

RBB Task Force Interim Report

April 2014

Charge of the RBB Task Force

In September 2013, University of Delaware Provost Domenico Grasso appointed a task force to review the Responsibility Based Budget (RBB) process, which went into effect at UD in 2009. He charged the task force to

- Examine how the current budget model allocates revenue and expenses, in light of UD's strategic priorities;
- Assess how the current budget model meets (or fails to meet) stated principles and objectives; and
- Recommend how the current budget model could better align outcomes with principles and objectives.

Principles and Objectives

Guiding the RBB Task Force's work is the principle that resource and cost allocations should be driven by core academic priorities including the pursuit of academic excellence and research prominence throughout the University. At the same time, revenue flows and cross-college subsidies should be transparent to encourage trust and collegiality. RBB should:

- Assign revenues and costs to units in a fair and predictable manner;
- Incentivize all units to increase revenues and reduce costs while holding excellence paramount;
- Encourage and reward innovation and efficiency;
- Be as simple as possible;
- Provide academic leadership with the financial capacity to lead effectively;
- Allow any changes to be phased in to minimize major disruptions; and
- Provide for a sufficient pool of resources to support University-wide strategic initiatives.

Recommendations of the RBB Task Force

After reviewing the reports of an External Review Committee (see Appendix), a University Faculty Senate RBB Committee and other relevant documents, and holding multiple meetings, the RBB Task Force formulated a set of recommendations that are intended to guide the development of the new RBB model. These recommendations address the distribution of revenue, the use of centrally allocated funds, and support for central administrative units. For most of the recommendations we list current practices as well as the justification for any changes.

The RBB Task Force recommends:

1. Increasing communication and transparency so all members of the university are aware of how RBB is used to support academic excellence.
2. Ensuring academic excellence through the regular conduct of academic program reviews that include assessments of both quality and costs.
3. Distributing undergraduate tuition and 50 percent of the unrestricted state allocation to colleges based on the percentage of student credit hours taught and student headcount (majors).
4. Continuing to give colleges 100 percent of the graduate tuition and other revenues that they generate.
5. Setting aside 1 percent of indirect cost recovery (ICR) for unemployment, 0.5 percent for Environmental Health and Safety (EHS) and giving 98.5 percent of ICR to the college(s) that generated the grant.
6. Allocating centrally managed financial aid in fixed percentages to each college in proportion to their undergraduate tuition revenues (i.e., a common discount rate for all colleges) and allowing gifts and endowment revenues raised by deans for undergraduate scholarships to show as revenues off-setting the central allocation of financial aid.
7. Creating the provost's subvention fund from the remaining 50 percent of the unrestricted state allocation and from unrestricted endowment income and other unrestricted university revenue.
8. Using the provost's subvention fund to support excellent programs that are essential to the core mission of the university and to support strategic initiatives.
9. Distributing some portion of the provost's subvention fund based on sponsored activity.
10. Creating an advisory committee to advise the provost on strategic initiatives.
11. Funding most central administrative costs via a flat tax on college revenues.
12. Creating an advisory committee to review the budgets and performance of cost centers.
13. Funding the Research Office and the Development Office on the basis of metrics of usage.
14. Allocating capital maintenance to all units, including central administrative units, based on total amount of space used.
15. Allocating university major capital support based on the size of each college's operation.

Justification of Recommendations:

Recommendations 3-6: Revenue Distribution

3. Distributing undergraduate tuition and 50 percent of the unrestricted state allocation to colleges based on the percentage of student credit hours taught and student headcount (majors).
4. Continuing to give colleges 100 percent of the graduate tuition and other revenues that they generate.
5. Setting aside 1 percent of indirect cost recovery (ICR) for unemployment, 0.5 percent for Environmental Health and Safety (EHS) and giving 98.5 percent of ICR to the college(s) that generated the grant.
6. Allocating centrally managed financial aid in fixed percentages to each college in proportion to their undergraduate tuition revenues (i.e., a common discount rate for all colleges) and allowing gifts and endowment revenues raised by deans for undergraduate scholarships to show as revenues off-setting the central allocation of financial aid.

Currently, three sources of revenue—net undergraduate tuition, unrestricted state allocation and unrestricted endowment funds and other income—are pooled together and distributed to colleges based on percentage of credit hours taught, student head count and percentage contributed to sponsored activity.

- We recommend distributing undergraduate tuition on the basis of student credit hours and student headcount (majors) only. Undergraduate tuition will be distributed to colleges, with 75 percent based on the percentage of student credit hours taught and 25 percent based on student headcount. This split rewards numbers of majors and class enrollments and directs undergraduate tuition to support undergraduate education.
- Fifty percent of the unrestricted state allocation is also distributed to colleges on the basis of student credit hours and student headcount. The other 50 percent of the unrestricted state allocation and unrestricted endowment funds and other income will be used to create the provost's subvention fund, which is discussed in the next section.

Currently, ICR revenue is distributed with 1 percent set aside for unemployment, 2.5 percent for the Research Office operating budget, 0.5 percent for Environmental Health and Safety (EHS) and 96 percent for the college(s) generating the revenue.

- As described below, funding for the Research Office will be based on sponsored activity expenditures. Hence, we recommend distributing Indirect Cost Recovery revenue as detailed in Recommendation 5.

Recommendations 7-10: Provost's Subvention Fund

7. Creating the provost's subvention fund from the remaining 50 percent of the unrestricted state allocation and from unrestricted endowment income and other unrestricted university revenue.
8. Using the provost's subvention fund to support excellent programs that are essential to the core mission of the university and to support strategic initiatives.
9. Distributing some portion of the provost's subvention fund based on sponsored activity.
10. Creating an advisory committee to advise the provost on strategic initiatives.

Currently, funds for strategic initiatives are taken "off the top" of revenue from undergraduate tuition, unrestricted state appropriations, unrestricted gifts and endowment income. These funds (approximately \$9 million) are allocated annually to the President, Provost and Executive Vice President for "one-time" use each year. In addition, \$50 million flows to colleges to balance budgets. Although the Provost has the authority to reallocate these funds among the colleges, these funds have not been used to fund strategic priorities, and colleges have come to view this funding as a source to meet basic operating needs. Reductions in these funds are viewed as budget cuts.

- We recommend creating a provost's subvention fund from 50 percent of the unrestricted state allocation, and the unrestricted endowment income and other unrestricted university revenue, and *not* including undergraduate tuition. We recommend (a) that the provost's subvention fund be divided into support for the core mission of the university and for strategic initiatives and (b) that some portion of the subvention fund be distributed based on sponsored activity. In making this recommendation we acknowledge that some university endeavors are inherently high cost but are also highly valued and worthy of support.

Recommendations 11-15: Central Administrative Costs

11. Funding most central administrative costs via a flat tax on college revenues.
12. Creating an advisory committee to review the budgets and performance of cost centers (i.e., university-wide units that do not generate revenue, such as Human Resources and the Budget Office, as well as university-wide units that generate some revenue but not enough to cover their costs).
13. Funding the Research Office and the Development Office on the basis of metrics of usage.
14. Allocating capital maintenance to all units, including central administrative units, based on total amount of space used.
15. Allocating university major capital support based on the size of each college's operation.

Currently central administrative costs are funded through algorithms based on student, faculty and staff FTE, space, and total expenditures. In addition, only central administration knows how the budgets for central administrative costs are set.

- We recommend implementing a flat tax on expenditures to fund central administrative units. To set the initial level, the Budget Office should examine historical data and investigate models at other institutions. A flat tax as opposed to an allocation of funds allows the budgets of central administrative units to increase as college revenues increase or decrease as college revenues decrease. In addition, we recommend that the budgets of non-college revenue-generating/self-supporting units should be reviewed and, *where appropriate*, these non-college revenue-generating/self-supporting units (also known as non-college two-book operations; e.g., parking, housing) should be taxed to help defray the costs of central administrative units. These non-college two-book operations may be taxed at a lower rate than the colleges are. We recommend that funding for the Research Office and the Development Office and charges for space usage should be separate from the flat tax, as discussed below.
- We envision a review process whereby each year, select central administrative units would present their budget requests along with descriptions of the services they provide, with every unit going through the process every three to five years. The review committee would include representatives from the deans, vice presidents/vice provosts of central administrative units and the faculty, with rotating membership. This review would provide central administrative units with the opportunity to include or eliminate services and to receive feedback from their customers on the quality of their services. Recommendations would be presented to the Provost and the Executive Vice President.

Currently, Research Office operating expenses are allocated to the colleges based on percentage of Total Sponsored Activity Expenses by College (3-year simple average weighted 3-1-1 for Research, Instruction, and Public Service).

- We recommend that funding for the Research Office should be an allocation of costs based on sponsored activity expenditures. Units that use the services of the Research Office will pay in proportion to their usage, and revenue-generating units will know how much their costs will be for the Research Office. Research Office funding would come fully from this allocation and not include a percentage of Indirect Cost Recovery Revenue.

Currently, Development Office funding is combined with other non-academic units and not clearly tied to development activities.

- We recommend that funding for the Development Office should be based on 5 percent "gift tax" and on the amount of dollars raised and number of alumni. Such "gift taxes"—or development fees—are standard practice at other higher education institutions. Under the new model, units will pay for Development services in proportion to their use of the office.

Currently, all facilities, utilities and capital maintenance expenses are charged to the colleges

based primarily on their proportion of the total space used by the colleges, and secondarily based on student counts. Under this system, there is no built-in incentive for central administrative units to use their space efficiently. Charging central administrative cost units for space provides cost units with an incentive for using their space more efficiently. In addition, it is generally accepted that UD is underfunded for the age of its facilities and the amount of maintenance needed on buildings and infrastructure. We recommend that this cost be built realistically into the budget model.

- We recommend that space charges should be calculated as total costs divided by total usable square feet, and central administrative units should be charged for their space usage. This would base charges on actual space rather than on the college's percentage of total college space. Space charges cover facilities, utilities and capital maintenance. Charging all units for space based on actual space used should reduce the cost of space and make it more attractive for units to seek space on campus rather than renting space off-campus.

Currently, major capital expenses come “off the top.”

- We recommend that a major capital allocation, an amount to be determined annually in collaboration with the Provost and Deans, with advisement from the Vice President of Facilities, Real Estate and Auxiliary Services, will be allocated based on the size of each college's operation. The size of the operation can be determined by the amount of annual expenditures or revenues.

Path Forward

This interim report is intended to be the first step in achieving greater transparency and clearer communication regarding how budgetary decisions are made to advance excellence in academic and scholarly activity at the University of Delaware.

It is critical that the University community—at all levels—understands the principles shaping responsibility based budgeting and how this system supports the academic goals and mission of the institution.

To ensure this outcome, members of the RBB Task Force will be speaking with the University Faculty Senate, with senior leadership, and with academic chairs and directors. This report, and the External Review Committee's report, also will be made available publicly on the Provost's website.

In submitting these recommendations, the task force recognizes that this is only the first step in a series of steps to develop a revised budget model. The task force's charge was to make broad policy-level recommendations to ensure that the budget model supports excellence in undergraduate and graduate programs and research. There are many different models that could be created that would be consistent with these recommendations.

At this point, the Budget Office will generate and test models consistent with these recommendations, using historical data to assure that the model is robust and that unintended consequences resulting from these changes are minimized. Furthermore, since only about half of the University's revenue is distributed through RBB, the Budget Office will need to review all

funds in the colleges and other units, as well as some cost-cutting measures, before producing new budget and model options for the University.

This is a significant project that is expected to be completed by February 1, 2015. After this work has been completed, the proposed model will be brought to the RBB Task Force for feedback regarding how it meets the task force's expectations and objectives.

Members of the Task Force

Co-chairs:

Nancy Brickhouse, Deputy Provost and Professor in the School of Education

Donald L. Sparks, S. Hallock du Pont Chair in Plant and Soil Sciences and Director of the Delaware Environmental Institute.

Members:

Ann Ardis, Deputy Dean of the College of Arts and Science and Professor of English

Titus Awokuse, Professor and Chair of the Department of Applied Economics and Statistics

Mohsen Badiy, Deputy Dean of the College of Earth, Ocean, and Environment and Professor of Physical Ocean Science and Engineering

Kenneth Barner, Professor and Chair of the Department of Computer and Electrical Engineering

Gretchen Bauer, Professor and Chair of the Department of Political Science and International Relations

Prasad Dhurjati, Professor of Chemical and Biomolecular Engineering and a member of the Faculty Senate Executive Committee and the AAUP Executive Council

Lynn Okagaki, Dean of the College of Education and Human Development and Professor of Human Development and Family Studies

Lynnette Overby, Professor of Theatre

Anna Papafragou, Associate Professor of Psychology

Charles Riordan, Vice Provost for Research and Professor of Chemistry and Biochemistry

Lynn Snyder-Mackler, Alumni Distinguished Professor of Physical Therapy

Gerry Turkel, Professor of Sociology and Legal Studies and AAUP Contract Maintenance Officer

Bruce Weber, Dean of the Alfred Lerner College of Business and Economics and Professor of Business Administration

Resource persons:

Peggy Bottorff, Associate Provost for Administration and Enrollment Services

Kathy Dettloff, Chief Budget Officer

John Sawyer, Associate Provost for Institutional Research and Evaluation

Appendix

Recommendations of the External Review Committee

To gain additional perspective on RBB, the task force engaged a distinguished External Review Committee consisting of **John R. Curry**, Managing Director, the Huron Consulting Group; **Aimee Heeter**, Associate Vice Provost and Budget Director, Indiana University; **Richard Stanley**, Senior Vice President and University Planner, Arizona State University; **Julie Tonneson**, Budget Director, University of Minnesota; and **Robert Zemsky**, chair of The Learning Alliance, University of Pennsylvania.

The members of the External Review Committee visited UD on January 15, 2014, to advise the task force on the strengths and weaknesses in the current RBB model and to recommend changes that would improve the alignment of the budget model with the University's goals and objectives. The committee met with President Patrick Harker, Provost Domenico Grasso, Executive Vice President and Treasurer Scott Douglass, college deans, the RBB Task Force, and the University Faculty Senate RBB Committee.

The External Review Committee made five overarching recommendations:

- 1) Allocate undergraduate tuition, state appropriation, and unrestricted gifts and endowments separately. In particular, allocate undergraduate tuition in proportion to (teaching) student credit hours.
- 2) Incentivize research growth through subvention allocations. Because the units that obtain grants retain nearly all of the Indirect Cost Recovery revenue, an incentive for sponsored activities already exists within the model. Rather than giving units an additional reward for their sponsored activities, the University could reward *growth* in sponsored activities through subvention.
- 3) Form a budget advisory committee comprised of stakeholders who could review and advise on the primary planning parameters.
- 4) Appoint a costs and services committee to review the efficiency and effectiveness of administrative services.
- 5) Greatly enhance communication and transparency, to include:
 - a) A campus discussion on the philosophy underlying RBB and the kinds of behaviors RBB should incentivize. “The President, Provost, and Executive VP should broadly and collectively address the campus community each fall as to the goals the university needs to achieve through its annual budget process.”
 - b) Assure that data are readily available to support budget decisions, and perhaps even more important, to address academic quality issues. Institutional Research and Effectiveness should play a major role here.