

Campus Planning and Finance Council
Subcommittee to Assess Incentive-Based Budget
Models at WMU
Report

April 7, 2016

Subcommittee members

- **Kelly Ackerson:** Associate Professor, Bronson School of Nursing
- **Todd Barkman:** Professor, Department of Biological Sciences
- **Cheryl Bruey:** Master Faculty Specialist, Department of Theatre
- **Barbara Frazier:** Professor, Department of Family and Consumer Sciences
- **Tycho Fredericks:** Professor, Department of Industrial and Entrepreneurial Engineering and Engineering Management
- **Dawn Gaymer:** Associate Provost for Extended University Programs
- **Jim Gilchrist:** Vice Provost for Budget and Personnel and CIO for Academic Affairs
- **Katherine Joslin:** Professor, Department of English
- **Jerry Kreuze:** Professor, Department of Accountancy
- **Sherine Obare:** Interim Associate Dean, College of Arts and Sciences
- **Colleen Scarff:** Executive Director of University Budgets
- **Ann Tyler:** Associate Dean, College of Health and Human Services
- **Bret Wagner:** Faculty Senate Executive Board member & Associate Professor, Department of Management

CPFC Subcommittee to Assess Incentive-Based Budget Models at WMU charges

1. Review and expand upon the CPFC Ad-hoc subcommittee report on budgeting within the Office for Academic Affairs
2. Review and propose initiatives to work with Academic Affairs on budget models that are sustainable and defensible
3. Review and provide projections for what a college budget might look like under IBM and/or RCM (or some alternative)
4. Review and identify how these budget models when implemented with incentives and disincentives may positively and/or negatively impact the “culture” of WMU
5. Provide a written report to the CPFC and the Faculty Senate Executive Board by March 2016

Subcommittee Process

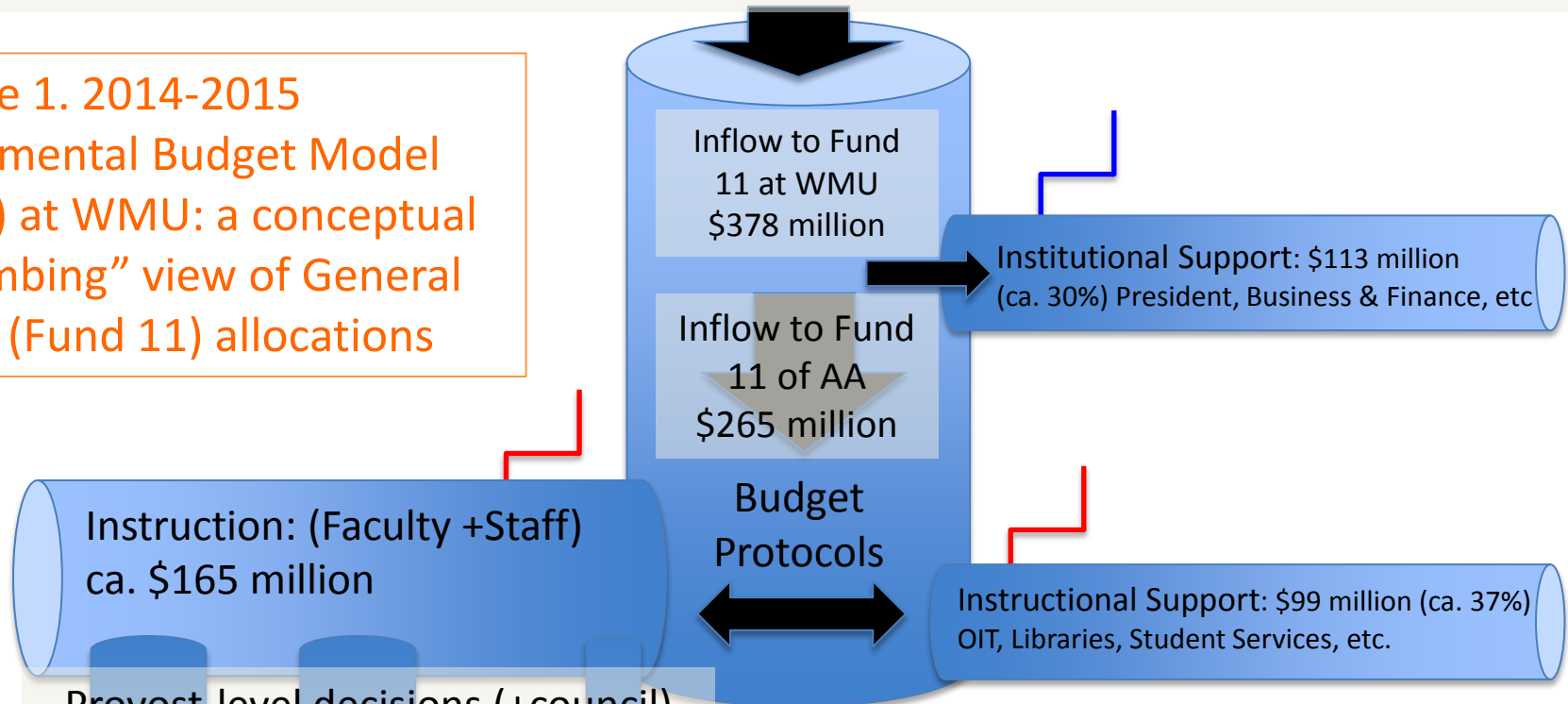
- Report generated after five months of research and presentations
- List of presenters:
 - Dr. Jim Gilchrist-WMU VP and CIO for Academic Affairs
 - Dr. Kay Palan-WMU Dean, Haworth College of Business
 - Dr. Ming Li-WMU Dean, College of Education and Human Development
 - Dr. Dan Guyette-WMU Dean, College of Fine Arts
- March 15, 2016 - CPFC Approved the report and forwarded to the Faculty Senate Executive Board
- March 25, 2016 - Faculty Senate Executive Board suggested presentation of report as an information item to Senate

Background

- **General Fund:** Revenue generated by tuition (student credit hours) and State appropriations
- **Incremental Budget Model (IBM):** academic units receive allocations based on previous year funding levels; this is the model currently implemented at WMU. Decisions are largely centralized in Office for Academic Affairs
- **Incentive based models =Responsibility Center Model (RCM):** academic units receive funding proportional to the amount of revenue generated, after costs are accounted for. Decisions are largely decentralized at College-level

SCH (student credit hours (\$266 million) + State Appropriations (\$102 million) + misc. (\$10 million)

Figure 1. 2014-2015 Incremental Budget Model (IBM) at WMU: a conceptual “plumbing” view of General Fund (Fund 11) allocations



Provost-level decisions (+council)

-enrollment trends
-strategic interests

College A

College B

GA-DA funds/Summer teaching/Part time reserves: ca. \$15 M

CFA: \$12 million +

CAS: \$58 million +

Dean-level decisions (+Chairs & Directors) enrollment trends, strategic initiatives

>95% covers compensation

Legend

= Provost (+council) Adjustable valve

= adjustable valve for Deans (+council)

= President (+BoT) Adjustable valve

IBM at WMU

- Advantages:

- 1) ease of use
- 2) relative ease of tracking
- 3) it may reduce intercollege conflict and direct competition over fund allocation. Thus, in essence, this budget model ensures that all Academic Affairs program costs are covered even if one unit shows a net loss. It ensures that the “greater good” continues at WMU

- Disadvantages:

- 1) if new initiatives emerge within a departmental unit that require additional revenue, funds are unlikely to be available
- 2) if unforeseen budgetary changes occur there is little cushion because the same amount of funds are allocated each year
- 3) it may promote a “use it or lose it” mentality to spend funds before the end of the fiscal year
- 4) at WMU, one of the main perceived problems is that budgets may be cut for an academic unit even as they continue to generate a large amount of tuition revenue

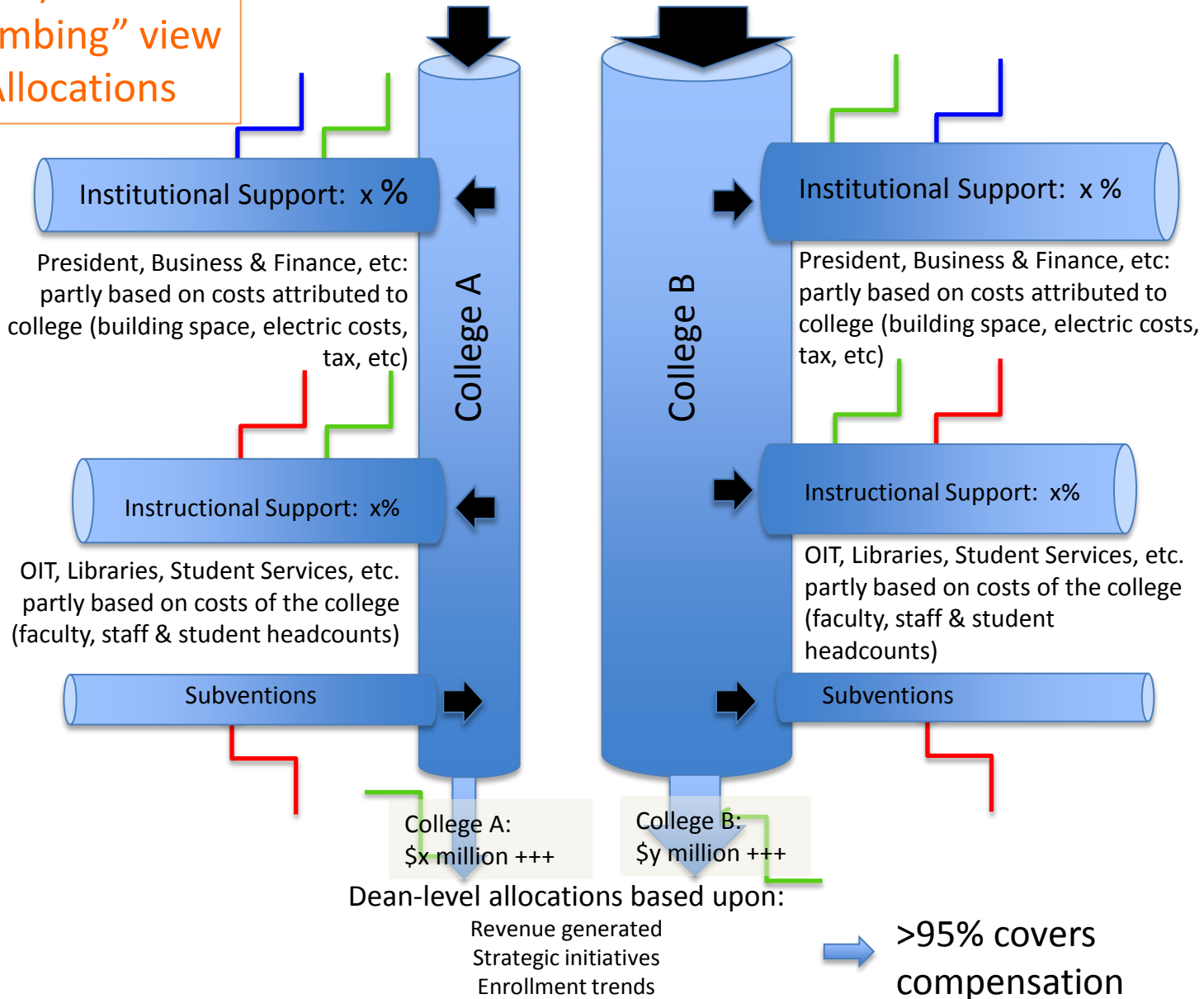
Figure 2. Simplistic & Hypothetical Responsibility Center Model (RCM) at WMU: a conceptual “plumbing” view of General Fund Allocations

Legend

- = President (+BoT) Adjustable valve
- = Provost (+council) Adjustable valve
- = adjustable valve

Deans (and departments) can adjust the handle to some extent by cost-cutting

Inflow to College based on SCH taught and State appropriation allocation based upon formula (head count or other)



RCM

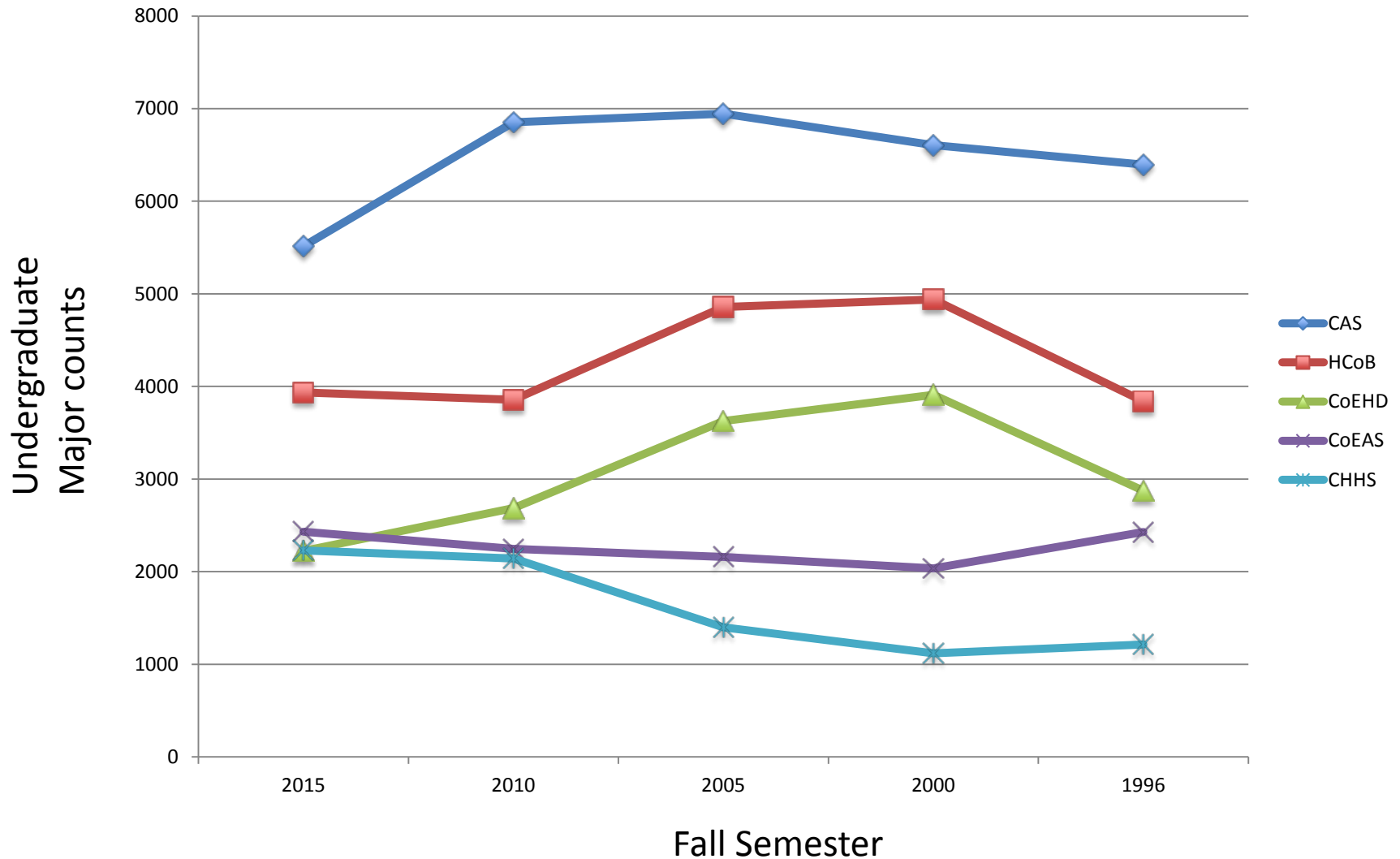
- **Advantages:**

- 1) units may be incentivized to cut costs and maximize revenue in order to work towards programmatic goals
- 2) individual units may become empowered to innovate and adapt based upon annual allocations that they have more control over
- 3) units may be able to save resources to achieve important goals

- **Disadvantages:**

- 1) some units may not be financially profitable under this model
- 2) individual units need to take on a larger amount of responsibility than they currently have done (for instance, units will need to cover costs associated with running the program including building costs [electricity, maintenance, debt service] and grounds [landscaping, etc.] as well as other instructional costs that contribute to the core academic mission including those associated with the student experience like enrollment management and libraries)
- 3) when enrollments drop, colleges may be faced with having to lay-off faculty and staff

Enrollment data at WMU show one reason that IBM works well in academic Institutions



2014-2015 Budget projections for CAS under three levels of return on General Education SCH

<u>% Return on Gen. Ed. SCH</u>	<u>100%</u>	<u>75%</u>	<u>50%</u>
• Projected RCM Balance	\$61M	\$56M	\$51M
• Actual IBM Allocation	\$58M	\$58M	\$58M

Projections for CAS under a 5% SCH & headcount decline

<u>% Return on Gen. Ed. SCH</u>	<u>100%</u>	<u>75%</u>	<u>50%</u>
• Projected RCM Balance	\$58M	\$53M	\$48M
• Actual IBM Allocation	\$58M	\$58M	\$58M

In summary, the current IBM budget model at WMU appears to be flexible and may be able to build in the perceived advantages of an RCM without the inherent disadvantages

Proposed initiatives to work with Academic Affairs on sustainable and defensible budget models:

- **A. Continue the engagement of a CPFC subcommittee for general budgetary matters at WMU:** This subcommittee should continue to include faculty from CPFC and representatives from Academic Affairs and the Office of University Budgets and Financial Planning to ensure continued refinement of the current mixed budget model and clarity regarding budgeting procedures at WMU.
- **B. Allow carry-forwards:** Colleges and departments within the university should be able to carry forward monies at the end of the fiscal year. The use-it-or-lose-it mentality that is forced upon academic units that are frugal is not conducive to long term budget planning for a particular academic unit.

Proposed initiatives to work with Academic Affairs on sustainable and defensible budget models:

- **C. Provide enrollment incentives:** Colleges that are being innovative and proactive in recruitment approaches and increase student numbers should receive financial benefits in addition to their yearly budgeted amount from Academic Affairs. Since 2015, AA has provided small supplemental allocations as enrollment incentives. We strongly support the practice but encourage more sophisticated approaches that perhaps take into account departmental growth rather than simple College-level enrollment increases.
- **D. Increase transparency of resource allocation within AA:** Ideally, budgetary allocations made at the level of the Provost, as well as the Dean, would be communicated to faculty on an annual basis. Such communication to share-holders in the campus community could promote cultural shifts that lead to ever more efficient use of available funds.

Proposed initiatives to work with Academic Affairs on sustainable and defensible budget models:

- **E. Work to determine true costs of programs:** Ideally, Academic Affairs would engage a project with Business & Finance to expand the current accounting system to determine costs by program. If the university could revamp its information systems to track and assign costs to academic units, the entire campus community would learn about the cost implications of all practices.
- **F. Work to improve marketing of WMU academy:** we believe that initiatives to conduct market research and, subsequently, develop marketing campaigns could be beneficial. We advocate for effective marketing strategies to inform potential students and the broader community about the activities of WMU faculty so that an enrollment strategy can be implemented to help meet institutional goals.

Proposed initiatives to work with Academic Affairs on sustainable and defensible budget models:

- **G. Simplify tuition structure and budgeting in AA:** AA should consider working with University Budget Officers to extend the budget horizon to multiple years. We also advocate for a streamlined tuition structure that goes away from flat rate tuition because it makes it difficult to make financial projections. Additional simplifications might include providing reciprocity for neighboring state residents. We also advocate for revision to the Summer teaching budget model.
- **H. Use planning to inform resource allocation:** An aspirational strategic plan with objectives tied to measurable outcomes could chart the course of budgeting, thereby providing financial motivation to achieve major goals/objectives. Currently, the only major incentive appears to be enrollment growth; other incentives that are tied to metrics should be identified, for example quality programming or graduate program growth.



Western Michigan University



2015/16 Budget Summary

<https://www.wmich.edu/sites/default/files/attachments/u75/2014/2014-15-budget-summary.pdf>

General Fund revenue projections for CAS based on 2014-2015 enrollments and tuition and allocations

Fall 2014					F2014-S2015				
1-All CAS	SCH	Per Jim Gilchrist-Cognos	Fall Income \$		Fall + Spring	Assume Fall SCHx2 (this is an over-estimate)			
		120,987 UG+G-no EUP							
		7,718 G-no EUP							
		113,269 UG-no EUP							
2-CAS/GE	SCH								
CAS-UG		66,870 Assume all CAS headcounts take 15 credits							
GE-UG		46,399							
Total UG		113,269							
CAS-UG-R		58,177 Assume 87% students resident	21,816,338	Assume average UG-R cost \$375/hour					
CAS-UG-NR		8,693 Assume 13% students non-resident	7,823,790	Assume average UG-NR cost \$900/hour					
Total UG		75,786 Per Fast Facts-WMU	29,640,128						
GE-UG-R		40,367 Assume 87% students resident	15,137,674	11,353,255	7,568,837	Assume average UG-R cost \$375/hour			
GE-UG-NR		6,032 Assume 13% students non-resident	5,428,683	4,071,512	2,035,756	Assume average UG-NR cost \$900/hour			
Total UG		46,399 Per Fast Facts-WMU	20,566,357	15,424,768	9,604,593				
CAS-G-R		4,708 Assume 61% students resident	2,495,229	Assume average G-R cost \$520/hour					
CAS-G-NR		3,010 Assume 39% students non-resident	3,380,252	Assume average G-NR cost \$1123/hour					
		7,718 Per Christine Byrd-cognos	5,875,482						
			56,081,966	50,940,377	45,120,202				
			100%	75%	50%				
			Assume various levels of return to CAS from non-CAS student college of origin						
Total SCH for CAS		120,987							
						State Appropriation	26,607,635	26,607,635	26,607,635
						Total WMU UG headcount	17,214		
						CAS UG headcount	4,458		
						Assume appropriation based on head count within college	0.26		
							138,771,569	128,488,389	116,848,040
						Institutional support (30%)	41,631,471	38,546,517	35,054,412
						Balance	97,140,098	89,941,872	81,793,628
						AA instructional support (37%)	35,941,836	33,278,493	30,263,642
						Projected RCM Balance	61,198,262	56,663,380	51,529,986 No EUP revenue
						Actual IBM Allocation	58,629,985	58,629,985	58,629,985 No EUP revenue

Table 1. Institutional Support Units at WMU Receiving General Funds. Data taken from WMU Budget Summary Document

www.wmich.edu/sites/default/files/attachments/u348/2015/2015-16%20Booking%20Summary%20Published.pdf

- President (Athletics)
- Business and Finance
- Student Affairs
- Governmental Affairs/University Relations
- Legal Affairs/General Counsel
- Office of Vice President for Research
- Diversity and Inclusion
- Building Debt

Table 2. Instructional Support Units funded by Office for Academic Affairs

- All academic Colleges (Aviation, etc.)
- Lee Honors College & Graduate College
- University Libraries
- Office of the Registrar; Office of Admissions
- Advising Offices & First Year Experience
- Student Financial Aid
- Haenicke Institute for Global Education
- Office of Information Technology
- Extended University Programs
- Office of Institutional Effectiveness
- Undergraduate Studies and Assessment
- Office of Faculty Development
- Center for Academic Success Programs
- Faculty Senate & WMUK
- Office of Institutional Research

Comparison of IBM and RCM

- A. Under RCM, Colleges receive revenue based on the amount of SCH generated. Under the current implementation of IBM at WMU it is not clear if SCH-generated revenue is or is not allocated on that basis. Under both models, State appropriations would be allocated to colleges. Under RCM, an explicit formula would be applied to allocate funds and might take student headcounts and course completion and graduate rates into account. Under IBM at WMU, it is not clear how State appropriations are allocated.
- B. Under RCM, colleges may engage in cost-saving measures that directly impact the revenue received after Institutional and Instructional costs (and subventions, if assessed) are accounted for. Under the current IBM implementation at WMU, few mechanisms exist to allow for cost tracking such that cost-savings could be passed on to individual Colleges. Such considerations may currently be taken into account but in an implicit way that remains unclear to most stake-holders.
- C. Under RCM, if a college has surplus funds after covering costs for instruction and subventions, those pools may, in principle, be saved for the future, or applied to initiatives. Under the current IBM model at WMU this is not the case but potentially could be.
- D. Under RCM, for any college that receives subventions, no additional revenue would be expected beyond what is generated. Over time, it is expected that such colleges would need to cut costs in order to become financially solvent or operate under institutionally-agreed upon levels of subvention. Under the IBM at WMU, allocations are distributed to cover all of the costs of each unit. Although this is presented as a difference between the two budget models, the end result is essentially the same.