Budgeting Overview and Initiative Introduction

July 16, 2014
Bob Woodruff, Director
rwoodruff@huronconsultinggroup.com
(312) 880-3024

Jaime Ontiveros, Manager
jontiveros@huronconsultinggroup.com
(815) 404-9130
Higher Education Budgeting Overview
Shifting Focus of University Budgeting

Traditional Budgeting Perceptions

- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that **reset** annually

Strategic Resource Allocation

- **Plan** for developing resources
- **Prioritization** of resource allocations for strategic initiatives
- **Explanation** of the internal economy
- Mechanism to create institutional incentives
- Tool to **empower** departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of **accountability**
## Common Budget Alternatives

<table>
<thead>
<tr>
<th>Incremental</th>
<th>Formula</th>
<th>Performance</th>
<th>Incentive-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Centrally driven</td>
<td>- Unit-based model focused on providing equitable funding</td>
<td>- Unit-based model focused on rewarding mission delivery</td>
<td>- Focus on academic units</td>
</tr>
<tr>
<td>- Current budget acts as &quot;base&quot;</td>
<td>- Unit rates are input-based and commonly agreed upon</td>
<td>- Unit rates are output-based and commonly agreed upon</td>
<td>- Incorporates a devolution of revenue ownership to local units, as generated</td>
</tr>
<tr>
<td>- Each year’s budget increments (decrements) adjust the base</td>
<td>- Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</td>
<td>- Annual fluctuations are driven primarily by changing production and not from changes to rates</td>
<td>- Allocates costs to revenue generating units</td>
</tr>
<tr>
<td>- Focus is typically placed on expenses</td>
<td></td>
<td></td>
<td>- Uses a centrally managed “subvention pool” to address strategic priorities</td>
</tr>
</tbody>
</table>
# Incentive-Based Budget Model Spectrum

<table>
<thead>
<tr>
<th>Customized Incentive-Based</th>
<th>Traditional Incentive-Based</th>
<th>Each Tub on its Own Bottom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher degree of central control</td>
<td>Some centralized control</td>
<td>Extremely de-centralized model</td>
</tr>
<tr>
<td>Local units keep majority of revenue but give up more than in traditional incentive-based model through a higher “tax”</td>
<td>Local units keep most of the revenue they generate, but give up some to a central pool through a subvention “tax” paid</td>
<td>Academic units essentially operate as their own financial entities</td>
</tr>
<tr>
<td>Increased tax revenue provides central administration greater ability to subsidize colleges, fund strategic initiatives, and support mission-related pgms.</td>
<td>Taxes generated can be used by central administration to subsidize colleges, fund strategic initiatives, and support mission-related programs</td>
<td>Very little strategic control held by central administration</td>
</tr>
<tr>
<td>Higher tax rate, typically between 15 and 20%</td>
<td>Generally low tax rate of less than 10%</td>
<td>No sympathy for market forces</td>
</tr>
<tr>
<td>Most commonly implemented since 2005</td>
<td>Most frequently implemented from 1990 to 2004</td>
<td>Under-performing units must cut costs or generate more revenue to cover any losses incurred</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Only three U.S. institutions use this extreme iteration, one of which is shifting away</td>
</tr>
</tbody>
</table>
Many current budget models are incremental in nature, inhibiting the systematic allocation of resources based on strategic priorities or activity levels.

An incremental model:

- Uses historically-based incremental budgeting that often rolls a previous budget forward
- Requires leaders to compete for finite incremental resources
- Limits leadership’s ability to direct significant resources to initiatives for the greatest impact
- Lacks sufficient mechanisms for strategic re-allocations
- Inadequately aligns revenues with costs or activity levels at a unit level
- Focuses on short-term allocations in lieu of long-term planning for all funds

In light of these issues, the University of Wisconsin-Platteville leadership recognizes the need to consider alternative resource allocation models.
Budget Redesign Market Overview
An Inside Higher Ed Survey of College & University Business Officers reports that most institutions use incremental budget models, though adoption rates have recently declined.

### Budget Models*

<table>
<thead>
<tr>
<th>Budget Models*</th>
<th>Incremental</th>
<th>Formula</th>
<th>Performance</th>
<th>Incentive</th>
<th>Zero-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Institutions</td>
<td>60.2%</td>
<td>26.1%</td>
<td>19.6%</td>
<td>14.2%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Public Institutions</td>
<td>59.3%</td>
<td>34.8%</td>
<td>21.0%</td>
<td>11.8%</td>
<td>25.6%</td>
</tr>
<tr>
<td>Private Institutions</td>
<td>62.3%</td>
<td>17.1%</td>
<td>18.2%</td>
<td>17.1%</td>
<td>33.2%</td>
</tr>
</tbody>
</table>

### Changes in Budget Models, FY07-08 vs. FY10-11

<table>
<thead>
<tr>
<th>Budget Models*</th>
<th>Incremental</th>
<th>Formula</th>
<th>Performance</th>
<th>Incentive</th>
<th>Zero-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Institutions</td>
<td>-8.4%</td>
<td>-1.0%</td>
<td>7.4%</td>
<td>4.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Public Institutions</td>
<td>-9.6%</td>
<td>-2.2%</td>
<td>8.2%</td>
<td>4.3%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Private Institutions</td>
<td>-6.2%</td>
<td>0.3%</td>
<td>6.6%</td>
<td>4.1%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

* Numbers may total more than 100% and Institutions may be listed multiple times because some use more than one budget model.

Source: Inside Higher Ed Survey of College & University Business Officers; Huron Consulting Group benchmarking
Recent Higher Education Budget Redesigns

The negative effects of the struggling economy have considerably increased the frequency with which universities are undertaking comprehensive budget redesign initiatives.

The number of institutions pursuing budget redesigns continues to grow as universities face fiscal challenges and seek to expand the number of institutional leaders focused on resource maximization.
Many states adopted performance-based strategies during the 1990s, but abandoned their programs as state revenues declined. Recent pressures around accountability and transparency, however, have led to another mass shift over the past few years.
Initiative Introduction
Project Scope and Approach

The intent of the proposed approach is to engage the Platteville campus to develop a broader understanding of alternate budget models to help with the assessment, selection and implementation of a new resource allocation model.

**Phase 1** - Develop goals, outcomes, and criteria for assessing alternative resource allocation models

**Phase 2** - Assess alternative models against goals, outcomes, and criteria

**Phase 3** - Assist UW-Platteville in the transition to a new budget model
Concluding Thoughts and Considerations

A budget model redesign can be used as an opportunity to encourage data-informed decision making and ensure that resources are funneled to institutional priorities.

Important questions we will consider:

- Is the university’s current model constraining institutional success?
- Is a better model available or would a redesign initiative simply trade an old set of challenges for a new set of challenges?
- Does the university have the institutional will to undergo a redesign initiative?
- How can the university design a model that aligns with the institution’s culture and strategy?
Questions?

budgetproject@uwplatt.edu

Bob Woodruff, Director
rwoodruff@huronconsultinggroup.com
(312) 880-3024

Jaime Ontiveros, Manager
jontiveros@huronconsultinggroup.com
(815) 404-9130