

University Budget – Version 1 (UB-1)

University Budget Development Committee

FAQ: January 2016 Edition

In October 2015, the University Budget Development Committee (UBDC) issued its first FAQ.¹ This edition augments the prior to address FAQs about UB-1, the prospective budget model recommended by the UBDC.

FAQ1: What type of budget model is UB-1? How does it relate to the five types of models described in the budget model white paper from April 2015?

UB-1 is a hybrid of all five model types:

- 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. UB-1 is also a hybrid in the sense that it has both centralized and decentralized components.

FAQ2: Would UB-1 drive the strategic plan?

No. 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.

FAQ3: What is the UB-1 timeline?

The report contains a multi-step, three-phase timeline. The recent UBDC recommendation marks the end of phase one. Phase two, if approved, would be an 18-month transition period.

FAQ4: Can areas opt out of UB-1?

No. Like the current model, UB-1 is designed to be an all-funds, all-costs, all-campus model.

FAQ5: Would UB-1 impact salaries, benefits, and staffing levels?

UB-1 is nothing more than a mechanism for assigning revenue and costs in a rational and transparent manner. Decisions about salaries, benefits, and staffing levels would remain with leadership.

¹ <http://www.uwosh.edu/forward/university-budget-development-committee-ubdc/>

FAQ6: How would tuition and the state subsidy (GPR) be allocated?

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.²

- 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.³
- 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.

FAQ7: What is the Central Fund and who manages it?

UB-1 requires a formal Central Fund, created by taxing the revenue-generating units. The Central Fund would be overseen by the Vice Chancellors in consultation with deans, directors, and the UBDC (or equivalent).

FAQ8: How would non-revenue-generating units be funded?

The costs of these areas would be covered either by the Central Fund or as a line-item deduction from the revenue-generating units; see the FAQs about indirect costs for additional details.

FAQ9: How would tuition be assigned when a student from one college is taking a class in another?

This is typically resolved with a tuition-sharing rule, which would divide the tuition between the two colleges (e.g., on a 50/50 basis).

FAQ10: How would tuition from double majors be allocated?

Double majors would be counted twice because they use additional resources to complete their second major.

FAQ11: How would tuition from undeclared students be assigned to a college?

The primary issue, from a tuition-assignment perspective, is that students are assigned to a college, not whether or not they are declared. The UW application and registration process contains enough information to assign every student to a college.

² 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.

³ 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.

FAQ12: Costs of instruction differ by college, does UB-1 account for this?

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.⁴ College-level differential tuition is also used for this purpose, and is similar to a tiered per-credit tuition charge system.⁵ These possibilities would be explored at length in phase two, in concert with the entities that oversee these areas.

FAQ13: Would college/unit budgets change under UB-1?

Changes, if any, would be phased in through a hold harmless period. A key goal is to avoid disruptions in service. Budget changes would be made by leadership, not by UB-1.

FAQ14: What is a hold harmless period and a sunset clause?

If UB-1 is adopted, the allocations to colleges/units would be unchanged initially to avoid service disruptions. However, as time passes, the revenue-generating units would likely be expected to forecast aspects of their revenues and costs and, in alignment with the mission and strategic plan, increase or decrease funds to targeted areas. The sunset clause is an expiration date for the hold harmless agreement.

FAQ15: How does UB-1 differ from the “each tub on its own bottom” concept often associated with Responsibility Center Management (RCM)?

UB-1 is a hybrid model that uses some attributes from RCM, such as revenue and cost assignment. UB-1 differs in several ways:

- Colleges/units share services (e.g., Integrated Marketing, Human Resources)
- There is a Central Strategic Initiative Fund dedicated to supporting the university’s mission, which is administered by central administration
- There is a Central Fund to cover indivisible indirect costs
- Colleges do not have their own financial policies

FAQ16: Would there be heightened competition for students among the colleges?

Competition for students exists in the current model as colleges vie for tenure-track lines, for example. Competitive pressures may arise under UB-1 given that revenue would be assigned based on SCH and major headcount. Several safeguards would be in place to ensure that competition for students is present but not problematic:

- Curriculum committees would have to be explicitly aware of the financial implications of proposed changes.

⁴http://www.unh.edu/sites/www.unh.edu/files/departments/vice_president_for_finance_administration/rcm_manual_update_combined_dec_2015.pdf

⁵ <https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models>

- Performance checks would put logical caps on course hour proliferation, whether it be in the form of ad hoc hiring, class size, or questionable online program expansion.
- Tuition sharing would occur for inter-college situations.
- A mechanism for ensuring equitable representation on curriculum committees would be explored.

FAQ17: Would the quality of academic programs erode given financial incentives to offer more classes?

Curriculum committees, performance checks, and central academic leaders would be in place to control the quality of curriculum and instruction, as they do under the current model. The financial incentives of curricular changes would be transparent for all to see. Additionally, UW Oshkosh has a variety of accreditation bodies that impose standards of academic quality. Finally, it is worth noting that many very successful and academically admired universities use models similar to UB-1.

FAQ18: What if colleges engage in grade inflation to attract enrollment?

This can happen under the current model in order to attract majors in an effort to support requests for more faculty lines. The Distribution of Grades (DOG) reports would be useful benchmarks for oversight.

FAQ19: Which areas would be designated as RGUs (Revenue-Generating Units)?

The academic colleges and selected auxiliaries such as Housing, Dining, and the Bookstore would likely comprise the set of RGUs. More financial details are needed before a final list of RGUs could be created.

FAQ20: Could one college dominate UB-1, bending it to serve their preferences and needs?

UB-1 is designed to be amoral; it seeks to offer a rational and visible mechanism by which the university can assign revenues and costs. Any budget model can be "taken over" by a dominant college with complicit central leadership and unbalanced committee membership structures, so this concern is not unique to UB-1. However, the transparency of UB-1 functions as insurance against this type of development, as colleges/units can see their budget and the budgets of others. Additionally, UB-1 recommends making the financial implications of curricular change part of the curricular-change process. Benchmarking to funding levels and curricular patterns among peer/aspirant schools can help contextualize the choices at UW Oshkosh.

FAQ21: What would happen to Cost Recovery Programs (CRPs) under UB-1?

UB-1 entails tuition and cost assignment in a way similar to existing CRPs. Thus, under UB-1, the distinction between standard programs and CRPs would largely evaporate. However, CRPs 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 revenue-generating units. Because each CRP is unique, discussions with each would be logical during transition

planning. In some cases, there may be reasons to retain the CRP designation. The budget model should not restrict, and in fact should promote, the creation of innovative programs and new revenue sources.

FAQ22: What is a direct cost?

Direct costs are those incurred by and directly tied to a unit. Faculty and staff salaries would be examples of direct costs, as would supplies and travel.

FAQ23: What is an indirect cost?

Indirect costs, sometimes referred to as overhead costs, are all costs that are not direct. Examples of indirect costs include areas such as Facilities, the Library, Human Resources, Equity and Affirmative Action, and the Provost's office.

FAQ24: What is the difference between a "divisible" and an "indivisible" indirect cost, and how are they paid?

This is a determination that is made "in-house" based on how logical it is to divide a particular indirect cost.

- 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. These costs would appear as line-item expenses on a unit's financial report.
- Indivisible Indirect Costs are indirect costs that are difficult to divide based on usage or consumption. Indivisible indirect costs would be funded through the Central Fund. The Veterans Resource Center would be an example.

FAQ25: Would colleges/units be able to determine their own tuition/prices?

The State Legislature and UW System control base undergraduate tuition. Individual campuses have more control over other prices such as segregated fees, differential tuition, graduate tuition, housing, and dining. Many universities are now using differential tuition at the program or college level, which helps high-cost areas fund themselves and allows high-demand areas to expand without taking resources from other areas.

FAQ26: How would UB-1 impact collaboration across colleges?

Ideally, a budget model would incentivize, or at least not stymie, inter-college cooperation. The tuition-sharing mechanism allows students to take classes anywhere in the university in a way that benefits both the unit of instruction and the student's home college. Strategic initiative funds can be used to incentivize new inter-college programs.

FAQ27: How would UB-1 account for research activity?

Like the vast majority of budget model alternatives, UB-1 does not assign revenues or costs based on research activity. However, it would continue to use a sharing rule for Indirect Cost Recovery Revenue brought to the university via external grants.

FAQ28: How would UB-1 account for service activity?

Like the vast majority of budget model alternatives, UB-1 does not assign revenues or costs based on service activity. Buyouts for reassigned time would remain as they are under the current model.

FAQ29: What about the interim and non-revenue credit hours?

UB-1 would highlight the financial magnitude of these issues, but decisions about how they might change would remain with leadership.

FAQ30: What are some reasons to embrace UB-1?

While no model can guarantee results, UB-1 is designed to maximize the likelihood of several important things:

- Generation of new sources of revenue (e.g., attract new students to new, timely programs)
- Cost controls
- Increased service quality
- Faster deployment of strategic initiative and new programs
- A financial culture built on transparency and rationality
- Responsibility with authority and accountability

FAQ31: Would my job as a staff member, instructor, or faculty member change as the result of UB-1?

Most of the budgetary implications of UB-1 would appear at the dean/unit leader level and up. Some of this may filter down to academic department chairs (or equivalent). For example, deans may be more inclined to encourage faculty to streamline curricula, enhance teaching quality, and actively pursue innovative programs that would help attract and retain new students.

FAQ32: What role would shared governance serve under UB-1?

If UB-1 is implemented, the UBDC would likely evolve into an ongoing budgetary oversight body that would be composed of university stakeholders, such as governance groups, administrators, and college/unit leadership.

FAQ33: Tenured faculty are essentially permanent costs, so how would UB-1 respond to a case where an area had significant decreases in student credit hours and major headcount?

UB-1 would not respond. The purpose of the budget model is to make the financial aspects of university trends and actions transparent. In this case, leadership would need to decide if the waning program warrants subsidization or if some type of slow downsizing should occur. For example, leadership might remove lines from the area as vacancies occur, perhaps from departing or retiring faculty.

FAQ34: What will the budget models look like within the colleges under UB-1?

UB-1 is focused on the university-to-college/unit layer of UW Oshkosh. The budget models used within colleges, and other revenue-generating units, would be decisions for the leaders of those units and the corresponding stakeholders.

FAQ35: Would chargebacks disappear under UB-1?

Yes. UB-1's cost-assignment mechanism would supplant the existing chargeback structure.

FAQ36: How would year-to-year budgets be stabilized under UB-1?

Under UB-1, budget carryovers would be required at both the central and college/unit levels. For example, colleges/units may be required to hold at least 5% and at most 12% of prior-year expenditures as savings.

FAQ37: What would the consequences be if a dean/unit head mishandled their budget?

Central administrators would continue to have oversight, as they do now. However, with clearer revenue and cost mechanisms, oversight would be easier, more precise, and timelier, which together would minimize the chance of mishandled budgets. Additionally, UB-1 entails trained budget professionals within each revenue-generating unit, which should further reduce the chances of mishandling. However, in the event of malfeasance, consequences would include financial penalties, reprimand, and dismissal. Leadership needs to be prepared to make these decisions.

FAQ38: What is meant by "budgetary opaqueness"?

The UBDC uses the term "opaque" for a budget model in which the allocations to the colleges/units appear disconnected from mission-centric activities, such as teaching classes or graduating majors. Under the current IBM model at UW Oshkosh, a college/unit's allocation is often explained by referring to the previous year's budget, which in turn references the year before that, and so on all the way back to the early 1970s. Perhaps the allocations were based on tangible aspects of the mission at some point in the past, but that connection has been lost.

FAQ39: Is there a way to gauge which areas might win and which might lose under UB-1?

No. A budget model does not make budget decisions.

FAQ40: How will UB-1 impact students?

The impact of UB-1 on the typical student's day-to-day experiences would probably be minimal. However, UB-1 would create incentives for leaner credits-to-major, more efficient course sequencing, updated curricula, and opportunities to engage with new and innovative programs. Decisions about student costs of education (e.g., tuition, differential tuition, segregated fees) would remain with leadership groups and UW System officials.

FAQ41: How would graduate tuition be treated?

Graduate tuition would be assigned to the academic college that houses the graduate program. Any graduate level differential tuition or enhancement fees would likewise be assigned to the relevant college.

FAQ42: How would segregated fees and undergraduate differential tuition be treated under UB-1?

These revenue sources have various restrictions on their usage; some imposed by law, others by UW System, and still others by campus-level agreements. UB-1 would ensure that the reasons for these restrictions are clearly understood. When discretion exists, UB-1 would assign these funds to the college/unit for which they were intended.

FAQ43: Would capital budgeting be impacted by UB-1?

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