Resolution Concerning Performance Based Budgeting and Academic Performance Quality

From Academic Affairs Committee

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Background Information

The Performance Based Budgeting (PBB) workgroup was formed in the Fall of 2006. PBB was at first construed as a model that would integrate the distribution of resources with regard to:

- Programs that are enrollment Driven/Self-funded—those who generate enough from tuition and subsidy, grants, contracts and endowments to support nearly all its costs. For these programs one is less concerned about the reputation of the program or its centrality to the university: the primary concern is the number of students served and contribution that the program makes to community needs.
- Programs that highlight Quality/Reputation – those whose regional, national or international visibility is important.
- Programs that are central to the University/College's mission – those whose departments/units are key to a university education. It would be unthinkable for a university to be without these programs.

After gathering information from other University's attempts to implement PBB the workgroup decided that the simple PBB models were more likely to be implemented and have some value. The more successful PBB programs that were also well received by the institution (faculty, deans, administrators) were for the most part resource/enrollment driven models where issues of reputation and centrality to the University's mission could be part of setting revenue goals.

While it is certainly a limitation, the PBB models used by the other universities that were identified as informative and successful limited themselves to general funds budgets (Ohio State University, University of Michigan, Indiana University). A more inclusive "all funds" PBB model is desirable but beyond the capacity of the implementers at the moment. Other funds would include restricted funds (contract, grants, research, some endowment), auxiliaries (Main Street, athletics. Parking and some others), plant funds (funds for building). Some transfers into and out of general funds to these other funds are part of the PBB model but not much of the internal numbers.

Among the intended outcomes of PBB are:

1) a procedure for setting budgets and allocating resources that is based on shared principles,
2) locating academic decision making in the colleges,
3) encouraging quality improvements across the University,
4) providing the financial resources to maintain and increase strength,
5) increasing the transparency of financial decisions.

A brief description of how PBB might work

There is nothing particularly novel about how revenues and expenses are presented, the categories in which they are placed or their amounts. All of the numbers used in PBB comes from already existing financial records and have been available every year either in budget documents (plans and estimates for revenues and costs) or the annual financial report (the audited report of the financial operations of the university contained in the Redbook in some detail). But PBB does use an unusual template and distributes revenue and costs to individual colleges.

General Funds revenues are generated almost exclusively by the faculty through teaching and to a lesser extent through research. Colleges are credited for revenues through tuition and state SSI subsidies and for teaching students from other colleges (a transfer payment). Colleges expend costs through paying faculty, running offices, providing scholarships and things like that. The result for each college is a net revenue less direct expenditures which might be considered a balance due to operations of the college (profit). For the fiscal year of 2007, the total net revenue less direct expenditure for all colleges (excluding Raymond Walters and Clermont Colleges) was $178,291,138.

Colleges are expected to pay for the running of the University, the indirect expenditures. Not all funds contribute to these indirect expenditures but colleges, the source of most general funds, do pay for the general funds indirect expenditures. For 2007, the indirect expenditures came to $177,214,960.

For 2007 Colleges (academics) spent 55% of the general funds revenue. The running of the university paid for out of general funds accounted for 45% of available general funds. On the books there was a little over $1Million surplus.

Indirect costs are assigned to each college, a tax paid by each college to run the other parts of the university aside from the colleges. When this tax is taken into account the result is a net profit/loss to each college. Depending on how revenues and costs are distributed to each college the range of profit and loss among the colleges is $4.6Million profit to $6.3Million loss. But overall the profits and loss results in a slight "profit"/surplus of a little over $1Million.

To operate the university through general funds each college must earn enough money (net revenue less direct expenditures) to both pay for itself and for the non college/indirect costs attributed to it.

The core of PBB is the assignment of revenue targets, targets that can then be used for paying the indirect costs. If colleges can earn more than their targets they get to keep and use some portion of the excess resources. If colleges do not meet their targets they owe money to be repaid in the future. Colleges can meet their targets by bringing in more revenue or by reducing their costs.

The setting of targets, maintaining control over indirect costs, maintaining quality against

pressures to do things on the cheap, providing oversight and coordination between colleges are all contentious and could be the undoing of the PBB model.

Why a Resolution from the Faculty Senate

The PBB model is being presented to a range of audiences to invite reactions. It would be useful to the development of the model for the Faculty Senate's point of view to be included in this discussion.

The Academic Affairs Committee of the Faculty Senate (or the Senate cabinet) offers the following resolutions:

Acknowledging the potential for performance-based budgeting systems to improve academic decision making;
Be it resolved that:

> The Provost will instruct the Deans to hold a faculty meeting, to be scheduled during Winter quarter dedicated to a presentation of the performance based budgeting template for the college, to clarify its cost position, and to explain how academic performance will be measured in the college unless such a meeting has already been held

Understanding that revenues must be available to maintain academic operations;
Be it resolved that:

> Indirect costs (the tax on colleges) must be controlled and limited to a fixed percentage of net revenues.

Recognizing that at one time the board of trustees was limiting debt service (mandatory transfers) to 5% of general funds;
Be it resolved that:

> Debt service must be limited to make revenues available for both academic operations and indirect costs.

Emphasizing that college targets should not be met by degrading the quality of the educational experience for students;
Be it resolved that:

> The Provost will develop quality measures for the educational experience of students that will be used to evaluate the plans for meeting revenue targets for the colleges.