A Prospective Budget Model for UW Oshkosh

University Budget Development Committee

Recommendation to Chancellor Leavitt

31 January 2016

Committee Members:

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- Lori Worm, Associate Vice Chancellor of Administrative Services
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"Essentially, all models are wrong, but some are useful."

-G.E.P. Box

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Preamble

A budget model does not make budget decisions. It is simply a financial infrastructure system for passing revenues and costs to various parts of the university. How much revenue and cost accumulates in a particular college/unit is governed by leadership groups, not by the model itself.

Glossary

- 102: The designation UW System gives to the Base Tuition and General Purpose Revenue that flows to the comprehensive universities.
- ABBM: Activity-Based Budget Management.
- Administrative Chargeback: An internal charge for administrative usage.
- Base Tuition: Tuition received for all standard undergraduate and graduate programs.
- Carryovers: Funds accumulated in one year for use in a later year; e.g., savings and strategic initiative funds.
- COB: College of Business.
- Cost-Recovery Program: An ABBM-like component of the current budget model that is often used to launch new programs.
- COEHS: College of Education and Human Services.
- COLS: College of Letters and Science.
- CON: College of Nursing.
- CSG-BS: Chancellor Study Group – Budget Structures.
- Differential Tuition: A charge in addition to base tuition, used for student services.
- Direct Costs: Costs such as salaries and supplies.
- FBBM: Formula-Based Budget Management.
- Financial Pass Through: A revenue or cost that passes through the budget model without being altered.
- GPR: General Purpose Revenue.
- Hold Harmless Period: A method for transitioning from one budget model to another. This helps ensure that services are not interrupted and that units have time to adapt to the new model.
- IBM: Incremental Budget Management.
- ICRR: Indirect Cost Recovery Revenue received from external grants.
- Indirect Costs (or Overhead Costs):
    - Divisible Indirect Costs: Indirect costs that can be split with usage-based metrics; e.g., Human Resources, Library, Facilities.
    - Indivisible Indirect Costs: Indirect costs that cannot be split with usage-based metrics; e.g., Veterans Resource Center, Chancellor's Office.
- PBBM: Performance-Based Budget Management.
- RCM: Responsibility Center Management.
- RGU: Revenue-Generating Unit.
- Segregated Fees: A group of 12 fees charged in addition to tuition to fund student services and clubs.
- Sunset Clause: A clause that specifies an end date for a hold harmless period.
- UB-1: University Budget – Version 1.
- UBDC: University Budget Development Committee.
- VC: Vice Chancellor.
- ZBBM: Zero-Based Budget Management.

I. Executive Summary

In September 2015, Chancellor Leavitt charged the University Budget Development Committee (UBDC) with assessing the university-to-college/unit budget model used by UW Oshkosh.[1] The UBDC was instructed to build on the work of the former Chancellor Study Group – Budget Structures (CSG-BS), which produced a white paper in April 2015 describing the types of budget models used in higher education.[2] The primary task was to determine if UW Oshkosh should change its budget model.

- If yes, then
  - Identify a prospective budget model family
  - Present several case studies about the prospective budget model family, including at least one failure
  - Outline a prospective model that matches UW Oshkosh's needs
- If no, then justify the current model

After extensive study of the current budget model and many possible alternatives, the UBDC concluded that, yes, UW Oshkosh should change its budget model. Accordingly, the UBDC has outlined a prospective budget model called University Budget – Version 1 (UB-1).

Like the current UW Oshkosh model, UB-1 is a hybrid of five of the main budget model types used in higher education:

- Activity-Based Budget Management (ABBM)
- Formula-Based Budget Management (FBBM)
- Incremental Budget Management (IBM)
- Performance-Based Budget Management (PBBM)
- Zero-Based Budget Management (ZBBM)

UB-1 is designed to maximize the strengths and minimize the weaknesses of each type. This design process was guided by the 10 principles specified in the charge:[3]

- Incorporate simplicity, transparency, flexibility, and accountability
- Incentivize revenue generation, cost controls, and innovation
- Align with mission, shared governance, and student success
- Allow for efficient changeover (if applicable)
- Balance the economic and academic aspects of higher education
- Support academic freedom
- Support our commitment to liberal arts and professional studies
- Encourage enrollment growth
- Focus on the university-to-college/unit level
- Consider all forms of revenue and costs

[1] http://www.uwosh.edu/forward/university-budget-development-committee-ubdc/
[2] http://www.uwosh.edu/forward/wp-content/uploads/UWO_White_Paper_461.pdf
[3] Criteria are not necessarily in order of importance.

Recommendation Summary

- Base Tuition and General Purpose Revenue would be assigned to academic colleges based on student credit hours and major headcount.
- Direct Costs would be assigned to areas incurring the costs.
- Indirect Costs would be divided into two types:
  - Divisible Indirect Costs would be assigned to colleges/units using consumption-based metrics.
  - Indivisible Indirect Costs would be funded by a Central Fund, created by taxing Revenue-Generating Units.
- Cost-Recovery Programs would become more similar to standard programs, but with more thorough cost-assignment processes.
- Indirect Cost Recovery Revenue sharing rules would be structured to incentivize the pursuit of external funding.
- Differential Tuition usage would honor the Student Compact and UW System rules.
- Segregated Fee usage would honor State Statute and UW System rules.
- Administrative Chargebacks would be replaced with cost-assignment mechanisms.
- Carryovers would be permitted, but regulated. Examples include:
  - Savings
  - Strategic funds
- Financial Pass-Throughs would continue for the following areas:
  - Financial aid
  - Fringe benefits
  - GPR debt service
  - Other areas, where logical
- Hold Harmless agreements would be developed to ensure a smooth transition to the new model, if selected. These agreements would include sunset clauses.
- Performance Checks would be installed to protect inter-college collaboration and to keep competition for students at acceptable levels.

If UB-1 is approved in concept, the next phase would entail refining its performance checks, tax rates, revenue/cost-assignment rules, transition plan, and governance structure.

The UBDC charge included instructions to present budget model case studies, including budget model failures. Because UB-1 is a hybrid, case studies of each budget model type are included in the appendices. Lessons from successes and failures elsewhere can help UW Oshkosh accentuate UB-1’s advantages and minimize its disadvantages.

II. Introduction

Perennial declines in State support present numerous challenges for UW Oshkosh. The need to do more with less has motivated campus leaders at UW Oshkosh, and at many other universities, to improve their budget model. An effective budget model can help UW Oshkosh find opportunity in an austere financial landscape.

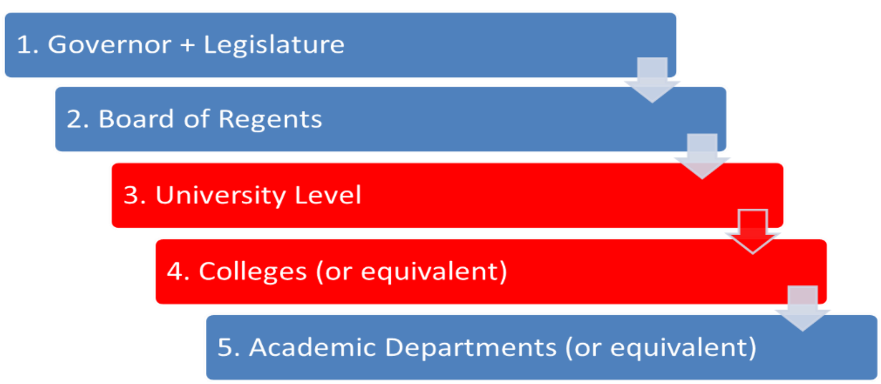
A budget model is simply a financial infrastructure system for passing revenues and costs to various parts of the university. A budget model does not make budget decisions; how much revenue and cost accumulates in a particular college/unit is governed by leadership groups, not by the model itself. A budget model is most effective when leadership groups can clearly see and understand its infrastructure.

Five main types of budget models exist in higher education; see the CSG-BS white paper for additional details about these models. Deliberating on these models, and combinations thereof, was a primary task for the UBDC. In doing so, the UBDC sought input from shared governance groups and individual faculty, staff, and students through listening sessions, open forums, website information, anonymous feedback, and individual interactions.

Research revealed that many universities use elements from most of the five main budget model types. UW Oshkosh's current model does so as well. Thus, the UBDC focused on how UW Oshkosh might rearrange its use of these models to better effect. The prospective budget model (UB-1) is essentially an alternative hybrid that reflects this rearrangement.

The "budget layer cake" schematic below depicts the five main budget layers within which UW System universities operate. The UBDC's focus is on layers 3 and 4, coded in red.

UW System's "Budget Layer Cake"



Some nomenclature issues arose when trying to define the red layers of the university budget model. For example, Academic Affairs and Student Affairs use the term "department" differently; in the former, department chairs report to a dean whereas in the latter, department directors report to a Vice Chancellor (VC). So, the scope of the UBDC does not include departmental issues in the academic-affairs sense, but does include departmental issues in the student-affairs sense.

The possible budget model changeover consists of three phases: a study and recommendation phase; a hold harmless phase; and a live-model phase. The three-phase timeline creates a series of steps, with distinct decision points marking the end of each phase.

The first phase began 18 months ago under former Chancellor Wells. This report constitutes the end of phase one. Chancellor Leavitt will now review the recommendation to determine if the UBDC should enter phase two. If not, then the current model remains in place, and the UBDC dissolves.

Phase 1: Study and Recommendation

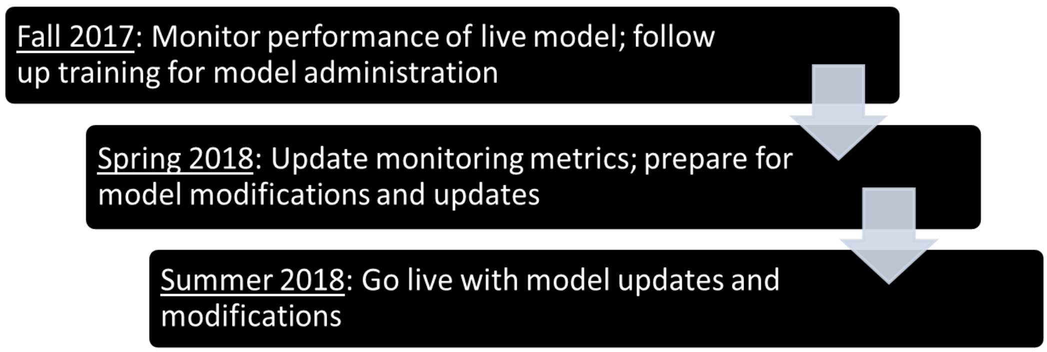
- Summer 2014: Strategic Financing/Budget Review Team charged by Chancellor Wells to study UWO budget model
- January 2015: Chancellor Study Group – Budget Structures charged by Chancellor Leavitt to study budget models
- April 2015: White paper released; open forums
- September 2015: University Budget Development Committee (UBDC) charged to make recommendation
- Fall 2015: UBDC Listening sessions and open forums
- January 2016: UBDC recommends prospective budget model: University Budget – Version 1 (UB-1)

We are here

Phase 2: Hold Harmless

- Spring 2016: Prepare hold harmless processes for 2016-2017 fiscal year; include sunset clauses
- Summer 2016: Deploy and monitor shadow budget model; form assessment metrics
- Fall 2016: Training for administration of UB-1; contingency planning for model failure
- Summer 2017: Draft UB-1 operating manual
- June 2017: Decide if UB-1 should go live

Phase 3: Live Model



III. Current Budget Model

UW Oshkosh’s current budget model is a hybrid of five budget model types. Here are examples of how each type enters the current budget model:

- Cost-Recovery Programs, such as the Cooperative Academic Partnership Program, and the Nurse Anesthetist Program, use ABBM concepts.
- Reeve Union uses elements of FBBM to price its services.
- Base tuition and GPR are allocated using IBM.
- The tuition target imposed on UW Oshkosh by UW System is a form of PBBM.[4]
- Segregated fees and differential tuition are distributed using ZBBM.

The largest source of operational funding for UW Oshkosh is 102 dollars, and the largest change introduced by UB-1 is an alternative process for handling these funds.[5] Details about the current IBM model are needed to provide context for UB-1.

Under the current IBM allocation of 102 dollars, an allocation to a college/unit depends heavily on its prior-year allocation. Incremental adjustments are sometimes made between years, but these are usually small. Thus, a 2015 budget typically looks much like a 2014 budget; and a 2014 budget typically looks much like a 2013 budget; and so on.

The protocol for developing the incremental adjustments for colleges/units is not clearly defined and is, therefore, not well understood by university-level or college/unit-level administrators at UW Oshkosh. This creates opacity. This appears to be a common problem with IBM.[6]

The recursive nature of IBM allocations and the indistinct process for making incremental adjustments led the UBDC to several questions:

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[4] UW System is considering new ways to allocate GPR to universities. PBBM is a popular choice for budget layers 2-3, so its influence on UW Oshkosh may increase in the coming years.
[5] At present, base tuition is about 60 million dollars and GPR is about 45 million dollars, for a total “102 line” of approximately 105 million dollars.
[6] http://chronicle.com/article/Colleges-Unleash-the-Deans/151711

- When were the original allocation percentages determined; i.e., when was the "university revenue pie" first divided up among the colleges/units?
- What process was used to reach those allocation percentages?

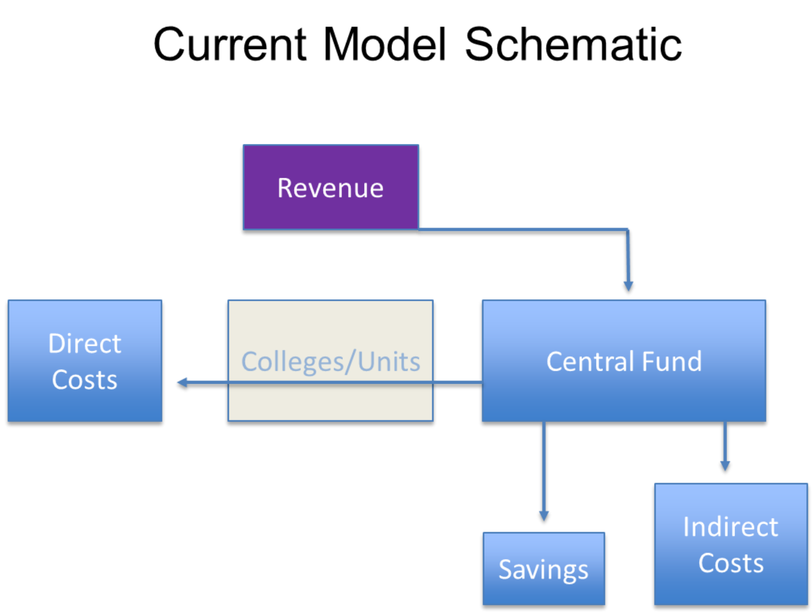
Some administrators conjecture that the allocation percentages date back to the UW System merger in the early 1970s.[7] Others suggest that the percentages pre-date even the merger. Regardless, no clear "allocation birthdate" could be ascertained. The second question proved likewise unanswerable. Presumably, there was a base budget justification process, perhaps in a ZBBM sense, at some point. However, there is no history of this, which cloaks the current IBM mechanism in a second form of opaqueness.

Without a clear allocation methodology to work from, incremental adjustments that did occur were likely the result of the "influence model," wherein adjustments accrue to deans/unit leaders who most aggressively lobby for additional resources.[8] These presumptions led to several additional questions:

- Were incremental changes clearly tied to strategic initiatives?
- Were incremental adjustments mission-centric?
- Is the influence model an acceptable means of change?

Clear answers to these questions could not be obtained.

Transparency concerns aside, the IBM mechanism at UW Oshkosh is housed within a larger budget process that begins with revenue entering the university. Revenues include base tuition, GPR, segregated fees, differential tuition, graduate enhancement fees, and other fees for housing, dining, parking, etc. A simple flow chart summarizes how revenue accumulates in central funds (labeled as singular in the chart), which are then distributed to cover the university's costs:



[7] https://www.wisconsin.edu/about-the-uw-system/
[8] http://onlinelibrary.wiley.com/doi/10.1002/joe.20080/abstract

The details of the current budget model are many and nuanced. For example, there is no clearly delineated "Central Fund." Instead, there are various central revenue accounts, some of which are restricted for certain purposes. Other accounts serve as holding tanks for carrying balances forward. Allocations to colleges are essentially equal to their direct costs (e.g., faculty/staff salaries, supplies, travel). Because of this, deans/unit leaders effectively have little discretion over how funds are spent. Creating discretionary funds would entail eliminating some direct costs or finding a new source of program revenue. Indirect costs (e.g., Human Resources and utilities) are paid by central administration. Savings can assume a variety of forms, among them a "Rainy Day Fund." It is not clear where, or if, a dedicated strategic initiative fund exists.

Ascertaining where money flows under the current model is an ongoing challenge for the UBDC. Many areas receive funding with different "name tags" (e.g., base tuition, GPR, segregated fees, differential tuition) for unclear reasons and in unclear proportions. Simple financial statements (e.g., akin to a pay stub) do not seem to exist, and even where attempts are made, there is no standardized nomenclature or cleanly organized oversight. These challenges are additional symptoms of the current model's opacity.

From a dean/unit leader's perspective, the current model induces some fundamental blind spots. The allocation each dean receives, for example, is based on historical momentum and influence, not on current activity. This creates confusion about some elementary decisions. For example, deans may decline to open additional sections of a course, even in the presence of strong demand, because resources are not tied to their activity level. Similarly, deans/unit leaders have no incentive to curtail their usage of certain indirect costs, such as utilities. Deans/unit leaders have no clear mechanism to express their expectations or needs from service areas (e.g., Human Resources, Library), and have no recourse for unsatisfactory service.

A challenge for many State universities is ongoing reductions in State support. This manifests as negative increments, or decrements, within UW Oshkosh. Unfortunately, IBM struggles when allocating decrements. This occurs because IBM is often decoupled from measures of activity and student demand. Accordingly, when tough decisions about reductions are needed, there is relatively little organized and trusted information upon which to base strategic reallocations. Instead, across-the-board reductions often emerge.

In summary, the IBM model at UW Oshkosh now operates in an era of perennial decrements, much different from the era within which it was founded. Above all else, it lacks transparency, which is arguably the most essential component of an effective budget model.

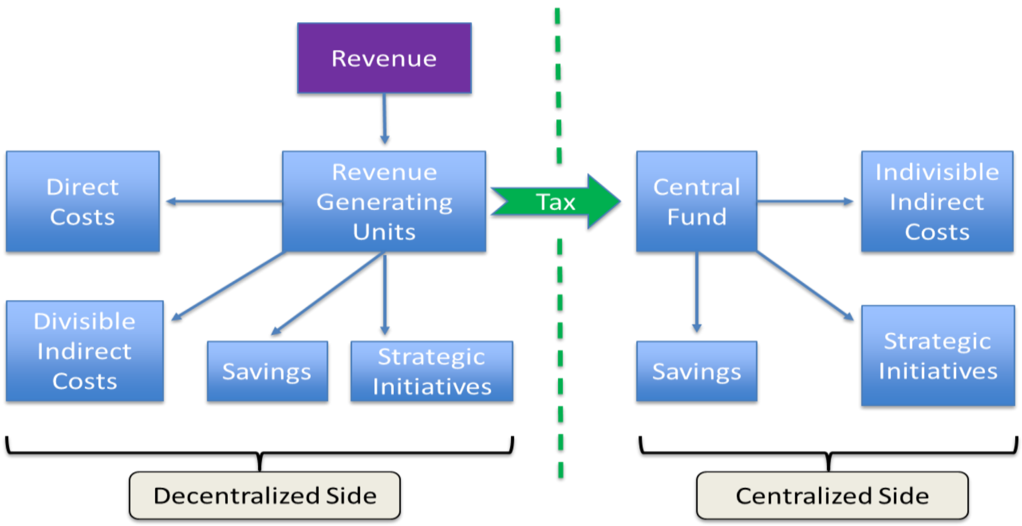
IV. Recommendation

UB-1 seeks to alleviate some of the challenges posed by the current model's IBM component. It builds on the 10 criteria set forth in the charge, which link to two foundational concepts: rationality and transparency.

- <u>A rational budget model</u> is one that can be logically explained and understood, with pieces that connect together in an intuitively appealing manner.
- <u>A transparent budget model</u> is one that can be easily observed and monitored through means accessible to all that rely upon the model.

The UBDC recommends removing the IBM component of the current model and replacing it with the following hybrid UB-1 mechanism:

UB-1 Schematic

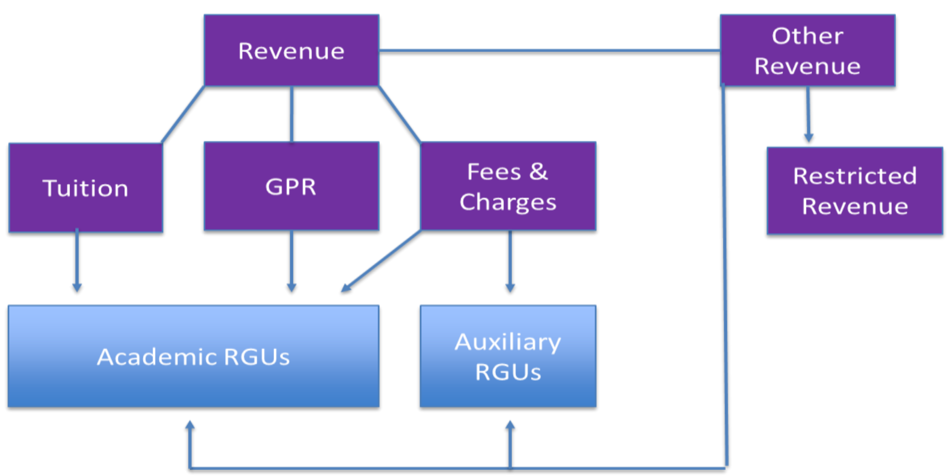


The remainder of this section is devoted to explaining each piece of the flow chart, starting at the top/left and (mostly) working down/right.

Under UB-1, revenue is assigned to the colleges/units. This effect is depicted by the Revenue box flowing into the Revenue-Generating Units (RGUs) box. RGUs are defined as those colleges/units with net-positive revenue. Under UB-1, the RGUs would consist of the academic colleges/units and selected Auxiliaries (e.g., Housing, Dining). The set of RGUs would be finalized in the early stages of phase two.

The Revenue box can be broken into more specific types of revenue. The schematic below illustrates this breakout:

UB-1 Revenue Details



Tuition and GPR would flow directly to the academic RGUs. They would also receive certain fees (e.g., graduate enhancement fees) and portions of other revenue (e.g., gifts). Auxiliary RGUs would receive fees and charges affiliated with their activity; e.g., Housing fees would go to the Housing RGU. Certain types of revenue are restricted by Statute or UW System rules; these would accumulate in the Restricted Revenue box for proper disbursement. Additional details appear in the Revenue Assignment section.

Once revenue is assigned to an RGU, the dean/unit leader then considers costs, which are classified as follows:

- Direct costs (e.g., faculty/staff salaries, supplies, travel)
- Indirect costs, of which two classifications would exist:
    - Divisible Indirect Costs (e.g., Human Resources, Facilities)
    - Indivisible Indirect Costs (e.g., Veterans Resource Center, Chancellor's office)

The college/unit must pay for each of these using the assigned revenue.[9]

In addition to covering costs, the dean/unit leader would also be required to have both a savings fund and a special fund for strategic initiatives. The former would be governed by agreed-upon savings rules, akin to how the Federal Reserve System has reserve requirements for member banks. For example, the dean/unit leader may be required to keep at least 5% and at most 12% of last year's expenditures as savings.[10] These funds would allow the college to absorb year-to-year fluctuations in revenues and costs. The strategic fund would be ear-marked for college-level strategic initiatives.

The right half of the UB-1 schematic summarizes the centralized portion of the model. The Central Fund is akin to the centralized fund(s) that exist in the current model. However, under UB-1, the Central Fund would be populated by taxing the RGUs. For example, a college dean might pay a 20% tax on gross tuition, which would then accrue in the Central Fund. There are several attractive features of this setup:

- Taxation is a familiar concept and therefore helps the university budget match the intuition of a simple household budget.
- Taxation ensures that local successes benefit the entire campus.
- Taxation allows leadership groups to easily adjust the flow of resources throughout the university.

Additional details appear in the Cost Assignment and Taxation section.

The Central Fund would be managed by the VCs and the Chancellor, in consultation with governance groups. It would be used for university-level savings and strategic initiatives, and it would cover all indivisible indirect costs.

V. Revenue Assignment

UB-1 assigns revenue to the RGUs. There are numerous types of revenue:

- 102 – from UW System
    - Base tuition
    - GPR (State subsidy)
- Program Revenue – generated on UW Oshkosh campus

[9] Note that indivisible indirect costs would be paid with internal tax revenue.
[10] These percentages are examples. Formal figures would be developed in phases two and three.

  - Segregated fees
  - Differential tuition
  - Revenue from Cost-Recovery Programs
  - Parking fees
  - Dining fees
  - Bookstore revenue
  - Housing fees
  - Other miscellaneous program revenue
- Indirect Cost Recovery Revenue (ICRR) from external grants
- Gifts (UW Oshkosh Foundation)
- Financial aid
- Savings, often carried as program revenue balances
- Other miscellaneous revenue

These can be pooled into the "revenue buckets" depicted in the prior schematic.

Revenue assignment of 102 dollars (base tuition plus GPR) would be done using two main mechanisms under UB-1: Student Credit Hours (SCH) and major headcount, both aggregated to the college/unit level.[11]

- Base tuition would be assigned to the colleges based on tuition-paid college-level SCH. For example, if college X produces 35% of the university's base SCH, then it would receive 35% of the base tuition.[12]
- GPR would be assigned to the colleges based on percent of total major headcount. For example, if college Y had 20% of the total headcount of majors at UW Oshkosh, then it would receive 20% of the GPR.

UB-1 uses both SCH and major headcount because they are the simplest and most universal representations of the university's "output." Some colleges tend to do more of one than the other; using both measures, therefore, adds balance.[13]

These revenue assignment rules have nuances. To maintain tolerable levels of inter-college competition for students, a tuition-sharing mechanism would be used to evenly split (50/50) the revenue in the circumstance where the unit of enrollment differed from the unit of instruction (e.g., a COLS student taking a COB class). This rule has been explored in some detail by the UBDC and appears to have the desired competition-dampening effects. Similar rules are used at other universities.[14]

Features of PBBM would be used to dampen the proliferation of low-quality SCH.[15] For example, the adjunct/tenure-track SCH production ratio may be capped to inhibit the proliferation of SCH taught by adjunct instructors. An average class size restriction might be instituted to temper increases in class sizes.[16] The need for additional PBBM checks may arise, but care would be taken to ensure that they remain small in number, rational, and simple

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[11] SCH is one of the most common measures of "output" for a university. For example, a four-credit class with 55 students equals 220 SCH.

[12] At present, the UBDC recommends that SCH being taught for free (e.g., on the tuition plateau) not be counted towards SCH production. This would be a topic for further discussion in phase two.

[13] Some universities use only SCH for 102 assignment, which offers several advantages and disadvantages. The UBDC debated both 102-assignment approaches at some length, and would probably continue the discussion during phase two.

[14] http://academicleadership.rutgers.edu/resources/optimizing-institutional-budget-models.pdf

[15] Strictly speaking, PBBM is a tool for allocating resources based on performance metrics. UB-1 uses these indicators as performance checks instead of allocation metrics.

[16] Note that this would be an average class size expectation, so class sizes could still vary considerably within a college.

enough to retain transparency.[17] UB-1 proposes the existence of these performance checks; leadership groups would choose whether to implement them.

Undeclared students and students with double majors must also be accommodated. The UW application and registration process contains enough information to assign every student a college. Double majors would be counted twice because they use additional resources to complete their second major.

Some revenue received by UW Oshkosh, such as financial aid, effectively "passes through" the university. These funds would be scrutinized by the UBDC in phase two, but the expectation is that they would continue to flow through as they do under the current model. However, UB-1 would include a monitoring mechanism for this process. Other examples include GPR debt service and fringe benefits.

VI. Cost Assignment and Taxation

It is important that overhead (indirect) costs be kept to a minimum and that they continuously strive for efficiency. This is an essential implication of doing more with less. To this end, UB-1 recommends an intuitive cost-assignment process.

Three main types of costs need to be assigned under UB-1: direct costs and two types of indirect costs.

- Direct Costs, such as faculty/staff salaries, supplies, and travel, would be directly assigned to the RGU that uses them.
- Divisible Indirect Costs are indirect costs that can be logically assigned based on usage or consumption. For example, the cost of Human Resources could be divided based on the percent of employees in each college/unit; as such, it would be considered a divisible indirect cost. These costs would appear as line-item deductions on a unit's financial statement.
- Indivisible Indirect Costs are indirect costs that are difficult to divide based on usage or consumption. Accordingly, these would be considered an indivisible indirect cost, and would be funded instead through an IBM or ZBBM process via the Central Fund. The Veterans Resource Center is an example.

Note that the first two cost types appear on the left side of the UB-1 schematic whereas the third cost type appears on the right side.

There are nuances to cost assignment. For example, formulae for assigning divisible indirect costs would need to be devised and vetted, with a premium placed on simplicity.[18] Fortunately, this often reduces to a handful of metrics, which can then be applied to a wide array of divisible indirect costs.[19] Indivisible indirect costs, funded by the Central Fund, would need a ZBBM/IBM process for submitting budget requests. Some additional cost-assignment examples follow:

[17] https://www.ohio.edu/provost/upload/RCM-for-Faculty-Senate-Fall-2012.pdf
[18] Colleges/units may complain that certain cost-assignment metrics are not as precise as they would like. However, sometimes some rationality must be sacrificed in order to prevent a disproportionate loss in transparency.
[19] http://www.wright.edu/sites/default/files/page/attachements/Wright%20State%20Allocation%20Method%20-%20RCM%20PPT-1.pdf

Cost Types & Examples

- Direct costs – assign directly to RGUs
  - Salaries
  - Fringe benefits
  - Travel
  - Supplies
- Divisible indirect costs – assign to RGUs by formula
  - Facilities - assign cost by % of square feet, for example
  - Human Resources - assign cost by % of employees, for example
  - Library - assign cost by % of SCH, for example
- Indivisible indirect costs – assign to Central Fund
  - Division of Academic Support of Inclusive Excellence (e.g., LGBTQ Resource Center)
  - Veterans Resource Center
  - Chancellor's Office

UB-1's cost-assignment mechanisms have several other advantages:

- Chargebacks would be mostly eliminated
- Cost-Recovery Programs could account for indirect costs
- Incentives would exist to curtail wasteful direct and divisible indirect costs

A subtle aspect of the cost-assignment process was glossed over above, but warrants more attention at this point. Specifically, all units would be run through the cost-assignment process, even those that produce no revenue. For example, Human Resources produces no revenue, but does have costs; so, too, does the Veterans Resource Center. Both use staff, space, utilities, etc. Under UB-1, all these costs would be reported on their financial statements. Their bottom lines would be a negative number, given their "cost center" status. This number would indicate the amount needed to subsidize their operations, and the subsidy would come either from RGU billing or the Central Fund.[20]

Cost-assignment could be greatly improved with a thorough peer/aspirant benchmark study to help establish mutually agreeable service levels for cost centers. Service performance contracts could then be written to add transparency for both the service provider and the service recipients. RGUs would then have a voice in the service quality expected from service areas. Here are two examples:

1. How big are Human Resources Departments elsewhere? How are they structured? What type of services do they offer and at what level; e.g., what are their turnaround times on hiring documents? A peer/aspirant benchmark study would help answer these questions.

[20] Note that cost centers would only be assigned direct and divisible indirect costs; indivisible indirect costs would not enter their financial statement because they do not generate revenue and therefore would not be taxed. Even if they generate some revenue (e.g., Athletics), this would not be taxed unless it exceeded their costs.

2. Credits for majors at peer/aspirant universities would help the UW Oshkosh Academic Policies Committee, and subjacent curriculum committees, monitor any predatory course developments that may occur under UB-1.[21]

Taxation

Under UB-1, tax revenue would populate the Central Fund. Universities using models like UB-1 typically impose taxes of various sizes on nearly all types of revenue flowing into the RGUs. For example, base tuition may be taxed at 20% whereas GPR may be taxed at 10%. Taxes for graduate or summer tuition may differ as well. Ideally, a simple process could be used to "back out" the necessary tax rates using the projected needs of the Central Fund. If UB-1 moves to phase two, detailed deliberations on taxation processes would be necessary.

VII. Governance

UB-1 would need to be governed by a transparent and inclusive process. Shared governance representatives would interact with deans, VCs, and the chancellor to develop and maintain the model. Examples of their efforts would include negotiating tax rates on RGUs, oversight of performance checks, assessing returns on activities, service quality management, and ongoing efforts to ensure that UB-1 remains rational and transparent.

The UBDC would serve a core governance role during the development and implementation phase, but is slated to dissolve no later than 31 August, 2018. If UB-1 is ultimately installed, the campus community would need a formal process to do the following:

- Appoint an ongoing version of the UBDC with a similar pattern of shared governance representation.
- Set forth a clear protocol for selecting members.
- Clearly define the roles, responsibilities, and authority of the oversight group.
- Clearly define a way to update the committee's roles, responsibilities, membership, and authority, so it can adjust if needed.

Fortunately, many universities with models similar to UB-1 have oversight bodies of this type, and have clear language addressing these four items. Reviewing these sources would be logical once the need for such a group becomes imminent.

In addition to ongoing oversight, the UBDC recommends a comprehensive review of UB-1 at six year intervals; specifically, in the third semester (fall) of every third biennium. The review would recommend improvements to UB-1, which would be implemented in the fourth semester of the biennium.

The UBDC also recommends an ongoing series of semi-annual budget workshops so campus members could learn UB-1. These workshops should diligently teach UB-1; simply summarizing it using dry accounting language would be unacceptable. It would be logical to make these compulsory for Directors, Department Chairs, Deans, VCs, and other personnel involved with the budget process.

[21] Note that benchmark credits-to-major need not be matched exactly; variation across universities is logical, but the APC needs some external way to gauge if a program has far more (or less) credit than the norm.

VIII. Challenges and Special Considerations

Changing to a new budget model requires careful deliberations on many possible challenges and special considerations. This section is devoted to ones that the UBDC has identified thus far.

Cost-Recovery Programs

Under UB-1, the distinction between standard programs and Cost-Recovery Programs would largely evaporate. However, Cost-Recovery Programs currently do not account for indirect costs, which they would be able to do under UB-1. Their tax rates would likely be reformed to match the rates charged to the RGUs. Because each Cost-Recovery Program is unique, discussions with each would be logical during transition planning. In some cases, there may be reasons to retain the Cost-Recovery Program designation. The budget model should not restrict the creation of innovative programs or new revenue sources.

Budget-Request Process and Timing

The CSG-BS budget model white paper noted some inefficiencies in the timing and clarity of the budget-request process under the current model. Crafting a practical budget-request timeline would be a priority for UB-1 during phase two of the budget changeover. Fiscal constraints imposed by pre-existing commitments, UW System budget timing, and legislative actions would need to be accommodated.

Office of Grants and Faculty Development

The Office of Grants and Faculty Development serves two primary purposes:

- Administration of the internal Faculty Development Program
- Facilitation and management of external grants

The UBDC deliberated on the first for several reasons, among them how to fund the Faculty Development Program. Specifically, should it be funded as a divisible or indivisible indirect cost? Discussions with affected groups would be logical moving forward.

UW Oshkosh would benefit from more external grants. Revenue from Federal grants accrues to principal investigators and subjacent investigators as reassigned time, project funding, etc. Under the current model, the university also receives funds called Indirect Cost Recovery Revenue (ICRR), which is used to fund staff in the Grant's Office and in Administrative Services. The current ICRR split is 40/40/20 between the originating college, central funds, and the Grants Office, respectively. Many universities that move to budget models like UB-1 have significantly different splits of ICRR, in some cases with 100% going to the generating unit. (e.g., Northeastern University). How best to split ICRR would be a logical discussion moving forward.

UW Oshkosh Foundation

The UW Oshkosh Foundation was created to promote, receive, invest and disburse gifts to meet the goals and needs of the university. The Foundation is a separate and distinct legal entity from the UW Oshkosh and qualifies as a tax-exempt 501(c)(3) organization. For its services, where it is authorized, the Foundation may charge administrative fees; however, much of its operational funding is derived from a campus base budget (102).

The UBDC recognizes the separateness of the Foundation, but also notes its connection to the campus through its 102-derived base budget. The UBDC suggests that the current incremental 102 funding might better serve the Foundation and the university if it was incentive-based. At the very least, the Foundation should review the possibilities of expanding its fee base to support operations, since it cannot use investment returns to do so. This may require that it be considered an RGU.

Organizational Chart

The UBDC deliberated on the current organizational chart and more specifically on the following topics:

- UW Oshkosh is an enrollment-driven university. Does the current organizational chart maximize the chance of enrollment management success?
- In many organizations, the Chief Financial Officer (CFO) has purview over all financial aspects of the enterprise.[22] This does not appear to be the case at UW Oshkosh. Solutions to this may vary, but the key is to avoid circumstances where the CFO is responsible for internal financial activities over which s/he has no authority.
- UB-1 would entail monitoring, budget skills, and training. Hiring professional budget directors for each RGU would be one way to meet these needs.

Curricular Oversight

Models like UB-1 may increase inter-college competition for students. To address this, several performance checks and monitoring mechanisms were described in the Revenue Assignment section. Additionally, the role and membership of curricular bodies should be reviewed to ensure that curricular gaming or monopolization is minimized. Additional checks and balances may be added as well:

- A mechanism for ensuring equitable representation.
- Training for curriculum committee members that emphasizes the mission, strategic plan, and which includes clear examples of curricular oversight failures.
- Budgetary impact as a line item on curricular change forms.
- Deans impacted by a curricular change would need to sign off on the change.

Segregated Fees

Segregated fees are a group of 12 compulsory fees charged to students above and beyond base tuition. These fees are earmarked for specific student services such as Intercollegiate Athletics, Children's Learning & Care Center, and Reeve Union, among others. Under the current model these fees are pooled in a central account and then dispersed by the Segregated Fee Committee to fund a wide array of student services, student clubs, and activities.[23] This allocation process uses a ZBBM mechanism, and would likely continue to do so under UB-1. Additional details about segregated fees appear in Appendix F.

The main question segregated fees raise for UB-1 concerns their taxability, given that they are a regular source of revenue. Answering this question entails navigating several factors:

- There are various State Statutes and UW System guidelines governing the disbursement of segregated fees.
- Areas that use segregated fees are often also supported by other types of revenue (e.g., athletic ticket revenue), which raises questions such as: What proportion of activity X should be funded by segregated fees?

[22] http://www.accountingjobstoday.com/cm/Job-Descriptions/cfo.html
[23] http://www.uwosh.edu/student_financial/student-accounts/tuition-and-fees/segregated-fees

- Some areas that receive segregated fees are assessed administrative chargebacks, which effectively function as a tax.

These details would need to be addressed during phase two of the budget model changeover process.

Differential Tuition

UW Oshkosh undergraduate students pay differential tuition in addition to their base tuition and segregated fees. There are two main types of differential tuition in the UW System: institution-wide and program-specific. The first is charged to nearly all undergraduates, and is used, at UW Oshkosh, to improve student services such as Advising, the Math Lab, and the Writing Center. Additional details about institution-wide differential tuition appear in Appendix G.

Like segregated fees, differential tuition raises the question of taxability, given that they are a regular source of revenue. Answering this question entails navigating several factors:

- There are various agreements (Student Compact) and UW System guidelines governing the disbursement of differential tuitions.
- Areas that use differential tuition are often also supported by other types of revenue (e.g., 102), which raises questions such as: What proportion of activity Y should be funded by differential tuition?

As with segregated fees, these details would need to be addressed during phase two of the budget model changeover. However, unlike segregated fees, differential tuition may serve an important role in adjusting for cost-of-instruction differentials across colleges.

Instruction Cost Differentials

The UBDC is aware that other universities using models like UB-1 often employ weighting schemes to adjust for cost-of-instruction differentials across colleges.[24] College-level differential tuition is also used for this purpose, and is similar to a tiered per-credit tuition charge system.[25] These possibilities would be explored at length in phase two in concert with the entities that oversee these areas.

Data Warehouse

A model such as UB-1 relies on data to inform its users. Deans/unit leaders and their budget directors would need easy access to relevant, timely, and correct data. Discussions regarding data needs would be essential in phase two. Data require an organized vetting process, which should include those most capable of and interested in ensuring that the data are correct.

Mono-Funding

Under the current model, units often receive funding from several sources, which creates potentially needless complication and a corresponding loss of transparency. The current use of differential tuition illustrates this point:

- Career Services – partially funded
- Center for Academic Resources – partially funded

[24]http://www.unh.edu/sites/www.unh.edu/files/departments/vice_president_for_finance_administration/rcm_manual_update_combined_dec_2015.pdf
[25] https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models

- Counseling Center – partially funded
- Math Lab – partially funded
- Reading Study Center – partially funded
- Undergraduate Advising Resource Center – partially funded
- Writing Center – partially funded

It would be logical to explore the possibility of fully funding a few of these areas with differential tuition, and then funding the others using another source. This would also simplify the ZBBM allocations required of the Differential Tuition Allocation Committee. A similar logic may be applicable to segregated fees.

Tuition Plateau and Interim

If a student takes 12 credits in a semester, they typically pay for 12 credits. However, if they take more than 12 credits in a semester, they still may only pay for 12 credits.[26] Here are two concrete examples:

- If Student A took 15 credits in fall 2015, she would get three credits for free.
- If Student B took 18 credits in spring 2015, he would get six credits for free.

These demonstrate a UW System policy called the "tuition plateau."

UW Oshkosh is the only UW System campus where fall interim is part of the fall semester and spring interim is part of the spring semester.[27] At other campuses, the interims are not part of the adjacent semesters.

UW Oshkosh's unique interim structure results in heavy usage of the tuition plateau. For example, a student taking 12 credits in a 14-week semester will often also take interim course(s). Because the 14-week semester and the interim are considered "one semester," the tuition plateau applies.

Because UB-1 assigns revenue based on tuition-paid SCH, the tuition plateau would be a discussion topic in phase two.

Capital Budgeting

Capital budgeting, which is the process for funding new buildings, remodeling, etc., is largely governed by a set of rules at the UW System and Department of Administration levels. As such, UB-1 has no direct changes planned for capital budgeting. Strategic implementation plans should clearly articulate any capital budgeting needs.

UW System

UW System rules change with some regularity. Any new budget model must not only conform to their rules and expectations, but also be nimble enough to adapt to rule changes. For example, UW System has traditionally used a modified IBM model to allocate resources to the individual campuses (budget layers 2-3). However, they are currently reconsidering this process. A likely candidate for their new model would be PBBM/FBBM.

[26] This only applies for credits more than 12 but less than 18, within one semester.
[27] https://www.wisconsin.edu/financial-administration/financial-administrative-policies-procedures/fppp/f44-tuition-and-fee-policies-for-credit-instruction/f44-attachment-a-fee-assessment-issues/

Allocations Spreadsheet

A core goal of the UBDC was to track how financial resources are currently allocated to the many areas of the university. This is a complicated and important task, but is not yet complete. Once complete, it will give a clear sense of where all the money currently flows, aggregated to the dean/director level. Many areas receive several different types of funding, which adds potentially needless complexity. The UBDC recommends reducing the number of funding sources when possible.

IX. Transition Planning

Changing to a new budget model is not a simple task, and requires careful planning. Transitioning to UB-1 would require a hold harmless period with a sunset clause (phase two). The purpose is to avoid abrupt changes in service. The University of Illinois has a concise description:[28]

> No funds would be taken from or assigned to a unit as a result of the implementation of the new budget system. Funds would simply be recast in terms of the [new budget model] allocation rules. A "plug" number, positive or negative, would then be assigned to tie the budget to its [current] budget. Moving forward from that initial year, budgets would move up or down based on the level of measured activity of the unit.

The sunset clause specifies a future date at which the hold harmless period ends.

X. Conclusions

The UBDC recommends a budget model changeover for UW Oshkosh. The prospective model, UB-1, offers several key advantages over the current model, among them a renewed grounding in rationality and transparency. Additionally, the UBDC feels that UB-1 holds the most promise to meet the ten criteria set forth in the charge. Careful leadership of the next phases is critical to the success of the model.

The hope is that the work of the UBDC, manifest as UB-1 at this point in time, would maximize the likelihood of success as UW Oshkosh aspires to do more with less. The perennial reminder remains: A budget model is nothing more than a financial infrastructure for passing revenues and costs to various parts of the university. How much of each goes where remains a leadership decision, which requires qualified, earnest, and highly engaged individuals. While a budget model does not make budget decisions, not all budget models are equally user friendly. UB-1 aspires to be more so by employing a pragmatic balance of centralized and decentralized features.

[28] http://www.provost.illinois.edu/committees/Budgeting_at_Illinois.pdf

Appendix A: UBDC Charge

The University Budget Development Committee (UBDC), an Ad Hoc committee, will report to the Chancellor and will be dissolved when the charge is complete. The UBDC will be composed of previous members of the Chancellor's Study Group—Budget Structures, one representative from each of the four University shared governance groups, and other members recommended by the committee chair. Professor M. Ryan Haley will serve as the committee chair.

The work of the UBDC will use, as the basis of its work, the findings outlined in the white paper produced by the Chancellor's Study Group—Budget Structures.

The deliverables from the work of this committee will include the following:

1. A recommendation to the Chancellor by Jan. 31, 2016, that will include the following:
   a. If the University should change budget structures, and
   b. Identification of a prospective budget model family, if warranted,
   c. Several case studies about the prospective budget model family, if warranted, including at least one involving a failure of said budget model family, and
   d. An outline of the "flavor" the UBDC foresees as best matching UW Oshkosh's needs, if warranted.

2. In formulating this recommendation, the UBDC will gather input from University constituencies including shared governance groups, academic and non-academic unit leaders at the dean/director level, and individuals from the faculty, staff and students. The UBDC will make every attempt to engage these constituencies through public forums, group meetings and written input.

3. Once the Chancellor makes the final decision on the budget structure question, the UBDC will then design and implement a transition to the new budget structure, if warranted. It is expected that such a transition would take up to three years to complete. Membership of the UBDC can be changed as needed over this time period.

In addition to the five desiderata set forth in the white paper produced by the Chancellor's Study Group—Budget Structures, the new budget model should also:

- Support academic freedom;
- Support UW Oshkosh's commitment to liberal arts and professional studies;
- Encourage enrollment growth given its centrality to UW Oshkosh's financial condition;
- Focus on the university-to-college/unit level (budgetary models within the colleges, for example, will remain the purview of the deans); and
- Consider all forms of revenue and costs.

Appendix B: Activity-Based Budgeting

This appendix describes two case studies of a model called Responsibility Center Management (RCM), which is similar to ABBM. The CSG-BS white paper defines these models and describes their advantages and disadvantages.

ABBM Case Study #1: University of New Hampshire

The University of New Hampshire (UNH) implemented a decentralized budgeting system (RCM), on July 1, 2001. The goal for the RCM model at UNH was to provide incentives and empowerment to deans and other managers to achieve the mission in a more efficient manner.

In 2009-10, UNH's Central Budget Committee conducted its second 5-year review of their RCM model. The Central Budget Committee serves as the oversight group for central administration and facility funding levels, changes in State funding allocations, and any RCM formula adjustments. Below is a summary of the results released to the UNH community:

- RCM has widespread support from the campus community.
- RCM should be reviewed again in 5 years.
- The Central Strategic Initiatives Fund has been established and is funded via assessments to Responsibility Center units.[29]
- Qualitative and quantitative data suggest that the RCM model has not affected academic quality, despite perceptions to the contrary.
- There is concern, and some evidence, that the model provides insufficient financial incentives for outreach and engagement activities, which warrants further attention.
- RCM is perceived as having negatively impacted interdisciplinary collaboration by creating disincentives for faculty and units to foster interdisciplinary teaching and research; this warrants further attention.

Benefits of RCM at UNH:

- Improved access to courses
- Strategic and financial planning done at various levels of institution
- Greater awareness of university and local financial status
- Accountability at all levels of UNH
- Increased reserves
- Increased efficiency and productivity
- Consistent quality of services
- Resources allocated based on activity and demand

After this review, the Central Budget Committee outlined changes to the RCM model. Most of these recommendations involved policy modifications and changes to formulae to make the model more equitable.

ABBM Case Study #2: Rensselaer Polytechnic Institute

Rensselaer Polytechnic Institute (RPI) is a private university in New York with 7,000 students. It is an example of an institution of higher education that abandoned RCM. They implemented RCM in the 1990s. RPI's RCM model enhanced enrollment, but not in a way that supported their core mission; i.e., RCM worked well for the Humanities but not for Engineering. Most

[29] An RC is similar to the RGU found in the UB-1 model.

resources were allocated to the colleges, so administration had insufficient funds to invest or support new programs. RPI ultimately moved to a PBBM model and centralized all faculty and staff lines. They required that resource allocations be justified based on five institutional priorities.[30]

Lessons learned from RPI's use of RCM:

- Investments were driven by the model and not by executive decision.
- It lacked a mechanism to encourage new and interdisciplinary activity.
- It failed to invest in cost centers to help them operate efficiently.

It is interesting to note that since RPI switched to PBBM, it has continued to have significant financial problems.[31] That RPI has struggled under a variety of budget models illustrates how a university's budget model is not a cure-all by itself; qualified, earnest, and highly engaged leadership must be present as well. RPI's "lessons learned" suggest that RCM (and likely PBBM) was not installed carefully.

[30] https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models

[31] http://www.capitalnewyork.com/article/albany/2015/03/8564839/report-rpi-facing-1-billion-debts-liabilities

Appendix C: Incremental and Zero-Based Budgeting

This appendix describes case studies about IBM and ZBBM, including both successes and failures. The CSG-BS white paper defines these models and describes their advantages and disadvantages.

ZBBM Case Study #1: Colorado Mountain College

In 2009, Colorado Mountain College (CMC), a community college with an annual operating budget of $55 million and over 25,000 students, opted to switch to ZBBM.[32] They highlighted "transparency and accountability" as two advantages of ZBBM. CMC used a series of spreadsheets to help budget managers justify all expenses, line by line, and help them align all expenses with the strategic plan. The conversion required a significant investment of time for training and familiarization with the new budget development process. CMC officials have noted that ZBBM has generally been a success.[33] They chose to phase ZBBM in over a two-year period.

ZBBM Case Study #2: Failure of Presence?[34]

As of 2011, no public doctoral university was using ZBBM as its primary budget model.[35] ZBBM can be impractical for large universities due to high implementation costs. While not typically used on a large scale, ZBBM is often used for allocating smaller pools of revenue. Additionally, ZBBM is sometimes modified so that units only have to justify expenses above some threshold level, as opposed to a zero-base level.

Using ZBBM in a limited scope, in conjunction with another model (such as IBM or PBBM), or less frequently than annually, is most effective. "Limited scope" suggests entities with clearly defined resources and missions; perhaps similar to how segregated fees and differential tuition funds are currently allocated at UW Oshkosh. "Less frequently than annually" could be every other year or once every five years, depending on the perceived rate of change in demand for the entity's services. On this point, it will be interesting to see if CMC opts for a less-frequent version of ZBBM in the future.

IBM Case Study #1: Incremental-Based Budgeting Successes

The UBDC could find no case study of a higher education institution switching from a different budget model to IBM, although many institutions have not (yet) moved away from IBM. For these institutions, it is inferred that the benefits of a different budget model are not as great as the costs of changing.

To gauge IBM successes, several universities that considered other models, but opted to stay with IBM, are discussed below.

Notre Dame University (NDU) has traditionally been a strong advocate for centralized budgeting.[36] While they have embraced some attributes of RCM, the majority of their budgeting decisions are still made centrally. They feel an allegiance to this format because of

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[32] http://www.nacubo.org/Business_Officer_Magazine/Magazine_Archives/April_2012/Starting_from_Scratch.html
[33] https://www.insidehighered.com/news/2011/07/12/colorado_mountain_college_adopts_zero_based_budgeting
[34] https://www.eab.com/Research-and-Insights/Academic-Affairs-Forum/Custom/2009/08/The-Use-of-Zero-Based-Budgeting-in-Higher-Education
[35] https://www.eab.com/research-and-insights/business-affairs-forum/custom/2013/12/exploring-alternative-budget-models
[36] https://www.academicimpressions.com/news/tailoring-rcm-model-what-works-you

their culture and religious history.[37] Even though NDU is fully aware of RCM, it prefers a more centralized model. This can be interpreted as a success for IBM.

Oregon State University (OSU) also explored changing budget models but ultimately opted to remain with IBM.[38] However, they did incorporate a "rebasing" exercise circa 2007, which is often akin to ZBBM. Once completed and continually adjusted for inflation, the renewed base budgets would be adjusted through a reinvigorated incremental process. Curiously, however, they state the following:

> It is expected that each program will continue to provide the levels of service established in the original rebasing review. Reduction in services from these levels should be examined to determine if changes in the base budget are warranted. Marginal changes will be based on a three year rolling average of Student Credit Hours and other key metrics to ensure that changes reflect trends rather than random annual variations and to allow units to absorb revenue decreases.

The second half of this statement suggests that OSU's reinvigorated "IBM" model uses some ABBM and PBBM/FBBM concepts such as SCH and "key metrics." This is unsurprising: many budget models are effectively hybrids, even if they continue to use their original moniker.

IBM Case Study #2: IBM Failures

Incremental budgeting, once the staple of higher education, has slowly been declining in favor over time. According to the Educational Advisory Board (EAB), IBM at public institutions declined 9.2% between 2008 and 2011 as other alternative models have grown in favor.[39] Institutions have switched in order to align resource allocation more closely with institutional strategic plans.

In 2013, University of Wisconsin Madison's Chancellor Blank charged a committee with reviewing their current budget model and developing a report on the possibility of implementing a new budget model.[40] They wanted to create a more transparent process for allocating resources to campus units that would also align the budget with campus priorities. To provide campus units with predictable funding in both favorable and unfavorable economic times, they had been using an incremental budgeting process, which has been in place for 30+ years. Because of IBM's inability to provide clear financial incentives for improvement and innovation, lack of transparency connecting budget decisions to academic priorities, and an inability to respond appropriately to changing educational demands, the university identified that a new budget model was needed to remain competitive and responsive to the changing academic landscape. UW Madison is currently pursuing an ABBM model.[41]

In July of 2001, UNH switched away from their traditional IBM model.[42] In making the decision to change, UNH noted that its current IBM model failed to function optimally when situations required flexible and innovative responses to problems.[43] The university switched

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[37]http://www.nacubo.org/Business_Officer_Magazine/Magazine_Archives/May_2013/Dont_Be_Wedded_to_Any_One_Model.html
[38] http://leadership.oregonstate.edu/provost/initiatives
[39] https://www.eab.com/research-and-insights/business-affairs-forum/custom/2013/12/exploring-alternative-budget-models
[40] https://www.vc.wisc.edu/documents/Budget-Model-White-Paper.pdf
[41] http://www.mbo.wisc.edu/documents/Budget-Model-Dev-Cmtee-Report.pdf
[42] http://www.unh.edu/vpfa/rcmimplementation.html
[43] https://www.unh.edu/news/news_releases/2000/february/kb_20000203rcm.html

to an RCM budget model to provide institutional leaders the ability to align resource allocation with institutional goals. The new model creates incentives that stimulate growth of new resources and encourage efficient use of current resources. In the second five-year review of their RCM budget process, UNH noted that the current RCM model increased communication in areas and created better incentives that aligned their academic plan. They chose to stay with RCM as a permanent budget model with another review in five years.[44]

[44] http://www.unh.edu/vpfa/rcm401presentation.ppt

Appendix D: Performance- and Formula-Based Budgeting

This appendix describes a series of case studies about PBBM/FBBM, including both successes and failures. The CSG-BS white paper defines these models and describes their advantages and disadvantages.

PBBM Case Study #1: University of New Mexico

The University of New Mexico (UNM) found many reasons to modify its budgeting and resources allocation processes, including

- Reduced State appropriations,
- Pressure to minimize tuition and fee increases,
- An existing budget model built on historic funding levels that were not well-linked to strategic planning,
- Confusion over why budget levels were what they were, or how they related to national, regional, State and/or institutional priorities.

UNM moved to a PBBM/RCM hybrid budget model to enhance transparency and enable better-informed decision-making by relating resources to activity levels, thus creating awareness of how the university receives resources and how they are used. Their report is publically available.[45]

PBBM Case Study #2: Portland State University

Portland State University (PSU) was attracted to PBBM for several reasons:

- Incentives for units to make sound financial decisions,
- Opportunity to offset perennially declining State support,
- Methods for improving efficiency,
- Transparent ways to improve student outcomes.

In June 2011, the Financial Futures Task Force, assigned to evaluate the opportunities and challenges associated with the various resource allocation methods, recommended that the university adopt a new budget model incorporating the general principles of PBBM. The President accepted this report and created for the 2011-2012 academic year a working group and a steering committee tasked with development and implementation of PBBM for PSU. Their report is publically available.[46] They also produced a helpful video.[47] PSU offers several useful take-aways from their PBBM experience:

- When interdisciplinary collaborations are desired, revenue requirements and expenditure budgets need to adjust accordingly.
- If the collaborations result in new student revenue to the university, then decisions are made as to where (in what units) the revenue requirement is adjusted.

More information about PSU's budget model is publically available.[48]

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[45] http://www.unm.edu/~budget/FY14%20Budget%20Development/RCM_PBB/RCM_PBBIntroductionDocument.pdf
[46] http://www.pdx.edu/sites/www.pdx.edu.fadm/files/FFTF_Final_Rpt_Final_%20MW.pdf
[47] https://www.youtube.com/v/Vdt30w5Yu8w
[48] http://www.pdx.edu/budget/history-of-performance-based-budgeting-0

PBBM Case Study #3: University of South Carolina System

Below is a discussion of an unsuccessful implementation of PBBM in the South Carolina Public Higher Education System.

From early 1995 through 1996, a study group of the South Carolina Legislature, without input from state higher education, formulated a plan to "reinvent higher education in South Carolina" based on a 3-year phased-in approach to award 100% of the state's higher education budget on the basis of 37 performance indicators.[49] This was later changed to provide a basic minimum resource amount with the balance to be awarded on the indicators, not enrollment. The "indicators" were awarded points annually in a way determined by the South Carolina Commission on Higher Education; e.g., lowering overhead per student in the prior year, graduation rates, student employment rates, class sizes.

This gave rise to odd results. For example, the smallest public college was rated higher than the flagship campus and received a significantly higher increase in budget the following year. A second example: all campuses were measured for "institutional emphasis on teacher education and reform"; however the state's 21 two-year colleges, whose ratios were in the overall comparisons, do not train teachers.

Several articles noted that South Carolina's model was ultimately abandoned in the face of tightening budgets, which precluded any award for positive indicator scores. Parallel to this, a formal inquiry determined that the PBBM model was flawed because it did not account for campus-specific differences in mission, purpose, location, or type of student served.

The failure of South Carolina's PBBM had several causes:

- During development, no information or input was sought or accepted from the State's educational administrators.
- Future variables in the State's budget revenue and expenses were never factored into the plan.
- The plan presupposed that all higher education institutions in South Carolina had the same basic mission, size, student draw, and so on.
- The plan was rushed from inception to implementation in barely over one year, so it was intrinsically unstable.

Essentially, the plan foundered because it was disconnected from the realities of the State's colleges and universities, was designed to create change without regard for built-in safeguards from external factors, and was developed by a single constituency.[50]

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[49] http://www.highereducation.org/crosstalk/ctbook/pdfbook/SCPerformanceBudgetBookLayout.pdf
[50] http://www.governing.com/topics/education/gov-performance-based-college-funding-coming-stateside.html

Appendix E: Budget Model Scorecard

The UBDC converted the ten criteria set forth in the charge into a budget model score card. The grades assigned to each criterion were based on background research, case studies, and attributes of the model types currently used at UW Oshkosh.

Criteria	IBM	ZBBM	ABBM	FBBM/PBBM
Incorporate simplicity, transparency, flexibility, and accountability	F	C	A	C
Incentivize revenue generation, cost controls, and innovation	F	B	A	B
Align with mission, shared governance, and student success	F	B	A	B
Allow for efficient changeover (if applicable)	N/A	B	C	B
Balance the economic and academic aspects of higher education	F	C	A	D
Support academic freedom	B	B	B	C
Support our commitment to liberal arts and professional studies	C	A	A	D
Encourage enrollment growth	F	B	A	B
Focus on the university-to-college/unit level	A	C	A	B
Consider all forms of revenue and costs	A	A	A	B

Appendix F: Segregated Fees

Segregated fees are broken into "allocable" and "non-allocable" types. Allocable fees are those that provide substantial support for campus student activities and services. Students have a major role in determining the funding for allocable units. Non-allocable fees are those that support long-term commitments for fixed financial obligations. Due to these long-term commitments (e.g. salaries, fringe benefits, debt service), students have an advisory role in determining the funding for non-allocable units.

The following units are either partially or fully funded by segregated fees at UW Oshkosh:

- Intercollegiate Athletics (Non-allocable, partially funded)
- Children's Learning & Care Center (Non-allocable, partially funded)
- Green Fee (Allocable, fully funded)
- Intramurals (Allocable, fully funded)
- Municipal Services (Non-allocable, partially funded)
- Oshkosh Student Association/Student Legal Services (Allocable, mostly funded)
- Oshkosh Sports Complex (Non-allocable, partially funded)
- Reeve Union (Non-allocable, partially funded)
- Student Health Center (Non-allocable, partially funded)
- Student Recreation (Non-allocable, partially funded)
- Titan Transit (Allocable, fully funded)
- Allocations Committee (Allocable, fully funded)

The Allocations Committee funds approximately 125 student organizations. This committee conducts organization budget hearings and develops an overall budget that is presented to the Segregated Fee Committee.

The Segregated Fee Methodology & Procedures document was developed and signed by the Oshkosh Student Association President, Segregated Fee Chair, VC for Student Affairs, VC for Administrative Services, and the Chancellor. This document is referenced in Regent Policy Document 30-5 and is required for all UW System campuses that charge a segregated fee.

As required by state law (Chapter 36, 36.09(5)), students work in consultation with the Chancellor and are subject to final approval by the UW Board of Regents to determine the disposition of student fees. The student-led Segregated Fees Committee must abide by UW Oshkosh and UW System policies on how fees are appropriated. It is governed by UW System Financial & Administrative Policy, F50: Segregated University Fees

To vie for funding, each unit submits a written budget and narrative and then presents their budget request to the Segregated Fee Committee. After the presentations are complete, the committee discusses the budgets, the level of funding for each unit, and the overall segregated fee amount. The main methodology the committee uses for increasing specific unit's budgets and initiating new projects is the return on investment it will have for all students. The budget process starts in September and all budgets are finalized by February for the following fiscal year. The process is most similar to ZBBM, with elements of IBM on the non-allocable side.

Appendix G: Differential Tuition

The UW Oshkosh institution-wide differential tuition was voted on by students in 2003-04, and the annual charge of $110/student started in 2004-05, which increased modestly over the next decade to the current $123.84 figure. The differential tuition precipitated from the Student Compact, its purpose being to provide additional support services for students.

The Differential Tuition Finance Committee employs a ZBBM model. The committee receives budget proposals from the areas funded by differential tuition, and then makes allocation decisions after evaluating said proposals. The committee is also responsible for the assessment and evaluation of the funded programs. Each unit submits an annual report that includes how the funding is used, assessment and utilization of their programs and services, and key objectives for the coming year. Differential tuition currently partially funds the following departments/programs:

- Career Services – partially funded
- Center for Academic Resources – partially funded
- Counseling Center – partially funded
- Math Lab – partially funded
- Reading Study Center – partially funded
- Undergraduate Advising Resource Center – partially funded
- Writing Center – partially funded

The following policies regulate differential tuition:

- Institution-wide Differential Tuition
- Differential Tuition Process Timeline
- Regent Policy Document 32-7 Student Involvement in Differential Tuition Initiatives