University Goals and Resource Allocation

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November 15, 1999

I. Introduction
II. General Principles
III. Recommendations
IV. Continuing Concerns
V. Implementation
VI. Conclusion
VII. Appendices
I. INTRODUCTION

A. Context

This report is the ninth in a series of reports on the budget restructuring process that began more than four years ago. Over this period extensive discussions have occurred, including a detailed review by three faculty, staff and student committees appointed by the Provost, the Senate Ad Hoc Oversight Committee on Budget Restructuring appointed by the University Senate, the Council of Deans, various Senate Committees and other individuals across campus. We have also reviewed budget restructuring activities at other institutions including five of our nine benchmark institutions.

In this set of recommendations we have attempted to clarify the relationship between budget rebasing and the distribution of additional revenues. The material contained in Sections I-III represent updates and minor revisions of Sections I-III of Budget Restructuring VIII. We have also provided more detail on what allocations and distributions might look like under the system we have proposed. We particularly appreciate the input of the Senate Ad Hoc Oversight Committee on Budget Restructuring and the special Summer Subcommittees on Budget Restructuring appointed by Senate Steering. Although we feel this will address many of the concerns expressed about Budget Restructuring VIII, we recognize that additional information will emerge and the specifics of some of these recommendations may change as consultations continue.

In the four years of consultation on this issue, three broad questions have been raised consistently. We feel addressing them here is the best approach for presenting our recommendations.

B. Academic Goals

The most frequently asked question has been, “What are the core academic goals that budget restructuring is supposed to support?” Our preliminary response to this question was our Strategic Focus memo of September 4, 1998, followed by the Provost’s January 6, 1999 statement on Strategic Investment and our November 1, 1999 statement on Strategic Focus. In summary form, President Kirwan has articulated these goals as follows:

♦ Increase the quality and national reputation of our academic programs.
♦ Enhance the quality of the undergraduate experience and the quality of life of all our students.
♦ Become an exemplar within higher education for the success of the university’s commitment to diversity.
♦ Expand outreach and engagement activities to better respond to the needs of the communities the university serves.
These goals will be refined as part of President Kirwan’s initiative to develop an Academic Plan. The Provost’s January 6, 1999 memo to President Kirwan on strategic investment provides further details on where we should invest.

C. Reason for Change

We discussed this at length in Budget Restructuring VII and VIII. We listed four characteristics of our current system, summarized below, that we feel are substantial barriers to achieving the University’s academic goals:

1. Current budget practices are not sufficiently supportive of the University’s instructional mission.
2. Current budget practices are not sufficiently supportive of the University’s research mission.
3. Current budget practices do not provide sufficient incentives to either reduce costs or generate additional revenue needed to address the University’s academic priorities.
4. Current budget practices do not provide sufficient accountability for the costs of individual unit decisions that impact the entire University community.

In just the last 18 months, several developments have underscored the weaknesses in the University’s current budget system. These include:

♦ The July 16, 1998 Final Report of the University Research Commission concluded, “OSU’s budgeting approach provides very limited reward for operating units to pursue incremental revenue…” and “…OSU’s current budget system is problematic from the perspective of research and graduate studies in a number ways.”
♦ On September 29, 1998 the Ohio Board of Regents released recommendations committed to moving away from enrollment driven funding for graduate students to more performance driven funding. These recommendations were incorporated into the FY 2000 - FY 2001 biennial budget.
♦ The November 16, 1998 report of the Distance Education Pricing and Policy Task Force concluded that the current budget system serves as a barrier to distance learning activities. Budget restructuring, which provided financial incentives for instructional innovations, could provide substantial support for the University’s distance learning program.
♦ The November 1998 review of the University’s decision making structure by former Cornell President, Frank H.T. Rhodes and his colleagues concluded the University’s decision-making is “episodic, piecemeal, well-intentioned, but rarely effective.”
♦ The November 27, 1998 report of the Senate Ad Hoc Oversight Committee on Budget Restructuring concluded, “Our current budget system lacks the rationality, the discipline, and the incentive structure that a budgeting system must have if its goals and values are to be effectively advanced as we move into the next century.”
All of these points suggest that the University must adapt its resource allocation process to changing internal and external needs in a way that is compatible with our goals and values or face slow but steady financial and academic obsolescence.

D. Evidence of Success

The fundamental criteria for measuring the success of any budget system should be the degree to which it assists the University in accomplishing its academic goals. Obviously, this is related to the common goals and principles discussed previously and should be fleshed out as part of the academic planning process. One of our recommended changes will be for central administration to work with the colleges, vice presidents and governance structure to develop a specific set of measurable one and five-year goals and strategic indicators that can serve as a reference point for documenting and evaluating the impact of changes in the budget system. There are measurable beneficial outcomes we feel should be associated with the proposed changes in our budget system. A list of improvements relative to the current situation would include the following:

♦ The University should make measurable progress toward achieving its academic goals.
♦ Academic units should have more discretionary resources and the pace of program innovations should increase.
♦ Cost savings should be more readily identified and implemented where appropriate.
♦ Course close outs should be reduced and students should benefit from efforts to maintain and improve the quality of instruction.
♦ The volume and quality of funded research should increase.
♦ The amount and quality of public service should improve through more effective partnerships, outreach and engagement.
♦ The process for determining central budget allocations should work more quickly, accountability should be more readily assigned and decisions should be more readily understood.

Having said this, we want to emphasize that changes in the budget process are not an end in themselves. A new budget system will not define University goals, protect the University from external changes in financial support, or substitute for good leadership. A change in the way we budget cannot even guarantee additional resources. What a change in the budget process should do is assist the University’s effort to identify the challenges ahead, weigh different options for dealing with them, understand the implications of various courses of action and reward success -- and do so in a way that is an improvement over the current system.
II. GENERAL PRINCIPLES

After extensive consultations across campus (including input from the Council of Deans and the Senate Ad Hoc Oversight Committee on Budget Restructuring), we feel there is a consensus about the general principles that should drive the design of a restructured budget system. These principles are:

A. The allocation of resources should be mission driven - this means that budget decisions should contribute to international distinction in teaching, scholarship and public service, rather than historical patterns. It also means that the strategic indicators that will be used to measure academic success should also be used to inform budget allocation decisions.

B. In a large complex organization, decentralized decision-making works best - when goals are clearly defined and revenues and costs are properly aligned, a decentralized and distributed decision process will allow for greater innovation, quicker decisions and greater support for University goals.

C. Any budget system, but particularly one that is decentralized, depends on the creation and maintenance of a timely and user friendly information system - this means both financial and programmatic information must be accurate and readily available to colleges and departments.

D. A significant portion of revenues should be explicitly linked to the generating units, specifically the colleges - the colleges should receive a significant portion of the revenues they generate as a result of instructional, scholarship and public service activities. This is a departure from current practice where some funds, such as restricted funds and earnings, are attributed directly to units, but other funds are not.

E. A portion of all revenues should be dedicated to the support of University-wide goals, including goals that may be more difficult to quantify. These goals should include:

- Strategic University investments in academic excellence.
- Supplemental financial support to those academic units that are either essential to the academic goals of the institution or who make a distinctive contribution to the academic goals of the institution but do not generate sufficient income to operate effectively. For example, Arts and Sciences, Business, Engineering, Law and Medicine have been defined as core academic areas. Food, Agricultural and Environmental Sciences and Education must offer strong programs if we are to honor our land grant roots. Financial support for these units should be consistent with their role in the University. However, all colleges should be funded based on the quality of their programs and their ability to contribute to the goals of the institution, and core areas will change over time. Genomics and Informatics, Biomedical
Engineering, Neuroscience, nutraceuticals, technology in the arts and Food Science and Technology may be such emerging areas. The challenge is to be both flexible and focused in our investment strategies.

♦ Specific support of University-wide priorities that may include interdisciplinary teaching, research and public service, honors programs, and diversity.

F. **Costs should also be explicitly linked to the generating college or vice presidential area** - we concur with the recommendations of the Cost Allocation Advisory Committee that cost allocations ought to fit into a broader context of University goals instead of an elaborate pricing scheme for its own sake. Costs should be allocated to the extent that they are under the control of the generating units and that their allocation promotes quality and cost effective support services.

G. **Although the system should be mission driven, predictability and stability are also important characteristics** - this should include some form of multi-year averaging to temper the impact of enrollment fluctuations and a special cash reserve to assist units where necessary.

H. **Appropriate oversight and accountability should be provided by the University’s governance and administrative structure** - one of the lessons of the last ten years is that the quality of decisions is improved when faculty, staff and students are more fully engaged in major financial decisions. Although the current oversight structure has a number of strengths, it may need to be modified in order to monitor constructively the greater discretion at the college and department levels. This will include newly defined responsibilities for the Senate Fiscal Committee, the Council on Academic Affairs and the Council of Deans. These recommendations also include formation of a University Budget Advisory Committee to advise the Provost on policy issues such as central allocation programs, support service costs and modifications in the budget process.

I. **A carefully thought out transition is essential to the ultimate success of any changes in the budget system** - another lesson of the last ten years is the necessity to plan carefully for the adaptation to any University-wide change. Big changes are very difficult to implement all at once. The budget process envisioned here will require continuous monitoring and feedback and a process by which budgets will be re-based to reflect academic priorities. In addition, the University will need to develop an experience base to assure the capacity to administer such a system effectively. The new system should be implemented in phases. Pilots may also be used for this purpose.

Although we sense a high degree of agreement on these principles, agreement on the details has not yet been reached. We address this in the next section.
III. RECOMMENDATIONS

The purpose of this section is to elaborate on the general principles and move toward formulating more specific operating guidelines. Our more specific recommendations are as follows:

A. Primary Objective

As discussed previously, the primary objectives of budget restructuring are best expressed in President Kirwan’s four goals and elaborated upon in the September 4, 1998 Strategic Focus draft, the January 6, 1999 Strategic Investment document and the Strategic Focus document of November 1, 1999. We believe these documents provide sufficient clarity to move forward, but the Academic Planning Process will continue to refine and sharpen these academic goals as the year moves on.

B. Principal Units

The principal unit where academic goals and available resources come together is the college. Therefore, we recommend the colleges be the principal budget units. Our consultations have confirmed widespread, but not unanimous, support for this approach.

As this budget process becomes more familiar, it may prove appropriate to identify additional academic budget units such as centers or departments. However, we believe that a new budget process should be introduced with colleges as the primary budget units.

C. Base Budgets

The concept of budget rebasing has generated more discussion than any other topic in our budget consultations. We firmly believe an effective review of base budgets is critical to the success of any new system, but doing this effectively requires careful planning.

Our initial inclination was to use an identical methodology for both base college budgets and allocation of new revenues. On the surface this appears to be the most simple, clear and consistent approach. However, after widespread consultations and review of the data, we have concluded that while a formula based approach makes sense for generating new revenues, it does not make sense as the principal driver for rebasing.

We do not favor sole reliance on a formula on which to base budgets for three reasons:

1) A reliance on formulas to identify appropriate base budgets ignores the responsibility of the University leadership to set goals, articulate values and establish consistent base budgets. As long as we believe that institutional goals and values are important, decisions will have to be made at the University level regarding appropriate base budgets. To allocate budgets solely by formula would simply empower market forces
to determine our defining characteristics and activities. Base budgets should reflect explicit commitments to goals and values even when they conflict with market signals. The University leadership must be held accountable for setting base budgets and periodically updating base budgets to keep resource allocations in alignment with institutional goals and values.

2) Relatively small changes in policy regarding the allocation of costs or revenues can mean significant changes in base budgets for individual colleges. Such variability in outcomes for such high stakes is likely to increase conflict and distrust which will detract from the ultimate goals of the new budget process.

3) The University as a whole is not well funded compared to benchmark institutions. Therefore, the expectation that we can move the whole University forward by taking large amounts of existing resources from one group of units to give to another group creates a false set of expectations that, again, detracts from the principal goal of advancing the institution.

Instead, we recommend the Provost complete a detailed and systematic review of base budgets that is informed by revenue and cost data, but not solely driven by it. Under this process, the Provost would take the next 6-9 months to review the academic goals and contributions of each college, its revenue and cost structure and its current annual rate budget and make specific recommendations on whether the base budget should be raised, lowered or left where it is. This process would also identify which cross subsidies are or are not appropriate or necessary and why, as well as special consideration for quality initiatives including honors programs. Individual college plans for adjusting to target bases, including adjustments in department, school and/or division budgets, will be developed and approved by Winter 2001. Base budgets would be adjusted over the succeeding three years, so the rebasing process would be completed over the next five years. Once the new base budgets are established, they would be reviewed every five years. The need to revise base budgets periodically is to assure that while resource allocations are responsive to market trends, they are not completely market driven. The rebasing of unit budgets is described in greater detail in Appendix A.

By adopting an approach that distinguishes between new and base revenue, we believe we can move forward expeditiously in a way that is consistent with our values. While the rebasing process could take from 2-5 years, new revenue sharing could begin much sooner. This approach to rebasing would provide for some realignment of overall budgets to correct the most egregious inequities, yet keep the focus on the opportunities of the future, instead of the decisions of the past.

D. New Revenue to the University

The University’s commitment should be to allocate to the individual colleges at least 75% of the revenue they generate above the base budget, even after central taxes are deducted and after the base budget is approved by the Provost. This 75% figure would apply to both Instructional Fees and Instructional Subsidy.
Colleges would keep 100% of all restricted and earnings funds after expenses, as is current policy. All indirect cost recoveries would be distributed back to the colleges to cover costs incurred by the college and its departments. Colleges would also be permitted to carry over balances.

We have recommended that interest earnings on General Fund balances in colleges and support units be credited against the flat tax, on the assumption that investing cash balances is an administrative function, not an academic one. An alternative would be to credit investment earnings to each college or support unit, but this would require the flat tax to be increased two percentage points to offset the revenue loss to the center.

Potential difficulties associated with declining revenues were not specifically raised in our consultations, but they are possible and need to be addressed. There are two separate but related events that can cause this to occur. One would be action by an external agency such as a state-imposed reduction in instructional subsidy. The second is a reduction of instruction or research that results in a reduction of income attributed to an individual college.

If the reduction were the result of the actions of an external agency, it would have to be absorbed as it is now. In other words, to the extent central reserves are insufficient, differential reductions would be imposed by the Provost for both academic and support units.

To the extent that a reduction in instruction or sponsored research leads to a reduction in income, 75% of that reduction would be passed through to the college, just as the college would gain 75% of the increased income. The fact that resource changes over time can be positive or negative at the college level is one of the key reasons for reviewing base budgets every five years.

In order to assist colleges in adapting to large unexpected reductions in revenues, the Center would maintain a capacity to lend one-time funds on an as needed basis in unusual circumstances.

**E. Cost Allocation**

In Budget Restructuring VII and VIII, we supported the recommendations of the Cost Allocation Committee as a workable framework. This means cost allocation should not be an end in itself, but rather a means to assure necessary services of high quality at a reasonable cost.

As a starting point, we recommended that all direct costs currently billed to the colleges, such as salaries and benefits and supplies and services, continue to be billed directly. We also recommended that most fee waivers, which are also determined at the college and department levels, be billed directly. Budget Restructuring VII and VIII also proposed a central assessment or tax be charged against General Fund revenues for central activities that provide an overall benefit, such as the libraries, public safety,
academic administration, etc. These recommendations seemed to receive a great deal of support.

We also recommended three cost categories be treated as a quasi variable cost. In other words, some fixed amount would continue to be funded centrally, but a portion would be allocated directly. We found this concept created some interest but also a great deal of confusion. We will attempt to clarify and elaborate on this concept.

In Budget Restructuring VIII, we identified three categories of cost that fit into this quasi variable cost scenario - physical plant, student services and support of sponsored research. All of these have fixed costs, but also components that are under the control or influence of the benefiting units.

**Physical Plant** - In FY 1998, academic units on the Main Campus were assigned approximately 5 million square feet of space. In Budget Restructuring VIII, we proposed that these units be billed for the portion of the cost directly related to the amount of space used (utilities, maintenance and custodial). This could average between $4 and $8 per square foot, depending on services provided. Physical plant related costs for administration, central classrooms, environmental compliance and space used by academic support units would be included as part of the central assessment. Although we found support for this concept, we also found some concern about details. A workgroup has been charged with addressing these issues and is expected to have preliminary recommendations by the early part of Winter Quarter.

**Student Services** - This category includes services provided by the Office of Student Affairs, Enrollment Services (Financial Aid Administration, Admissions and the Registrar’s Office), University College, the Graduate School and student financial aid funded by the General Fund. We proposed that services provided by Student Affairs be offset against the General Fee, which is the current practice and that most of these other services be billed directly based on the credit hours generated by a college. Central costs of advising, UVC, the Graduate School and financial aid tend to vary with the level of enrollment and the college of enrollment and an effort to develop a more refined cost allocation rule would seem to be in order in such cases.

We asked Resource Planning to review this issue and make recommendations. They recommended five separate cost allocation pools: undergraduate specific, graduate specific, Arts and Sciences specific, University College specific and all students. The details of these recommendations are available on the Budget Restructuring Web site. We believe this proposal has merit and have incorporated it into our recommendations for further review by the campus at large.

**Support of Sponsored Research** - We proposed to return all indirect cost recoveries to the generating units, but bill units directly for research space and their share of research administration. In order to avoid putting an unfair burden on units whose sponsors limit cost recoveries by law (for example, FAES and Education, etc.), some adjustment may need to be made in their base budgets, but we feel this approach will greatly increase indirect cost recoveries over time and benefit everyone.
This proposal generated a great deal of support. In addition, the Summer Subcommittee on Interdisciplinary Research Centers recommended that the portion of indirect cost recoveries attributable to self-supporting centers be returned to them as well. We feel this proposal has merit and have asked RPIA and the Office of Research to work with the Research Commission Implementation Steering Committee and other stakeholders to flesh out the details of this approach and to make recommendations before the middle of Winter Quarter.

F. The Flat Tax

A funding mechanism in the form of a flat tax or charge against all General Funds revenue to colleges is recommended to cover the costs of central services such as libraries and public safety and to meet other university-wide needs. Based on FY 1998 and FY 1999 budget figures and using the charging mechanism described in the preceding paragraph, we expect this flat tax to be equal to about 20% of generated revenues. This also means units would receive at least 75% of the additional fees and subsidy that they generate. This is described in greater detail in Appendix B.

In Budget Restructuring VIII, we proposed the creation of a Budget Advisory Committee by the Provost in consultation with the Council of Deans and the Senate to review central costs as well as central investments and provide advice regarding the budget process.

G. University-wide Goals

We concur with the observations of the Provost’s Central Distribution Advisory Committee Report that if costs and revenues are properly structured in the first place, and if management is appropriately held accountable, only a relatively small amount of money will need to be allocated centrally to further University-wide goals. We also believe one of the principal goals of budget restructuring should be to make more funds available to colleges and departments to support University goals, rather than simply enlarge the funds available to the center for their own sake.

Thus, for purposes of these recommendations, funds available to the center will be budget neutral in regard to base budgets, but will include a predefined share of new revenues. The specifics of how current central funds would be allocated are shown in Appendix B. Funding for the center would continue as indicated under budget restructuring but in a modified form. In addition, the across the board reallocation of up to 1% on all colleges to support selective investment and academic enrichment would be incorporated into the flat tax.

The center will have three sources for additional revenues:

1. Revenues earned centrally, including overhead, unrestricted gift income and investment earnings.
2. The share of new revenue generated by the colleges after deduction of 75% to the individual colleges and about 20% to central expenses. This would be up to 5% of new revenues.
3. Additional revenue from other sources (e.g., pouring rights, investment earnings), generated centrally or special assessments for a specific purpose (such as the upgrade of student information services).

We recommend that approximately 5% of all new revenues be specifically earmarked to support quality in instruction, research and public service in the colleges. This 5% is the difference remaining after 75% of all new revenues are distributed to the colleges and the 20% flat tax is collected to support central services.

These additional funds distributed to support university goals would be used to provide both continuing and one-time support to units to recognize activities that support the University-wide goals that are not directly related to credit hours, sponsored research and other revenue generating activity. The Provost would establish guidelines, after broad campus consultation, regarding the activities that would be recognized in this form. These activities would include high quality instruction (including Honors), research, outreach and engagement, diversity and interdisciplinary activities. All units would be eligible.

H. Assuring Quality

Responsibility for promoting the quality of academic programs will continue to rest with the deans, chairs and faculty of the academic units. However, the oversight and support role of the Office of Academic Affairs and of the governance structure will need to be enhanced.

One of the concerns frequently expressed about a more enrollment sensitive system is that it would also create incentives to enhance revenues at the expense of quality of programs or to duplicate programs in other units. While this is a legitimate concern, we do not feel it is an insurmountable one. We feel our students will support quality programs if given sufficient information and if appropriate quality reviews are built into the system. High revenue programs are not preordained to be low quality programs, and we should not expect our students to migrate to low quality programs at every opportunity. In fact, as we recruit better prepared students, they are increasingly likely to demand high quality programs.

In order to make sure that quality continues to be supported under such a system, the Office of Academic Affairs will need to adopt a system that includes monitoring of quality as part of the annual planning and review process. This would include monitoring of class size, nature of instruction, student and faculty complaints, grade distribution, course duplication, courses offered outside the discipline, time to graduation, number of majors taking courses outside the college and student credentials. CAA will be asked to advise the Provost regarding other mechanisms for assuring quality in course offerings. This issue is discussed in greater detail in the next section.
I. **Accurate and Timely Information**

This will be extremely important to deans, chairs and others responsible for managing this system. This is discussed in more detail in the next section, but our goal is to give each college an annual financial statement that shows revenues earned by source, deductions and expenses owed centrally by function. This would be updated quarterly as appropriate.

J. **Financial Stability**

Responsibility for maintaining sound financial conditions will continue to lie with the deans, chairs and faculty of the academic units. The oversight and support role of the Office of Academic Affairs and of the governance structure will need to be enhanced.

The center has always played a role in maintaining financial stability for the academic units. This will be even more important under a more decentralized system. The key will be to maintain enough stability to allow careful planning but enough risk to reward behavior supportive of University goals.

Once base budgets have been established, one approach is to identify enrollment-driven revenue with multi-year trends, instead of year-to-year variations. We propose that tuition be allocated on a two-year moving average of credit hours of the two preceding years and subsidy be allocated on the basis of a five-year moving average. Since this means new programs may not receive additional funding for two years, a mechanism will need to be developed to provide an advance on revenues.

A second step is to identify base budgets. In addition, there are some practices already in place that should be continued:

♦ A 1% margin in projecting revenues
♦ President’s and Provost’s Reserves
♦ Maintenance of a University-wide rainy day fund

K. **Accountability**

One of the desired characteristics of a new budget system is that it should insure accountability throughout the hierarchy. This includes the responsibility of senior administrative officials and deans to consult with faculty, staff and students and keep them informed. The annual financial statements of each college will provide information on budget allocations in a fairly transparent fashion that will serve as a means of holding the center accountable for its actions. In addition, the five-year rebasing reviews and their implementation will improve accountability, as will the appointment of a special Budget Advisory Committee.

It is our expectation that one of the most important outcomes of the new budget process will be a greater opportunity for the Provost and the deans to discuss budgets and
strategic academic goals on a three to five year timeline. This would also provide an opportunity for deans to have a similar discussion with their chairs and faculty.

Accountability of deans to their colleges is also important. Therefore, we recommend each college, in consultation with OAA, develop a written implementation plan explaining how the college would treat its sub-units (such as departments, and centers) under a restructured budget system. While plans could differ from each other and from the University budget process, each plan would be expected to include explicit rules for resource sharing with internal units, similar in spirit to those used to allocate revenues and costs to colleges. Faculty should be consulted and each plan would be treated as a public document.

The plan would be expected to address the following:

♦ The College’s academic goals and how these would be measured.
♦ How the college would fund its sub units, departments, divisions and centers, including establishment of base budgets, distribution of new revenues and allocation of costs.
♦ How information would be shared.
♦ A compensation management component.
♦ How the college would address quality of its academic programs, including honors and interdisciplinary work.
♦ How financial stability would be addressed.

L. Compensation Management

We recommend a combination of new and existing policies that would be appropriate for compensation management and training under a more decentralized system. We recommend continuation of current practices regarding the roles of existing advisory committees (FCBC, Fiscal and USAC), the salary appeals process, responsibility for managing collective bargaining, HR responsibility for training in compensation management, and college responsibility for funding benefit costs.

The principal change from current practice would be increased flexibility for deans and vice presidents to use unit funds for salary increases or bonuses, at first within a narrow range, and then increased over time with experience. The University has been moving in this direction for several years. Progress has been limited because of the absence of a mechanism to assure that other mission goals, such as teaching and research support, are not put at risk.

In Budget Restructuring VIII, we recommended unit flexibility be increased by allowing variation from University-wide salary guidelines on the following schedule:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1999</td>
<td>0.20%</td>
</tr>
<tr>
<td>FY 2000</td>
<td>0.25%</td>
</tr>
<tr>
<td>FY 2001</td>
<td>0.50%</td>
</tr>
</tbody>
</table>
Variations would have to be approved by OAA by both justifying the redirection of resources for this purpose and assuring sustainability.

Practices of this nature are more consistent with those of our benchmark institutions and will provide units with a more direct link between performance and reward. Obviously, the center would still have a role in establishing general guidelines and in assuring equity across the University.

The goal of achieving flexibility at ± 0.50% was achieved a year ahead of schedule as part of the FY 2000 budget process. Our review of the outcomes reveals the deans have used this discretion wisely in advancing the goals of their units. We believe the next step is to provide greater discretion on a phased in basis.
IV. CONTINUING CONCERNS

In its May 3, 1999 report to the Senate Steering Committee, the Ad Hoc Senate Oversight Committee on Budget Restructuring concluded that it was “strongly supportive of the general direction which VIII suggests Ohio State should move at the present time,” but also had “serious concerns” with certain aspects of the system.

The Report discussed ten specific issues. We will attempt to address each of those issues in this section, along with four issues not specifically highlighted by the Ad Hoc Oversight Committee -- Performance Challenge, Study Abroad, funding for Ph.D. students and support of activities that are not easily measured.

A. Time-line for Rebasing of Base Budgets

The Ad Hoc Committee expressed a concern that rebasing recommendations be done in a timely way; that is, within a 12-month period. We agree. The Provost is committed to making final recommendations by June 30, 2000. A detailed description of the process is contained in Section C of the Recommendations and in the Reconciliation portion of Appendix A.

We want to stress that this time-line applies to recommendations only. Any redistribution of funds will have to take place over a number of years.

B. Budget Advisory Committee

The Senate Ad Hoc Oversight Committee expressed a desire that the role of the Budget Advisory Committee be clarified. The Budget Advisory Committee’s principal role will be to advise the Provost on policy matters as implementation moves forward. These policy matters will include important details about implementation and process, as well as more strategic issues. The Committee will not advise the Provost regarding allocations to specific colleges or support units, which will remain the prerogative of the Provost through the budget process.

The Budget Advisory Committee will be chaired by the Senior Vice Provost and staffed by the Senior Vice President for Business and Finance. The committee will include, by virtue of their position, the three executive deans (or their designee), the chairs of Faculty Council, Steering and Fiscal (or their designee) and three senior faculty who will serve three-year staggered terms. The role of the Budget Advisory Committee will be to monitor the implementation and impact of the new budget process and to advise the Provost on a regular basis regarding needed changes and improvements in the budget allocation process. The Budget Advisory Committee will also advise the Provost on a process for reviewing the base budgets of support units.

C. Definition of Qualitative Concepts

The Ad Hoc Oversight Committee expressed support for incorporating less quantifiable concepts such as "excellence” and “centrality” into the rebasing process and
other resource decisions and argued for more progress on the “benchmarking/strategic focus” front. While we agree more progress needs to be made in this area, we do not agree that this process has fallen “far behind” the budget restructuring process.

The September 4, 1999 Strategic Focus draft, the January 6, 1999 Strategic Investment document, the November 1, 1999 Strategic Focus document and the Autumn Quarter 1999 Academic Plan draft all move us forward in defining these critical elements. Our November 1, 1999 Strategic Focus document summarizes where we are in this process, the progress to date in defining our aspirations, strategic choices and our measurement criteria.

All of these documents identify those colleges most central to the University’s mission (the five colleges of the Arts and Sciences plus Business, Engineering, Law and Medicine). The University level qualitative measures defined via the strategic indicators process include:

National reputation as defined by NRC and U.S. News and World Report
Share of sponsored research
Patents and invention disclosures
Major awards won by faculty and students
Citations
Qualifications of incoming Students

Other measures of diversity, student experience and outreach and engagement will need to be considered also. Missing from this dialogue are college-specific measures that capture the diversity of the activities of the different academic units. The Provost asked colleges to provide their first round of measures to him by no later than October 29, 1999.

The first draft of the Academic Plan, which is intended to tie all of this together with more definition, is scheduled for distribution Fall Quarter and for completion during Winter Quarter 2000, well in advance of final recommendations on budget restructuring.

D. Hard Decisions/Academic Restructuring

We have made it clear that academic restructuring and budget restructuring should not be attempted concurrently for two reasons: 1) budgets should not drive academic decisions, and 2) doing both at the same time would overload the administrative and governance systems. The Senate Ad Hoc Oversight Committee on Budget Restructuring supports this point of view, but called upon the Senate Steering Committee to take the lead in initiating the rule changes that would facilitate academic restructuring. We support this recommendation.

E. Retention of New Revenues

Budget Restructuring VIII called for the generating college to retain ”at least” 75% of new General Funds revenues generated. BR VIII also called for a flat tax in
support of common goals in the neighborhood of 20% General Funds revenue. This has led to questions from the Ad Hoc Oversight Committee and others regarding what happens to the remaining 5% of new revenues.

We recognize BR VIII’s lack of clarity on this point and have attempted to address this in section III. G of this document. For the next 3-5 years, we propose this 5% be deposited into a special account for distribution back out to the academic units on a differential basis to reward high quality teaching and research and other mission-based activities including honors programs and interdisciplinary activities. This allows for financial rewards for activities other than credit hours and sponsored research, which are rewarded more directly.

The Ad Hoc Oversight Committee also expressed a concern about how “target” revenues would be set. As we explained under the discussion on rebasing, target enrollments, research activity and base budgets are intended to be reconciled as part of the rebasing process.

F. Budgets for Centers

The Ad Hoc Oversight Committee expressed a concern about the fate of interdisciplinary centers under a system where financial incentives would be linked to colleges. This issue was also addressed in some detail by the Summer Subcommittee on Budget Restructuring formed by the Senate Steering Committee.

Our review of the reports of both of these groups leads us to propose the following:

♦ All colleges will be asked to describe how they will address the issue of funding support for centers within the college as part of the budget restructuring plan to be reviewed by OAA.
♦ Centers that cross college lines will be supported in one of two ways: 1) self-supporting centers (those which generate full indirect costs) will receive a portion of the indirect costs generated by their activities (roughly 11% of the 46%), but will also be charged for the costs attributed to them; 2) all other centers currently in existence will be supported centrally by the Provost through the Office of Research, subject to periodic reviews.

G. Academic Oversight

One of the dangers of an incentive-based system that specifically rewards on the basis of enrollment is the creation of incentives that erode quality by dumbing down courses to attract students or creation of duplicate courses. The Ad Hoc Oversight Committee encouraged Senate Steering to step forward and assert its priorities in this area. In fact, a special subcommittee of Steering met over the summer to address this concern. We feel the subcommittee’s recommendations provide a solid basis for moving forward as a cooperative venture involving OAA, Steering and CAA. These recommendations include:
A review of current practices to determine their possible effectiveness in a restructured environment.

Development of new protocols regarding the creation of new courses and programs.

A snapshot of the status quo to develop a baseline of course-related information in order to measure and evaluate future changes.

Establishment of a working committee that would report directly to CAA to deal with emerging issues such as course duplication and curricular ownership.

A cooperative effort between CAA, OAA and the Deans Learning Technology Committee to discuss quality assurance for distance learning courses.

Our goal is to have OAA work with CAA and Steering to flesh out the details based on these recommendations so that we can establish an upgraded quality enhancement mechanism before the end of this academic year.

H. Interdisciplinary Research and Teaching

In Budget Restructuring VIII, we observed that even though the current system provides little incentive for interdisciplinary work, the new system should not provide additional barriers, but in fact, should provide an environment where interdisciplinary work can thrive.

We proposed to accomplish this through the following steps:

1. Approved academic centers and potential academic centers should have the opportunity to become separate budget centers or identifiable budget units. However, this designation would be contingent on appropriate safeguards, including periodic review.

2. The University should formalize the current practice of units sharing costs and recoveries involved with multi-disciplinary sponsored research projects in proportion to the respective faculty member’s time commitment to the project.

3. A similar protocol needs to be developed for the costs involved in teaching interdisciplinary courses. One barrier seems to be cases of significant salary disparity between some disciplines. We propose that units in these circumstances negotiate a modified revenue split up front.

4. Under the new system, the Provost can and will have the tools to promote interdisciplinary work through central distributions (i.e. Selective Investment and Academic Enrichment), and by making sure interdisciplinary work is appropriately rewarded and accounted for in both University-wide and college-specific strategic indicators. These indicators currently do not exist and need to be developed.

The budget rebasing process will provide information for assessing a college’s contribution to interdisciplinary work that can be used to measure progress or lack of progress in this area.
The Ad Hoc Committee acknowledged this issue and expressed concern that we had not explicitly addressed negative incentives for cross-disciplinary, jointly taught courses. They urged Steering to make this issue a high priority.

Steering did appoint a special group to address this issue, the Subcommittee on Interdisciplinary Activities. The subcommittee decided that a full exploration of this issue required more time than they had available, but they did recommend that a high level council on interdisciplinary activities, chaired by a new vice provost hired especially for this purpose, should be charged with addressing six specific issues involving interdisciplinary teaching, research and public service. These issues are:

a. Criteria for defining interdisciplinary activities.
b. A description of all current interdisciplinary activities at Ohio State.
c. Barriers and successful approaches to interdisciplinary activities.
d. Resource needs, budget mechanisms and funding sources that will enhance interdisciplinary activities.
e. College and departmental responsibilities.
f. Identification of strong interdisciplinary programs that could potentially come together to form high quality interdisciplinary activities.

While we concur with the Subcommittee’s conclusion that these issues need more than a Summer to resolve, we are concerned about creating an additional permanent layer of administration to do so. We will continue to work with the Council of Deans, the Budget Advisory Committee and the Senate to create a mechanism to address these issues in a timely manner.

I. Honors

The support of resource intensive honors programs has been a concern throughout the development of budget restructuring. In Budget Restructuring VIII, we observed substantial growth in honors offerings under the existing system and proposed maintenance of effort requirements for existing programs as part of the base budget process. We recommended against schemes that created incentives for reclassifying courses as honors courses purely for financial reasons.

The Ad Hoc Committee expressed a concern that this was not sufficient and called upon Steering to establish a special subcommittee. Steering did appoint an Honors Subcommittee that also recommended against additional incentives based on course classification. The subcommittee recommended instead that:

♦ Base budgets for colleges engaged in undergraduate teaching be determined, in part, by their honors activities in consultation with the Associate Provost for Honors and Scholars Curriculum.
♦ Increase by three times the Associate Provost’s funding for honors course development.

We agree that incentives based solely on course classification are not advisable and that base budgets should reflect honors support. We also recommend that the
Associate Provost for Honors and Scholars Curriculum should have sufficient funding to reward and complement college and department program efforts. The effectiveness of these mechanisms will need to be monitored to assess their adequacy.

J. Data

The ability of the University to provide accurate and timely data is critical to the success of any budget system, but particularly one that is as decentralized and performance oriented as the one proposed here. The Ad Hoc Committee reflected the concerns of many that the problems associated with ARMS payroll installation casts doubt on central administration’s ability to produce accurate data in a timely way.

Fortunately, a great deal of progress has been made since last Spring. The payroll system has been stabilized with key reports now being delivered on a routine basis. The procurement system has been successfully installed and the external auditors have removed the reportable condition. Work has moved forward on management reporting, which encompasses not only data from ARMS but from the Student Information System as well. A University-wide reporting tool is scheduled to be selected this Fall and a preliminary trial is scheduled for this Spring.

Another area we continue to be concerned about is timely reporting of fee authorizations. ARMS will provide the capability to do this, but full implementation of that capability is dependent on development of a new “front end,” which is at least 6-12 months away.

Although many challenges remain, including the installation of a new General Ledger system on July 1, we are cautiously optimistic that significant improvements in the University’s ability to collect and report timely and accurate data are proceeding at an appropriate pace.

In order to protect against the inevitable unexpected problems that are sure to crop up with the installation of the new GL system, we are planning to limit budget restructuring activity on the unit level to a few carefully selected pilots and/or shadow budgets for FY 2001. Meanwhile, we have asked RPIA to continue working with the colleges on developing reporting tools in a timely way. Developing reporting capabilities will also be an important part of the FY 2001 pilots.

K. Valuing the Hard to Measure

Budget Restructuring VIII specifically mentioned quality non-sponsored research, diversity and outreach and engagement as mission-related activities that should not be overlooked because they are harder to measure.

We do not have final answers at this point, but want to stress that the Academic Plan, college and department specific indicators, the rebasing process, and the 5% set aside for quality driven distributions and other central funds are means to addressing these issues.
L. Performance Challenge

In Budget Restructuring VIII, we concluded that state Performance Challenge Funds were likely to grow in importance. We raised the issue of whether or not the University should commit to distributing 75% of these funds to the generating units, similar to the distribution of instructional subsidy. For FY 2000, the General Assembly increased the Research Challenge pool by $2 million over FY 1999 and Success Challenge by $3.5 million.

It is our intent to consider the phase-in of distribution of 75% of these funds to the respective units, based on the unit’s share of the income generated. However, we also want to make sure the implications of such a proposal, particularly the potential effects on the recommendations of the Research Commission, are discussed fully across campus in the current academic year before any decision is finalized.

M. Study Abroad and Foreign Exchange

One of the challenges of implementing any kind of policy change is being able to successfully address unintended consequences. The Steering Subcommittee on Study Abroad and Foreign Exchange pointed out such a potential unintended consequence. These programs are an important and growing part of Ohio State’s efforts to broaden the educational experiences of its students. Under current practice, units whose students participate in these programs receive no financial benefit. The University does not receive instructional subsidy for these students and all tuition is sent to the institution where the student is taking courses. While this is not a disincentive under the present system, it could be a very large disincentive in the budget restructuring environment.

The Subcommittee proposed that Ohio State first seek a change in state funding to offset costs incurred by the sponsoring unit or to compensate academic units directly for a portion of the lost revenues associated with this activity. We concur with these recommendations and propose to use the current academic year to work out the details. If we are not successful in changing state funding, we will examine other alternatives to provide appropriate incentives for Study Abroad and Foreign Exchange.

N. Funding of Graduate Students

Effective July 1, 1999, the State of Ohio moved away from enrollment driven funding for Ph.D. students. All state institutions, including Ohio State, will no longer receive additional subsidy for enrollments above the FY 1999 base. Subsidy will not be withdrawn for enrollment declines unless the total Ph.D. enrollment drops below 85% of the base. The Board of Regents has said it plans to examine moving away from an enrollment driven system for masters degree students for the biennium beginning July 1, 2001.

This represents a significant change from past practice. We believe a major effort will be needed to help all levels of the University address the implications of this change on academic goals and on financial support.
V. IMPLEMENTATION

In Budget Restructuring VIII, we established a list of 14 items that we feel needed to be addressed in order for budget restructuring to successful proceed. The table below summarizes where we are and where we need to be by June 30, 2000. Also included are four additional items that have been added as a result of the consultations following distribution of Budget Restructuring VIII.

Our goal is to begin phasing in the new resource reallocation system on July 1, 2000. This phase in would be very gradual and might include two or three pilots, which may or may not be live, and a more detailed series of shadow budgets.

### Status of Tasks Necessary for Successful Implementation of Budget Restructuring

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VI. CONCLUSION

In the conclusion to Budget Restructuring VII and VIII, we made the observation that the choice before us was not whether or not to modify our budget system. Instead, the issue is whether to do so in an ad hoc manner or in a purposeful and strategic way.

Events since these statements were written have confirmed our analysis. The vast majority of the faculty, staff and students we have talked with recognize a change is necessary, but all have legitimate concerns about the details of that change.

This document represents the evolution of extensive consultation and discussion that is now in its fourth year. The general principles in Section II and the recommendations in Section III represent, what we feel, is as close to agreement as we can get on the broad characteristics of a new budget system. The issues that are in the process of being resolved are discussed in Section IV.

We are convinced that, with additional discussion and analysis, most of these issues can be satisfactorily resolved over the next couple of months. However, any change of this magnitude is not risk free. Anticipated and unanticipated problems are certain to occur, but the changes we propose will sustain a significant improvement in the University’s ability to align resources with strategic goals.

The key question that confronts us then, is not whether a new system will be perfect (for no complex system can be), but whether the new system offers significant improvement over the old and whether reasonable steps have been taken to maximize the advantages and minimize the risks.

Our proposed next step is to use the remainder of this academic year to complete the planning phase of Budget Restructuring and to resolve as many of the remaining issues as possible. We would then like to begin to proceed with first phase of university-wide implementation for FY 2001.

The Ohio State University has a tremendous opportunity at the beginning of a new millennium. A consensus has emerged to move the University into the top tier of public teaching and research institutions. But to do so, our system for allocating resources must become more focused, more flexible and more closely tied to our academic aspirations. Now, after years of consultation and discussion, it is time to move forward.
APPENDICES

A. Base Budgets
B. Cost Allocation
C. College Sources and Uses
D. Key Source Documents Regarding Budget Restructuring
Appendix A

Base Budgets

In our discussions across campus, it is clear that a great deal of confusion still exists about what will happen to current budgets under the new system we propose. In the "Unresolved Issues" portion of this report, we discussed the principles that should drive the review of base budgets. In summary form, these principles are:

- The main purpose of Budget Restructuring is to focus on the future, not refight the past.
- The base budget review should be driven by the academic goals of the institution. This means financial considerations, including formula calculations, should inform these decisions, but not drive them.
- Where obvious historically driven inequities exist in the current relationship between academic goals and resources, these need to be addressed, but over a 3-5 year period in order to give units an opportunity to adjust in a constructive way.

In Budget Restructuring VIII, we proposed a three-step process to address these issues:

1. Articulation by the Provost of the role each college is expected to play in the academic goals of the institution for the next five years.
2. An assessment of the economics of each college.
3. Reconciliation between the academic goals identified in Step One and the resources identified in Step Two.

The timetable was established to achieve resolution of these three steps by Spring of 2000.

We are now prepared to move forward with the first two steps. This effort will be led by Senior Vice Provost Alayne Parson who will use the remainder of Fall Quarter and the first part of Winter Quarter to conclude initial consultations on the academic goals and economics of each college. Alayne’s efforts will include individual meetings with deans, as well as extensive consultations with the Ad Hoc Oversight Committee, Senate Fiscal Committee and other stakeholders, as appropriate.

Alayne’s work will form the basis for the Provost to make appropriate decisions about whatever adjustments are needed to reconcile base budgets with academic goals.

The Provost’s decisions will be made in Spring Quarter, after additional consultations with respective deans, appropriate Senate committees and other interested parties.
The remainder of this document outlines the general considerations that will guide this process.

Academic Goals

We have devoted a great deal of effort over the last year to sharpening the definition and measurement of the academic goals of The Ohio State University. These efforts include the September 6, 1998 Strategic Focus draft, the January 6, 1999 Strategic Investment document, the November 1, 1999 Strategic Focus document, the Autumn 1999 draft of the Academic Plan, and the Strategic Indicators process. These will be supplemented by college level indicators that were due to be submitted to OAA by the end of October.

From these efforts, it is now possible to begin to sketch out a picture of the role of each college in the academic goals of the University. One consistent theme throughout these documents is a statement from the University Chief Academic Officer identifying the academic units most central to the University. These are the five colleges of the Arts and Sciences (Arts, Biological Sciences, Humanities, MAPS and SBS) and the colleges of Business, Engineering, Law and Medicine and Public Health. Education and Food, Agricultural and Environmental Sciences must also be strong elements of a land grant university. This does not mean that the other seven colleges lack importance to the University; they also have made and will continue to make important contributions. And, as new disciplines take center stage in the years ahead, the issue of centrality will have to be revisited.

In addition to centrality, quality is another dimension that needs to be considered. A number of key university-wide measures of academic excellence have now been identified as part of the Academic/Strategic Indicators process. These measures are:

- Reputation of core disciplines as measured by NRC and U.S. News and World Report
- Relative market share of federally sponsored research
- Citations
- Patents and licenses
- Qualifications of incoming students
- Timely Graduation
- Faculty and student honors and awards

These will be supplemented in the future by better measures of interdisciplinary work, faculty development, diversity, outreach and engagement and college-specific quality indicators. This is extremely important in a university as large and diverse as Ohio State, where units can contribute in a variety of different ways. Colleges should not be compared only with each other, but with themselves over time and with their peers elsewhere. For this reason, the Provost asked each college to submit a proposal for college-specific indicators to him by October 29, 1999.
We recognize these measures are preliminary and just a starting point. During the remainder of Fall Quarter, the Senior Vice Provost will be meeting individually with each dean to discuss what the college’s goals should be and how they should be measured.

**Economics of the Colleges**

At our request, the Office of Resource Planning and Institutional Analysis has developed a budget scenario based on the distribution of resources and commitments as outlined in Budget Restructuring VIII. In that scenario tuition, subsidy and indirect cost recovery resources are distributed to the generating college. Applicable commitments are also distributed to the colleges. This includes direct commitments such as salaries and benefits, supplies and services, and some fee authorizations, plus a college’s share of allocated costs for physical plant, student services and sponsored research administration. In addition, a uniform assessment (flat tax) is included as a percentage of total resources. The budget scenario displays trends for FY 1996 to FY 1999. The formula distributes the University’s General Fund budget as recommended in Budget Restructuring VIII and compares the results to a college’s actual General Funds Permanent Budget Allocation for that particular year. A summary of the results for FY 1999 is presented in Appendix C. Additional detail by college is being shared with the dean of each college and is also available on the RPIA web site (www.rpia.ohio-state.edu).

Academic enrichment and selective investment calculations are considerations unique to each college. We do not intend to take from a college in a rebasing exercise what has already been awarded based on quality. The specifics of how selective investment and academic enrichment will be folded into base budgets will be discussed by the Senior Vice Provost in her visits with individual colleges.

It must be stressed here that this scenario is presented for discussion purposes only. It does not represent a budget recommendation of the Office of Academic Affairs, Office of Business and Finance and/or any other part of the University. The Office of Academic Affairs will use this scenario as a starting point for the Fall-Winter discussions with the Deans and colleges.

In her visits this Fall and Winter, the Senior Vice Provost will discuss the elements of this scenario with each college. An attempt will be made to identify unique elements in the college’s revenue or cost structure that contributed to this particular outcome and what may or may not be in the college’s control or in the best interest of the University.

**Reconciliation**

The third step in the determination of base budgets for each college is reconciliation by the Provost between the academic goals of the college and the University and the economics of the college. This reconciliation will be done by the Provost late Winter Quarter, following a review of the materials developed by the Senior Vice Provost and the deans in the Fall and early Winter.
After reviewing these materials and consulting with the appropriate advisory groups on criteria, the Provost will meet individually with each dean to develop an outline of a compact between the University and that college. That compact will address the following:

- The five year academic goals for the college and how they will be measured. These five year goals will include aspirations in academic excellence, student experience, diversity and outreach and engagement, as well as specific plans regarding support of honors and interdisciplinary work and college-specific goals.

- The five year financial goals for the college, including the base budget level and related expectations regarding credit hours, sponsored research, other income sources, space, and other cost elements, as well as resource commitments to that college’s departments and centers.

- Any other issues that need to be addressed over time.

The Provost will announce the outcome of these discussion by the end of Spring Quarter. Since it may take some time to finalize agreements with all 18 colleges, final agreements are likely to be completed in phases over the succeeding 12 months. These proposed compacts will be shared campus-wide, including with faculty and students of the college. Although this will be time consuming, the outcome will be a much better academic planning process that links resource decisions with academic goals.
Appendix B

Cost Allocation

The following tables show how the central assessment would be computed using FY 1999 actual annual rate allocations as an example. The calculation of the tax consists of four components:

- **Support services** - this represents the operating budget of the academic support units ($219 million).
- **Central distributions** - these are distributions by the Office of Academic Affairs for University-wide goals ($81 million).
- **Central resources** - includes money generated as the result of activities of the support units, including administrative overhead, student fees, and investment income ($75 million).
- **Centrally budgeted commitments allocated to academic units** - this reflects direct allocations for services currently paid centrally that would now be allocated to the individual colleges based on level of use. This includes student services, research support and a portion of physical plant ($109 million).

These figures do not include the 1/2% reallocation in FY 1999 to support academic enrichment and selective investment because this assessment is not part of the formal annual rate budget.

The net result is a flat tax of about $115 million or 19% of college based General Fund revenues in FY 1999. If the colleges are direct billed for volume related services, the University is in a position to cover its costs and guarantee the colleges that they will receive at least 75% of the new revenue they generate. Over time the Budget Advisory Committee would review the quality and cost effectiveness of support units. The flat tax may change in response to decisions regarding support unit budgets.
Appendix C

Subject: Sources and Uses Scenarios

Date: October 21, 1999

From: Lee Walker

To: Ed Ray
Bill Shkurti

As requested, attached is a scenario by college that displays a budget calculation as determined by the principles of budget restructuring that you articulated in Budget Restructuring VIII. The base scenario reflects the allocation of tuition, state support, indirect cost recoveries and direct expenses to each college for the four years FY 1996 - FY 1999 inclusive. These calculations are then compared to annual rate allocations for this same period. Implied taxation or cross subsidization represents the difference between the calculated amount and actual allocations for that year.

This scenario is presented for discussion purposes only and does not represent a policy recommendation by RPIA.

The information is in summary form, but more detailed back up information is being shared with the deans for their respective colleges and is also available from the RPIA web site (www.rpia.ohio-state.edu).

Please let us know if you would like any additional information.

Attachment

c: Alayne Parson
Alice Stewart
Budget Restructuring
Base Budget Scenario

Overview

This document describes the allocation of the University’s general funds budget based on the principles outlined in Budget Restructuring VIII and in University Goals and Resource Allocation. The scenario produced based on these principles is known as the Base Budget Scenario and represents a historical presentation from FY 1996 to FY 1999. This document can be used in conjunction with the review of the detailed spreadsheets of the Base Budget Scenario to aid in the understanding of the scenario. These spreadsheets are available on the Resource Planning and Institutional Analysis web site at www.rpia.ohio-state.edu.

The goal of the Base Budget Scenario is to display the resources and commitments of each college using a consistently applied methodology to all colleges. The specifics of this methodology are described below. In this scenario, some colleges have resources greater than commitments and other colleges have commitments greater than resources. However, since the general funds budget is a balanced budget, the total resources for all colleges equal total commitments. This scenario displays the cross-subsidization between colleges. Those colleges with commitments greater than resources can be viewed as receiving an “implied subsidization”. Those colleges with resources greater than commitments can be viewed as paying an “implied tax”.

The Base Budget Scenario is different from previous budget restructuring versions, known as “Sources and Uses”, last distributed in 1997. The Base Budget Scenario is based on the University’s annual rate budget, not actual revenue and expense; and it includes only general funds budgets, not earnings or restricted funds.

The Base Budget Scenario does not necessarily reflect the guidelines that will be established for sharing revenue on the margin in the future. It does not reflect a conclusion by the University or any of its parts on the appropriate level of funding for a college’s base budget in the future.

Overview of Methodology

Summary

This summary provides a general overview of the components of resources and commitments in the Base Budget Scenario. For further detailed information, refer to the copy of this document on the RPIA web site that includes a section with a detailed description of spreadsheets in the Base Budget Scenario.

Resources to academic units include instructional fees, non-resident fees, state instructional subsidy and indirect cost recovery.
Instructional fees are distributed to the academic units based on the fee credit hours by each college of instruction by each fee-paying category. The fee-paying categories include undergraduate, graduate, Law, MBA, Pharmacy, Medicine, Dentistry, and Veterinary Medicine. Fees are distributed on a rolling average of total fee credit hours for the preceding two years.

Non-resident fees (excluding graduate non-resident fees) are combined with instructional fees and also distributed to academic units based on credit hours by each college of instruction by each fee-paying category without regard to residency. In this method, non-residency does not impact the resources by college.

Graduate non-resident fees are distributed to academic units based on non-resident credit hours by college of instruction. Fees are distributed on a rolling average of non-resident fee credit hours for the preceding two years. In this method, non-residency does impact the resources by college.

State instructional subsidy is distributed to academic units based on subsidy eligible credit hours by college of instruction by subsidy category. Subsidy is distributed on a rolling average of the preceding five years of subsidy eligible credit hours. The subsidy categories are General Studies 1-3, Baccalaureate 1-3, Masters 1-3, Doctoral 1-2, and Medical 1-2.

Indirect cost recovery is distributed 100% back to the academic units. Some portion of indirect cost recovery is held centrally for those academic centers that do not reside in a college (example: Byrd Polar Research Center).

Commitments to colleges include direct commitments, centrally budgeted commitments allocated to colleges, and the uniform assessment.

Direct Commitments

Present budget allocation is the PBA for each academic unit as of June 30 of each fiscal year.

Fee Waivers include GRA, GTA and GAA fee authorizations including instructional and non-resident waivers.

Centrally Budgeted Commitments Allocated to Colleges

Physical Plant allocations represent the academic unit’s share of physical plant commitments based on that college’s assignable square feet by type of service (utilities, maintenance, custodial, and other physical plant). Specific recommendations on the treatment of physical plant expenses are being addressed by a workgroup with recommendations scheduled to be finalized early Winter quarter.

Research administration allocations represent the academic unit’s share of sponsored research administration costs based on that unit’s share of research expenditures.
Like indirect cost recovery, allocations to research centers not located in colleges are held centrally.

- **Student Services allocations** represent the academic unit’s share of the centrally budgeted student services commitments. These commitments are categorized into cost pools for undergraduate, graduate, total, UVC and Arts and Sciences then allocated based on the credit hours for those categories. Further details on the allocation of student services commitments are available in a document called “Recommendations for the Allocation of the Centrally Budgeted Student Services Commitments” available on the RPIA web site.

- The **Uniform assessment** (flat tax) is calculated as a percentage of a college’s total resources (subsidy, fees and indirect cost recovery). The uniform assessment covers other central commitments not recovered through specific allocations.
Changing any major policy at an institution as big and complex as Ohio State is a major challenge because of so many related issues. This is particularly true regarding our system of resource allocation. In order to assist the reader in tracking these related issues, we have prepared a list of key source documents regarding our latest round of recommendations on budget restructuring.

The following documents are all available on the Budget Restructuring web site at http://www.rpia.ohio-state.edu. A complete collection of hard copies will also be available for viewing at the Offices of the Provost, the Senior Vice President for Business and Finance, Resource Planning and Institutional Analysis, the Senate Office and the Reference Room of the Main Library.

**List of Supplemental Documents Regarding Budget Restructuring**

<table>
<thead>
<tr>
<th>Document</th>
<th>Author(s)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Priorities/Strategic Focus</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Focus I</td>
<td>Ray/Shkurti</td>
<td>9/4/98</td>
</tr>
<tr>
<td>Strategic Investment</td>
<td>Ray</td>
<td>1/6/99</td>
</tr>
<tr>
<td>Strategic Focus II</td>
<td>Ray/Shkurti</td>
<td>11/1/99</td>
</tr>
<tr>
<td>Academic Plan</td>
<td>Kirwan/Ray</td>
<td>TBD</td>
</tr>
<tr>
<td>Strategic Indicators</td>
<td>Strategic Analysis</td>
<td>TBD</td>
</tr>
<tr>
<td><strong>Reports of Senate Committees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summer Steering Committees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic Concerns</td>
<td>Fisher, et al</td>
<td>8/16/99</td>
</tr>
<tr>
<td>Centers</td>
<td>Culicover, et al</td>
<td>8/5/99</td>
</tr>
<tr>
<td><strong>RPIA Reports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Restructuring and ARMS</td>
<td>Walker/Rine</td>
<td>8/30/99</td>
</tr>
<tr>
<td>Allocation of Student Services Function</td>
<td>Mead</td>
<td>8/10/99</td>
</tr>
<tr>
<td>Fee Authorizations</td>
<td>Mead</td>
<td>9/29/99</td>
</tr>
<tr>
<td>Sponsored Research</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Space</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>Budget Restructuring Base Scenarios by College</td>
<td>Walker</td>
<td>11/12/99</td>
</tr>
</tbody>
</table>