BUDGET RESTRUCTURING BASICS

January 10, 2002

The Office of Academic Affairs
and
The Office of Business and Finance

As new policies are approved, this document will be updated and revisions posted at http://www.rpia.ohio-state.edu/budget_planning/budget_restruct.htm
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INTRODUCTION

The University is moving away from a budget structure that is heavily driven by past history. The new budget structure more directly aligns financial incentives for the colleges with the academic goals of the University.

Over the last five years the University has undertaken a detailed review of College financial statements based on the general funds portion of each College’s financial structure. Individual college base budgets, informed by the College financial statements and the University Academic Plan, were established. Base budget adjustments, including reallocations of resources among colleges, will begin in fiscal year 2002 and be completed by fiscal year 2007.

Beginning in fiscal year 2003, new revenues will be shared with the colleges based on the following principles of the new budget system.

- The allocation of resources should be mission driven.
- In a large complex organization, decentralized decision-making works best.
- Any budget system, but particularly one that is decentralized, depends on the creation and maintenance of a timely and user-friendly information system.
- A significant portion of revenues should be explicitly linked to the generating units, specifically the colleges.
- A portion of all revenues should be dedicated to the support of university-wide goals.
- Costs should also be explicitly linked to the generating college or vice presidential area.
- Although the system should be mission driven, predictability and stability are also important characteristics.
- Appropriate oversight and accountability should be provided by the University’s governance and administrative structure.
- A carefully thought out transition is essential to the ultimate success of any changes in the budget system.

While budget restructuring does not resolve the University’s low level of financial support from the state, it will provide greater incentives for units to generate new resources consistent with the goals of the Academic Plan.

The new budget approach has three key elements: 1) budget re-basing (the process by which new base budgets were established); 2) sharing of the marginal revenue from tuition and state subsidy support and from indirect cost recoveries as we go forward; and 3) allocation of expenses. A full understanding of all three is critical
to making the best academic decisions in the most fiscally responsible manner.

**BUDGET RE-BASING**

Re-basing is the reallocation of existing general fund resources among the colleges. The goal of the budget re-basing process was to adjust base budgets up or down in order to make them more consistent with the goals of the Academic Plan.

To inform the re-basing process, the University developed financial statements designed to measure the revenues earned and expenses generated for each of the eighteen colleges. These financial statements helped to identify anomalies in base budgets where the difference between earnings and expenses was inconsistent with the goals of the Academic Plan.

In addition, Provost Ray placed the eighteen colleges into the following three groups in relationship to the goals of the Academic Plan, providing a framework for reconciling base budgets with the Academic Plan:

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<th>1. The six traditional core colleges with Selective Investment programs</th>
<th>2. The five traditional core colleges that do not currently contain Selective Investment units</th>
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Base budgets were then determined, with transition to those budgets to take place over a five year period. None of the colleges in the first group above will have its base budget reduced as long as current levels of teaching and research are maintained. Three of these colleges (Humanities, Medicine and Public Health, and SBS) generate significantly greater dollars than they have been allocated in the past and they will have their base budgets increased over the next five years. Of the colleges in the second and third groups, four (Arts, Education, FAES and Veterinary Medicine) were determined to have appropriate base budgets. Four colleges (Biological Sciences, Human Ecology, Optometry, and Social Work) will have their base budgets increased, and three (Dentistry, Nursing, and Pharmacy) will have their budgets reduced or be expected to become more self-supporting. The College of Business will not have its budget reduced but is expected to generate additional revenues so as to offset all operating costs.
Transfers to the colleges whose base budgets are to be increased began in fiscal year 2002 and transfers from the colleges who are to become more self-supporting will begin in the fiscal year 2003 annual operating budget. Transfers that increase base budgets will not be outright grants or entitlements, but will be conditional upon implementation and satisfactory review of college activities in support of the Academic Plan. Base budgets will be reviewed every five years, with the first review to take place in 2007.

It is important to emphasize that these internal transfers deal with only a portion of resources available for the Academic Plan. Additional resources will be generated by the colleges themselves and from other central funds related to the Academic Plan, including Selective Investment, Academic Enrichment, tobacco funds, President’s Strategic Investment Fund, and private gifts.

These additional targeted and competitive funds will be used to support the Academic Plan differentially, but will be available to all colleges.

*Special Issues Related to Re-basing*

- **Space:** Academic units on the Main Campus are assigned approximately five million square feet of space. In the base budget calculation, the colleges are allocated the portion of the cost directly related to the amount of space used (utilities, maintenance, and custodial). The portion of state subsidy the University receives as a result of the Plant, Operations, and Maintenance (POM) expenditures was also allocated to each college based on the space assigned to each college.

- **Support of Sponsored Research:** College base budgets include the revenue colleges generate through indirect cost recovery. Indirect cost recovery revenue was allocated to the colleges in the following manner: the fiscal year 2000 beginning-of-year budgeted indirect cost recovery revenue for the total university was allocated proportionately based on the fiscal year 1999 actual performance of the colleges and other units. For example, if a particular college brought in 25% of the indirect cost recovery in FY 1999, then it received 25% of the budgeted fiscal year 2000 indirect cost recovery. Indirect cost recoveries generated by academic centers that do not reside in a college, such as the Byrd Polar Research Center, are held centrally to offset their expenses.

- **Selective Investment:** In the revised base budget calculation, awards of annual rate to academic units through the Academic Enrichment and Selective Investment initiatives are treated as both an expense and a resource to the college. This eliminates any unintended negative impact of Academic Enrichment or Selective Investment transfers on the college’s ratio of revenues to expense.
Summary: Key Concepts of Re-basing

- New base budgets have been determined for all colleges and will be phased in over the next five years.
- Some colleges will receive additional resources. Some colleges will receive less and will need to become more self-supporting.
- The new base budgets are not entitlements. Budget adjustments are contingent on the successful implementation of college strategic plans that align college and University priorities as reflected in the Academic Plan.
- Base budgets will be reviewed and readjusted every five years.

TUITION AND STATE SUPPORT AND INDIRECT COST RECOVERY “GOING FORWARD”

Re-basing is only a part of the new budget process. Even more important is the creation of budget policies and practices going forward that enhance:

- support for the University’s instructional mission;
- support for the University’s research mission;
- incentives to either reduce costs or generate the additional revenue needed to address the University’s academic priorities;
- accountability for the costs of individual unit decisions that affect the entire University community.

Budget restructuring is intended to adapt the University’s resource allocation process to accommodate changing internal and external needs in ways that are compatible with our goals and values.

Tuition and State Support

The single most important decision regarding “going forward” under budget restructuring is the sharing of tuition and state support with the generating units (e.g. college cost centers). In fiscal year 2001, tuition totaled $329 million and state support, more commonly referred to as subsidy, totaled $318 million on the Columbus campus.

Under budget restructuring, tuition and subsidy revenue is shared with the colleges in three ways. First, most of the tuition and subsidy revenue that Ohio State receives has already been committed to the colleges as part of the base budgets. The base budgets are intended to fund teaching of the current levels of credit hours.

Second, colleges will receive additional tuition and subsidy if they teach more
credit hours and less if they teach fewer. Such marginal changes in tuition and subsidy revenue will be shared with the colleges based on a two-year average of credit hours delivered. The two year average is intended to allow a college more time to absorb revenue decreases and will phase revenue increases in over time.

Third, colleges will share in the remaining marginal change in subsidy and fees. The remaining marginal change comes from increases or decreases in the University’s tuition and/or subsidy revenue. A college’s share of the remaining marginal change will be distributed based on its total credit hours delivered.

The total marginal revenue from tuition and subsidy is calculated by combining the second and third factors described above. This combination of factors means that total marginal revenue for a college teaching more credit hours than in the previous period might, in fact, increase or decrease, depending upon the direction and size of the remaining marginal change. Total marginal revenue will be allocated to the colleges beginning in fiscal year 2003.

Tuition and Subsidy Revenue Categories

Just as the University receives different amounts of tuition from students in different programs and different amounts of state subsidy for different course enrollments, so too will colleges. The differing types of tuition are referred to throughout budget restructuring documents as fee-paying categories. The fee-paying categories are Undergraduate, Masters/PhD, Graduate Non-Resident, Master of Accounting, Master of Labor & Human Relations, Master of Physical Therapy, MBA, Executive MBA, Law, Dentistry, Medicine, Optometry, Pharmacy, and Veterinary Medicine.

The varied rates at which the University earns state subsidy depend on the type of course taught and the level of students enrolled. The Board of Regents (BOR) uses a formula to allocate operating appropriations to Ohio’s public universities. Funds are allocated based on enrollments sorted into academic program categories with similar cost characteristics, as measured on a state-wide average of all institutions. There are six undergraduate subsidy categories (General Studies I, II, and III and Baccalaureate I, II, and III), six graduate (Masters and Professional I, II, and III; Doctoral I and II; and a new category, MPD I1), and two medical (Medical I and II).

Attachment A takes the reader step by step through the method of calculating both the marginal increases and decreases in revenues and the additional distribution

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1 The MPD I subsidy category is a combination of education and business FTEs from the Masters and Professional I model and education and business FTEs pursuing a master’s degree but above the doctoral credit hour threshold, previously reported in the Doctoral I and II models.
based on inflationary growth in subsidy and fees. These calculations must be performed for each of the fee-paying and subsidy categories. The fee and subsidy revenue model that performs these calculations is available to college administrators and has the capability to drill into the data to the departmental and course level.

Special Issues Related to Tuition and State Support Going Forward

- **PhD subsidy:** Effective July 1, 1999, the State of Ohio adopted a funding cap on doctoral students. As a result, growth in the number of doctoral students will not be accompanied by additional state support to offset the cost of additional enrollments. Since the existence of a cap is at odds with the basic tenet of budget restructuring that revenues follow enrollments, the Ph.D. subsidy will be treated in the following manner.

  For fiscal year 2003, sharing increased or decreased revenues generated in the Ph.D. subsidy will be based on the following principles:
  a) Marginal changes in doctoral subsidy will be distributed based on the rolling two-year average of doctoral student credit hours weighted by historical doctoral subsidy levels.
  b) Credit hours for students who have earned more than 260 credit hours will not count, because the Board of Regents did not count them in determining the capped subsidy.

  For fiscal year 2004 and beyond, the distribution of marginal changes will be based on the quality of existing programs and the needs of newly approved doctoral programs. The Budget Advisory Committee is currently reviewing recommendations about how best to implement this policy.

- **Differential fees:** In fiscal year 2002, colleges with differential fees will share the fee and subsidy revenues just as in prior years. In fiscal year 2003, the colleges will continue to receive 100% of the additional income generated by differential fees on existing students. These colleges will receive a portion of the standard graduate tuition increase according to the University wide allocation method used to distribute fees and subsidy.

- **Out-of-state fees:** As a general principle, a College should not benefit from, nor be harmed by, having more or fewer out-of-state students. Therefore, for undergraduates and professional students, and for graduate students in the MBA, Executive MBA and Masters of Accounting programs, the income from both the instructional fee and the non-resident surcharge are included in the net effective rate for each fee-paying category. Colleges earn the non-resident

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2 Historically, doctoral subsidy was provided to universities at two levels – Doctoral I and Doctoral II. While this distinction is no longer made in the allocation Ohio State receives, this weighting by the historical subsidy levels more appropriately matches resources with the cost of different Ph.D. programs.
surcharges generated by their graduate enrollments; at the same time, colleges pay for the non-resident portion of graduate fee waivers through the Student Services Cost Allocation (described below). While out-of-state fees are treated differently for undergraduate and graduate students, the end result is that colleges realize neither a cost nor a benefit to enrolling out-of-state students.

- **Medical subsidies:** The College of Medicine will be allocated the entire growth in the Medical 2 subsidy each year. Marginal changes in Medical 1 subsidy will be distributed to the Colleges of Dentistry, Optometry, and Veterinary Medicine based on headcount enrollment and expenditure information.
- **Funding for development of new instructional programs:** Interest free loans will be made available via a line of credit agreement to new programs approved by Council on Academic Affairs (CAA). Whether a college receives a loan will be determined by its existing financial condition, the investment required for the new program, the expected payback period required, and the extent to which the new program is essential to the effective implementation of the Academic Plan.

**Indirect Cost Recovery**

College base budgets include revenue from indirect cost recovery calculated in the manner described on page 2 of this document. Going forward, marginal changes in indirect cost recovery revenue will be allocated to the colleges, except for the portion associated with the Libraries and, in most cases, the component related to building and improvement use. Increases in the portion of indirect cost recoveries associated with the Libraries will be retained centrally for use by the Libraries. Because the University currently has a backlog of deferred maintenance and a shortage of quality research space, the component related to building and improvement use will be used by the Office of Research for renovation and rehabilitation of sponsored research space.

The indirect cost recovery rate for the University’s main campus is based on a University-wide average. The possibility of using multiple rates will be re-evaluated as the University negotiates indirect cost recovery rates with the federal government.

One additional issue worthy of special note is that, going forward, indirect cost recovery revenue is not included in the revenue on which colleges are taxed to cover central commitments.
ALLOCATION OF EXPENSES “GOING FORWARD”

One of the core principles driving budget restructuring is that the costs should be explicitly linked to the college or vice presidential area generating the costs. Under budget restructuring, colleges assume responsibility for the five categories of cost allocations described below.

Like budget restructuring itself, this document is a work in progress. Some of what follows is approved policy, while other sections describe recommended policies that will be implemented for FY03 but will be monitored carefully for unintended consequences and adjusted over time as necessary.

Student Services Cost Allocation – Approved Policy

This marginal cost allocation is based on services provided by the Office of Student Affairs, Enrollment Services (Financial Aid Administration, Admissions, and the Registrar’s Office), Undergraduate Student Academic Services, and the Graduate School. In addition, the marginal changes in the non-resident portion of graduate fee waivers and student financial aid funded by the General Fund are included in this category and account for the greatest portion of this cost allocation by far.

A portion of the services provided by Student Affairs will be funded by the General Fee, as is the current practice. Marginal costs for the remainder of Student Affairs services and most other services provided by the units listed above will be allocated directly to the colleges based on the credit hours generated by a college. The central costs of Undergraduate Student Academic Services will be allocated on the percentage of undergraduate degrees by college (adjusted to account for colleges’ directly enrolled NFQF) since the goal of the advising activity is to move the student toward successful completion of an undergraduate degree.

Physical Plant Allocation – Approved Policy

Under budget restructuring, marginal costs for operating and maintaining the University’s physical plant are allocated to the unit assigned the space. Physical plant cost allocations must be equitable, easy to understand and administer, and provide incentives to change behavior in a positive direction. Physical plant costs will be based on campus-wide average costs per assignable square foot (ASF) calculated for three types of cost:

- **Utilities:** Since colleges or programs can’t choose to be in a building that is an efficient or an inefficient user of utilities, it would be inappropriate to charge
actual utility charges in most instances\(^3\). In addition, there is the practical consideration that many of the existing buildings are not separately metered, making the calculation of actual utility charges impossible. Furthermore, the cost of separately metering all campus buildings would far outweigh the benefit that might be achieved through allowing units to recognize direct utility cost savings as a result of customer behavior in a given building.

- **Custodial service:** The cost to the University of negotiating and maintaining a building-by-building or unit-by-unit custodial rate would outweigh potential benefits that any individual unit might gain by such a plan. Allocating an average custodial rate to the colleges will encourage colleges to consider the most effective and efficient use of space and will encourage colleges to hold Physical Facilities accountable for the level of custodial services provided for the campus average custodial rate. Physical Facilities will provide the colleges with a detailed explanation of what custodial services are included in the campus wide average custodial rate. Customers who choose to purchase a higher level of custodial service will continue to have that option available.

- **Maintenance:** Among the factors that affect the amount of maintenance a space requires are: age of the facility, design and style details, the building’s use, the type of building systems, and the amount of preventive maintenance the building has received during its life. Many of these factors are outside the control of the building occupant. The policy should not penalize units in high maintenance buildings nor should it encourage a unit to avoid necessary preventive maintenance in order to drive costs down in the short run. All ASF will be charged the university-wide average maintenance rate for basic maintenance. The service and maintenance of “special departmental equipment and building systems” will continue to be the responsibility of the department using the equipment and building systems in addition to the allocated maintenance charge.

Beginning in fiscal year 2003, Resource Planning will calculate annually, as part of the budget process, the space costs for colleges.\(^4\) The charges will be based on the assigned square footage (as recorded in the space inventory maintained by the Office of Facility Planning). The square footage will be multiplied by the rates and at the levels determined appropriate for that space’s utilities, custodial and maintenance category. Colleges will be provided with a breakout of the space charge by room. Space charges will be adjusted on a prorated basis, within the

\(^3\) As an exception to the average utility charge rule, actual usage will be calculated for low use buildings that are separately metered, for example barns and hangars. The cost will be calculated by Physical Facilities per KH used and include the cost of reading the meter and billing the customer.

\(^4\) Earnings units have been assessed space costs, but under a different methodology. The new physical plant charge formula will be used to calculate the physical plant charge for earnings units in fiscal year 2002. Because the assessment using the new formula is significantly higher for some earnings units, the new level of assessments will be phased in over fiscal years 2002 and 2003. In fiscal year 2003, the full physical plant charge as calculated with the new formula will be assessed to earnings units.
fiscal year, for significant amounts of square footage newly assigned or vacated after the annual calculation.

In fiscal year 2002, the college physical plant costs will be calculated (using the currently available space data and the new rate calculation formula) and shared with the colleges for review and planning purposes. Each college will be responsible for reviewing and updating its space data in the Office of Facility Planning database.

As a result of a change in the state support formula, units have been assessed a Plant Operation and Maintenance charge for additional space in major capital projects assigned to them after 1996. The method for calculating and allocating physical plant costs for additional space assigned to units must be made consistent with the recommended budget restructuring methodology. Memoranda of Understanding for existing capital projects will be revised to reflect this change.

Units currently in off-campus leased space will have their current level of rent support included as part of the base budget for space. Going forward, costs for off-campus leased support, including increases in leased space and increases in rent for currently leased space, will be the responsibility of the colleges.

*Research Administration Cost Allocation – Approved Policy*

Under budget restructuring, funding for research support will come from three different sources: the central tax, direct charges to the benefiting units, and the research cost allocation, which will be adopted for fiscal year 2003. The administrative components of the Office of Research that benefit all types of research will be funded by the central tax. For example, the Office of Research Risks Protection (ORRP) has university-wide responsibility for monitoring research risks, dealing with conflicts of interest involving research issues, and providing advice on compliance issues. Going forward, marginal changes in the budget for ORRP and other such offices with university-wide responsibilities will be covered by the central tax.

Graduate fee authorizations and space-related costs will be charged directly to the benefiting units. Policies concerning these cost allocations are discussed in separate sections of this document.

Marginal changes in the budgets of activities that support sponsored research will be funded through the research cost allocation. For example, marginal changes in the budgets of OSURF will be funded by the research cost allocation. OSURF has responsibility for grants management for principal investigators, a service that does
not benefit all colleges equally. Because the benefits are not equal, individual colleges will be allocated a research cost proportional to their Modified Total Direct Cost expenditures. Multi-college academic centers are additional examples of research activity for which the research administration cost allocation will cover marginal budget changes.

*Graduate Fee Authorizations – Approved Policy*

Graduate students play a significant role in achieving the goals of the Academic Plan. Treatment of the costs attributed to graduate fee authorizations has an important academic and financial impact on the University and its academic units. Given this impact, we will need to monitor for unintended consequences. Comments on the use of fee authorizations in the new budget model will be requested during Winter Quarter 2003.

For fiscal year 2002, we will apply current policies, as well as provide improved tracking and management information.

In fiscal year 2003, each college and support unit will be allocated budget authority equal to the in-state tuition associated with graduate associates appointed by the college or support unit in fiscal year 2002 and whose stipends were paid from general funds. GRA’s whose fee authorizations were paid with general funds generated by indirect cost recoveries will be included but those whose tuition was paid directly from research grants will not. Colleges will be required to fund marginal tuition increases from the marginal revenue they generate.

Colleges may provide fee authorizations above their fiscal 2002 fee authorization funding level. For any fee authorizations above a college’s base, the college issuing the fee authorization will be responsible for the full cost of the fee authorization unless an alternative agreement is reached when the authorizing unit is different from the college of enrollment.

For fiscal year 2003, approval from the Provost, in consultation with the Graduate School and the Office of Research, will be required if a college plans to reduce the number of fee authorizations offered to students from other colleges. For fiscal year 2004 and beyond, the Provost and the dean at their annual budget meetings will review the college’s use of fee authorizations.

These policies apply to resident fee authorizations only. Marginal growth in non-resident surcharges will be allocated through the Student Services Cost Allocation, and will be based on graduate non-resident credit hours of instruction, the same basis for the allocation of graduate non-resident marginal income.
Central Tax

The central tax pays for marginal changes in all central commitments not covered by the specific allocations described above. Obvious examples of such commitments are the Offices of the President and of Academic Affairs. Perhaps less obvious examples are physical plant services such as landscaping and waste disposal, which benefit the entire campus. In addition, the central tax will provide the Provost with funding for initiatives set forth in the Academic Plan.

The central tax is calculated as a percentage of the marginal resources colleges earn from instructional fees and state subsidy. It has also been referred to in other documents as the uniform assessment, the flat tax, or the marginal tax. The tax rate in the base budget model is currently estimated at 24% (19% to finance costs not directly allocated to colleges and 5% for the Provost’s fund to support Academic Plan initiatives). This estimate does not include the effects of the most recent budget reallocations. Other factors, including Ohio’s economic situation or any changes with regard to elements included in the central tax, could affect the tax rate as well. College deans and senior fiscal officers will be apprised of modifications as we move closer to the beginning of the budget year and more information becomes available.

OTHER ISSUES

College Budget Restructuring Report

As a part of their 2002 Annual Report to the Office of Academic Affairs, each college is expected to furnish a College Budget Restructuring Report. In this report, the college is to provide plans for allocating its base budget among its units and for sharing marginal revenues and costs going forward. In addition, each college is to provide indicators of quality and documentation regarding outreach and engagement activity. This information will constitute a comprehensive college plan to use resources to contribute optimally to the implementation of the Academic Plan.

Compensation

Budget restructuring provides increased flexibility for deans and vice presidents to use unit funds for salary increases or bonuses, at first within a specified range that may be increased over time with experience. The University has been moving in this direction for several years. Results so far show that deans have used this discretion wisely in advancing the goal of their units and the next step is to provide
greater discretion on a phased-in basis.

Practices of this nature provide a more direct link between performance and reward. The Provost will continue to establish general parameters and ensure equity across the University. Colleges will be required to both justify the redirection of resources and assure the sustainability of those resources in order to obtain approval from the Office of Academic Affairs for variations in compensation from the University parameters.

In addition, the Provost will issue a minimum pay raise parameter for faculty and staff who are performing well. What this parameter should be and how it should be implemented will be discussed with the Budget Advisory Committee, FCBC, the Council of Deans, USAC and other stakeholders. Should a college run a deficit as the result of meeting this requirement, the college will be required to develop a deficit reduction plan, just as would be required under current practice.

**Research Challenge and Special Research Funds**

The Office of Research will continue to manage the Research Challenge funds. The funds should be used in support of the goals of the Academic Plan and to foster multidisciplinary research, particularly across college boundaries. An annual report on the use of the funds, including some measure of return on investment, should be provided by the Office of Research.

The portion of the Special Research budget that was previously allocated annually as cash to colleges, departments, and centers as CDRS and DDRS should be transferred as continuing funding directly to those units to support their research activities. This will result in a permanent decrease in the base budget of the Office of Research and a proportional increase to the colleges.

**Monitoring Course Poaching and Course and Program Quality**

Currently, CAA oversees a detailed course review process that helps ensure course duplication does not occur. The course review process will be strengthened further as CAA develops a process to approve College requests for the creation of new courses that would include a review of existing courses.

Issues that have surfaced with respect to course and program quality are class size, course grade point averages, and form of instruction. CAA is developing a course quality monitoring process, based on a new course database that will be updated annually and that will include such elements as class size, level of instructor, and course grade point averages.
Honors Courses

Colleges are expected to maintain their existing levels of honors instruction. Honors course offerings, enrollments, and instructional patterns will be monitored and discussed during college annual reviews with the Provost.

Interdisciplinary Graduate Programs

The attached paper, “Allocation of Resources for Life Sciences Interdisciplinary Graduate Programs” (Attachment B), provides a model agreement for allocating the marginal revenues and expenses associated with interdisciplinary programs. Prepared by a subcommittee of the Life Sciences Deans, the document treats the marginal revenues and expenses associated with both formal courses and research credit hours.

Information for Decision Support

The data used to calculate the revenue sharing and cost allocations is being shared with the Colleges through the Brio insight tool. All college fiscal offices now have access to the Brio tool and the historical data used in the base model to calculate marginal tuition and subsidy.

In addition, a series of training sessions for deans, department chairs, fiscal officers, and curricular planning staff have begun and are scheduled through September 2002. The timetable for these sessions is attached (Attachment C). Among these sessions is one dealing with the new budgeting system that has been added to the workshop offered quarterly for new deans and department chairs.

Monitoring the Activities and Priorities of Support Units

The Provost and the Senior Vice President for Business and Finance currently review support units budgets and priorities as part of the annual budget process. Their recommendations are then forwarded to the President for his approval.

As part of the budget restructuring process, a subcommittee of the Council of Deans will review support units and make recommendations to central administration regarding their base budgets. This process is expected to take from twelve to eighteen months. Based on the outcome of these reviews, the Provost and the Senior Vice President for Business and Finance will make recommendations to the President for any budget adjustments to be effective beginning in fiscal year 2004.
SOURCE DOCUMENTS


Calculation of the Credit Hour Driven Marginal Revenue Allocations

Step 1: Gather three years of total credit hours of instruction by college and by fee-paying and subsidy categories.

- Fee-paying categories are Undergraduate, Masters/PhD, Graduate Non-Resident, Master of Accounting, MBA, Executive MBA, Master of Labor & Human Relations, Master of Physical Therapy, Law, Dentistry, Medicine, Optometry, Pharmacy, and Veterinary Medicine.
- Subsidy categories are more complicated. The Board of Regents (BOR) uses a formula to allocate operating appropriations to Ohio’s public universities. Funds are allocated based on enrollments sorted into academic program categories with similar cost characteristics, as measured on a state-wide average of all institutions. There are six undergraduate subsidy categories (General Studies I, II, and III and Baccalaureate I, II, and III), six graduate (Masters and Professional I, II, and III; Doctoral I and II; and a new category, MPD I\(^5\)), and two medical (Medical I and II). Credit hours generated by PhD students with more than 260 credit hours will not be included in the PhD subsidy calculation, as they were excluded from the OBOR calculation of the capped subsidy.

Example: Category of fee-paying undergraduates in the College of Alchemy

<table>
<thead>
<tr>
<th>College</th>
<th>Fiscal Year</th>
<th>Credit Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>1999</td>
<td>5000</td>
</tr>
<tr>
<td>College of Alchemy</td>
<td>2000</td>
<td>5500</td>
</tr>
<tr>
<td>College of Alchemy</td>
<td>2001</td>
<td>5250</td>
</tr>
</tbody>
</table>

Note: While the example is for only one of the fee-paying categories, this step, and each of the steps that follow, is performed for each of the fee-paying and subsidy categories.

Step 2: Calculate two-year averages and determine the difference.

- The two-year average for a particular fiscal year is based on the average of the two prior years.

<table>
<thead>
<tr>
<th>College</th>
<th>Fiscal Year</th>
<th>Two-Year Undergraduate Credit Hour Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>2001 (based on FY99 &amp; FY00)</td>
<td>5250</td>
</tr>
<tr>
<td>College of Alchemy</td>
<td>2002 (based on FY00 &amp; FY01)</td>
<td>5375</td>
</tr>
<tr>
<td>Difference</td>
<td></td>
<td>125</td>
</tr>
</tbody>
</table>

\(^5\) The MPD I subsidy category is a combination of education and business FTEs from the Masters and Professional I model and education and business FTEs pursuing a master’s degree but above the doctoral credit hour threshold, previously reported in the Doctoral I and II models.
Step 3: Calculate the net effective rates for each fee-paying and subsidy category for the current and coming fiscal years.

- The net effective rate for each category is calculated by adding up the total university revenue by category and dividing by the fiscal year two-year credit hour average for that particular category.

Example: The College of Alchemy is one of three colleges making up Faux Science University, otherwise known as Faux S.U.

<table>
<thead>
<tr>
<th>College of Instruction</th>
<th>FY 2001 Average Undergraduate Credit Hours</th>
<th>FY 2002 Average Undergraduate Credit Hours</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>5250</td>
<td>5375</td>
<td>125</td>
</tr>
<tr>
<td>College of Astrology</td>
<td>1160</td>
<td>1080</td>
<td>-80</td>
</tr>
<tr>
<td>College of Phrenology</td>
<td>2495</td>
<td>3020</td>
<td>525</td>
</tr>
<tr>
<td>Total</td>
<td>8905 (A)</td>
<td>9475 (D)</td>
<td>570</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Instructional Fee Income</th>
<th>Non-Resident Income</th>
<th>Total Revenue, Fee-Paying Undergrads</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$783,708.60</td>
<td>$196,177.15</td>
<td>$980,885.75 (B)</td>
</tr>
<tr>
<td></td>
<td>$882,539.40</td>
<td>$220,634.84</td>
<td>$1,103,174.20 (E)</td>
</tr>
</tbody>
</table>

Net Effective Rate

- $110.15 (C)
- $116.43 (F)
- $6.28

Step 4: Calculate the marginal credit hour allocation.

- In this step, the difference between two fiscal year average credit hours by college and by category is multiplied by the appropriate net effective rate.

<table>
<thead>
<tr>
<th>College of Instruction</th>
<th>FY 02-01 Undergraduate Credit Hour Difference</th>
<th>FY 01 Undergraduate Net Effective Rate</th>
<th>Undergraduate Credit Hour Marginal Income Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>125</td>
<td>$110.15</td>
<td>$13,768.75</td>
</tr>
<tr>
<td>College of Astrology</td>
<td>-80</td>
<td>$110.15</td>
<td>-$8,812.00</td>
</tr>
<tr>
<td>College of Phrenology</td>
<td>525</td>
<td>$110.15</td>
<td>$57,828.75</td>
</tr>
<tr>
<td>Total</td>
<td>570</td>
<td>$110.15</td>
<td>$62,785.50</td>
</tr>
</tbody>
</table>
Step 5: Calculate the remaining growth allocation.

- Now multiply the average credit hours by college and category by the differential net effective rate to get the remaining (inflationary) growth allocation.

<table>
<thead>
<tr>
<th>College of Instruction</th>
<th>FY 02 Undergraduate Credit Hour Average</th>
<th>FY 01 Undergraduate Differential Net Effective Rate</th>
<th>Undergraduate Allocation of Remainder of Marginal Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>5375</td>
<td>$6.28</td>
<td>$33,755.00</td>
</tr>
<tr>
<td>College of Astrology</td>
<td>1080</td>
<td>$6.28</td>
<td>$6,782.40</td>
</tr>
<tr>
<td>College of Phrenology</td>
<td>3020</td>
<td>$6.28</td>
<td>$18,965.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9475</strong></td>
<td><strong>$6.28</strong></td>
<td><strong>$59,503.00</strong></td>
</tr>
</tbody>
</table>

Step 6: Calculate the total allocation.

- By college and category, add together the credit hour marginal income allocation and the allocation of the remainder of marginal income from steps 4 and 5 above to get the total allocation.

<table>
<thead>
<tr>
<th>College of Instruction</th>
<th>Undergraduate Credit Hour Marginal Income Allocation</th>
<th>Undergraduate Allocation of Remainder of Marginal Income</th>
<th>FY 02 Total Undergraduate Marginal Income Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Alchemy</td>
<td>$13,768.75</td>
<td>$33,755.00</td>
<td>$47,523.75</td>
</tr>
<tr>
<td>College of Astrology</td>
<td>-$8,812.00</td>
<td>$6,782.40</td>
<td>-$2,029.60</td>
</tr>
<tr>
<td>College of Phrenology</td>
<td>$57,828.75</td>
<td>$18,965.60</td>
<td>$76,794.35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$62,785.50</strong></td>
<td><strong>$59,503.00</strong></td>
<td><strong>$122,288.50</strong></td>
</tr>
</tbody>
</table>
ALLOCATION OF RESOURCES FOR LIFE SCIENCES INTERDISCIPLINARY GRADUATE PROGRAMS (IGPs)
(Prepared by the IGP Subcommittee of the Life Sciences Deans, December 2001)

Principles:
• The University values multidisciplinary research and graduate education. The Life Sciences IGPs facilitate such activities.
• The budgeting system should not create disincentives for advising graduate students in IGPs.
• Responsibility for funding IGPs will be the shared responsibility of the Life Sciences Deans.
• The Council of Life Sciences Deans and its Subcommittee on IGPs are responsible for oversight of Life Sciences IGPs.
• Each IGP has a base budget for program administration, recruiting and support of first year students.
• The majority of the expenses for education of students in IGPs fall to the Colleges of the advisers. Therefore, the majority of the revenues should also flow to the Colleges.
• These principles deal with the marginal changes in revenues and expenses for the IGPs.

Base budgets of the IGPs are provided by the Colleges according to the existing agreement among the Life Sciences Deans, i.e., the proportion of an IGP budget owed by a College is proportional to the number of students beyond the first year that are advised within that College.

Revenues and expenses associated with formal courses with departmental titles flow to the College that offers the courses regardless of the graduate program of the students.

Revenues and expenses associated with formal courses offered with IGP titles (e.g., Biophysics 795; Neuroscience 723, 724, 725, 726) flow through the IGPs to the College or Colleges that bear the expenses of the courses. In principle, where multiple Colleges are involved, distribution of revenues should be proportional to the expenses generated by a College.

Revenues and expenses associated with research credit hours (e.g., 999 courses) should flow directly to the College of the adviser. Baselines for research credit hours will be determined by tracking individual students to the Department/Division of their advisers for the last two years. The University will allocate marginal revenues and expenses for research credit hours for IGP students in the same fashion used for other changes in instructional activity within a College. The University will develop mechanisms to allow this to happen automatically. In the interim, the Subcommittee on IGPs will manually attribute marginal revenues to the colleges.

Fiscally, each IGP is a separate org located within a college (see figure). A custom tree node for reporting purposes was established. Revenues from formal courses and expenses for each IGP should be allocated to its org. Location of IGP orgs within colleges is problematic. The Council of Life Sciences Deans recommends a reporting structure that clearly separates IGP orgs from college orgs.

As we move forward under budget restructuring, there will be problems and unintended consequences associated with distribution of revenues and expenses of IGPs. The Council of Life Sciences Deans is charged with resolving problems and/or developing additional agreements as necessary to ensure the efficient operation of the IGPs.
Budget Restructuring Training Timeline

**Sept 2001**

**Fiscal Officer Training**
Budget Restructuring revenue simulation training sessions are presented to senior fiscal officers and/or other college fiscal personnel.

**Nov 2001**

**Fiscal Officer Training**
In-depth training sessions are presented to senior fiscal officers on the Brio Insight data analysis package. Sessions cover most-frequently-used software functions.

**Jan 10, 2002**

**Department Chairs/Faculty Training**
The Office of Academic Affairs provides a primer on “Budget Restructuring Basics.”

**Feb/Mar 2002**

**Fiscal Officer/Curricular Planning Staff Training**
The Office of the University Registrar provides training on the use of "Course Daily" and data warehouse information.

**Mar 11, 2002**

**Deans/Department Chairs Training**
The Office of Organization and Human Resource Development offers a workshop during winter quarter. The workshop contains 4 sessions, one of which focuses on budget issues. This session includes a panel discussion of budget-related issues. The panel, comprised of a dean, a department chair and a fiscal officer, discusses factors to consider and possible resolution of budget issues in the restructured budget environment. A downloadable version of the power point presentation on “Budget Restructuring Basics” used in this workshop is delivered on-line.

**Apr 2002**

**Fiscal Officer Training**
A general funds budget process overview is presented to the senior fiscal officers covering the implementation of budget restructuring.

**Aug/Sept 2002**

**New Department Chairs and Deans Training**
A budget session is added to the Financial Stewardship Workshop that is provided for new academic leaders. These two-part workshops are offered quarterly.