



August 23, 2019

Activity Based Budgeting Steering Committee

Lou Cariello, Vice President, Facilities

Renee Cheng, Dean, College of Built Environments

Hilary Godwin, Dean, School of Public Health

Suzanne Hawley, Divisional Dean, Natural Sciences, College of Arts and Sciences

Mary Lidstrom, Vice Provost, Research

Sarah Norris Hall, Vice Provost, Planning and Budgeting

Philip Reid, Vice Provost, Academic and Student Affairs

George Sandison, Chair, Senate Committee on Planning and Budgeting

Dear colleagues:

Thank you for agreeing to serve on the steering committee responsible for the overall work plan, project scope and deliverables of the third formal review of the Activity Based Budgeting (ABB) construct during the academic year 2019 – 2020. I expect the ABB steering committee (ABBSC) to meet monthly, as it works toward delivery of final recommendations to me by April 2020. Your assessment of the current-state model and recommendations to improve it are vital as we continuously work to improve our model in service to the University community. I appreciate your willingness to add this important work to your already busy schedules.

ABB Phase III Review Mission Statement

Teaching and research operate across sectors and are increasingly cross-discipline; exploring the model and if necessary, modifying its formulae, are crucial endeavors to support the inevitable changes we wish to advance at our University. Further, we must address the non-formulaic components of ABB to ensure that we are actively planning for, and deciding how, to support foundational undergraduate disciplines as well as professional and masters programs. Funding should both follow student activity, and support the foundational areas of a comprehensive academic experience at our premier research university.

Background and Guiding Principles

This mission statement should ground your work in several key areas, which were identified in 2018 – 2019 academic year as priority areas for this review. These areas are tuition taxation (i.e., formulaic funding) levels; supplement levels; and research support and funding levels. I support the notion that the truly discretionary portion of the supplement funding component must be reexamined and brought into a shared conversation about how our strategic initiatives are funded. Finally, I believe it is good practice to review the overall structure of a model such as this one with regularity, especially as primary components are affected and influenced by external conditions, such as state tuition policy, enrollment and demographic shifts, and increasing demands for central administrative services.

An important goal for the University's core operating funds, allocated according to the ABB model, is to support shared strategic institutional goals and objectives, as well as college and school-specific objectives. There are advantages and shortcomings to any budget allocation model, and we are focused on communally addressing those specific to the current ABB construct. There is one pool of core operating funds, and it will always be constrained. The mechanisms by which we distribute this pool and the logic that informs our chosen mechanisms are in scope for this exercise. By contrast, the dearth of incremental funding generated

year over year is well understood as a significant contextual factor and is not part of your scope for this review.

Finally, as a general note, recall that we spent the 2018 - 2019 academic year ensuring that the Board of Deans and Chancellors (BODC), Academic Administrators and Faculty Senate Committee on Planning & Budgeting (SCPB) understood the ABB construct. Having done this work, I do not anticipate that the ABBSC or its subcommittees will require significant onboarding. Rather, I anticipate that the assessment and evaluation work will begin in earnest.

ABBSC Charge

The fundamental charge to the ABBSC is to address the following questions:

1. How can we adjust the model to align to the values, vision and strategy of the University?
2. How can we address demands for incremental funding in a relatively flat cost recovery or revenue generating environment? Should we shift the taxation levels and formulae of the current model to modify the incentive structures inherent in its framework?
3. Finally, now that the “discretionary” components of the supplement artifact are parsed out for review and awareness, how can we modify supplement funding to ensure that schools and colleges do not face windfalls and shortfalls of dramatic proportions?

To inform its final recommendations, the ABBSC is urged to:

- a) Ensure that subcommittees develop comprehensive assessments, informed by analysis, of each of the primary areas within scope.
- b) Evaluate subcommittee findings to balance any proposed formula or distribution change in formula or distribution in terms of overall institutional academic excellence and school/college-level needs.
- c) Develop preliminary findings and recommendations in a timely manner in order to inform stakeholders and solicit feedback for additional consideration before submitting recommendations to me.
- d) Consider models from other peer institutions for additional insight as needed.

I would like to suggest the following timeline for the work of the ABBSC:

- I. **December 2019:** Reports due from subcommittees
- II. **February 2020:** ABBSC’s preliminary findings and recommendations due for distribution to BODC, SCPB and community review
- III. **April 2020:** Final report due to Office of the Provost
- IV. **July 2020:** Implement Recommendations for FY21

To facilitate your work and add to its richness, please engage with the three subcommittees throughout this process. Each subcommittee should begin meeting as soon as possible, and produce preliminary analysis in a briefing document by the end of the calendar year. These work products will be reviewed by the ABBSC in January to advance preliminary recommendations to BODC, SCPB and me by the end of February 2020. The final report is due the end of the April 2020, to ensure that changes are finalized in time for FY21. Please ensure that stakeholders are informed of your progress through a public website, and regular briefings of BODC, SCPB, the Provost Advisory Council for Students, and Academic Administrators.

Tuition Taxation and Formulae Subcommittee

Co-Chair: Erin Guthrie, Director, OPB

Co-Chair: Linda Rose Nelson, Associate Dean, College of Arts & Sciences

Description of work: Core revenues from tuition are taxed at 30 percent. Deans and faculty expressed concern with regard to administrative funding levels and a lack of transparency with regard to how tax money was deployed to fund administration. Administrative unit leaders often express an opposing concern, noting that increasingly complex service requirements and demands are insufficiently funded.

In order to distinguish this subcommittee's work from the other two, this subcommittee should home in on tuition taxation levels, in consideration of the model's inherent inducements (i.e., growth and proliferation of tuition rates, enrollment growth, course activity, and student majors). Are we taxing tuition too little, given demands for central coverage of administrative services and compensation funding? Are our tuition taxation levels prompting a reaction to undergraduate programmatic growth and competition that is unhelpful?

In 2018, the distribution formulae shifted and with it, more tuition began flowing to units according to SCH production, rather than degree or major enrollment production. This subcommittee should review the formulae changes introduced in 2018 and consider whether the formulae are still serving the University well. If we shifted to a \$/SCH or \$/degree model over time, would the administrative efficiency gains outweigh the benefits of our granular, current-state methodology? Would a change of this sort allow for better cross-university cost comparisons? Is a formula shift needed to better align the model to the institution's values, vision and mission? Should we shift the taxation levels and formulae of the current model to modify the incentive structures inherent in its framework?

Supplement Subcommittee

Co-Chair: Erin Guthrie, Director, OPB

Co-Chair: Marjorie Olmstead, Professor, Physics; Member, Senate Committee on Planning & Budgeting

Description of work: Over the past year, we have engaged in conversation with SCPB and BODC regarding supplement funding levels specifically. How do we address changes to the supplement while allowing for an equal shot at excellence? Modifying supplement levels is a mechanism to adjust for common good requirements of any excellent research university. It is also the case that strategically adjusting supplement levels is a mechanism to ensure that areas of relative financial constraint on the activity side are supported adequately over a longer time horizon.

The model for this type of work might include identifying units that are in trouble and imagining what in the supplement would be needed to bring them into parity. For example, could we, in setting a shared strategy, tax other units to bring those struggling units to neutral to smooth the distribution of pain or volatility? Could we set a shared strategy whereby less tuition is distributed on the basis of activity, more universal costs are centrally covered, and volatility is more or less managed centrally?

Now that the supplement funding category has been parsed out for transparency, and we have a very accurate view of the actual cutover calculation, which was the amalgamation of decades of discretionary funding decisions, we can begin a more strategic conversation at the BODC with regard to supplement funding adjustments.

In preparation for these discussions, OPB pulled together two preliminary models that explore the impact of different methods for redistributing discretionary supplement funds amongst the schools and colleges in a way that may address the problems inherent in our current distribution approach. OPB's work should form a basis for your assessment and analysis.

In prior articulations of ABB committee work, supplement funding levels were discussed and many ideas presented to the community. The work of this subcommittee is narrowly focused on assessing the implementation of perhaps just 2-3 models, and considering shifts in discretionary supplement funding in conjunction with the tuition taxation work of the first subcommittee.

Research Support Subcommittee

Co-Chair: Jason Campbell, Senior Director, OPB

Co-Chair: Carrie Harwood, Associate Vice Provost, Research; Professor, Microbiology

Description of work: Recent formal ABB reviews contemplated overhead generated from research funding, but ultimately did not advance a recommendation to change the indirect cost recovery (ICR) allocation methodology. The cost of research compliance, demands for central administrative services, and cost of research facilities are escalating faster than the overhead rates are generating funding for central campus operations, facilities, and compliance efforts. Further, the model continues to inadequately address the interplay of organized research units (ORU) and schools and colleges that receive ICR distributions. These two primary issues are of great importance as we continue to balance the desire to provide allocations of ICR back to schools and college as incentive, while confronting central cost escalations.

Leadership in research administration, academic departments, ORUs, and the deans express heightened concern that there is both inadequate funding and increasing needs to tackle these issues as a community. The work of this subcommittee will be to consider centrally borne research support costs (i.e., facilities and administration costs, off and on campus) and current state ICR tax levels. Does the 65 percent tax adequately provide for the costs of the research enterprise? Should more research related costs be direct-billed to heavy users? As the University emphasizes cross-disciplinary research organizations and proposals, how might ICR allocations shift to support this evolution?

Thank you for your engagement and careful attention to this vital work; I look forward to reviewing your recommendations.

Sincerely,



Mark A. Richards
Provost and Executive Vice President for Academic Affairs
Professor, Earth and Space Sciences