BALL STATE UNIVERSITY BUDGET REDESIGN INITIATIVE

Dean's Retreat Summary

March 20, 2019

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Discussion Topics

Meeting Agenda

1) Review initiative efforts and guiding principles

2) Provide model overview and discuss key model decision points

3) Outline next steps

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Effort Recap

Huron worked closely with the Steering Committee to support the University's desire to develop an incentive-based budget model.

Phase I Due Diligence & Visioning	Phase II Financial Modeling	Phase III Stakeholder Engagement
▪ Facilitated kick-off meetings with the project Steering Committee, the Board of Trustees and collected broad institutional feedback through presentations to the Academic Leadership Group (ALG) ▪ Supported the development of guiding principles for the proposed model ▪ Interviewed 45+ stakeholders to inform budget model development through an iterative process[1] ▪ Performed financial assessment and benchmarking analysis to provided detail on BSU's fiscal position ▪ Assisted in the visioning and creation of the proposed model structure	▪ Collected and organized activity level metrics ▪ Tested various allocation methodologies and participation fee policies to understand the impacts ▪ Developed a prototype model based on FY18 "actuals" as a starting point for future state discussions ▪ Developed a "baseline" financial model that depicts direct and allocable revenues and expenses by operating unit	▪ Facilitated seven meetings with the Steering Committee to establish preliminary model decisions ▪ Facilitated two additional rounds of discussions with Academic Deans and their Budget Directors to provide project updates, field questions and collect feedback to subsequently review with the Steering Committee ▪ Co-facilitated an open forum attended by 140+ members of the campus community to introduce budgeting concepts and provide an update on the budget redesign initiative ▪ Met with College Department Chairs to discuss key budget model decisions and answer questions ▪ Incorporated broad institutional feedback through an iterative process to develop a "customized" model that is uniquely tailored to the needs of BSU

Note 1: Key interview themes provided in the Appendix

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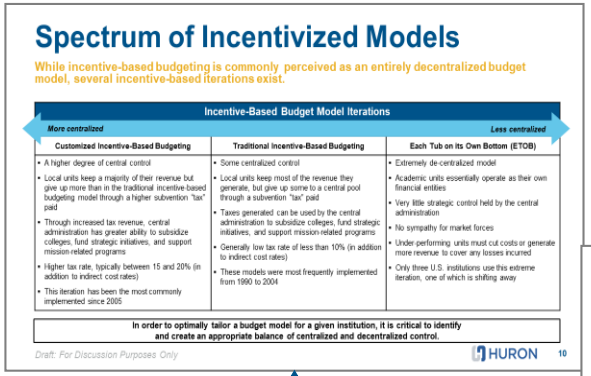
Alignment Analysis

An alignment analysis was conducted to identify areas of strength and opportunity across different components of the budget function.



Spectrum of Incentivized Models

While incentive-based budgeting is commonly perceived as an entirely decentralized budget model, several incentive-based iterations exist.

Incentive-Based Budget Model Iterations

More centralized ← → *Less centralized*

Customized Incentive-Based Budgeting	Traditional Incentive-Based Budgeting	Each Tub on its Own Bottom (ETOB)
• A higher degree of central control • Local units keep a majority of their revenue but give up more than in the traditional incentive-based budgeting model through a higher subvention "tax" paid • Through increased tax revenue, central administration has greater ability to subsidize colleges, fund strategic initiatives, and support mission-related programs • Higher tax rate, typically between 15 and 20% (in addition to indirect cost rates) • This iteration has been the most commonly implemented since 2005	• Some centralized control • Local units keep most of the revenue they generate, but give up some to a central pool through a subvention "tax" paid • Taxes generated can be used by the central administration to subsidize colleges, fund strategic initiatives, and support mission-related programs • Generally low tax rate of less than 10% (in addition to indirect cost rates) • These models were most frequently implemented from 1990 to 2004	• Extremely de-centralized model • Academic units essentially operate as their own financial entities • Very little strategic control held by the central administration • No sympathy for market forces • Under-performing units must cut costs or generate more revenue to cover any losses incurred • Only three U.S. institutions use this extreme iteration, one of which is shifting away

In order to optimally tailor a budget model for a given institution, it is critical to identify and create an appropriate balance of centralized and decentralized control.

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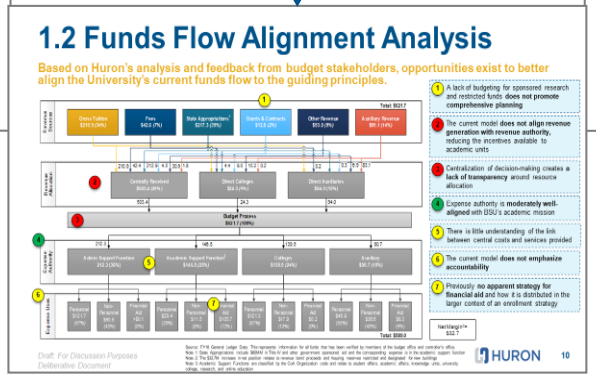
Budget model spectrum was shared to illustrate alternatives

Current funds flow was assessed against guiding principles



1.2 Funds Flow Alignment Analysis

Based on Huron's analysis and feedback from budget stakeholders, opportunities exist to better align the University's current funds flow to the guiding principles.

1. A lack of budgeting for sponsored research and restricted funds does not promote comprehensive planning
2. The current model does not align revenue generation with revenue authority, reducing the incentives available to academic units
3. Centralization of decision-making creates a lack of transparency around resource allocation
4. Expense authority is moderately well-aligned with BSU's academic mission
5. There is little understanding of the link between central costs and services provided
6. The current model does not emphasize accountability
7. Previously no apparent strategy for financial aid and how it is distributed in the larger context of an enrollment strategy

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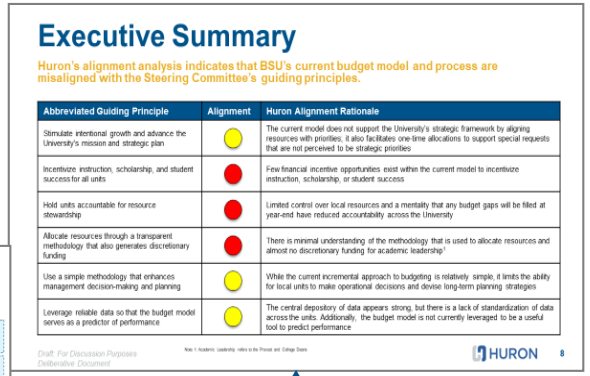

Executive Summary

Huron's alignment analysis indicates that BSU's current budget model and process are misaligned with the Steering Committee's guiding principles.

Abbreviated Guiding Principle	Alignment	Huron Alignment Rationale
Stimulate intentional growth and advance the University's mission and strategic plan		The current model does not support the University's strategic framework by aligning resources with priorities; it also facilitates one-time allocations to support special requests that are not perceived to be strategic priorities
Incentivize instruction, scholarship, and student success for all units		Few financial incentive opportunities exist within the current model to incentivize instruction, scholarship, or student success
Hold units accountable for resource stewardship		Limited control over local resources and a mentality that any budget gaps will be filled at year-end have reduced accountability across the University
Allocate resources through a transparent methodology that also generates discretionary funding		There is minimal understanding of the methodology that is used to allocate resources and almost no discretionary funding for academic leadership[1]
Use a simple methodology that enhances management decision-making and planning		While the current incremental approach to budgeting is relatively simple, it limits the ability for local units to make operational decisions and devise long-term planning strategies
Leverage reliable data so that the budget model serves as a predictor of performance		The central depository of data appears strong, but there is a lack of standardization of data across the units. Additionally, the budget model is not currently leveraged to be a useful tool to predict performance

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Financial incentives were evaluated for impact and alignment

The alignment analysis indicated that a change from the current budget model is needed to support BSU's future financial needs and strategic priorities.

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Guiding Principles

The Steering Committee developed and confirmed a set of guiding principles to be used to inform decisions surrounding the development of the new budget model.

1	Develop a dynamic budget model that aims to stimulate intentional growth and advance the University's mission and strategic plan
2	Align resources with institutional priorities through broader participation in the budget development process to incentivize instruction, scholarship, and student success for all units
3	Reward performance, creativity, innovation, and collaboration and hold units accountable for resource stewardship to contribute to the University's collective fiscal health
4	Provide a transparent metrics-based approach to resource allocation that also generates discretionary funds to be used for mission critical areas and strategic priorities
5	Use a simple methodology that enhances management decision-making, accountability, and long-range planning
6	Leverage valid, reliable, and verifiable data so that the budget model serves as a strong predictor of positive operating performance

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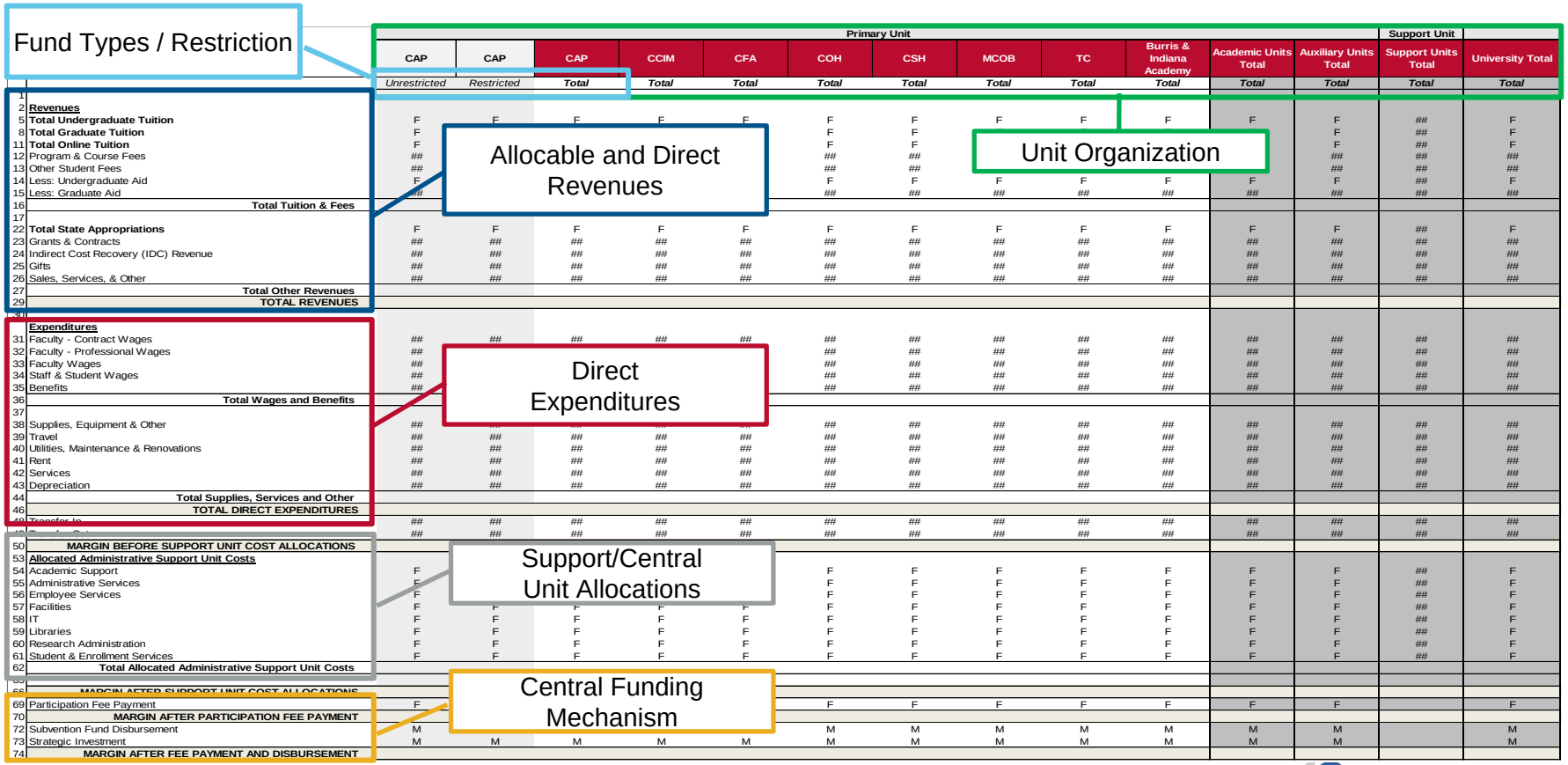
MODEL DECISION POINTS

1) Model Organization
2) Tuition
3) Financial Aid
4) Program & Course Fees Revenue
5) State Appropriations
6) Indirect Cost Recovery (IDC) Revenue
7) Cost Allocations
8) Central Funding

Model Framework Orientation



	CAP Unrestricted	CAP Restricted	CAP Total	CCIM Total	CFA Total	COH Total	CSH Total	MCOB Total	TC Total	Burris & Indiana Academy Total	Academic Units Total	Auxiliary Units Total	Support Units Total	University Total
Revenues														
Total Undergraduate Tuition	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Total Graduate Tuition	F					F	F					F	##	F
Total Online Tuition	F					F	F					F	##	F
Program & Course Fees	##					##	##					##	##	##
Other Student Fees	##					##	##					##	##	##
Less: Undergraduate Aid	F					F	F	F	F	F	F	F	##	F
Less: Graduate Aid	##					##	##	##	##	##	##	##	##	##
Total Tuition & Fees														
Total State Appropriations	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Grants & Contracts	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Indirect Cost Recovery (IDC) Revenue	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Gifts	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Sales, Services, & Other	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Total Other Revenues														
TOTAL REVENUES														
Expenditures														
Faculty - Contract Wages	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Faculty - Professional Wages	##					##	##	##	##	##	##	##	##	##
Faculty Wages	##					##	##	##	##	##	##	##	##	##
Staff & Student Wages	##					##	##	##	##	##	##	##	##	##
Benefits	##					##	##	##	##	##	##	##	##	##
Total Wages and Benefits														
Supplies, Equipment & Other	##					##	##	##	##	##	##	##	##	##
Travel	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Utilities, Maintenance & Renovations	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Rent	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Services	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Depreciation	##	##	##	##	##	##	##	##	##	##	##	##	##	##
Total Supplies, Services and Other														
TOTAL DIRECT EXPENDITURES														
Transfer In	##	##	##	##	##	##	##	##	##	##	##	##	##	##
	##	##	##	##	##	##	##	##	##	##	##	##	##	##
MARGIN BEFORE SUPPORT UNIT COST ALLOCATIONS														
Allocated Administrative Support Unit Costs														
Academic Support	F					F	F	F	F	F	F	F	##	F
Administrative Services	F					F	F	F	F	F	F	F	##	F
Employee Services	F					F	F	F	F	F	F	F	##	F
Facilities	F	F	F	F	F	F	F	F	F	F	F	F	##	F
IT	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Libraries	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Research Administration	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Student & Enrollment Services	F	F	F	F	F	F	F	F	F	F	F	F	##	F
Total Allocated Administrative Support Unit Costs														
MARGIN AFTER SUPPORT UNIT COST ALLOCATIONS														
Participation Fee Payment	F					F	F	F	F	F	F	F		F
MARGIN AFTER PARTICIPATION FEE PAYMENT														
Subvention Fund Disbursement	M					M	M	M	M	M	M	M		M
Strategic Investment	M	M	M	M	M	M	M	M	M	M	M	M		M
MARGIN AFTER FEE PAYMENT AND DISBURSEMENT														

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1.0 Model Organization

The budget model discussed today is built upon three main general ledger elements:

Fund Transparency

- Model reflects an “all funds” approach
- Unrestricted, restricted, and total fund balance of each unit is shown on the model income statement
- However, select non-operating funds have been excluded from the operational budget model as they fall outside the purview of normal course operations:
    - GASB pension liability funds
    - The foundation
    - Plant funds

Account Classifications

- Revenue and expense accounts were reviewed, discussed, and updated throughout the development process to arrive to today’s account classifications
- Several non-operating accounts have been excluded from the model as they create volatility and do not enhance model transparency:
    - Depreciation expense
    - Gains/losses on disposal of assets
    - Investment income

University Organization

- Units were organized by their ability to influence revenue generation. All units were categorized into one of three alternatives: Academic, Auxiliary, Support
- Academic and Auxiliary units are meant to cover direct costs with generated revenue
- Support units fully allocate their net expenditures

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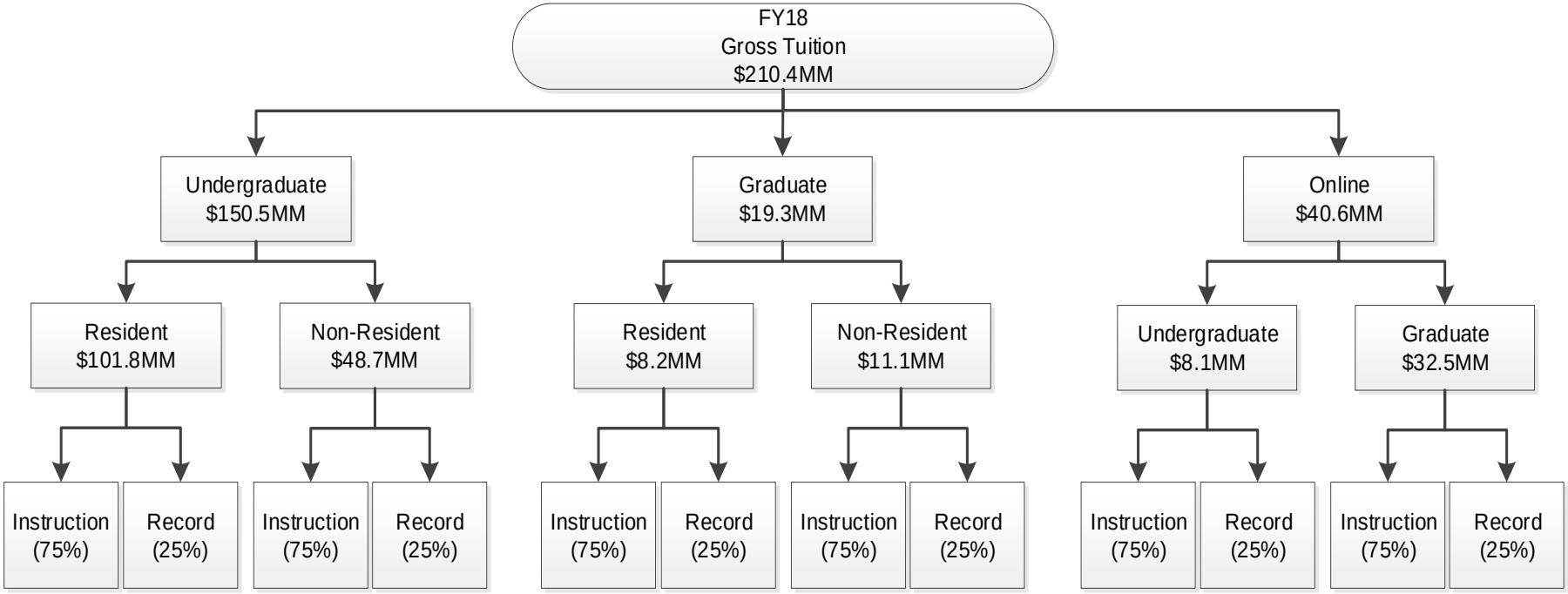
2.0 General Tuition Allocations

Huron worked with the Budget Office to create three major tuition categories[1]. The Steering Committee selected metrics to incentivize the College of Instruction and Record across all tuition types.



Note 1: The general ledger does not contain this level of tuition detail; the Budget Office provided the more granular tuition breakouts shown above.

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2.1 Undergraduate Tuition

The Steering Committee developed a methodology to devolve undergraduate tuition to recognize both the direct costs of instruction and academic support.

Current Practice	Undergraduate tuition is received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process
Proposal	Undergraduate tuition would be organized into resident and non-resident pools and allocated to the Colleges as follows: ▪ Allocate 75% to academic units based on instructed credit hours (i.e., College of Instruction) ▪ Allocate 25% to academic units based on enrolled credit hours (i.e., College of Record)
Rationale	Funds for credit hours that pertain to the College of Instruction can support the direct costs of instruction while funds for credit hours that pertain to the College of Record can support program development, student recruitment, and retention. Additionally, the split aims to foster an environment of cross-collaboration between academic units
Implications	▪ The allocation of tuition acknowledges and compensates academic units for the direct costs related to instruction and the indirect costs related to recruitment, advising etc. ▪ Shares the revenue between the College of Instruction and the College of Record, which is likely to promote interdisciplinary program development, or at a minimum, not impede it ▪ Provides a greater emphasis on effective tools to analyze credit hour trends and to make future projections

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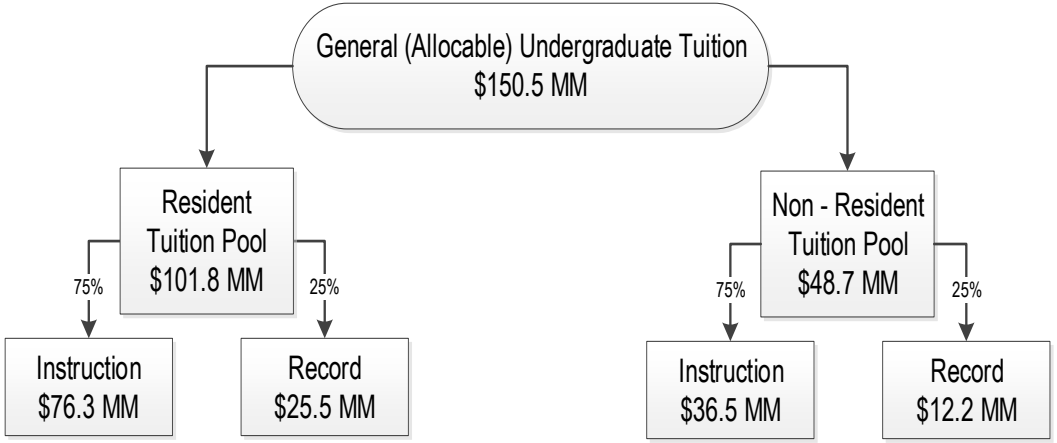
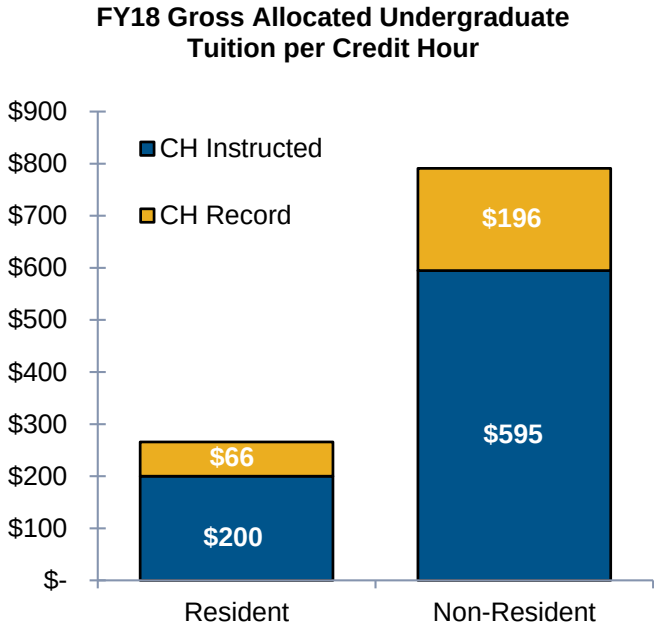
2.2 Undergraduate Tuition Allocation

The proposed model organizes undergraduate tuition into resident and non-resident pools[1], and then incorporates splits between the College of Instruction and the College of Record.





Model allocation uses corresponding instruction, record, in-state, and out-of-state credit hours; undeclared student credit hours are excluded from the College of Record.

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2.3 Graduate Tuition

The Steering Committee developed a methodology to devolve graduate tuition to recognize both the direct costs of instruction and academic support.

Current Practice	Graduate tuition is received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process
Proposal	Graduate tuition would be organized into resident and non-resident pools and allocated to the Colleges as follows: ▪ Allocate 75% to academic units based on instructed credit hours (i.e., College of Instruction) ▪ Allocate 25% to academic units based on enrolled credit hours (i.e., College of Record)
Rationale	Funds for credit hours that pertain to the College of Instruction can support the direct costs of instruction while funds for credit hours that pertain to the College of Record can support program development, student recruitment, and retention. Additionally, the split aims to foster an environment of cross-collaboration between academic units
Implications	▪ The allocation of tuition acknowledges and compensates academic units for the direct costs related to instruction and the indirect costs related to recruitment, advising etc. ▪ Shares the revenue between the College of Instruction and the College of Record, which is likely to promote interdisciplinary program development, or at a minimum, not impede it ▪ Provides a greater emphasis on effective tools to analyze credit hour trends and to make future projections

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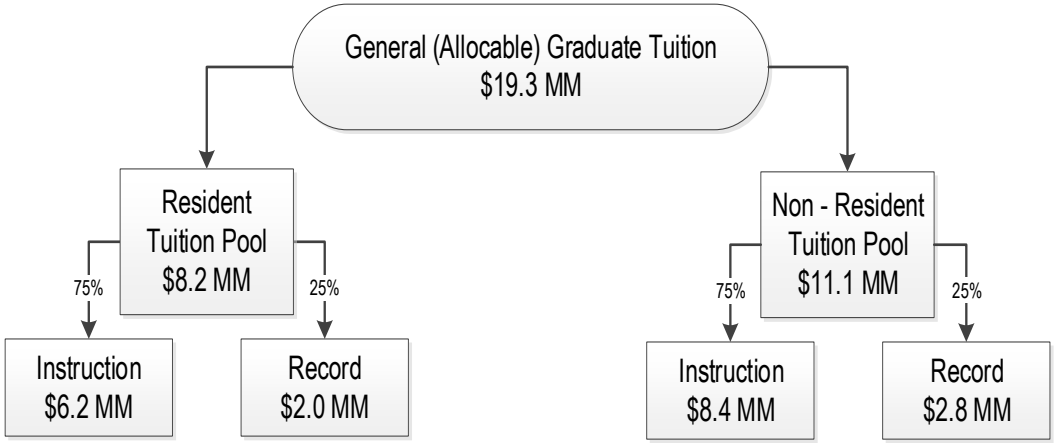
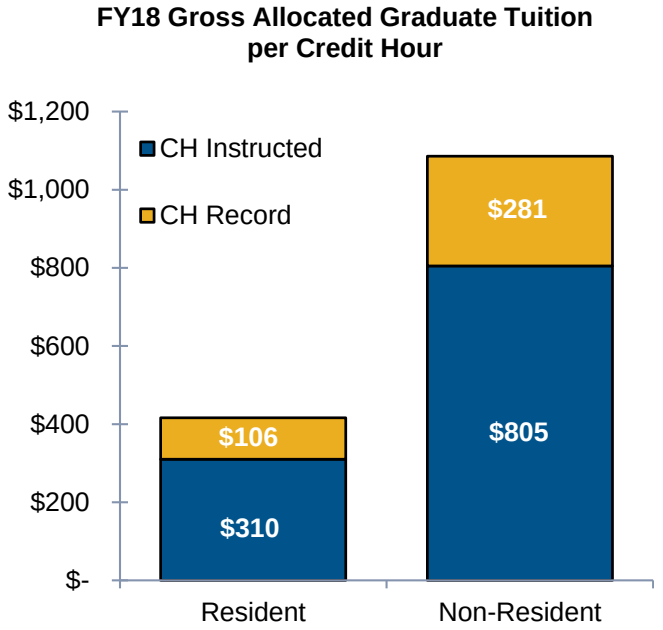
2.4 Graduate Tuition Allocation

The proposed model organizes graduate tuition into resident and non-resident pools[1], and then incorporates splits between the College of Instruction and the College of Record.





Model allocation uses corresponding instruction, record, in-state, and out-of-state credit hours; undeclared student credit hours are excluded from the College of Record.

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2.5 Online Tuition

The Steering Committee developed a methodology to devolve online tuition to recognize both the direct costs of instruction and academic support.

Current Practice	Online tuition is received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process
Proposal	Online tuition would be organized into undergraduate and graduate pools and allocated to the Colleges as follows: ▪ Allocate 75% to academic units based on instructed credit hours (i.e., College of Instruction) ▪ Allocate 25% to academic units based on enrolled credit hours (i.e., College of Record)
Rationale	Funds for credit hours that pertain to the College of Instruction can support the direct costs of instruction while funds for credit hours that pertain to the College of Record can support program development, student recruitment, and retention. Additionally, the split aims to foster an environment of cross-collaboration between academic units
Implications	▪ The allocation of tuition acknowledges and compensates academic units for the direct costs related to instruction and the indirect costs related to recruitment, advising etc. ▪ Shares the revenue between the College of Instruction and the College of Record, which is likely to promote interdisciplinary program development, or at a minimum, not impede it ▪ Provides a greater emphasis on effective tools to analyze credit hour trends and to make future projections ▪ Places additional focus / opportunities for offering online programming

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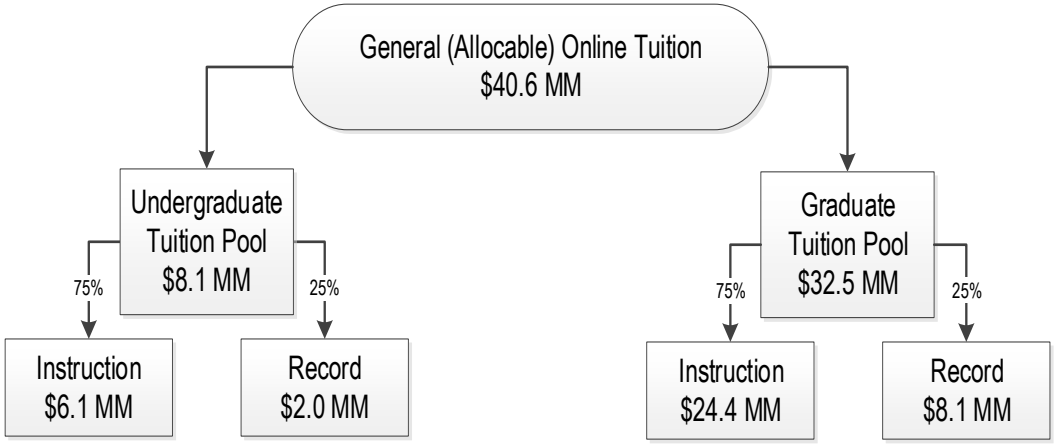
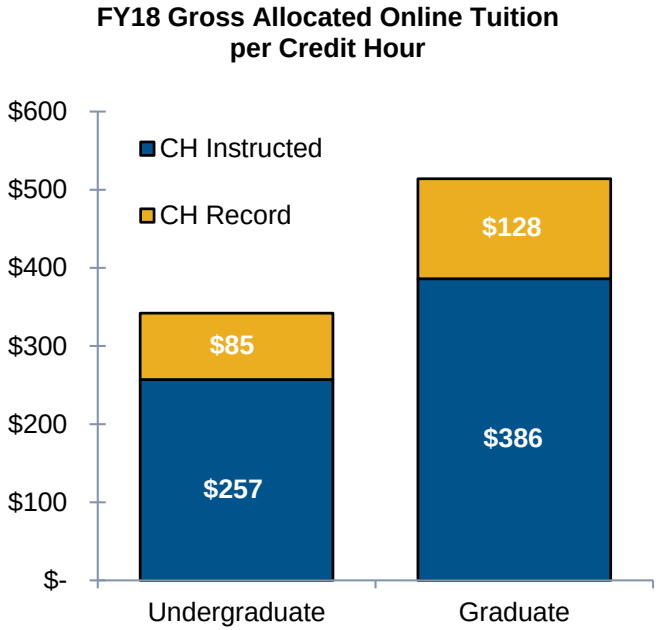
2.6 Online Tuition Allocation

The proposed model organizes online tuition into undergraduate and graduate pools[1], and then incorporates splits between the College of Instruction and the College of Record.





Model allocation uses corresponding instruction, record, in-state, and out-of-state credit hours; undeclared student credit hours are excluded from the College of Record.

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3.0 Financial Aid

Several types of financial aid were reviewed and some components will be treated differently in the new model.

	Direct Aid	General Aid
Undergraduate Aid	$8.5M - Will continue to flow directly to the units as recorded within the general ledger	$46.7M - Will be allocated to each of the academic units based on a College's proportional share of undergraduate tuition that they receive through the allocation methodology
Graduate Aid *(Stipends & Tuition Remissions)*	$9.8M - Will continue to flow directly to the units as recorded within the general ledger	$13.1M – Reclassified to individual Colleges based on where the graduate student is paid

Note 1: Restricted federal aid of $59.3 is removed as an equivalent amount of federal dollars are received and restricted for this use.

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4.0 Program and Course Fee Revenue

In the proposed budget model, program and course fee revenue is directly attributed to the campus unit where the revenue is generated.

Current Practice	Program and course fee revenue is received centrally, then later allocated to campus units based on a standing methodology
Proposal	Attribute 100% of program and course fees to the units where program and course fees originate
Rationale	Attributing 100% of program and course fees reflects actual amounts generated and could better support academic entrepreneurship and costs related to course development
Implications	▪ Campus units will receive 100% of the program and course fee revenue to support instructional cost and better recognize where the revenue is generated ▪ Monitor / govern how fees are stablished and/or used?

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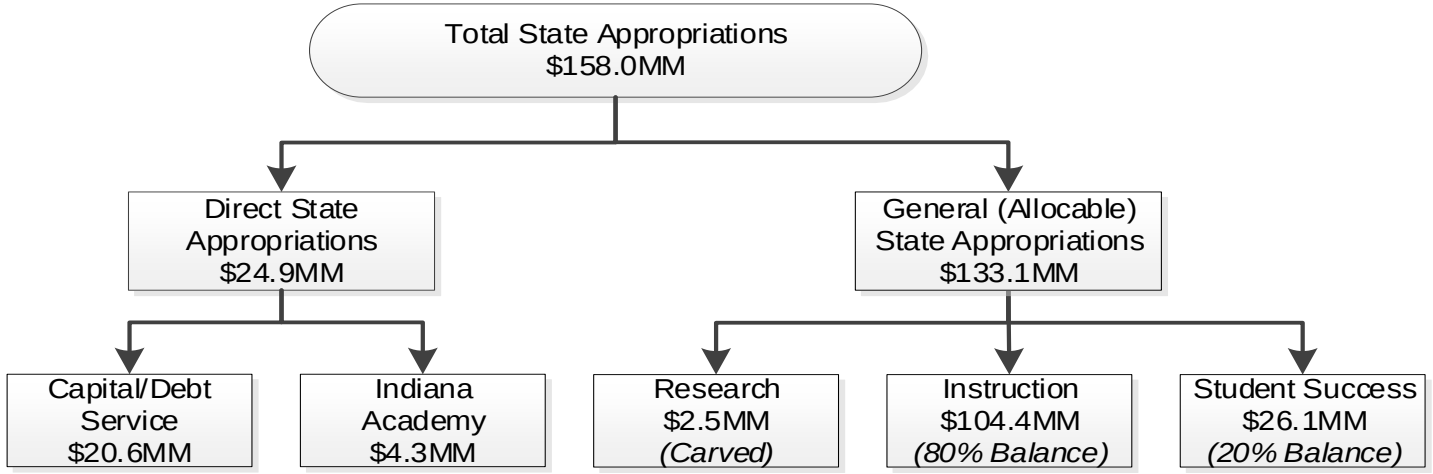
5.0 State Appropriation Allocations

The proposed model recognizes the nature of earmarked dollars and leverages remaining resources ($133.1MM) to align with BSU's new strategic plan and the Indiana Performance-Based Funding Model. The allocation of incentives does not apply to Auxiliaries and central units.



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5.1 State Appropriations

The Steering Committee developed a methodology to allocate general state appropriations to support the core missions.

Current Practice	In the current practice, general state appropriations are received centrally, then later allocated to campus units as spending authority through a mostly incremental budgeting process
Proposal	General state appropriations would be allocated as follows: ▪ Allocate $2.5MM as an incentive for research based on total grants and contract revenue ▪ Allocate 80% of remainder to academic units as an incentive for instruction based on number of completed credit hours instructed ▪ Allocate 20% of remainder to academic units as an incentive for student success based on resident degrees awarded, non-resident degrees awarded, at-risk degrees awarded, and high-impact degrees awarded
Rationale	▪ Funds for research recognize the need for central investment due to limitations on recovering the total cost of research (e.g., unrecovered IDC, mandatory cost share, start up packages, bridge funding, etc.) ▪ Funds for instruction recognize the cost of instruction ▪ Funds for student success outcomes align the allocation of state dollars with both the University's strategic plan and the Indiana Performance Based Funding Model
Implications	▪ Greater emphasis on instruction, scholarship, and student success by closely aligning resources to specific research, instruction and student outcome metrics

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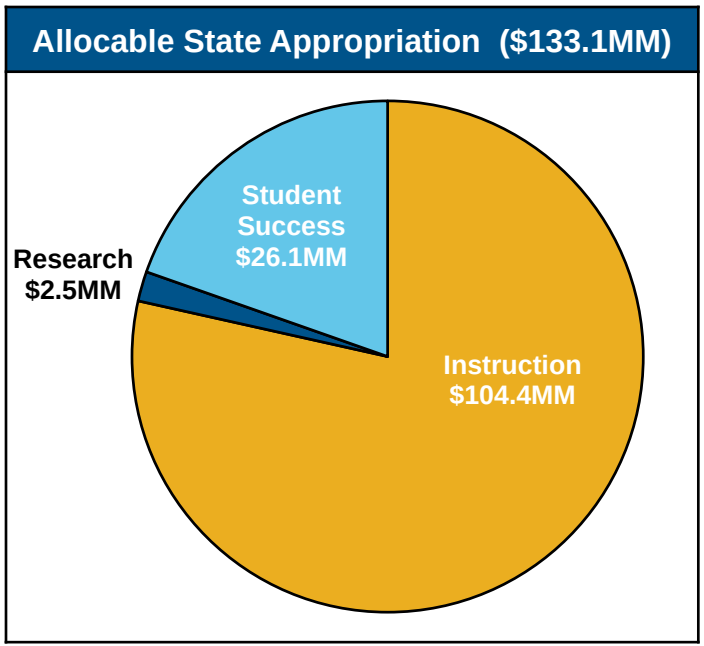
5.2 State Appropriation Allocations

The proposed model directly allocates general state appropriations to the Colleges to align with BSU's new strategic plan and the Indiana Performance-Based Funding Model.



Incentive[1]	Allocation Metrics	Calculated Allocation Rate
Research ($2.5MM)	Total Grants and Contracts Revenue	$0.34 per $1 received in Grants and Contracts revenue
Instruction (80%)	Total Student Credit Hours Completed (Instruction)[2]	$206.41 per credit hour successfully fully completed
Student Success (20%)	<u>Allocated by weighted metrics</u> 1. Resident Degrees Awarded (1.0x) 2. Non-Resident Degrees Awarded (0.5x) <u>Additional "kicker"</u> 1. At-Risk Degrees Awarded (0.5x) 2. High-Impact Degrees Awarded (0.5x)	<u>Allocated by weighted metrics</u> 1. $4,666.45 per Resident Degree 2. $2,333.22 per Non-Resident Degree <u>Additional "kicker"</u> 1. $2,333.22 per At-Risk Degree 2. $2,333.22 per High-Impact Degree

Note 1: $2.5MM of state appropriations are allocated to incentivize research, and the remining amount is allocated 80% / 20% between the Instruction and Student Success pools.
Note 2: Total Student Credit Hours Completed (Instruction) allocation metric excludes instructional credit hours where the student outcome is an 'I','W' or 'F' grade.

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6.0 IDC Revenue

In the proposed budget model, Indirect Cost Recovery (IDC) revenue is attributed 100% directly to the campus unit where the cost is incurred.

Current Practice	▪ 80% directed to the university general fund ▪ 10% directed to the department ▪ 5% directed to the principal investigator ▪ 5% directed to the Dean
Proposal	Attribute 100% of IDC revenue to campus units where IDC is generated
Rationale	Attributing 100% of IDC revenue to the units should reflect actual amounts generated to support research, further incentivize the pursuit of higher recovery, and help cover facilities and administration expenses
Implications	▪ Campus units involved in research will receive 100% of the IDC revenue ▪ Portions of these funds may have been used to cover support unit costs and central investment pools (e.g., strategic investment, deferred maintenance, etc.); therefore, proposal may not result in a net revenue increase for a particular campus unit

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Revenue Allocations

Based on the current proposed model, the chart below illustrates the revenue dollars that are allocated to the Colleges for instruction, major / record, and research.

Revenue	Instruction	Major / Record	Research	Model Total
Undergraduate Resident	$76.3MM	$25.5MM	$ -	$101.8MM
Undergraduate Non-Resident	$36.5MM	$12.2MM	$ -	$48.7MM
Graduate Resident	$6.2MM	$2.0MM	$ -	$8.2MM
Graduate Non-Resident	$8.4MM	$2.8MM	$ -	$11.1MM
Online Undergraduate	$6.1MM	$2.0MM	$ -	$8.1MM
Online Graduate	$24.4MM	$8.1MM	$ -	$32.5MM
Program & Course Fees	$ -	$5.1MM	$ -	$5.1MM
Other Student Fees	$ -	$1.7MM	$ -	$1.7MM
General State Appropriations	$104.4MM	$26.1MM	$2.5MM	$133.1MM
IDC Revenue	$ -	$ -	$0.7MM	$0.7MM
Revenue Distribution Total	**$262.3MM**	**$85.5MM**	**$3.2MM**	**$351.0MM**

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7.0 Support Units Allocations

Support unit costs are allocated net of generated revenues to colleges. This is done through use of an allocation variable for each model group and as a result, a per unit allocation rate can be calculated.

Cost Pool	Allocation Metric	Allocated Total
Academic Support	Student Headcount	$ 18,643,721
Administrative Services	Total Direct Expenses	$ 28,307,830
Employee Services	Total Employee Headcount	$ 7,132,058
Facilities	Net Assignable Square Ft.	$ 37,970,975
Information Technology	Total Institutional Headcount	$ 13,130,572
Libraries	Student Headcount + Faculty Headcount	$ 10,465,827
Research Administration	Grants and Contracts Revenue	$ 3,280,725
Student & Enrollment Services	Student Headcount	$ 14,042,519

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7.1 Support Unit Allocations Discussion

During our stakeholder conversations, questions arose as to the composition of cost pools, the allocations directed to academic units, and the details surrounding relevant processes.

1. **Allocation Metrics**: Support unit net expenditures are allocated formulaically based on allocation metrics
2. **Level of transparency**: All cost pools in the model are composed of a number of administrative units, though transparency is set at an aggregate level
3. **Validity**: This initiative did not assess reasonableness of support unit funding levels
4. **Stakeholder Input**: Committees are usually formed to review the relationship of service levels and cost
5. **Service level agreements**: Select areas often develop finite service level agreements during the hold harmless period to provide clarity with regards to services associated with cost pool allocations

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8.0 Central Funding Mechanism

One of the most critical elements of an incentive-based budget model is the creation of a pool of resources to address unit-level subsidies, university priorities, revenue growth strategies, and other strategic initiatives.

Central Funding Mechanism Overview	
Rationale	▪ The sum of the parts is not optimal for the whole therefore the university needs the ability and flexibility to act as one entity with respect to key initiatives
Funding Source	▪ Central funds are centrally retained and/or generated revenues purposed for mission and strategic investment
Fund Principles	▪ The Strategic Initiative Pool can be a useful management tool to **help fund long-term initiatives** by advancing capital, provide critical subsidies to kick-start initiatives ▪ **Funding size should enable leadership to "steer,"** which will ultimately benefit the university mission as a whole ▪ Funds provided to any unit **should never be viewed as an annual entitlement** only as a way to kick-start initiatives ▪ The model uses a participation fee to generate the central fund, applying a participation rate to selected revenues. Having a **diverse revenue portfolio rather than a single source allows for stability** ▪ Participation fees need to ensure "neutral starting points" at implementation; thus the **rate needs to be high enough to ensure surpluses are available to fill all Revenue Unit deficits**

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8.1 Participation Fee

The central funding mechanism is generated by collecting a percentage of select unrestricted revenues from the primary units. The table below lists what revenues are assessed the participation fee.

Revenue Line Item	Participation Fee Assessed?
Undergraduate Tuition	Yes
Graduate Tuition	Yes
Online Tuition	Yes
Program & Course Fees	Yes
Other Student Fees	Yes
Undergraduate Aid (Contra)	Yes
Graduate Aid (Contra)	Yes
State Appropriations	Yes
Grants & Contracts	No
Indirect Cost Recovery (IDC) Revenue	Yes
Gifts	No
Sales, Services, & Other	Yes

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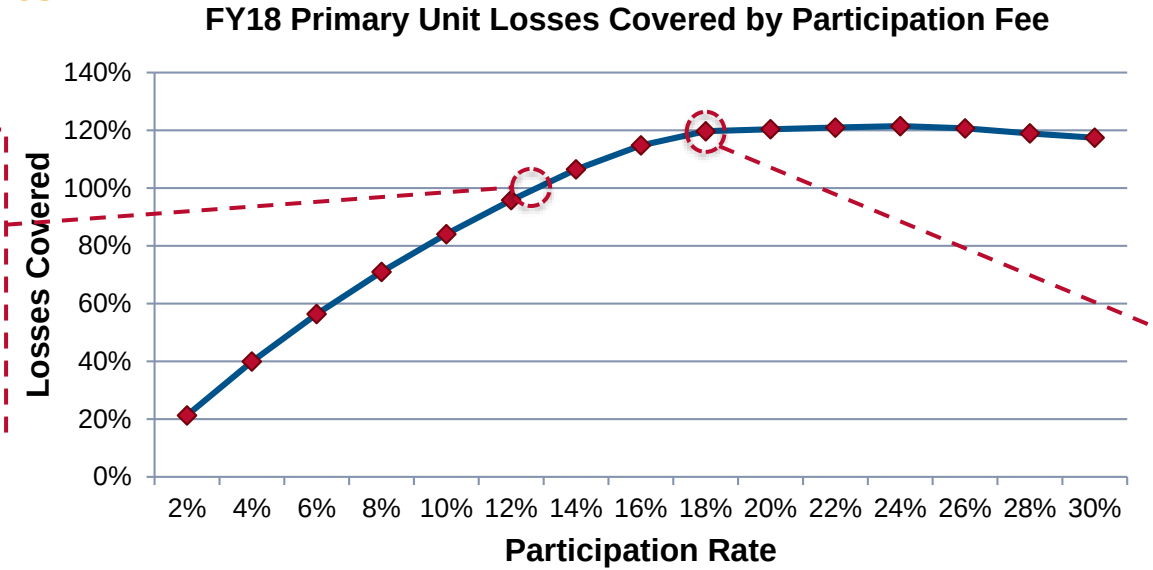
8.2 Participation Fee Analysis

Based on the current proposed methodology, a participation fee of 18% on select revenues would hold back sufficient funding to cover all operational losses while also generating funds for strategic initiatives.

Participation rate of 12.7% generates a central pool that covers 100% of unit losses, but leaves no resources available for strategic investment



Participation rate of 18% would generate a central pool that covers 119.6% of unit losses, thereby simulating $8.6M would be available for strategic investment

The current iteration of the model assesses a participation fee on selected revenues; however, the percentage will vary based on what revenues are assessed and the final / refined model methodology.

Note: The analysis performed is for modeling purposes only and is reflective of the model methodology dated 3/13/2019.

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MOVING FORWARD

Model's Impact On Decision-Making

Incentive-based models have the potential to materially transform institutions over a 5-10 year period as they change the culture of decision-making.

President's Cabinet

Remove luxury of "all things to all people" by forcing difficult decisions

President, Provost, and VP for Business Affairs

Force clarity regarding priorities and strategic initiatives

Deans

Know the full-cost of activities and prioritize them through cross-subsidies between revenue generating activities and mission-driven activities

Administrative Units

Connect service levels and resource levels

Department Chairs and Faculty Members

See how activities drive funding for their respective units

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Achieving the Guiding Principles

BSU began the budget redesign project by developing guiding principles for the new model. Below is a summary of how the new model aligns with the guiding principles:

Guiding Principle Component	Description	Addressed?
Create a model that aligns financial resources with the university mission	The model features a strategic investment fund that generates discretionary funds to support strategic priorities and mission-critical needs. It allocates resources in a manner that incentivize areas as specified in the Destination 2040 Plan	Yes
Align resources with institutional priorities through broader participation in the budget development process	The new model fosters a greater dialogue between central and local leadership that encourages primary and support units to live within their means	Yes
Align model to incentivize instruction, scholarship, and student success for all units	The model allocates state appropriations to incentive research, instruction and student success. Allocated resources follow growth in research and instructional programs and academic units directly benefit from increased revenue per dollar spent	Yes
Reward performance, creativity, innovation, and collaboration and hold	Model features incentives that will reward performance, entrepreneurship, and innovation	Yes
Hold units accountable for resource stewardship to contribute to the University's collective fiscal health	Model incorporates all operating funds to better understand how units contribute to the University's fiscal position thereby promoting transparency, efficiency, and accountability across all units	Yes
Provide a transparent metrics-based approach to resource allocation	Revenues and costs are allocated in a transparent and consistent manner using metrics that are commonly agreed upon. Central unit costs use institutional data as a proxy to allocate costs	Yes
Use a simple methodology that enhances management decision-making and long-range planning	Model decisions were made to create logical allocation methodologies that are simple, which will enhance management decision-making and long-range planning	Yes
Leverage verifiable data so that the budget model serves as a strong predictor of performance	Financial data is sourced from a "single source of truth" to ensure that data can be verified and is standardized across the University to serve as the best predictor of performance	Yes

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Post-Retreat Objectives

Huron recommends that the University take actionable steps following this retreat to continue the positive trajectory of the budget redesign initiative.

Following the retreat discussion, the following activities are suggested:

1. If needed, the Steering Committee should reconvene to finalize any pending discussions
2. The committee co-chairs should present the proposed model to the President for review and approval
3. Involved stakeholders should communicate budget model updates through on-going campus-wide faculty and community engagement sessions
4. The University should begin operationalizing the budget model
5. University leadership should use this budget model to engage additional campus stakeholders

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APPENDIX

Initiative Background

The BSU budget model redesign initiative began to take form as a result of feedback collected during the development of the new strategic plan.

Strategic Plan

- Strategic Planning Committee recommended an incentive-based budget model that helps align resources with the strategic priorities outlined in the Destination 2040 Strategic Plan

Budget Redesign Goals

- Promote student success, stimulate strategic-growth, encourage innovation and entrepreneurship, and support institutional excellence
- Create a “desired future state” for budget development and management policies, practices, and processes that align with the resulting budget development and governance models
- Help to allocate funds in a manner that aligns with the University’s core mission and strategic priorities

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Key Interview Themes

Huron interviewed 45+ stakeholders to better understand the current state of budgeting at BSU. The feedback received has been summarized into three primary themes below:

Primary Themes	Interview Feedback
Strategy	▪ There is a perceived lack of alignment between the strategy and mission of the University and how resources are allocated to the operating units ▪ Funding does not seem to be prioritized based on discernible growth metrics to invest in the most beneficial activities for the University
Empowerment	▪ Local unit leaders have expressed that they have little accountability for their financial position and unfunded deficits are often “gap-filled” at year-end ▪ Decision-making is highly centralized and there are relatively few incentives to grow programs, be entrepreneurial, or reduce expenditures
Infrastructure	▪ While there is a varying degree of confidence and satisfaction with the internal financial reporting functionality, most users agree there are opportunities for increased automation, enhanced usability, and improved training ▪ Most reports are generated manually in excel, which is time consuming, can cause data discrepancies, and a lack of data and reporting standardization

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Support Units Allocations

Huron and the Steering Committee grouped support units into cost pools and identified activity-level metrics to allocate each cost pool's net expenditures.

Cost Pool	Illustrative Support Units[1]	Initial Allocation Metric
Academic Support	Graduate School, Honors College, Online Education, Provost's Office, University College	Student Headcount
Administrative Services	Board of Trustees, Bursar, Business Affairs, Central Stores, Chief Strategy Office, Internal Audit, General Counsel, Marketing, Office of the President, University Controller, Purchasing Services, Printing, Public Safety	Total Direct Expenses
Employee Services	Benefits, Employee Relations, Institutional Diversity, Payroll	Total Employee Headcount
Facilities	Facilities Planning & Mgt, Utilities	Net Assignable Square Ft.
Information Technology	Digital Corps, Information Technology, Media Services	Total Institutional Headcount
Libraries	University Libraries	Student Headcount + Faculty Headcount
Research Administration	Sponsored Projects Administration	Grants and Contracts
Student & Enrollment Services	Commencement, Institutional Aid, Registrar, Student Affairs, Student Services	Student Headcount

Note 1: This draft structure is for modeling purposes only and does not represent or imply a change to the current reporting hierarchy.

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