Budget Model Assessment

An Update on the Activities of the Joint Task Force on Resource Allocation

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The Joint Task Force on Resource Allocation (JTFRA) emerged directly from the first phase of the strategic planning process.

JTFRA has been charged with:

1. **Educating and engaging the campus community.**
   - Help the whole community learn about different approaches and their implications, and promote informed choice with respect to any potential changes to the current system.

2. **Identifying key characteristics for an effective resource allocation model.**
   - Whatever system is chosen it must fit the campus’ needs, values, and culture.
   - Some of the established parameters include transparency and intentionality, but the JTFRA has been charged with seeking to explore balance among a number of other variables; complexity vs simplicity, centralized vs decentralized decision making, flexibility vs predictability, etc.

3. **Proposing specific changes for consideration by the campus community.**
   - Develop preliminary recommendations and present to campus community for consideration. Following that discussion, final recommendations will be presented to the Chancellor.

Source: http://www.umass.edu/senate/adhoc/jtfra.htm

The JTFRA is working with Huron Consulting Group to educate and engage with the campus community, identify key model characteristics, and develop potential changes for consideration.
3 Major JTFRA Milestone

There are three major milestones that will occur between now and the time JTFRA provides recommendations to the Chancellor.

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Date</th>
<th>JTFRA Meetings</th>
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| 1 Outline a set of model options and select an option to explore further. | End of January | December 18th  
January 13th  
January 22nd  
January 30th |
| 2 Review scenarios associated with the model option selected. | End of February | February 13th  
February 26th |
| 3 Share model options, scenarios explored and recommendations for next steps with the Chancellor. | End of March   | March 5th      
April 1st     |

The model options outlined and scenarios evaluated will be input factors into what will ultimately be a decision made by the Chancellor on whether to move to a new budget model.
Campus Feedback Loop

During the initial data gathering phase Huron has met with over 65 informed stakeholders representing a wide range of constituents; JTFRA has also engaged with a variety of constituents.

Initial Stakeholder Engagement
- Deans and Executive Leadership
- Faculty Senate (e.g., APC and JTFRA)
- Academic Affairs and Administrative & Finance Support Team
- Executive Financial Officers
- Academic Budget Managers
- Joint Task Force on Strategic Oversight

Planned Stakeholder Engagement
- Council of Deans
- CLC
- JTFSO
- Faculty Senate (e.g., PBC)
- Student Senates (SGA and GSS)
- EFO / ABM Focus Groups
- Open Campus Forum
- Blog and website

Moving forward JTFRA and Huron plan to continue to engage stakeholders across the campus, establishing a feedback loop to ensure successful principle and model options development.
Model Guiding Principles

The campus will continue to provide feedback to help the principles accurately reflect desired elements and functionality of the budget model that should be further explored.

<table>
<thead>
<tr>
<th>JTFRA Budgeting Values</th>
<th>Budget Model Guiding Principles</th>
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<tbody>
<tr>
<td>Accountability</td>
<td>Ensure a culture that promotes a balance among research, educational opportunity and public service.</td>
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<tr>
<td>Accurate and data informed</td>
<td>Promote innovative activities that align with the strategic plan and focus on campus success areas including quality and student success.</td>
</tr>
<tr>
<td>Alignment of authority and responsibility</td>
<td>Enhance visibility, forecasting and planning to promote a culture of evidence, fiscal responsibility, and accountability.</td>
</tr>
<tr>
<td>Appropriate simplicity</td>
<td>Reinforce the common good in immediate and future University goals by balancing local and central roles and responsibilities when evaluating competing values, needs and resources.</td>
</tr>
<tr>
<td>Balanced</td>
<td>Be transparent and use simple, consistent and fair methodologies to allocate resources to facilitate effective decision making at all appropriate levels.</td>
</tr>
<tr>
<td>Collaboration</td>
<td>Demonstrate a deep commitment to inclusiveness through constituent engagement and promote collaboration and a holistic view of the University.</td>
</tr>
<tr>
<td>Respect for the common good</td>
<td></td>
</tr>
<tr>
<td>Continual improvement and initiative</td>
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Spectrum of Model Options

JTFRA reviewed attributes of the primary types of budget models used by universities; Huron then guided JTFRA through an alignment analysis of our current budget model with respect to our guiding principles:

<table>
<thead>
<tr>
<th>More Centralized Models</th>
<th>More Decentralized Models</th>
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<tbody>
<tr>
<td>- Places focus on expense budgets and dividing the pie.</td>
<td>- Focuses on growing the pie and improved alignment of the pie.</td>
</tr>
<tr>
<td>- Governed by short-term performance measures.</td>
<td>- Incorporates a devolution of revenue ownership to local units as generated.</td>
</tr>
<tr>
<td>- Does not align revenues with costs.</td>
<td>- Allocates costs (direct and indirect) to revenue generating units.</td>
</tr>
<tr>
<td>- Constrained by limited academic authority, reducing impact of incentives</td>
<td>- Utilizes a centrally managed “subvention pool” to address strategic priorities.</td>
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**Incremental Budgeting**
- Centrally driven.
- Current budget acts as “base;” annual budget increments adjust base.
- Alignment of revenues and costs is not clear.
- Treats funds consistently over time.
- Encourages “use-it or lose-it” spending mentality.
- Budgets do not adjust to reflect demand/enrollment change.

**Formula Funding**
- Unit-based model focused on providing equitable funding.
- Unit rates are input based and commonly agreed upon.
- Annual fluctuations are driven primarily by the quantity of production and not from changes to rates.
- Majority of revenues are not aligned with costs.

**Performance Funding**
- Unit-based model focused on rewarding mission delivery.
- Unit rates are output-based and commonly agree upon.
- Annual fluctuations are driven primarily by changing production not for rate changes.
- May sacrifice quality of outputs (gaming).
- Time-lag between decisions and results.

**Customized Model**
- More centralized control as compared to RCM.
- Higher tax rate on all unrestricted revenues to fund mission-critical priorities.
- Incentives are tailored to emphasize strategic needs and promote entrepreneurship.
- Aligns revenues with costs.
- The most commonly implemented since 2005.

**RCM**
- Less centralized authority as compared to the Customized Model.
- Lower tax rate on all unrestricted revenues.
- Incentives are more “hard-wired” and may inhibit collaboration and/or impede success of institutional priorities.
- Aligns revenues with costs.
- These models were most frequently implemented in 1990 to 2004.

**ETOB**
- Extremely de-centralized model.
- Academic units effectively operate as their own financial entities.
- Very little strategic control held by the central administration.
- No sympathy for market forces.
- Under-performing units must cut costs or generate more revenue to cover any losses incurred.

Current model with some incentive programs aligned with RCM
Huron conducts an alignment analysis to compare the guiding principles to UMass’ current state to identify gaps that may be addressed by a new budget model.

Revenue Sources
- State/Federal Appropriations ~$67M
- Investment Income ~$6M
- Gross Tuition & Fees ~$115M
- Grants & Contracts ~$315M
- Gifts ~$13M
- Endowment Income ~$7M
- Sales & Services ~$11M
- Other Revenues ~$28M

Incentives promote continual improvement and initiative.

Initial Recipients
- State
- Administrative & Support Units ~$700M
- Schools/Colleges/CPE ~$190M
- Auxiliaries ~$135M

High degree of central control limiting alignment of authority with responsibility.

Allocation Recipients
- Administrative & Support Units
- Schools/Colleges/CPE
- Auxiliaries

Flow lacks simplicity due to complex rules redistributing funds.

Expenses
- Carryforward

Note: Diagram above does not include Internal transfers, Agency funds, Accruals, Recharges, Fund deductions (excluding Plant and Endowment), Plant Funds

*Includes approximately $165M in scholarships and waivers. Operating expenses are closer to $285M.
Incentives Inventory

In addition to reviewing the flow of funds, Huron conducted an assessment of the current incentives at UMass to see how well they aligned with the guiding principles.

### Illustrative Alignment Analysis – Incentives Inventory

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Unit Portion</th>
<th>Calculation</th>
<th>Alignment Analysis</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing Education Incentive</td>
<td>100% of Unit CPE Profits</td>
<td>Unit CPE revenues – (10% CPE tax - $65/credit - and Unit’s direct expenses)</td>
<td>Consistent and fair methodology that is transparent and appropriately simple.</td>
<td>High</td>
</tr>
<tr>
<td>Out of State Undergraduate Tuition Growth</td>
<td>50% of Unit’s Out of State Graduate Tuition Growth</td>
<td>Unit’s Out of State UG Tuition Growth – 50% for admin support</td>
<td>Focuses only on out of state students and limits the alignment of authority with responsibility by failing to match all funds to the units of generation.</td>
<td>Moderate</td>
</tr>
<tr>
<td>Strategic Investment Pools</td>
<td>Unknown</td>
<td>Determined by leadership</td>
<td>Despite opportunity to align with the strategic plan of the university, there is limited transparency into how priorities for the subsidy are defined.</td>
<td>Low</td>
</tr>
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The gaps identified through this process allowed JTFRA to identify what a new model would need to address to better align with the guiding principles.
UMass’ Customized Budget Model

Based on the results of the alignment analysis and review of other budgeting options’ alignment with the guiding principles, the Joint Task Force for Resource Allocation has asked Huron to explore a customized model.

The Customized Budget Model will focus on establishing and maintaining:

- A focus on quality, the common good and investment in the strategic plan through the creation of a centrally controlled subvention pool.

- The alignment of authority with responsibility through the devolution of unrestricted revenues and both direct and indirect costs.

- The use of simple but accurate allocation methods to promote innovation in line with the strategic vision of the University.

- Transparency and data-informed decision making through the development of a budget model at the school and college level.

The exploration of this model will continue the knowledge discovery process and allow JTFRA to make informed recommendations on next steps.
We need your feedback:

- JTFRA website:
  
  http://www.umass.edu/provost/strategic-planning/joint-taskforce-resource-allocation

- Blog for comments on guiding principles and each step of the process:
  https://blogs.umass.edu/jtra/

- Send us an email: jtfra@provost.umass.edu