Meeting Objectives

- Provide members with an overview of the following:
  - FY20 Budget Timeline
  - OHIO Budget Model
- Review and discuss a Graduate Program Fee Request

1. FY20 Budget Timeline
2. OHIO Budget Model (PPT Presentation)
3. Graduate Program Fee Request – John Day
4. Next Meeting: October 4, 2018 ~ Baker Center, Room 230
   Topics: Fall Enrollment Update & Vote on Graduate Program Fee Request
FY2020 Preliminary Budget Timeline

- Oct: Fall Financial Review Meetings
- Nov-Dec: Leadership & BPC Discussions FY20
- Assumptions: Raise Pool & Enrollments
- Nov-Dec: Incremental Planning
- Jan: Budget Office Republishes Micro Planning Assumptions
- Feb: Spring Financial Review Meetings
- Feb: January 2019 Spring Submissions Due
- March: Finalize Budget Decisions
- April: Mid March
- May: Budget Office Reconciliation and Completion; Finalization of Budget Book
- June: Budget Approval

Key Dates:
- Sept: Scheduled Rollout of Budget Materials: FY20 Base Planning Assumptions
- Oct: Oct-Nov Fall Financial Review Meetings Due
- Nov-Dec: Leadership & BPC Discussions FY20
- Dec: Assumptions: Raise Pool & Enrollments
- Jan: Budget Office Republishes Micro Planning Assumptions
- Feb: January 2019 Spring Submissions Due
- March: Finalize Budget Decisions
- April: Mid March
- May: Budget Office Reconciliation and Completion; Finalization of Budget Book
- June: Budget Approval
FY19 Budget Planning Council
OHIO Budget Model

September 20, 2018
Agenda

- OHIO Budget Model
- Historical Budget Model
- OBM Revenue Model: Allocations
  - SSI
  - Undergraduate Tuition
  - Student Financial Aid
- Contribution Margin
- Capital Cost Allocation Model (CCAM)
Between FY14 and FY19 Ohio University utilized the Responsibility Center Management (RCM) budget methodology for adopted under the following principles:

- Ensure the sustained strength of the University by aligning resources with University priorities to support academic excellence
- Support strong academic governance that promotes collaboration across units and builds on the strengths of the University
- Present a holistic view of the University Budget that provides a clear connection between performance and incentives
- Empower unit-level decision making authority to promote academic excellence and institutional efficiency that is balanced by responsibility and accountability
- Create a simple and transparent budget process driven by the goals of financial predictability and stability

Effective FY20, University Leadership have replaced the RCM model with the OHIO Budget Model (OBM). The new model will:

- Preserve the academic colleges’ decision-making authority to budget according to their specific plans
- Leverage the tools and business intelligence gained with the implementation of RCM
- Simplify how central costs are collected by the University’s revenue centers
Historical Budget Model - RCM

Responsibility Centers

Colleges
- Arts & Sciences
- Business
- Communication
- Education
- Engineering
- Fine Arts
- Health Sciences
- Honors
- OGAIS
- University College
- Voinovich
- HCOM
- RHE

Auxiliaries*
- Athletics
- Culinary Services
- Housing & Resident Life
- Pringin
- Parking & Transportation

RCM Revenues
- Graduate Tuition
- Grants & Contracts
- F&A
- Gifts
- Endowment Distributions
- Investment
- Other External Sales

RCM Expenses
- Administrative Costs
- Salaries, Wages & Other Payroll
- Benefits
- Supplies & Service
- Capitalized Costs

Direct Revenues
- SSI
- UG Tuition
- Student Financial Aid

Direct Expenses
- Benefits
- Supplies & Service
- Capitalized Costs

College Subvention Pool

12.5% Tax Distribution

Allocated

Allocated
OHIO Budget Model - OBM

Revenue Centers

UG Revenue Model
- SSI
- UG Tuition
- Student Financial Aid

Direct Revenues
- Graduate Tuition
- Grants & Contracts
- F&A
- Gifts
- Endowment Distributions
- Investment
- Other External Sales

Capital Costs
- Capital Cost Allocations (CCAM)

Direct Expenses
- Salaries, Wages & Other Payroll
- Benefits
- Supplies & Service
- Capitalized Costs

OBM Contribution Margin
Operating margin that supports administrative planning units (control total units)

Colleges
- Arts & Sciences
- Business
- Communication
- Education
- Engineering
- Fine Arts
- Health Sciences
- Honors
- OGAIS
- University College
- Voinovich
- HCOM*
- RHE*

Auxiliaries*
- Athletics
- Culinary Services
- Housing & Resident Life
- Pringin
- Parking & Transportation

*Contribution Margin: Based on $ or % of Revenue
# Resource Allocation Decisions: Central, Planning Unit, & Dept.

<table>
<thead>
<tr>
<th>Central Decisions</th>
<th>Planning Unit* Decisions</th>
<th>Dept/Division Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise Pool</td>
<td>Graduate / Online Enrollment</td>
<td>Recruiting/Yield Efforts</td>
</tr>
<tr>
<td>Benefits</td>
<td>Allocation of Raise Pools</td>
<td>Faculty/Staff Workload</td>
</tr>
<tr>
<td>Debt Strategy</td>
<td>Staffing/Replacements/Hiring</td>
<td>Curriculum delivery</td>
</tr>
<tr>
<td>Institutional Investments /SOR</td>
<td>Support Pathways/Priorities</td>
<td>Academic outcomes</td>
</tr>
<tr>
<td>UG Enrollment</td>
<td>Capital Project Prioritization</td>
<td>Student Success/Service</td>
</tr>
<tr>
<td>State Support</td>
<td>Program Priorities/Reallocations</td>
<td>Efficiency/Service level</td>
</tr>
<tr>
<td>Tuition Rates</td>
<td></td>
<td>Compliance/Accreditation</td>
</tr>
</tbody>
</table>

* Planning Units are defined as colleges (led by Deans) or administrative/support units (led by Executive staff)
Revenue Model: SSI

Allocations to each University calculated by the Department of Higher Education funding formula primarily driven by:

- course completions
- degree completions
- weighting factors based on subject field of courses and degrees
- weighting factors associated with student demographics contributing to risk in course and degree completion

The OBM Model allocates 98% of the state SSI funding, based on the following instructional categories:

- Undergraduate Athens
- RHE
- Master’s and Doctoral
- Medical

The remaining 2% of the SSI allocation funds the Strategic Opportunity Reserve (SOR)
Revenue Model: FY19 SSI Allocations

- Arts & Sciences, $35,888,181
- Business, $14,378,524
- Communication, $8,155,609
- Education, $10,525,276
- Engineering, $8,595,653
- Fine Arts, $7,368,214
- Health Sciences, $30,012,515
- Honors, $46,493
- HCOM, $22,386,376
- OGAIS, $903,565
- University College, $1,912,082
- Voinovich, $2,015,095
- RHE, $22,432,188
- HCOM, $22,432,188
Revenue Model: FY 19 Undergraduate Tuition

- 2% of the annual UG tuition is used to fund SOR
- Program allocations are directly allocated to colleges to support travel programs and the Ohio Program for Intensive English (OPIE)
- The remaining UG tuition revenues for Athens are distributed to the Colleges using an RCM allocation, based on proportional shares of SCH production (85%) and headcount majors (15%).
Revenue Model: FY19 UG Tuition = $222.2M
Revenue Model: Undergraduate Net Tuition

- Since gross UG tuition revenues are recognized in OU’s revenue model, UG Student Financial Aid is budgeted and allocated to colleges to accurately reflect net tuition revenue.
- Similar to the UG tuition, UG financial aid is allocated to colleges based on proportional shares of SCH production (85%) and headcount majors (15%).
- FY19 SFA = $40.9M
- FY19 Net UG Tuition = $181.3M
Control Total Funded Planning Units

Administrative and Central Operations

- Effective FY20, Revenue Centers (Colleges, Auxiliaries and Central Revenues) will be supporting the control total funded planning units through contribution margins established by the OHIO Budget Model.
- Prior to FY20, OU’s RCM model utilized the Allocated Cost Model (ACM) to support administrative and central operations.
- FY20 is the third year of the Administrative Unit’s 7% Budget Savings Initiative.

Central Planning Assumptions for FY20 include:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Item</th>
<th>FALL 20 - Planning Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Costs</td>
<td>29 Compliance: $500K</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30 Utilities: $0.6M</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31 Plant Operation &amp; Maintenance: $0.2M</td>
<td></td>
</tr>
<tr>
<td></td>
<td>32 Base Admin Control Totals: -$2.0M</td>
<td></td>
</tr>
</tbody>
</table>
Capital Cost Allocation Model (CCAM)

• The Capital Cost Allocation Model (CCAM) is the methodology utilized to allocate the central debt service charges to colleges and administrative planning units.
  • CCAM does not include the debt service paid directly by planning units (e.g. Housing & Residence Life)
• The CCAM methodology utilizes space data and depreciation to allocate costs at the planning unit level.
• As new capital projects occur in the buildings occupied by a unit, the depreciation charge will increase.
• The University’s 6-Year Capital Improvement Plan (CIP) is the basis of the future year CCAM charges. Link: FY19-24 Six Year Capital Improvement Plan

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Issuance</td>
<td>$ 250</td>
<td>-</td>
<td>$ 125</td>
<td>-</td>
<td>-</td>
<td>$ 125</td>
<td>$ -</td>
<td>$ 75</td>
<td>-</td>
<td>-</td>
<td>$ 575</td>
</tr>
</tbody>
</table>

(in millions)

<table>
<thead>
<tr>
<th>Operating Results</th>
<th>FY15 Actuals</th>
<th>FY16 Actuals</th>
<th>FY17 Actuals</th>
<th>FY18 Budget</th>
<th>FY18 Forecast</th>
<th>FY19 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Loan - Principal &amp; Interest</td>
<td>$ 27.4</td>
<td>$ 38.0</td>
<td>$ 58.2</td>
<td>$ 51.1</td>
<td>$ 49.0</td>
<td>$ 54.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consolidated Results</th>
<th>FY15 Actuals</th>
<th>FY16 Actuals</th>
<th>FY17 Actuals</th>
<th>FY18 Budget</th>
<th>FY18 Forecast</th>
<th>FY19 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Debt Service - Interest</td>
<td>$ 18.6</td>
<td>$ 24.3</td>
<td>$ 26.8</td>
<td>$ 28.4</td>
<td>$ 28.5</td>
<td>$ 28.0</td>
</tr>
</tbody>
</table>

• $1.3M growth for Century Bond Deferred Maintenance – FY19
• $2.4M growth in Internal Loans that were delayed
• $1.3M growth in FY19 CIP Internal Loans
Questions?
Fee Proposal Form
Off-Campus and Premium Tuition Graduate Program

Program Name: Online Master's in Social Work

Current Program Fee (if any): $0
Proposed Program Fee: $146

Describe the basis used in determining the program fee levels - information such as market analysis, cost analysis and/or rates for comparable programs (details can be attached). See Attached

Current Specialized Services/Materials Fee (if any): $0
Proposed Specialized Services/Materials Fee: $0

Describe the nature and amounts of the pass-thorugh expenses and the calculation for the amount per credit hour needed to cover those expenses (details can be attached).

Term that the new fee(s) are to become effective: Spring Semester 2019

Approvals

Terry Cloise-Tolar
Department Chair/School Director

Signature

Date

Tia Barrett
CFAO/Budget Unit Manager

Signature

Date

Randy Leite
Dean

Signature

Date

Chaden Djalali
Provost's Office

Signature

Date
The purpose of the new program fee is to assist in covering the costs necessary to support the required field placement process for Social Work students. The MSW student must participate in both foundational and/or advanced field placements during the program depending on their track. The field education component of the curriculum for social work requires additional resources. A Field Education Director assists students in securing and retaining quality sites, which requires a significant amount of time and travel as field placement settings, and opportunities change and evolve frequently. In order to retain field placement sites, the field education director needs to be visiting and developing a relationship with the site in order to ensure that the facility will continue to take our students.

The Social Work Program is proposing a program fee, which is based on the cost of other online MSW programs in Ohio, as well as costs associated with field placements to provide exceptional education to our students. Attached is a market and cost analysis of Online MSW programs in Ohio. With the proposed fee, Ohio University would still be the most affordable online MSW program in the state.

### Program Comparisons

#### Traditional Track

<table>
<thead>
<tr>
<th>Institution</th>
<th># of Credit Hours</th>
<th>Cost Per Credit Hour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Western Reserve</td>
<td>60</td>
<td>$1,385</td>
<td>$83,100</td>
</tr>
<tr>
<td>Ohio University (Proposed)</td>
<td>62</td>
<td>$654</td>
<td>$40,548</td>
</tr>
<tr>
<td>Ohio State University</td>
<td>63</td>
<td>$874</td>
<td>$55,062</td>
</tr>
</tbody>
</table>

#### Advanced Standing Track

<table>
<thead>
<tr>
<th>Institution</th>
<th># of Credit Hours</th>
<th>Cost Per Credit Hour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case Western Reserve</td>
<td>36</td>
<td>$1,385</td>
<td>$49,860</td>
</tr>
<tr>
<td>Ohio University (Proposed)</td>
<td>36</td>
<td>$654</td>
<td>$23,544</td>
</tr>
<tr>
<td>Ohio State University</td>
<td>43</td>
<td>$874</td>
<td>$37,582</td>
</tr>
</tbody>
</table>
## Fall BPC Request: Graduate Program Fee Approval

<table>
<thead>
<tr>
<th>PROPOSED</th>
<th>Instructional Fee</th>
<th>General Fee</th>
<th>Program Fee</th>
<th>Special Services / Materials Fee</th>
<th>Ohio Resident Total</th>
<th>Non-Resident Fee</th>
<th>Out-of State Resident Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Masters in Social Work</td>
<td>505</td>
<td>3</td>
<td>146</td>
<td>0</td>
<td>654</td>
<td>496</td>
<td>1150</td>
</tr>
</tbody>
</table>
Budget Planning Council Meeting Notes  
September 20, 2018, 11:00 AM – 1:00 PM  
Baker Center Room 230

BPC Members In Attendance: Deb Shaffer, Chaden Djalali, Joe Shields, Madison Sloat, Joe McLaughlin, Sarah Helfrich, Susan Williams, Faith Voinovich, Jason Pina, Tim Epley, Maria Modayil, Hans Meyer, Matthew Shaftel, Dale Masel

BPC Members Absent: Randy Leite, Amanda Graham

Non-voting Members: Katie Hensel, John Day, Dawn Weiser, Kayla Righter, Jennifer Cox, Jim Sabin, Jen Kirksey, Craig Cornell, Austin McClain, Chad Mitchell

FY20 Budget Timeline

- Katie reviewed the timing for various planning assumptions to be provided to units before winter break, spring financial reviews and delivery of a budget to the Board of Trustees during the June meeting

OHIO Budget Model

- The OHIO budget model (OBM) is being implemented:
  - Central revenues (SSI, tuition net of aid) and expenses will continue to be allocated based on existing methods – see below.
  - The RCM model redirected revenues via a ‘tax’ for creation of a subvention pool that then was used to redistribute funds to balance resources across colleges; the new model will allow University Leadership to establish contribution margins for each college to support the University operations, inclusive of administrative units, academic support units, and college level support
    - HCOM, RHE and Auxiliaries may have a contribution based on a percent of revenue or flat amount
  - Budget assumptions are refined throughout the planning period and built into unit budgeting; colleges will have individual, targeted contribution margins, which may get to provide a balanced budget
  - Negotiating the colleges’ contribution margins is an iterative process and will be informed by the strategic decision-making choices of leadership in order to balance the budget – the success and importance of initiatives which support the President’s Strategic Pathways and priorities will inform contribution margin decisions

- Central revenue allocations – the allocation methodology will not change
  - SSI – 2% is allocated to the Strategic Opportunity Reserve (SOR) and 98% is allocated to colleges
    - allocation from the state is based on course and degree completions primarily
    - SSI attributed to RHE and HCOM flow directly to those units as allocated by the state
  - Tuition – (similar to SSI) 2% to SOR with the balance to the colleges excluding small set asides to the Study Abroad and OPIE programs
  - UG financial aid is netted against UG tuitions and then the net revenue is allocated based on Student Credit Hour (SCH) production (85%) and headcount majors (15%)
Administrative and Central Operations
   - FY20 control totals are based on the FY19 budgets for those units, layering in the initial FY20 planning assumptions for expense growth (University raise pools, debt costs, energy costs and facility square footage charges) less FY20 targeted unit reductions which represent the final year of the 7% reductions established in FY18
   - Capital Cost allocations continue as before and distribute central debt service charges to units for shared costs of deferred maintenance investments through depreciation
   - Prior RCM line items (subvention lines) have been collapsed into the ‘contribution margin’ under the new budget model
   - Joe McLaughlin discussed that there is a belief among some faculty that course enrollments drive the largest portion of SSI distribution when in fact it has moved to degree completions, which account for 50% of SSI received (courses completions drive 30%) – Joe suggested some beefed-up communication to faculty
     - getting enrollments is vitally important but the state performance-based funding approach is intended to incent the retention of students and ultimately graduation in order to pay for the course delivery efforts
     - awarding of degree SSI is not tied to the time taken to graduate. Whenever the graduation occurs, the SSI is awarded, but clearly, efficiently moving students through to graduation aligns cash receipts from the state with University expenditures supporting their instruction.

Graduate Program Fee Request – John Day
   - Online Masters in Social Work - $146 program fee to be effective with a new program which will start in January - Spring semester 2019
     - market pricing by colleges for graduate/professional programs is achieved through the ‘program fees’
     - Case Western and OSU were used for program comparisons for the online MSW

Next Meeting – Thursday, October 4, 2018 - Baker Center, Room 230
Budget Model Committee
Recommendations

Budget Model Committee Charge

This committee was established at the beginning of the Fall 2017 Semester and is advisory to the President. The Budget Model Committee was charged with developing recommendations on implementation of a University budget model (revenue and cost allocations) that will be the basis for development and management of the institution’s multi-year budget. The Committee was asked to consider all that we have learned from past budget models (strengths, opportunities, challenges, and goals) while also considering and evaluating models utilized by other institutions. Recommendations must be evaluated within the context of the Scope and Principles/Goals identified below:

Scope

• Consider all Budget Models– does not have to be an incremental version to the current RCM model
• Include all revenue sources in assessments of all models, inclusive of sponsored research, graduate and undergraduate tuition, gifts/endowment, and state support
• Consider how accumulated reserves should be allocated to support planning recommendations
• Scope does NOT include:
  o Macro planning assumptions (raise pools, benefit increases, capital planning, etc.)
  o Unit budgets (other than in the context of growth related to overall university operations/revenues)
  o Specific staffing/productivity decisions

Principles and Goals

The Budget Model and Budget Process should:

• Recognize and support the breadth and diversity of academic disciplines and learning environments
• Align resources to unit and institutional priorities
• Support and promote research and academic excellence
• Incentivize efficiency, innovation, and revenue enhancement
• Support research and academic excellence while being respectful of funding decisions (and various funding sources) within each college
• Provide incentives for efficiency, innovation, smart growth and revenue enhancement
• Be designed to be sustainable over time
• Be resilient and flexible enough to respond to changes
• Support multi-year, balanced budget planning
• Promote transparency, predictability, and common understanding
• Provide a clear presentation of ALL central funding allocations and associated methodology
• Promote localized decision making and accountability
• Include a governance process with clear roles and responsibilities
• Recognize the internal and external restrictions on certain funds
• Include guidance for the role of the model in the budget process and how it is and is not used in strategic decision making
• Be clearly communicated and emphasize academic terminology over financial

Membership

• Co-Chairs: John Day, Deb Shaffer
• David Descutner, Interim EVPP
• Deans/VPs/Provost: Renee Middleton, Bob Frank, Randy Leite, Dennis Irwin, Elizabeth Sayrs, Joe Shields, Brad Cohen
• CFAOs: Rosanna Howard, Shelley Ruff, Heather Krugman
• Faculty: Susan Williams, Joe McLaughlin
• Students: Zachary Woods, Maria Moyadil
• Staff Support: Laura Myers, Katie Hensel

Committee Findings, Observations and Recommendations

The committee collected feedback and discussed issues with the current RCM implementation. Issues centered around two areas: model-related and process-related. A primary observation is that most issues had less to do with the details of the model calculations and more to do with the way the information from that model has been used in the budget process. There are many possible models that could be used as long the use of that information within the broader budgeting process was considered fair and transparent.

Budget Context

To reinforce this important distinction between a model and the budget process, the committee makes the following observations with respect to the overall context within which the budget process exits:

• At its core, budgeting is simply the allocation of resources in a constrained environment
• The primary resources that units need are people and space
• Both of these resources need funding to exist
• Therefore budgets are simply funding distributions driven by resource allocation decisions.
• Resource allocation decisions should be based on strategic priorities
• Financial information informs but should not drive resource allocation decisions
• Strategy should drive resource allocation
Given this broader and more strategically focused context, the committee offers the following recommendations about the budget process:

- Move away from the idea that a budget model is at the center of resource allocation decisions
- Modeling financial activity is important to understanding resource availability but is simply one piece of information used in resource allocation decisions
- No financial modeling can determine what the level of resource allocation should be for an academic or administrative unit
- Resource allocation decisions may or may not be based on financial modeling

**Recommendations:**
- **Drop the idea that there is “budget model” at the center of the process and focus on the idea that the budget is actually a series of strategic resource allocation choices and decisions.**
- **Drop the RCM label since it does not capture the broader nature of strategic resource allocation**

**Basis for Resource Allocation Decisions**

As we move towards a budget process that is focused on strategic resource allocation and away from equating the budget process with a financial budget model, we will need to broaden the information that is used to inform resource allocation choices and decisions. The committee offers the following observations and recommendations related to this issue:

- Resource allocation decisions need to be informed by a wide range of information (financial and non-financial)
- Strategic priorities and unit-level priorities should be quantified
- Resource allocation should consider unit performance relative to performance on all metrics that apply to them (both financial and non-financial)

**Recommendation:**
- **Explicitly incorporate non-financial metrics when setting and changing resource allocations for academic units**
  - Academic productivity metrics (e.g. Retention, degrees, student-faculty ratios, etc.)
  - Academic quality metrics (e.g. Rankings, accreditation, selectivity, faculty quality, etc.)
  - Research productivity metrics (e.g. Research funding, publication rates, etc.)
  - Other
- Each unit should have unique metrics and some metrics should be used in all colleges.
Participation in Resource Allocation Decision Making

Resource allocation decisions are made at every level of the University. At the highest level, decisions about resource levels across planning units are made by the leadership of the University. Within each College/Administrative Unit, decisions are made about resource levels available to each department/school/division. At the Department/School/Division level decisions about allocation of personnel workload/effort, space utilization and other resource allocations must be made.

At the University level, the distribution of resources across colleges and administrative units will be a strategic decision made by leadership. This has led to a tension between resources allocated to academic versus administrative units. There will always need to be resources allocated to administrative functions but appropriate level of central costs will always require a strategic tradeoff between functions needed and funding needed. To promote a resource allocation environment that is transparent, the committee makes the following recommendation

- Deans and VPs should provide input into resource allocation priorities across units and be involved as choices and tradeoffs are considered. Discussions should occur in an integrated context as opposed to sequential isolated issues. Develop an approach to open up dialogue between colleges and central support units about service levels, benchmarking costs, and efficiency.

Financial Modeling

While recognizing that the budget process should focus on strategic resource allocation decisions, some sort of financial modeling will always be need to understand how funding is obtained and how that funding is distributed and used across units. As requested, the committee is making recommendations about how financial activity should be represented across academic units. As we do that, we would like to reinforce the following points:

- Short-sighted maximization of funding incents maximization of efficiency (the production of credits and degrees as cheaply as possible by using contingent faculty, large sections, low admission standards, etc.).
- In contrast, academic quality (accredited and highly ranked programs, tenured faculty, high admission standards) can create demand and support long-term success.
- Resource allocation must strike a balance between efficiency (bringing sufficient resources) and quality (distribution of resources that may not maximize funding).
- The same balance between quality level and efficiency must be considered in administrative units as well.
• Financial modeling is needed to ensure that we understand how academic activity results in levels of funding to support resource allocation but such modeling needs to be simple and transparent.

Financial Modeling Recommendations

The attribution of revenues to colleges is viewed as valuable and provides transparency and a basis for understanding the financial results of academic activity as opposed to being hidden under incremental budgeting.

Recommendation 1 - financial modeling should continue the current practice of showing revenues attributable to academic units as follows:

• Funding supporting resources within academic units that currently flows directly to the academic unit (either through external restrictions or past practice) should continue. These flows are as follows:

  – **Externally Restricted to an Academic Unit**
    • Grant Revenue
    • Gift/Endowment
    • External Sales

  – **Funding flowing to academic units by Past Practice**
    • ECAM Tuition
    • Course Fees
    • Graduate SSI
    • Graduate Tuition and Wavers

• Funding that is estimated based on prior year levels of credit hours (85%) and majors (15%)
  – SSI for all Undergraduate Activity
  – Tuition net of Financial Aid for Athens Undergraduate Activity

Recommendation 2 - Consider creating incentive funding pools to promote cooperation over competition

• This could be similar to the Strategic Opportunity Reserve and could be created over time by holding a percentage of revenues outside allocations to colleges
• Funds might be used to compensate colleges that engage in activities that run counter to results of financial modeling (e.g. interdisciplinary efforts, sharing faculty resources, honors programs, etc.)

Recommendation 3 - Do not distribute central costs through an allocated cost approach as part of financial modeling

• The allocation of funding to central administrative units is also a strategic resource allocation decision
• Treating the costs of administrative functions as attributable to the activity within colleges is not effective since colleges cannot control their use of most services, cannot opt out of services and cannot obtain services outside the university.
• Therefore representing resources allocated to administrative units as cost allocations to college as part of the financial modeling used in resource allocation process should be discontinued
• Removal of central cost allocations would also eliminates a representation of a bottom line derived from an exchange between a subvention “tax” and subvention pool allocation which are confusing and not well understood.
• Instead, represents the revenues attributable to the academic activity of the colleges and the direct expenses within the colleges to support that activity. Colleges are then able to focus on the areas that they can influence – the revenue resulting from their academic activity and the direct costs supporting that activity
• Each college would end up with a margin and those funds are used to fund central administrative costs. When the total of margins across colleges is not sufficient to cover central administrative costs, this structural deficit must be solved collectively by all units through resource allocation decisions (same as it is now when there is a structural imbalance)
• This change will also remove RHE and HCOM from the allocated cost calculation. Financial modeling should still include a flow from these units to support central administrative costs. This flow could return to a simple “tax” allocation to support administrative costs as they were prior to RCM. They are essentially treated this way currently through the use of subvention to counterbalance central costs. This explicitly returns the setting of their contribution to a resource allocation decision