The New Budget Model
All Funds Model
Budgeting@UD
March 14, 2016

Faculty Senate Budget Committee

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- Kathy Dettloff, Chief Budget Officer
- Michael Matthews, Director, Budget Office

for their time, patience, and support in this work.

Budgets and Academic Priorities

Don't tell me what you value. Show me your budget, and I will tell you what you value.

Vice President Joe Biden

Senate Committee Recommendations in 2013

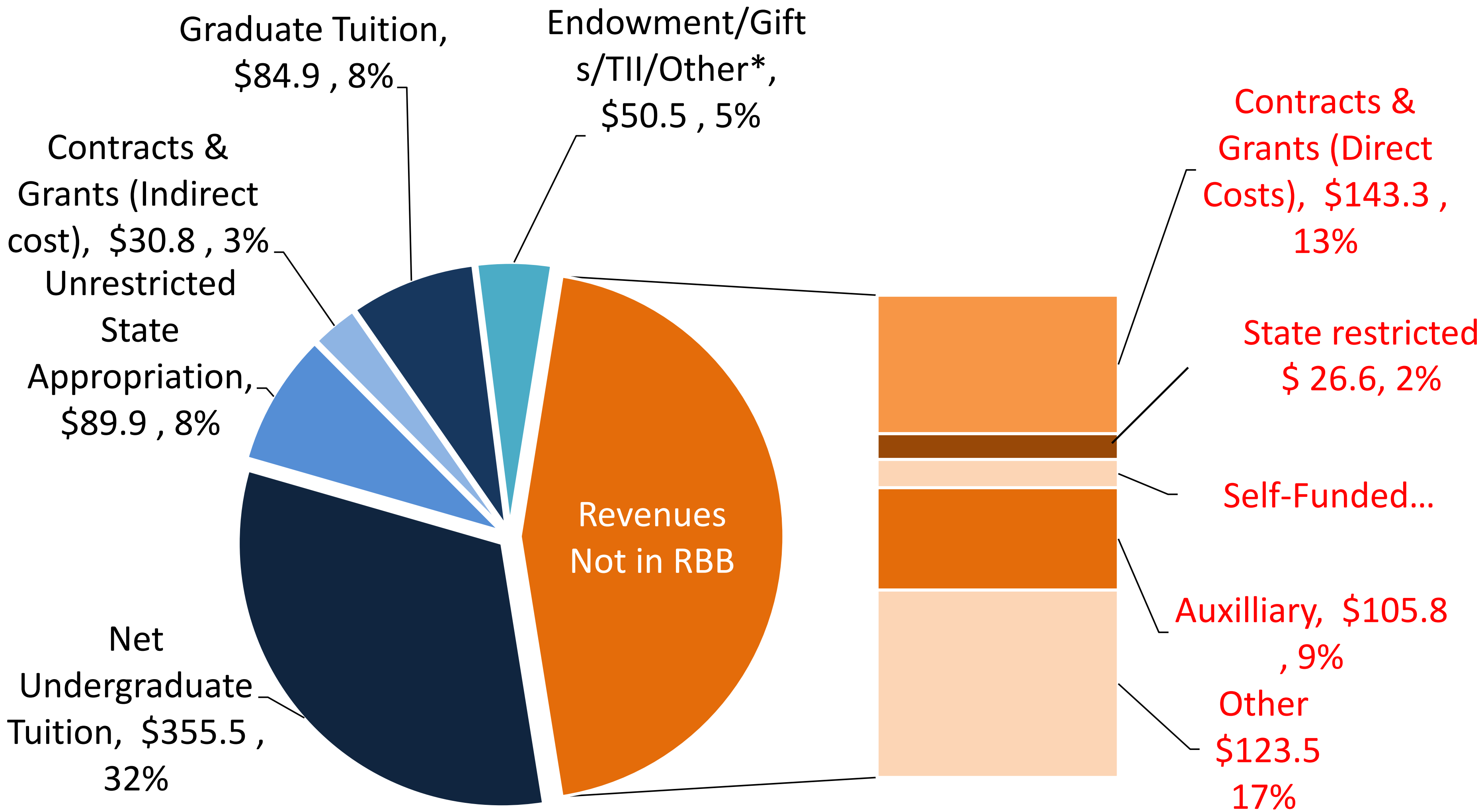
1. Greater Decentralization of Incentive Structure in RBB
2. Additional Transparency of Budget System for Faculty
3. Re-examination of Research Incentives and Current Subvention Process
4. Initiation of Incentives for Teaching and Service, and for enhancing University Flagship Programs
5. Reinstitute Faculty Senate Standing Budget Committee
6. Ensure academic program development systems are not unduly influenced by the budget model

New Model (BUD)

(*Objective*: Simplicity, Transparency and Predictability)

- New model to be implemented in FY 2018
  - Runs in parallel in FY 2016 and FY 2017
- Most Central Expenditure is recovered via a tax on adjusted expenditure of colleges
- No mixing of revenue sources going to colleges (e.g. Tuition, State, Gifts, etc.)
- One University Support Fund redistributes revenues among colleges

TOTAL REVENUE: RBB plus Revenues not in RBB Equals All Funds Model



* Algorithm1 old RBB

Revenues net out $73.8 million in UG financial aid

Comparing the New All Funds Model to old RBB

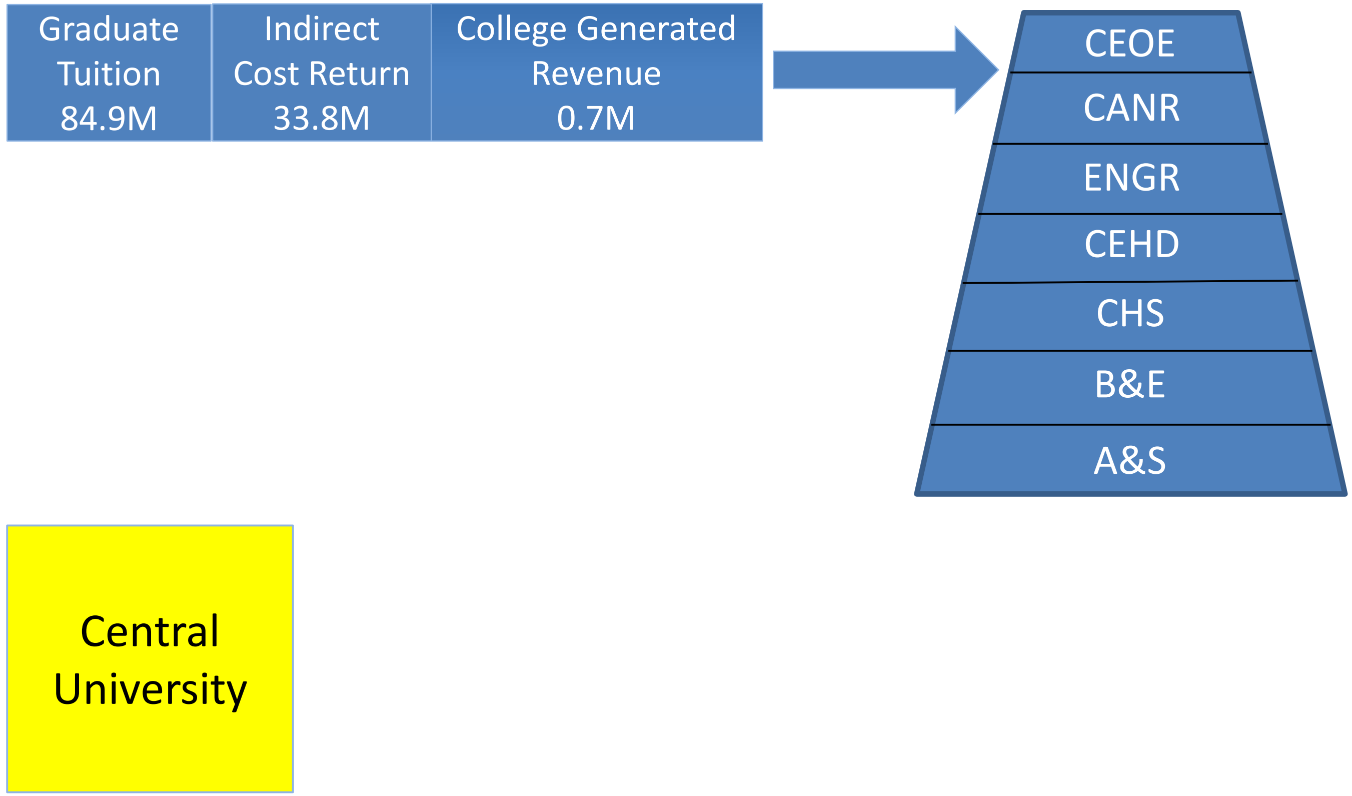
- **All funds model: includes ALL revenues**
  - More inclusive and includes more data on flows
  - Old RBB excluded restricted funds such as contracts and grants direct costs to Colleges, (e.g. self-supporting and auxiliary expenses, etc.)
- **No college generated revenue set aside upfront for central expenses in new model**.
- **Central expenses paid via direct revenues as well as by a tax paid by colleges <u>after revenues returned to Colleges</u>**

All College Generated Funds Go Directly to the Colleges in the New Model

- Graduate Tuition and Fees
- Overhead from contracts & grants (F&A)
- College-generated revenue

New University of Delaware Budget – “All Funds Model”

Step 1: College generated revenue goes to college
Step 2:
Step 3:
Step 4:
Step 5:
Step 6:



New University of Delaware Budget – "All Funds Model"

Step 1: College generated revenue goes to college

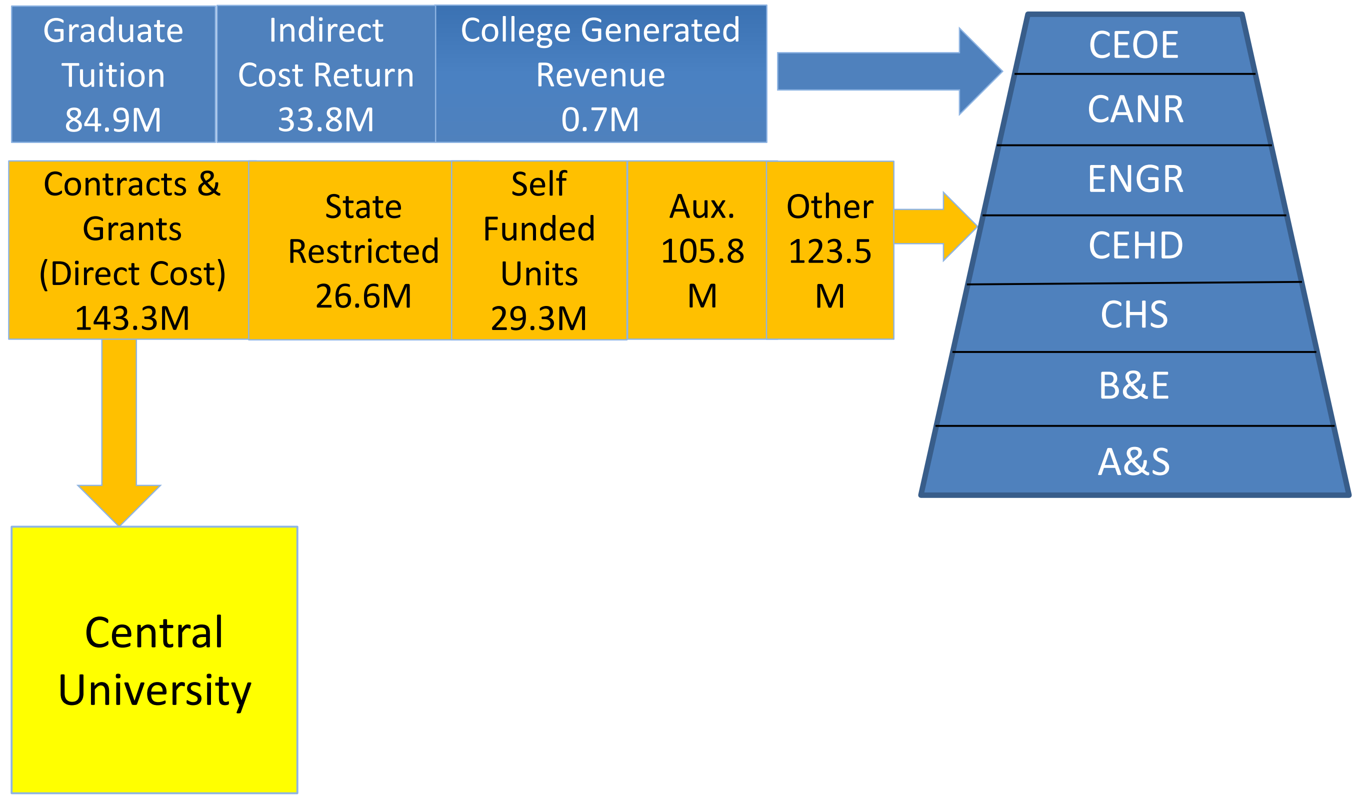
Step 2: Non basic budget resources go to College and Central

Step 3:

Step 4:

Step 5:

Step 6:



Additional revenues that will go back to Colleges under the new model

- Other revenues that go back to Colleges that generate them include:
  - Gifts
  - Endowment Payout
  - Temporary Investment Income (TII)
  - Federal Appropriation (currently only in CANR)
  - State Restricted Appropriation (to College as specified in State Budget)

New University of Delaware Budget – “All Funds Model”

Step 1: College generated revenue goes to college

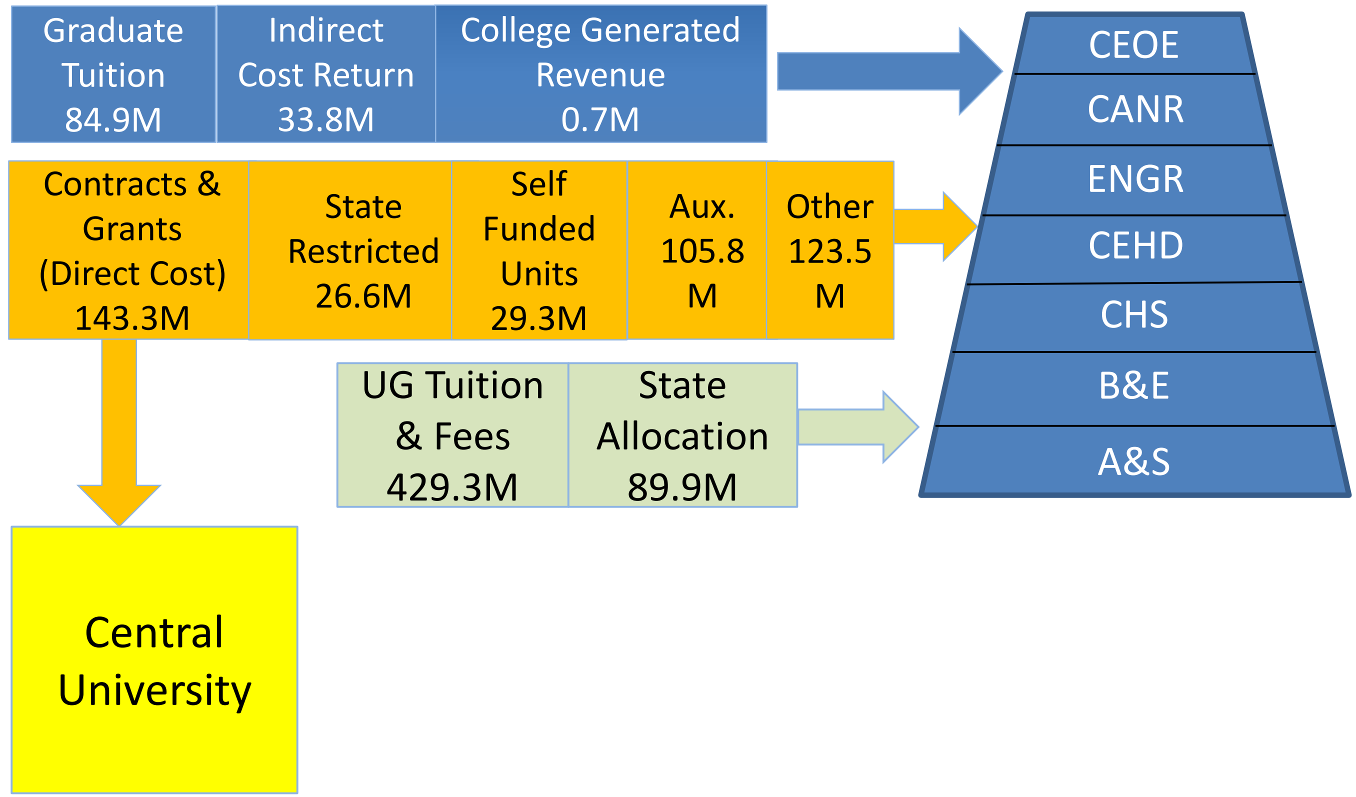
Step 2: Non basic budget resources go to College and Central

Step 3: Revenue allocated to Colleges by Central

Step 4:

Step 5:

Step 6:



Revenues that go back to Colleges in
New Model, *Centrally administered* allocations

- **GROSS UG Tuition/Fees** allocated to colleges: 75% credits ICOR (instructors' college) and 25% credits based on students' home school

New University of Delaware Budget – "All Funds Model"

Step 1: College generated revenue goes to college

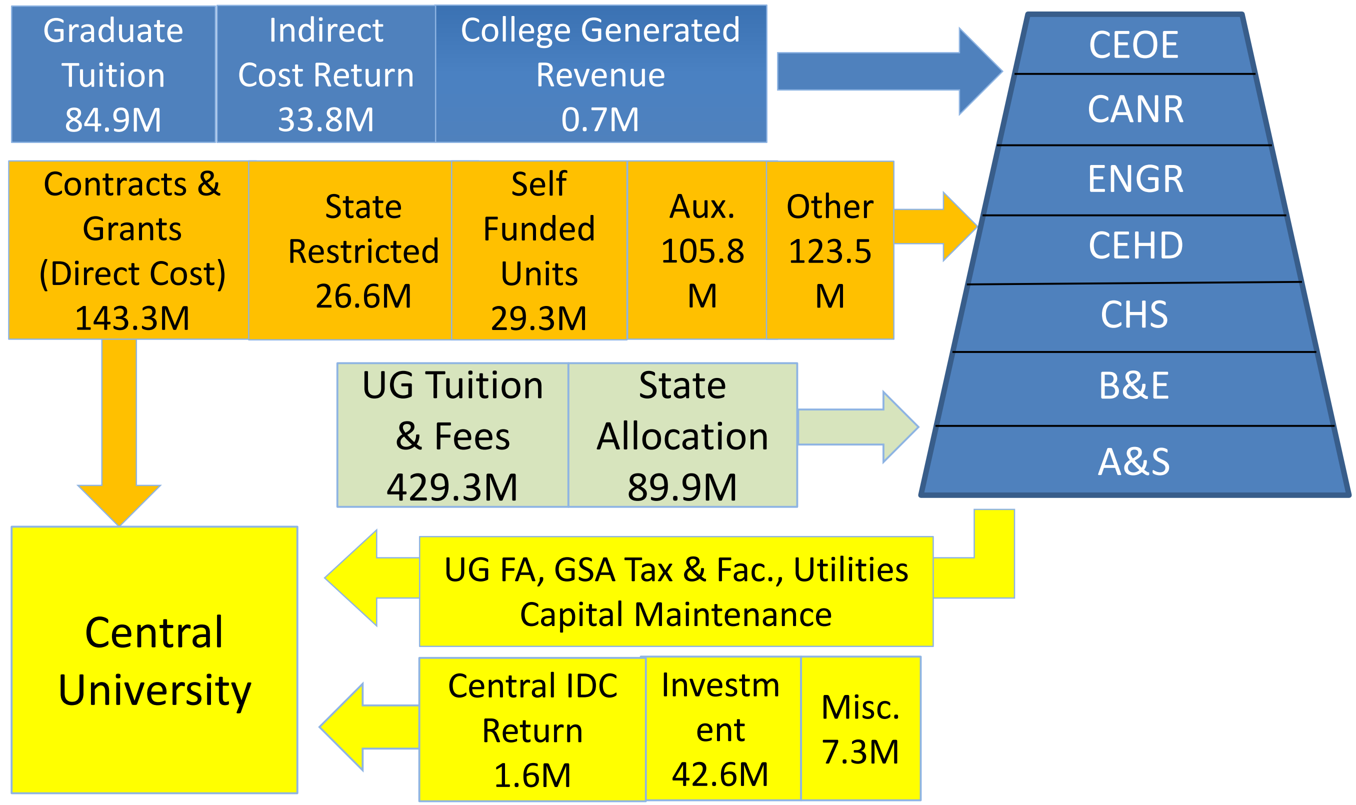
Step 2: Non basic budget resources go to College and Central

Step 3: Revenue allocated to Colleges by Central

Step 4: Central's Budget is paid by College tax & other direct income

Step 5:

Step 6:



New Model Innovation: Revenue Proportionally Distributed from Unrestricted State Appropriation

(*Centrally Administered* Allocation to Colleges)

Proportionally Allocated to Colleges based on Adjusted Expenditures Base*

Contracts & Grants Direct Costs are included in Adjusted Expenditure Base

*Adjusted Expenditure Base Computation

- Total all funds expense
- Less 90% of subcontract expenditures
- Less graduate student expense

New Model Innovation: Central Administration Expense Recovery

- 53.5% Tax on Colleges Adjusted Expense Base
- Facilities, Utilities and Cap Maintenance based on space occupancy
- Centrally Generated Revenues
- Financial Aid based on ICOR and home school

New Model Innovation:
Colleges will be taxed 53.5% on
<u>Adjusted Expenditure Base</u>

- Adjusted Expenditure base consists of
  - Total all funds expenses
  - Less state & federal restricted expenditures
  - **<u>Less contracts and grants expenditures</u>**
  - **<u>Less graduate tuition expenses</u>**

The tax impact on each college will depend on its % of taxed versus nontaxed expenditures

Different percentages of FY 2016 expenditures that would be taxed for each college:

(tax on Adjusted Expenditure Base)

Agriculture and Natural Resources	**50%**
Education and Human Development	**50%**
Earth, Ocean, and Environment	**60%**
Engineering	**62%**
Health Sciences	**64%**
Arts and Sciences	**85%**
Business and Economics	**95%**

New University of Delaware Budget – "All Funds Model"

Step 1: College generated revenue goes to college

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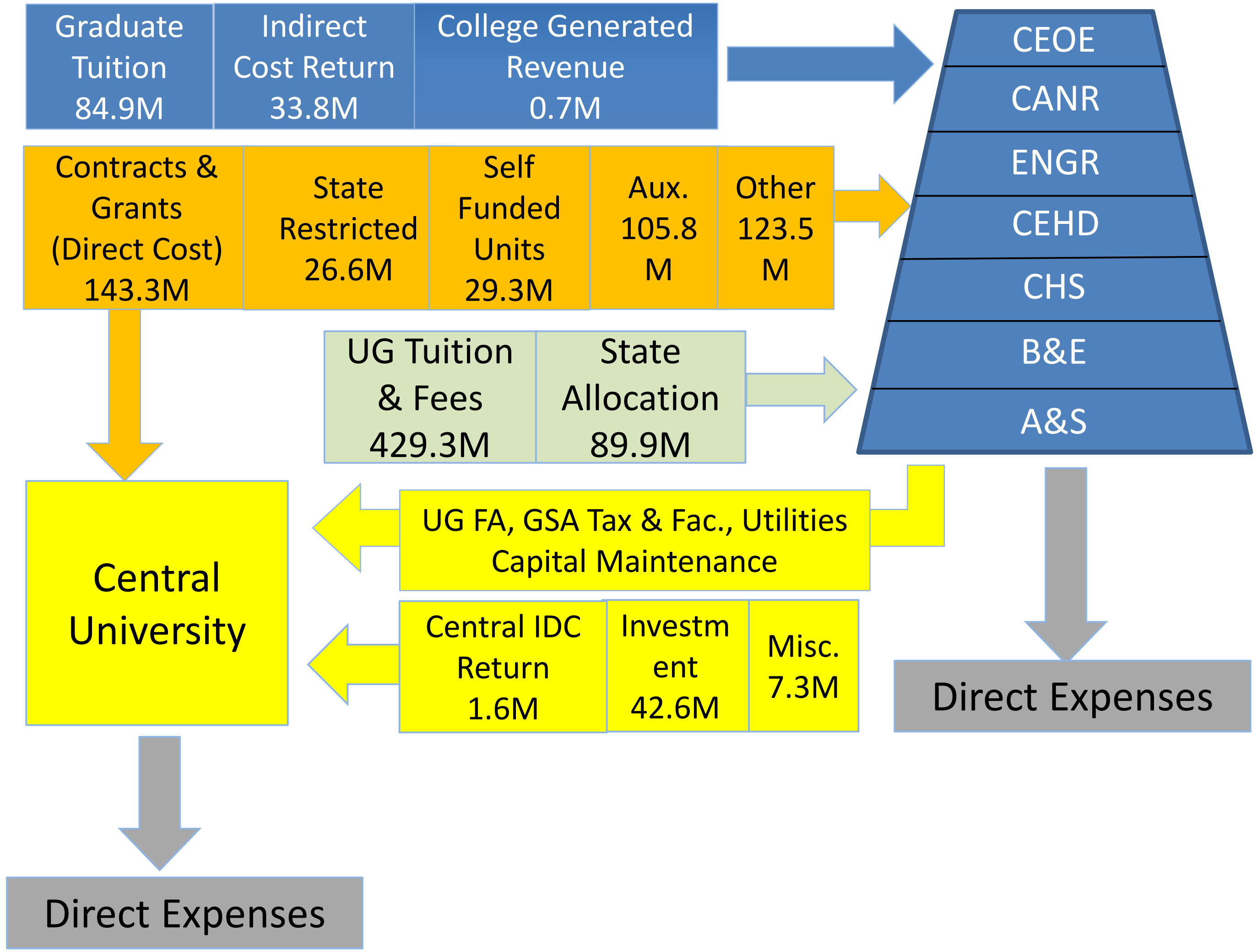
Step 4: Central's Budget is paid by College tax & other direct income

Step 5: Colleges pay direct expenses

Step 6:



New University of Delaware Budget – "All Funds Model"

Step 1: College generated revenue goes to college

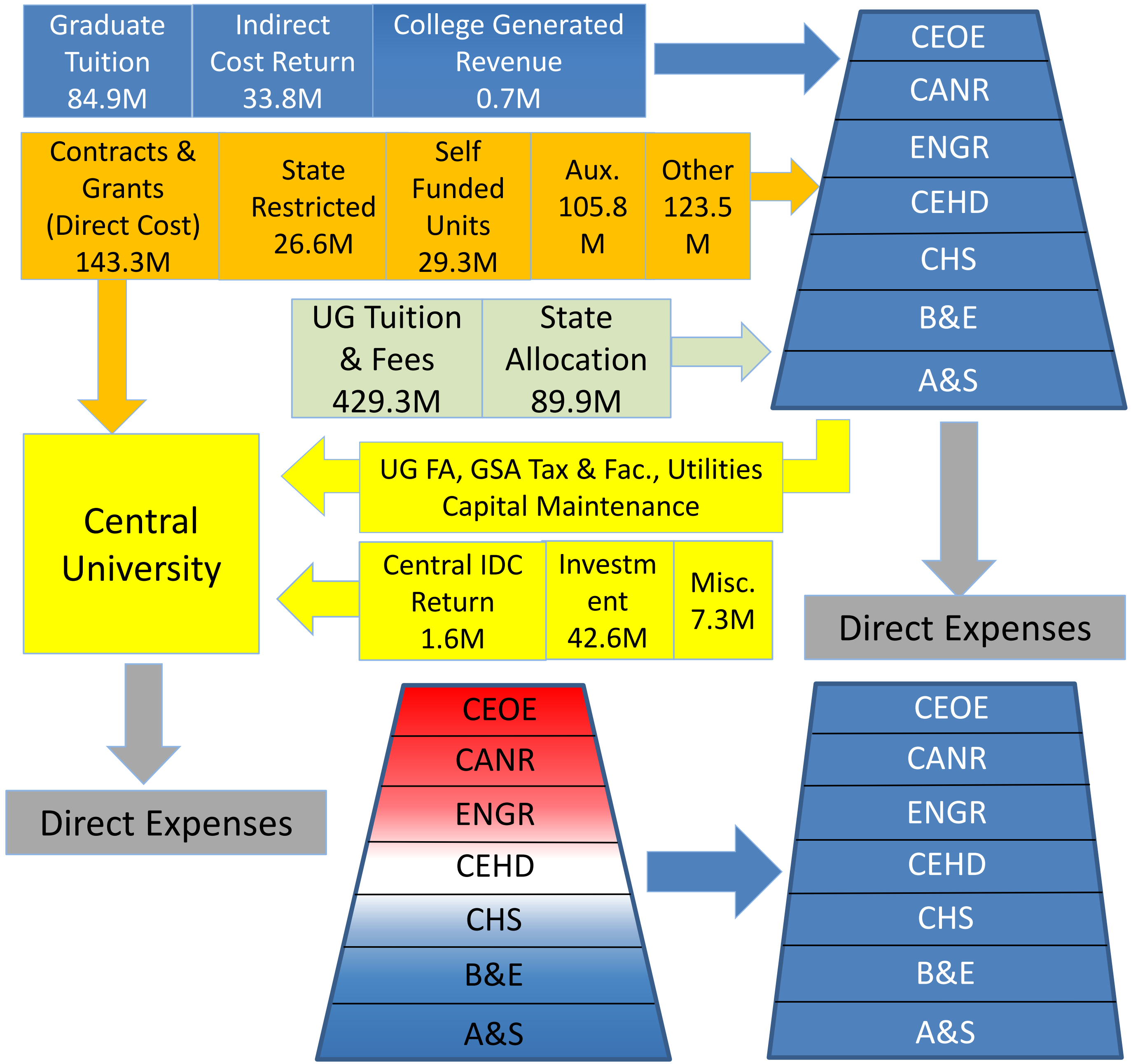
Step 2: Non basic budget resources go to College and Central

Step 3: Revenue allocated to Colleges by Central

Step 4: Central's Budget is paid by College tax & other direct income

Step 5: Colleges pay direct expenses

Step 6: One University Support adjusts for variations across Colleges



New Model Innovation:
One University Support

In the new model, some colleges generate more income than they spend and others do not generate enough to cover operating expenses.

Solution: One University Support

What is One University Support?

- Redistributes funds among Colleges to address variations among College operating expenses
- Redistribution is constant for three years and is then re-evaluated

Old RBB model supported such colleges via Algorithm 1c (Research Subvention= 95.8 M) and Algorithm 1 Step 1 (Provost Subvention = 51.2 M)

One University Support Details

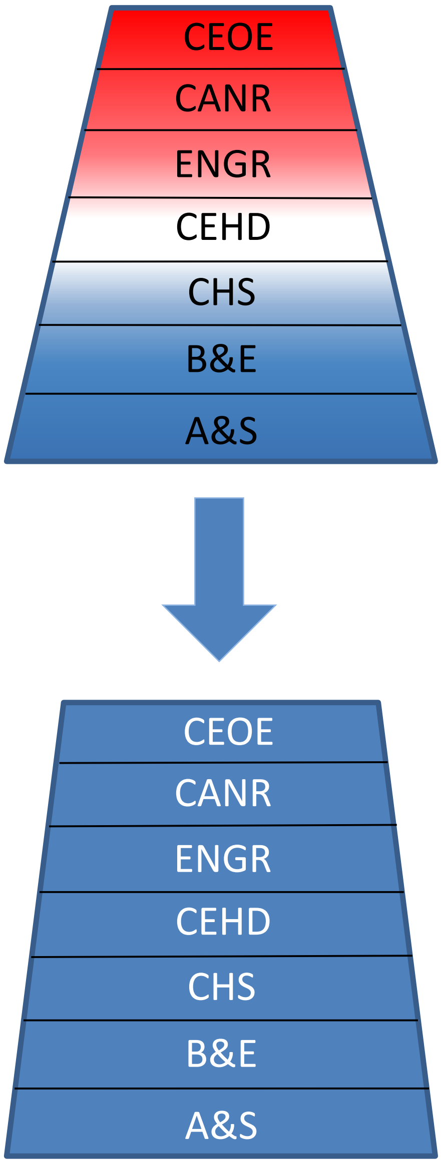
$37,350,000 will be redistributed each year during FY 2018-2020. (compare to $147 M redistribution in current RBB model in FY 2016)

Colleges receiving support:

- Earth, Ocean, and Environment
- Agriculture and Natural Resources
- Engineering
- Education and Human Development

Colleges providing support:

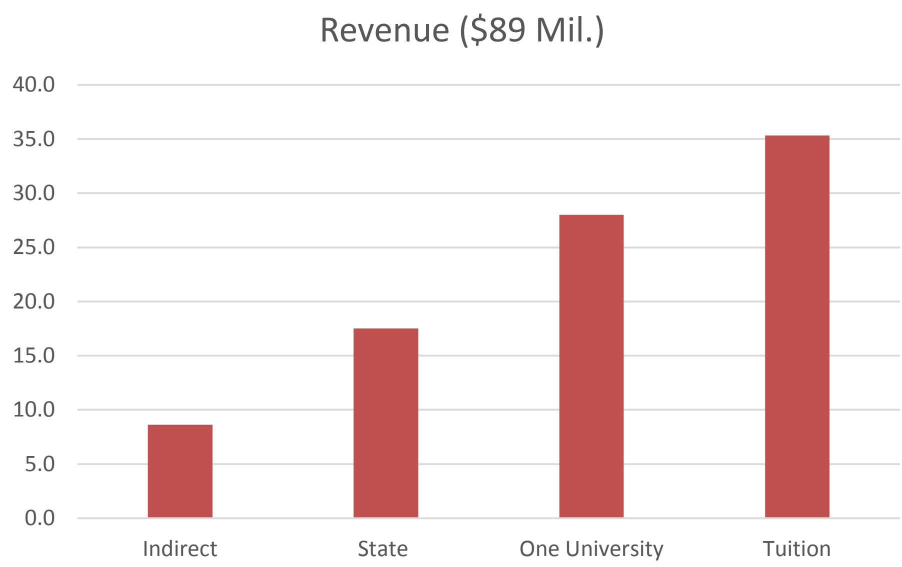
- Arts and Sciences
- Business and Economics
- Health Sciences

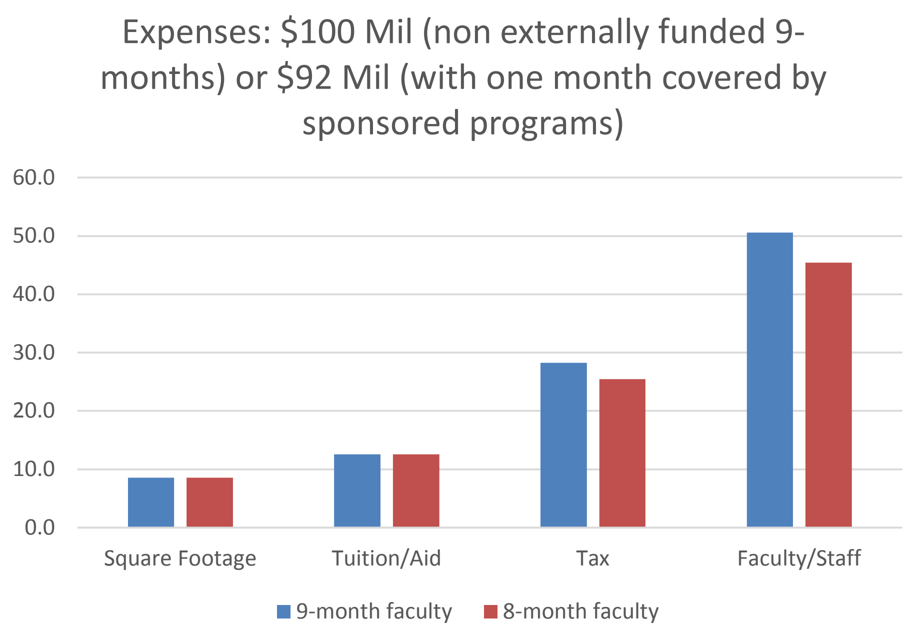


What Affects a College's Bottom Line?

- Contracts and Grants, especially that support faculty salary
- Gifts
- Net Graduate Tuition
- Operational Efficiencies
- University wide tax rate
- Revenue Generation portfolio

Example from CEOE: Paying part of their 9 month salary via grants





Sponsored Activity Intensive College

$11 ± 3 Mil deficit for 9-month unfunded Faculty
Deficit will continue despite $28 Mil One University Revenue

3 ± 3 Mil deficit when faculty cover at least one month of 9 month salary

Faculty have 9-month contracts, but must fund 1/2 month academic salary from research sponsors for 1 month summer salary raised.

Budget balanced ONLY if all faculty raise 2 month salary support AND college received $28 Mil from One University.

Are concerns with RBB being resolved with the All Funds Model?

(Comments from the Oct 2013 RBB Faculty Survey)

RBB was difficult to fully understand (various algorithms, etc):

- Unpredictable revenue stream and algorithm manipulation makes planning difficult
- Lack of any clarity regarding how money flows in the University
- **All Funds Model = there is potential for easier understanding**

RBB created a "business-like" environment:

- Focus too strongly on financial revenue as opposed to academic quality
- RBB emphasized teaching is a business. If what I am doing is not producing a profit, then it does not have worth.
- **All Funds Model = "business-like" environment most likely will remain**

Are concerns with RBB being resolved with the All Funds Model?

(Comments from the Oct 2013 RBB Faculty Survey)

RBB distributes revenue to the Dean's office:

- Little/no incentives to the department for increasing enrollment, class size, offer new programs, etc.
- **All Funds Model = no change; Dean still chooses how to distribute funds**

RBB created a roadblock for cross college collaboration:

- Does not incentivize innovation across colleges – due to the desire of keeping indirect costs and/or tuition dollars within the college
- RBB fosters competition and fighting for scarce resources
- **All Funds Model = indirect costs & tuition revenue remains within College**

Summary

- New model considers all funds, different from RBB which addressed only about half
- Colleges get revenue they earn, nothing taken off the top
- Colleges pay a tax on their expenses minus revenue spent on sponsored programs
- Colleges receive income from state and non-restricted endowment income proportional to their expenses including their sponsored programs
- One University Support redistributes money across colleges, influenced by differential operating costs

Questions and Comments?