

The *University Budget Model* at the University of Michigan

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University of Washington

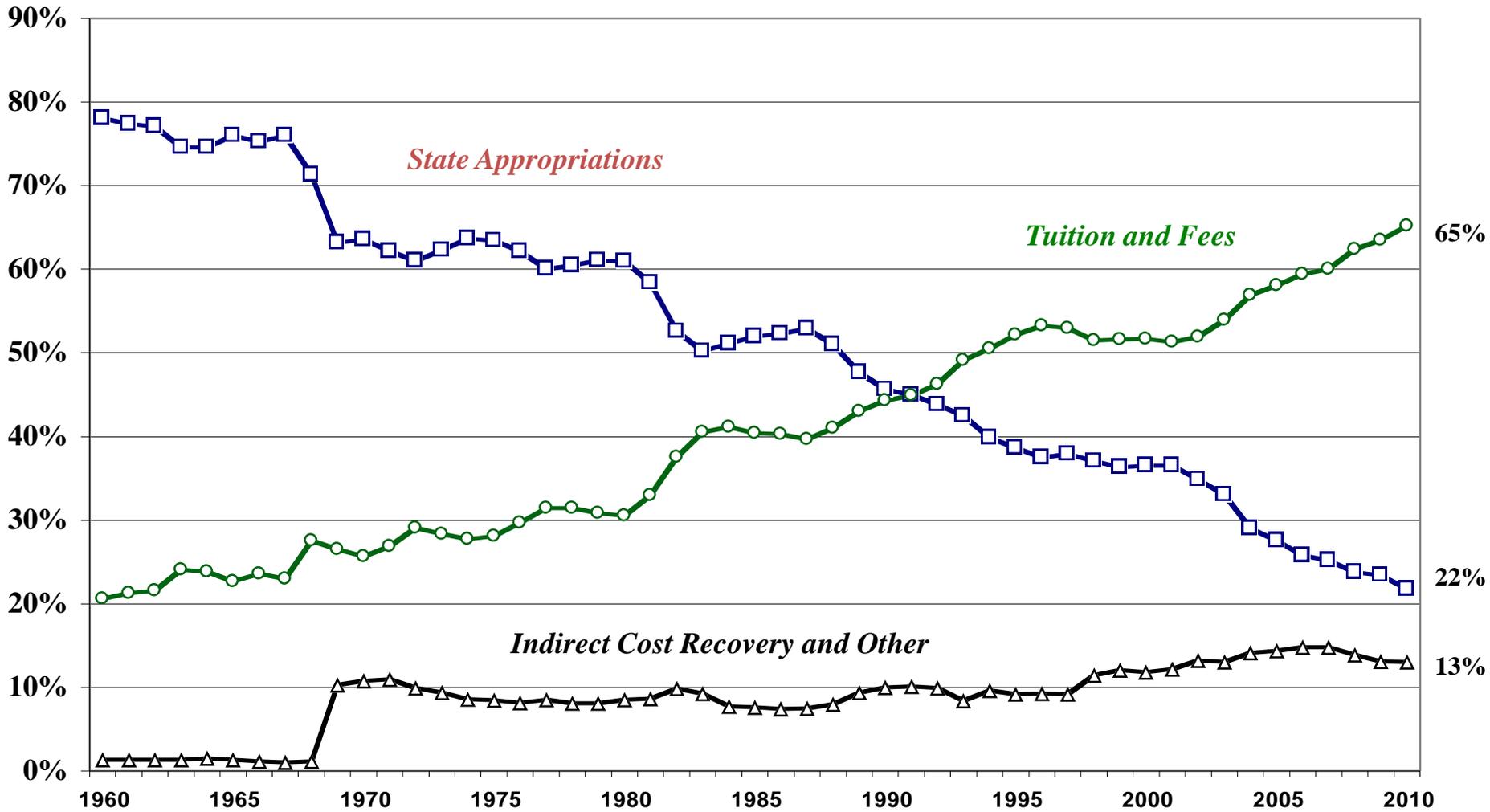
Phil Hanlon Background

- Donald J. Lewis Professor of Mathematics
(on faculty at UM since 1986)
- Associate Dean for Planning and Finance in
the College of Literature, Science and the Arts
(January 2001 – June 2004)
- Vice Provost for Academic and Budgetary
Affairs
(since July 2004)

Definitions and Terminology

- *General Fund* consists of tuition and fees, State appropriation, indirect cost recovery and interest on General Fund balances (~\$1.41B)
 - The “*University Budget Model*” budgets the General Fund
- Academic unit operating revenues also include
 - endowment payout and expendable gifts (~\$150M)
 - Other stuff (royalties, non-degree programs, ...) (~\$143M)
- Academic unit expenditures also include direct costs on sponsored research (~\$765M)
- Auxiliary units (hospital and health system, athletics, housing, ...) will NOT be considered today (~2.62B)

The Changing Mix of General Fund Revenue



Goals of the Budget Model

- Encourage units to set priorities and develop new activities
- Create incentives at the unit level to make efficient use of resources
- Attribute costs and revenues via simple and transparent rules
- Provide sufficient discretionary resources to the Provost to support cross-unit collaborations and fund other highest priorities
- Assure that central administrative units have sufficient resources to carry out their missions within scope agreed to by the Provost

Two Sorts of Units

- The way in which units are budgeted depends on whether or not they generate activity based revenue
 - *Activity-based units* include: Schools, Colleges, Research Units

PHILOSOPHY: Align revenues and costs with levels of activity.

- *Non Activity-based units* include: University Academic Units (museums, libraries, etc.), Central Administrative and Service Units

PHILOSOPHY: Budget these units to mission. Inflationary increases each year with an opportunity to request additional funding from the Provost to expand mission or scope of work.

Components of the General Fund Budget Allocation for an *Activity-based Unit*

- Activity-based revenues
 - Tuition and registration/application fees
 - Recovered indirect costs
 - Interest paid on General Fund balances
- Activity-based assessments and taxes
 - Central financial aid for undergrads and graduate students
 - Facilities costs
 - General & Research taxes
- General Fund Supplement
 - Increment or decrement determined by the Provost

Activity-based Unit Example

	Budgeted Projected Amount		
General Fund Supplement	\$ 8,000,000		
Tuition and Reg/App Fees	22,785,000	*	
Recovered Indirect Costs	4,500,000	*	
Interest	200,000	*	
OFA/Rackham Financial Aid	(4,500,000)	*	
Facilities Costs	(2,000,000)	*	
General & Research Taxes	(8,800,000)		
Net Funding	\$ 20,185,000		
*Projected items are adjusted to actual after the close of the fiscal year			

General Fund Supplement (GFS)

- In 1997 this was originally set to be the hold harmless adjustment needed in transitioning from legacy budget model
- GFS has evolved based on deliberate additions or subtractions made by the Provost
- Typical reasons for adjustments:
 - Support for faculty hires or new initiatives
 - Shift of subunits from one college to another
 - Provost budget reduction actions

Tuition and Registration Fee Revenue

- Goal is to attribute tuition and registration fee revenue to the schools and colleges in alignment with changes in their enrollment and instructional activity
- Undergraduate
 - Attributed 50% to the unit(s) of enrollment and 50% to the unit(s) of instruction
 - Resident and Non-Resident tuition averaged such that all undergraduate units receive the university-wide residency mix, regardless of the unit's actual enrollment mix
 - Differences in unit tuition rates are incorporated
- Graduate
 - Attributed 100% to the unit(s) of enrollment for candidate level students
 - Attribute 75% to the unit(s) of enrollment and 25% to the unit(s) of instruction for all other graduate students
 - Differences in unit tuition rates are incorporated

Financial Aid Assessments

- Levied on a head-count equivalent basis
- Assessment is taken out before tuition is attributed (and so is effectively attributed to schools of enrollment and instruction in exactly the same manner as tuition)
- FY10 Per Term assessment:

– Undergraduates	\$1405
– Rackham Masters	\$1412
– Rackham PhD	\$3634
– Other grad/professional programs	\$0

Facilities Costs

- Facilities Costs correspond to actual utilization of space so as to:
 - Provide financial incentives to optimize space utilization,
 - Benefit units with most efficient use of space
- For Plant Operations, units are charged an amount per net assignable square foot
 - Depends on the type of building
- For Utilities, units are charged actual (metered) utility costs
- No charge for depreciation
- Units often supplement central funding for facilities upgrades with their own funds

Taxes

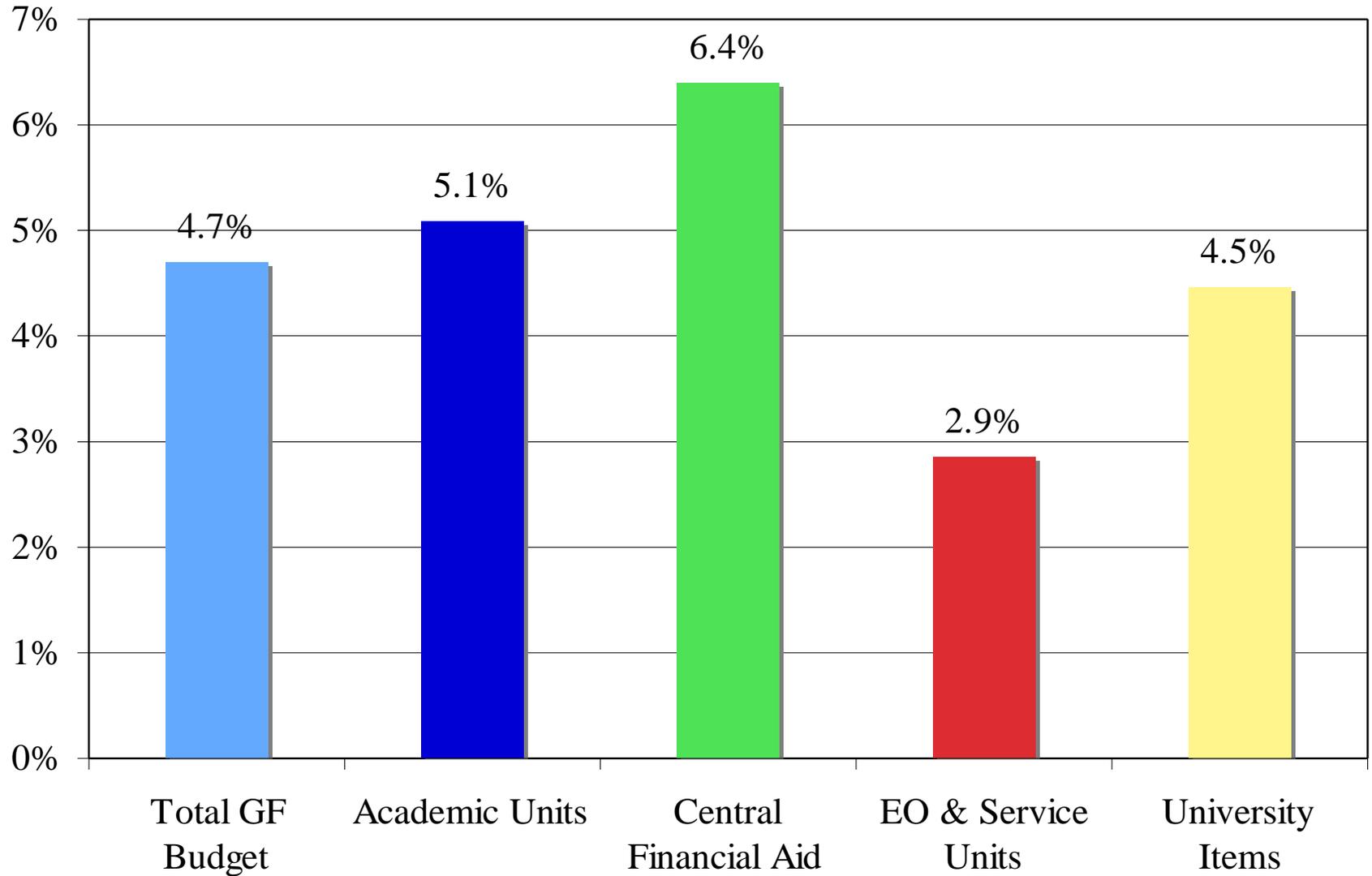
- Taxes co-mingle with State appropriation to provide:
 - Funding for the operations of the non activity-based units
 - General Fund Supplements to Schools/Colleges
 - Funding to the Provost for discretionary allocation (amount available each year is typically 4-5% of GF budget)
- U-M uses expenditures (lagged two years) as a tax basis:
 - Simple, transparent proxy for consumption of services provided by non activity-based units
 - Wealthier units contribute more for reallocation
 - Two-year lag supports unit financial planning
 - Different rates:
 - General expenditures 24%
 - Direct costs on research 11%
 - Auxiliary-like activities 4%
 - Gift funds and endowment payout included in “general” tax base

Non Activity-Based Unit budgets

- Budgets are developed through incremental budgeting
- Not taxed, not charged for facilities
- Units receive an across-the-board General Operating Program (GOP) increase -- usually less than the rate of wage growth
- Units may request additional resources from the Provost for new needs or initiatives. Deliberate decision required by the Provost for the unit to secure incremental funding.
 - Mechanism to contain mission creep and duplication of services.

General Fund Budget

Average Annual Growth from FY99 to FY09



Capital budgets

- There is a variety of sources used in differing combinations to fund major capital projects
 - Unit resources
 - cash or debt service
 - Central resources
 - Major source is difference between long-term and short-term returns on cash balances
 - Gifts
 - State capital outlay
- The University has a well-defined process to set priorities for general fund projects
 - Priorities for central resources and State capital outlay requests follow
- Units are responsible for the operating costs of any new space

Conclusion

- Advantages for UM:
 - Aligns revenues and costs
 - Empowers the academic units
 - Positions Provost's Office as partner rather than parent
 - Enables entrepreneurial approach to teaching/research
 - Promotes culture of fiscal responsibility
 - Constrains duplication and mission creep within service units
 - Simplicity and transparency widely appreciated
- Challenges at UM:
 - Necessary to have skilled unit leaders with strong financial management support
 - Financial staff and Enterprise-wide IT infrastructure
 - Financial incentives around space and facilities are not powerful enough