208 to 224 over that period, and is expected to remain steady at 223 in 2016. These trends are nearly the same as the averages of our comparators. Graduate enrollment offers some of the greatest potential for growth (and new revenue) in the coming years. We have a goal to increase our total graduate enrollment (including full-time and part-time; on-campus, distance and hybrid students) to 2500.

FINANCIAL INDICATOR: Endowment assets per student FTE

- FALL 2010 (FY11) $26.3K
- FALL 2014 (FY15) $33.5K

- **Narrative:** We are able to direct more endowment assets toward the education of our undergraduate students. Our comparators are, too, with substantially larger endowments. (Publics increased from $21.3K to $27.1K; Privates increased from $71.9K to $85.7K)

FINANCIAL INDICATOR: Total commitments (new gifts, pledges, bequests)

- FY11 $20.3M
- FY12 $45.1M
- FY13 $44.5M
- FY14 $55.3M
- FY15 $60.6M
- FY16 ~ $73M (to-date)

- **Narrative:** ***This is where*** we will Move Mountains...

FINANCIAL INDICATOR: State support for higher ed
(per $1000 of personal income)

	VERMONT	NATIONAL MEDIAN
▶ FALL 2010 (FY11)	$3.68	$6.18
▶ FALL 2014 (FY15)	$3.05	$5.16

- **Narrative:** Vermont ranks 47th out of 50 states. Last year, state legislatures (excluding VT) increased funding for higher education by an average of 4.1%, and over the past five years by an average of 7.4%.

FINANCIAL INDICATOR: Average net cost of attendance
(FTFY in-state student receiving aid)

- FALL 2010 (FY11) $13,864
- FALL 2013 (FY14) $17,075

- **Narrative:** The average among our (public) comparators increased from $14,533 to $16,712 in the same period.

FINANCIAL INDICATOR: Average indebtedness at graduation

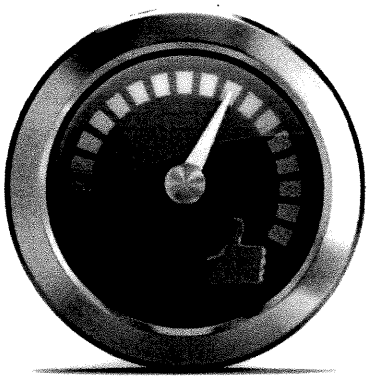
(resident and non-resident)

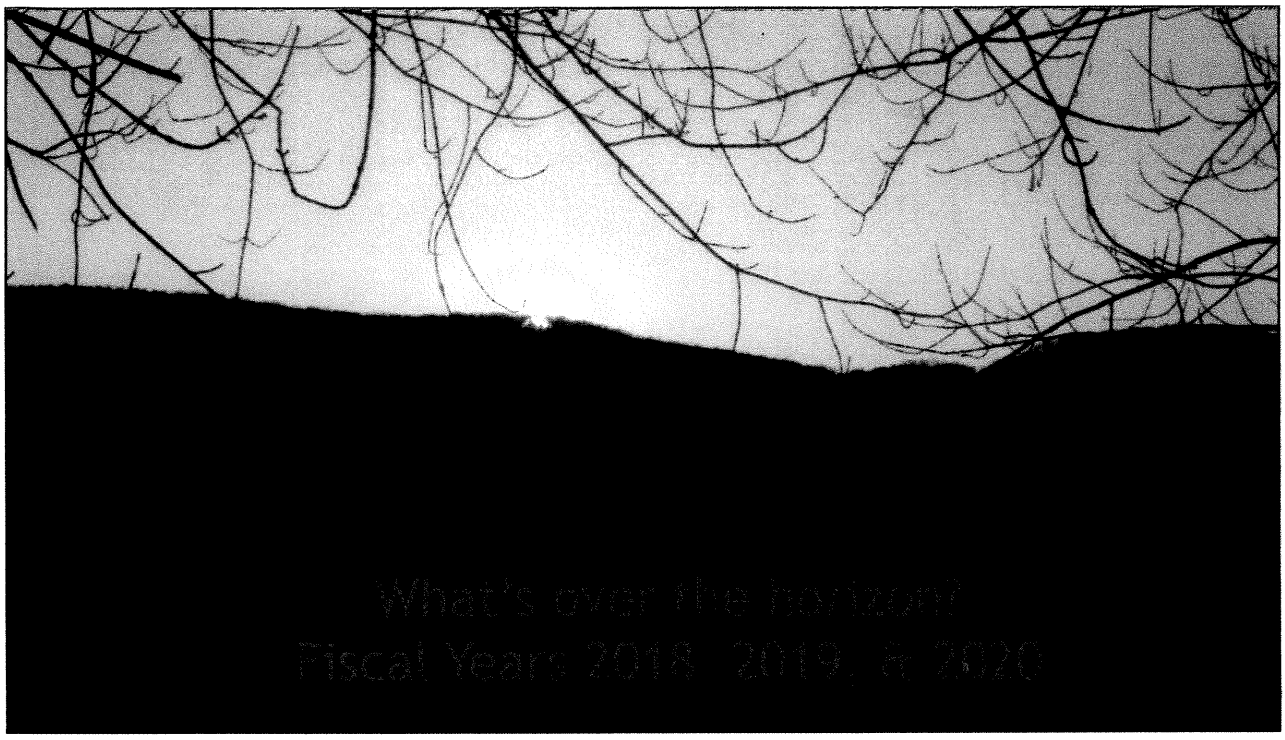
- FALL 2010 (FY11) $24,822
- FALL 2014 (FY15) $27,034

- **Narrative:** The national average has remained about $29,000 over this period. 39% of UVM students graduate *without* debt (VT: 32%; OS: 43%). Reminder also that 43% of Vermonters attend UVM *tuition-free*.

UVM DASHBOARD INDICATORS

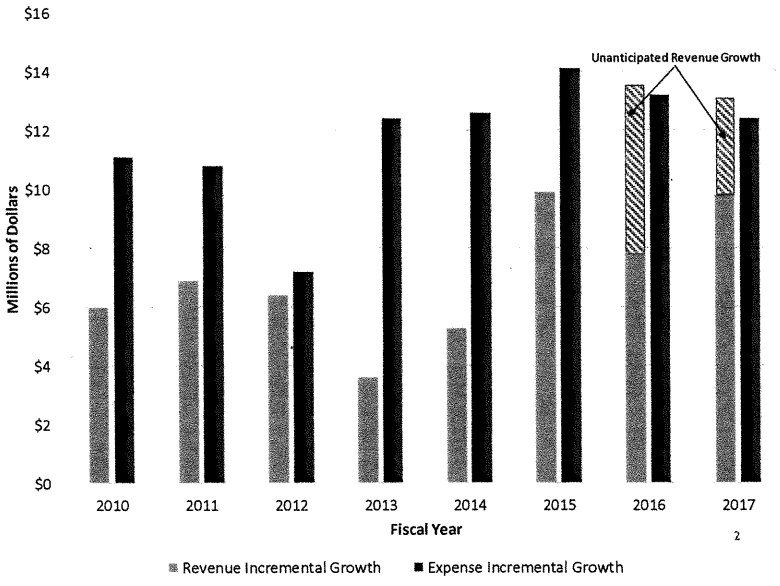
Questions, Discussion





A Look Back and to the Present (FY 2010-17)

(Annual growth data prior to budget reductions)



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What drove revenue growth in FY 16 and FY 17?

- Enrollment exceeded expectations while selectivity improved
- The percentage of enrolled out-of-state students increased
- The number of matriculating Global Gateway students increased
- Enrollment in revenue-generating graduate programs increased significantly
- Summer net tuition increased

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Can we expect the same growth in FY 18, FY 19 and FY 20 without a strategic approach to revenue generation?

NO!

4

How much annual revenue growth can we expect in FY 18, FY 19, and FY 20 if we continue business as usual?

- Perhaps $6-$7 million/year (six-year average) in net tuition.
  - Tuition increases must remain at a sustainable level.
  - Financial aid demand is likely to increase, constraining net tuition growth.
  - Most other existing revenue sources are expected to remain flat.

5

AC2

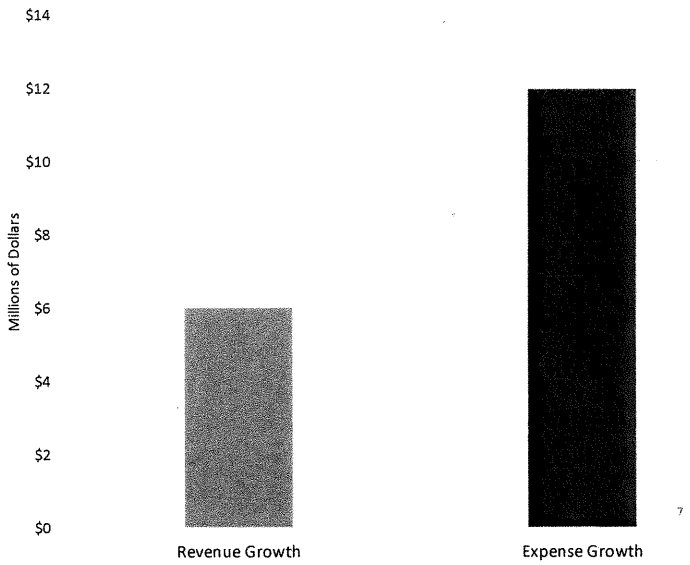
What will be the expense drivers in the foreseeable future?

- Salary increases
- Benefits increases (health insurance, retirement contribution, etc.)
- Academic initiatives
- Deferred maintenance
- Costs of complying with regulations

* Total annual expense increase likely to be $12-$13 million/year

6

The Future without Continuous Evolution



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How will Colleges/Schools ensure revenues match expenses?

- Raise the bar on quality, consistently across all programs; Become better recognized for very high-quality academics, research, and scholarship
- Enhance the academic experience; Become more attractive/compelling to prospective students
- All-hands-on-deck approach to student recruitment, retention, and success; Become known as a university committed to both academic excellence and student success; Engage in creating the narrative and telling the story
- Strategic approach(es) to generating new revenues
- Strategic and opportunistic approaches to improving efficiency
- Achieve fundraising objectives for the College/School in the Comprehensive Campaign
- Strategic decisions about budget redistribution to invest in highest quality, most compelling, and most successful programs (existing and new), consistent with the college's strategic plan and highest priorities
- Make decisions, take risks, monitor progress, adapt; Be more nimble, agile, and responsive

8

- ✓ LEAD WITH ACADEMIC QUALITY
- ✓ INVEST IN EXCELLENCE
- ✓ CREATE YOUR NARRATIVE FOR ACADEMIC EXCELLENCE, STUDENT SUCCESS
- ✓ MAKE THE BUDGET SERVE YOUR HIGHEST ACADEMIC PRIORITIES

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