Chancellor Mone, Provost Britz and Vice Chancellor Van Harpen,

This letter accompanies the submission, for your review and approval, of the Budget Model Working Group’s (BMWG) report and recommendations for a new UWM resource allocation and funding design. You are asked to consider each of the three major components which, together, form the BMWG’s recommendation. Specifically, the three components are:

1. A proposal to alter the formulas and practices that direct resources to the Divisions that make up the UWM campus
2. A proposal to establish a body to govern the annual process of allocating funding and, through this allocation process, ensure the financial integrity of this institution
3. A proposal to alter UWM’s annual budget development process

As you review this recommendation, it is important to know that there are two important ancillary activities upon which this depends. The first is the development of a six-year financial forecasting tool to be used at the Divisional and the Campus levels. This tool will be critical for the work of the proposed governance body. The second activity is the work of the Strategic Enrollment Management team (sponsored by the CEMAT group) to forecast UWM’s enrollments over a 5-6 year period. The enrollment forecast are an essential element in understanding the revenue expectations for the University.

The report is organized into two primary parts. The first is an Executive Summary that summarizes the three component proposals. The second part is a series of Appendices that detail the work and findings of the BMWG over the last several years. A Table of Contents is provided to help navigate the report.
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## BMWG’s Proposal

1. Brief Overview of Process  
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3. BMWG Recommendation for a New Subvention Fund  
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- Appendix B – Detail of Recommended Changes  
- Appendix C – Simulation of Proposed Model  
- Appendix D – Research on Performance Goals Commonly Used in Resource Allocation  
- Appendix E – Q&A on the Proposed Budget Model
OVERVIEW OF PROCESS

In late 2011 UWM initiated the process of developing a new resource allocation methodology for UWM. Subsequently, a Budget Model Working Group (BMWG) was established to take up this charge and develop a new university budget model.

The work of the group consisted of four phases:

- **Phase 1**: Requirements and Best Practices Data Gathering
- **Phase 2**: Development and Approval of the Resource Allocation Framework
- **Phase 3**: Testing the Proposed Model
- **Phase 4**: Implementation of the New Model

Throughout the process, the BMWG sought to create a new resource allocation model with the following desired features identified by the campus:

- Flexibility
- Predictability
- Simplicity
- Inclusivity
- Incentivizes desired activity
- Is strategic in nature

The submission of this report marks the concluding steps of Phase 3 as the BMWG seeks approval from campus leadership for the model design. If approved, the process will move out of the hands of the BMWG and into the hands of the proposed Resource Allocation Group to initiate the Phase 4 – implementation (see page 13 for an outline of the implementation phase).

A detailed accounting of the development process is provided in Appendix A.
BMWG’S RECOMMENDED CHANGES TO ALLOCATION FORMULAS

Based on its review of UWM’s current model and research into best practices at other institutions of higher education, the BMWG offers ten recommendations, grouped into three categories, to the campus leadership for further consideration. These changes are summarized below. A more extensive reporting of the recommendations can be found in Appendix B.

A – Changes to Treatment of Fringe Benefits Expenses

Table 1 - Fringe Benefit Treatment

<table>
<thead>
<tr>
<th>Current Model – Fringe Benefit Treatment</th>
<th>Proposed Model – Fringe Benefit Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fund 101 Fringe Benefits funding is held in a central administration fund</td>
<td>• Fund 101 Fringe Benefit funds will be distributed to units</td>
</tr>
<tr>
<td>• Fund 101 Fringe Benefits expenses within units are paid using central admin fund</td>
<td>• Units will use this funding to pay their fringe benefit expenses*</td>
</tr>
</tbody>
</table>

A portion of the funding (10%) will be retained centrally to reconcile changes to fringe benefit costs that are beyond a unit’s control (for example, a number of employees change from single to family benefit plans). The calculation and distribution of fringe benefit funding will occur annually as part of the campus budget building process.

B – Modifications to Funding Allocations and Assessments

TUITION REVENUE ALLOCATION

1. Pool undergraduate tuition and academic fee revenue and distribute based on a combination of credit-granting school/college, degree majors, and degrees awarded1.
2. Distribute graduate tuition (after subvention tax) based on school/college of enrollment.
3. Address concerns with deviating instructional costs across units, which are not addressed through differential tuition, through allocations made from the Subvention Fund. Decisions to redistribute funds via the subvention fund allocations should be informed by department level instructional costs data.
4. Use the Subvention Fund to soften the impact of sharp, sudden enrollment downturns in particular areas, allowing for minor adjustments in the allocation process to buffer against the risk of enrollment swings (such as averaging SCH conveyed over multi-years instead of over one year as currently practiced).

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1 The BMWG decided that a student’s residency would not factor into the distribution of tuition because to do so, the group believed, would provide strong incentives for academic units to forego collaboration with central administration on enrollment efforts in favor of independent initiatives. The BMWG also believed that additional revenue brought into the campus from non-resident undergraduate students should be shared across the campus.
Table 2 – Undergraduate Tuition Distribution

<table>
<thead>
<tr>
<th>Current Model – Undergrad Tuition Distribution</th>
<th>Proposed Model – Undergrad Tuition Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal change in tuition (increase or decrease over prior year tuition revenue)</td>
<td>Entire Tuition Pool Distributed</td>
</tr>
<tr>
<td>• 80% to School/Colleges</td>
<td>• 60% to School/Colleges</td>
</tr>
<tr>
<td>• 20% of marginal change to Central Pool</td>
<td>• 40% to Subvention Pool</td>
</tr>
</tbody>
</table>

80% Marginal Tuition distributed to Units based on
• Proportionate Share of SCH
• Higher level courses receive higher weighting

60% of Tuition Pool distributed to Units based on
• SCH (70%)
• Degree Majors (20%)
• Degrees Awarded (10%)

Table 3 – Graduate Tuition Distribution

<table>
<thead>
<tr>
<th>Current Model – Graduate Tuition Distribution</th>
<th>Proposed Model – Graduate Tuition Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal change in tuition (increase or decrease over prior year tuition revenue) (“Marginal Tuition”)</td>
<td>Entire Tuition Pool Distributed</td>
</tr>
<tr>
<td>• 80% to School/Colleges</td>
<td>• 60% to School/Colleges</td>
</tr>
<tr>
<td>• 20% of marginal change to Central Pool</td>
<td>• 40% to Subvention Pool</td>
</tr>
</tbody>
</table>

80% Marginal Tuition distributed to Units based on
• The school/college’s enrollments

60% of Tuition Pool distributed to Units based on
• Unit of Instruction

INDIRECT COST RECOVERIES
Distribute the majority of Indirect Cost Recovery funds to the school or college receiving the award.

Table 4 - Indirect Cost Recoveries Distribution

<table>
<thead>
<tr>
<th>Current Model – ICR Distribution</th>
<th>Proposed Model – ICR Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 30% to School/Colleges</td>
<td>• 60% to School/Colleges</td>
</tr>
<tr>
<td>• 70% to Campus overhead</td>
<td>• 20% to Subvention Pool</td>
</tr>
</tbody>
</table>

Figure 1 below summarizes and illustrates the proposed funding allocation scheme. See Appendix C for detailed results of the BMWG test results using prior years’ data.
FLOW CHART OF PROPOSED RESOURCE ALLOCATION DESIGN

Below (Figure 1) is a visual representation of the proposed distribution of funding sources coming into the University. The grey boxes represent earned revenue, the clear boxes represent areas in which revenues are expensed, the blue box represents the Subvention Pool, and the yellow box represents funding targeted for strategic priorities. Appendix C shows what the funding and distribution amounts would have been if the proposed budget model had been in place for the preparation of the Fiscal Year 2015 budget.

Figure 1 - Proposed Funding Allocation Design
C - Creation of a New Subvention Fund

The Budget Model recommendations call for the creation of a Subvention (support) Fund for the campus. This subvention fund will be used similarly to the way UC Davis and the University of Michigan use their subvention funds. That is, it will be used to pay for supplementary funding for schools and colleges that need it, academic support functions, non-academic support units, and discretionary funding for campus priorities. The BMWG believes the creation and strategic use of a subvention fund will provide needed flexibility in aligning campus resources with identified core and priority needs while helping to ensure the overall fiscal integrity of the University.

The Subvention Fund/Pool will be funded by the following sources:

- 40% of Unrestricted Tuition Revenue
- 20% of Indirect Cost Recovery Revenue (ICR) from sponsored research and grants
- Campus Expansion Funds - A legacy tax on Auxiliary and General Operating Funds
- The Unrestricted Portion of State Appropriations not set aside for Fringe Benefits

![Figure 2 - Subvention Fund Sources](image)

This Subvention Fund is a central feature of the new budget model and it is proposed that the funding pooled in the Fund be substantial enough to annually address the following needs:

1. **Supplementing the funding for schools and colleges** especially in instances where a unit’s instructional costs are higher than average or where a unit may experience temporary enrollment downturns.

2. **The funding of critical academic support functions** such as the Libraries, the Graduate School, the Office of Research, the Office of the Provost and other support units reporting up through the Office of the Provost.

3. **The funding of the non-academic administrative support units**, including Finance and Administrative Affairs, the GEA units reporting to the Chancellor and Student Affairs.

4. **Establishing discretionary funding** for key campus priorities.

The BMWG is recommending that a modestly sized team of campus experts (both administrative staff and faculty) be established to annually evaluate the campus’ overall fiscal forecast and make recommendations to the Chancellor, Provost and CBO on how the subvention funding should be allocated to achieve the above goals. The next two sections - UWM’s Annual Budget Building Process and Resource Allocation Governance - outlines the BMWG’s recommendations on the role and function of this team of experts.

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2 In FY2014 this amount was approximately $16 million. Subsequent reductions in State Appropriations had reduced the unrestricted State Appropriations not earmarked for Fringe Benefit expenses to zero dollars.
MODIFICATIONS TO UWM’S ANNUAL BUDGET BUILDING PROCESS

An important outcome of the potential adoption of the new budget model is a needed adjustment to UWM’s annual budget building process. The key adjustments are summarized as:

1. Involvement of a team of campus finance experts (administrative and faculty) – the Resource Allocation Group
2. Formal approval of the UWM annual budget by the Chancellor, Provost and CBO
3. The inclusion of a 6-year campus net operating income (or Profit & Loss) forecast
4. The extension of the annual budget building timeframe

Currently, budget development gets underway in the Fall semester prior to the beginning of a new fiscal year (which begins July 1st) and takes approximately 6 months. The current process, while overseen by the Office of Budget and Planning within Finance and Administrative Affairs, is fairly decentralized and directed by each of the campus’ divisions.

The new process, as proposed (see Figure 3) will:

- Involve a more rigorous planning process that includes forecasting revenues and expenses 6 years into the future
- Incorporate the enrollment forecast of the CEMAT group
- Be more data-driven with the application of a number of performance metrics included in the resource allocation decision making process
- Provide a more direct mechanism for linking resources to mission and strategic imperatives
- Begin 16 months prior to the start of a fiscal year and take approximately 12 months
- Involve more campus central oversight both from administration and faculty representatives

These changes are needed to:

1. Ensure the integrity of the planning process and to ensure that all initiatives and investments receive an appropriate level of review and scrutiny by campus leadership;

and

2. Ensure that campus leadership has the opportunity to direct the campus’ use of its resources, as well as make course corrections if needed.

The technical aspect of the annual budget building process will continue to be overseen by the Office of Budget and Planning. However, the establishment of the Resource Allocation Team and annual approval by the Chancellor, Provost and CBO will add a level of strategic oversight that is currently missing from the process. Figure 3 provides a summary of the proposed budget building process.
Figure 3 - Annual Budget Building Process

Office of Budget and Planning

Step 1: Approval of the Proposed Annual Budget
- February 2017

Step 2: Review and Approval
- March 2017

Step 3: Budget Proposal
- April 2017

Step 4: Final Budget
- May 2017

Step 5: Final Budget
- June 2017

Step 6: Final Budget
- Summer 2017

Step 7: Final Budget
- Fall 2017

Step 8: Final Budget
- Winter/Spring 2018

Step 9: Final Budget
- Summer 2018

Step 10: Final Budget
- Fall 2018

Step 11: Final Budget
- Winter/Spring 2019

Step 12: Final Budget
- Summer 2019

Proposed Annual Budget Development Process - Fall 2017
ESTABLISHING RESOURCE ALLOCATION GOVERNANCE

The BMWG is recommending the establishment of a Team of Experts to oversee UWM’s resource allocation process. Because of the degree of deliberation required to make the best possible resource allocation decisions and because of the need to engage governance while containing the size of the committee, the BMWG recommends a committee of no more than 9 members. The proposed composition of this group is as follows:

- APBC appoints 3 long term reps
- Provost Appoints 2 long term rep (one must be a Dean)
- VC of Student Affairs appoints 1 long term rep
- Director of Office of Budget and Planning
- Director of BFS
- Provost Budget Officer
A total of 9 people

The group of nine individuals must be chosen so that there is representation from Faculty, Academic Staff and University Staff.

Specifically, this team (termed the Resource Allocation Group) will perform the following functions:

A. This group will have and maintain extensive knowledge of the financial status of the university. Some of the kinds of data the members will need to understand include UWM budgets, current and historic cost accounting records, fund balances, central financial commitments, and financial forecasting principles.

B. In addition, members will have to become familiar with the key drivers of a university’s financial performance including, but not limited to: instructional costs by program, course demand, administrative costs as a function of student and/or staff FTE, space demand and utilization, enrollment patterns and projections, research funding patterns, etc.

C. The group will establish basic resource allocation principles that will guide annual resource allocation decisions. For example, the group will need to determine which sets of metrics will be used to inform resource allocations to both academic and administrative support units (faculty FTE, student FTE, student credit hours, assignable square feet, research expenditures, etc.). Appendix B contains research from the Educational Advisory Board outlining some of the types of categories of metrics the group could employ.

The inaugural meeting of the Resource Allocation Group is proposed for the spring of 2016. Some of the first issues the Group will take up in the spring include:

- Addressing any remaining unmet concerns surfaced as a result of the campus vetting process during the last six months (Appendix D summarizes these concerns). For example, the concern about course duplication remains and the APBC has drafted a potential solution to this concern that could be integrated into the proposed budget model. The Resource Allocation Group will need to take up this issue.
- Codifying the principles that will guide Subvention Fund resource allocation recommendations.
- Identifying the metrics that will be used to inform Subvention Fund allocation recommendations.
- Identifying data and data sources required to do the work of the Group.
- Identify training needs of the Group’s members.
D. The group, in consultation with the campus leadership, will need to understand the University’s strategic plan and to provide to leadership an evaluation of both the financial costs of proposed strategic initiatives as well as an estimate of the potential financial return on any strategic initiatives.

E. Annually, after deliberations based on the above factors and after consultation with the APBC, the Resource Allocation Group will issue recommendations for resource allocation to campus leadership along with a six year forecast of the campus’ Net Operating Income.

F. Finally, the Resource Allocation Advisory Group will be tasked with recommending any future changes to the resource allocation model to campus leadership.

G. Appointed members will be asked to serve 3-year terms.

The inaugural meeting of the Resource Allocation Group is proposed for the spring of 2016. To meet this date, members of the Group should be identified immediately after the Budget Model is approved by the Chancellor (assuming it is approved).
The Budget Model Implementation Timeline & Dependencies

If the proposed Budget Model and its components (Resource Allocation Group and Budget Building Process) are approved by Chancellor Mone, the implementation phase of the new model will begin immediately. Below is an outline of the steps and timeline for the implementation phase. Figure 3 provides a flowchart of the process.

Table 5 - Budget Implementation Timeline

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
<th>Responsible Party</th>
<th>Dependency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar/Apr 2016</td>
<td>Members of the Resource Allocation Group are selected</td>
<td>Provost, VC Student Affairs &amp; APBC</td>
<td></td>
</tr>
<tr>
<td>Apr-July 2016</td>
<td>The Resource Allocation Group holds its inaugural meeting in spring 2016 to begin the work of establishing guiding principles and the relevant metrics, as well as to begin taking up any remaining concerns about the new budget model</td>
<td>Resource Allocation Group</td>
<td></td>
</tr>
<tr>
<td>Apr-May 2016</td>
<td>Deans and Division heads, working with their Unit Business Representatives and administrative teams, develop gross revenue³ and expenditure forecast for fiscal years 2017 thru 2022 (six years) during late spring and early summer 2016</td>
<td>Division Heads, UBRs &amp; OBP</td>
<td>6-Year Financial Forecast Tool from BFS</td>
</tr>
<tr>
<td>May-June 2016</td>
<td>The Office of Budget and Planning receives and assesses the 6-Year forecast of each Division for data integrity and reasonableness One measure of reasonableness will be campus level enrollment forecast. The Office of Budget and Planning will compare the CEMAT forecast of future enrollments with the consolidated enrollments forwarded by the Schools and Colleges in their 6-Year Financial Forecast</td>
<td>OBP</td>
<td>Campus Enrollment Projections from CEMAT</td>
</tr>
<tr>
<td>June 2016</td>
<td>The OBP will allocate each division a base funding budget using the Budget Model formulas (see Appendix A for an illustration)</td>
<td>OBP</td>
<td>Approved Budget Model</td>
</tr>
<tr>
<td>July 2016</td>
<td>Resource Allocation Group will gain access to the forecasts of base revenue and expense forecast, as well as the amount of forecasted Subvention funding, and allocate subvention (support) funding to the base revenue budgets of each Division for each year of the 6-year forecast.</td>
<td>Resource Allocation Group</td>
<td>Knowledge of Campus priorities and costs reduction activities</td>
</tr>
<tr>
<td>July-Sept 2016</td>
<td>The APBC will receive and review the 6-year forecasts for the Campus and the Divisions with Subvention Fund Allocation Recommendations. The APBC will provide feedback to the Resource Allocation Group.</td>
<td>APBC</td>
<td></td>
</tr>
<tr>
<td>Oct/Nov 2016</td>
<td>Chancellor, Provost and Chief Business Officer reviews and approves the forecast of UWM’s revenues and expenses (with the recommended Subvention Fund allocations) for fiscal year 2017-18.</td>
<td>Chancellor, Provost and CBO</td>
<td></td>
</tr>
<tr>
<td>Nov 2016 – Apr 2017</td>
<td>Divisions, working with the OBP, build their approved expense budgets into the UWSystem budget system</td>
<td>Division UBRs &amp; OBP</td>
<td>Budgets approved by Campus Leadership</td>
</tr>
</tbody>
</table>

³ Gross revenue refers to the revenue a unit expects to generate through its operations prior to the application of any taxes levied by the budget model.
APPENDIX – A
The Budget Model Development Process
In his Fall 2011 Plenary, Chancellor Lovell made the case for a new resource allocation methodology for UWM. Citing the need to link scarce University resources to current and emerging strategic initiatives, Chancellor Lovell argued that the 12 year old current budget model was unaligned with current needs and incentivizing the wrong behaviors. Furthermore, the Chancellor informed the audience that he had charged leadership from all governance groups to work together to develop a new budgeting model for the UWM campus.

Shortly after his Plenary, the Chancellor appointed Provost Britz and Vice Chancellor Christy Brown co-chairs of a new Budget Model Working Group. This group was tasked with developing a new resource allocation model. After initial meetings, the group issued an RFP to engage a consultant that could guide the group through this process. In the spring of 2012, Mr. Larry Goldstein of Campus Strategies was contracted to help facilitate the development of the campus’ new budget model.

In July 2012, Mr. Goldstein traveled to UWM to facilitate a Kickoff of the BMWG. During his visit, the consultant recommended that, due to their demanding schedules and the amount of time needed to effectively lead the BMWG, Provost Britz and Vice Chancellor Brown step down as co-chairs and assign a new pair of leaders for the group. Mr. Goldstein also recommended the group be increased to include more members of the Faculty.

With the departure of Vice Chancellor Brown (who was replaced by Interim VC Robin Van Harpen) from the University during the summer of 2012 and per the request of the consultant, new co-chairs of the budget model were selected and the BMWG was expanded to include more members of the campus Faculty. In September 2012, Swarnjit Arora, Professor of Economics and Jerry Tarrer, Associate Vice Chancellor for Business and Financial Services, were selected as co-chairs of the Budget Model Working Group (BMWG).

On November 8, 2012, Mr. Goldstein facilitated a Kick-Off Meeting of the BMWG. The meeting was an all day gathering held in the UWM student Union. From this meeting emerged a framework that would guide the work of the Budget Model Working Group.
THE DEVELOPMENT PROCESS

The work with Mr. Goldstein helped the BMWG to develop a process for researching, designing, testing and implementing a new resource allocation model for the campus. This process included four phases.

Phase 1: Data Gathering
The initial phase of the work of the BMWG included the following goals:
1. Establishment of Guiding Principles to inform the work of the BMWG.
2. Requirements gathering that involved open forums to determine what the UWM community wanted in a new resource allocation model.
3. Research and review alternative approaches to resource allocation and best practices of other higher education institutions.

Phase 2: Development of New Budget Model Framework
This phase included 3 goals:
1. Defining a basic resource allocation approach. In other words, would UWM continue to use an incremental model or move to a zero based model, a full or modified Responsibility Center Model, an incentive model, etc.
2. Development of proposed changes to the current resource allocation model that would serve as the framework for a new resource allocation methodology.
3. Seek approval from campus leadership for the proposed changes.

Phase 3: Model Testing
This phase included the followed 2 goals:
1. Developing the details of the new model and testing the impacts of the proposed changes.
2. Presenting the new model to the campus community for comment and feedback.

Phase 4: Implementation
This phase involves the implementation, beginning in Spring 2016, of the new resource allocation model.
BUDGET MODEL INSIGHTS

From the work performed in Phase 1, the BMWG identified two important groups of insights. These insights emerged from the BMWG’s campus forums, the analysis of UWM’s current model, and the group’s research into the practices and policies of other institutions (see below). These insights are presented in two groups – desired strengths and weakness of UWM’s current model and desired features in a new budget model.

Strengths and Weaknesses in the Current UWM Model

Strengths and weaknesses of the current model include, but are not limited to, the following:

- It incentivizes enrollment growth (to exclusion of other activities), and is less responsive when overall trends not unique to a specific school/college lead to enrollment declines
- It was developed piecemeal over time without regards to an overall strategy or to how various components are interrelated
- It is perceived to provide insufficient incentives to grow as a research institution
- Some aspects of the model, such as the methodology for distribution of marginal tuition revenue, are not readily understood by many, but are also predictable and consistent from year to year
- It is difficult to link activities and their related costs, because activities may reside at a school or college, and the costs are paid centrally by the campus

Desired Features and Goals of a New Budget Model

A new budget model should include, at minimum, the following components:

1. It should be **flexible** enough to adjust to the evolving landscape of higher education and the evolving needs of the UWM campus community.
2. It should be **predictive** to allow campus units to anticipate their future resource allocations and, subsequently, set long term goals.
3. It should be **simple** and easily understood by the campus community.
4. It should be **incentivizing** for desired behaviors and outcomes
5. It should be **inclusive** of the viewpoints of campus leadership and governance groups
6. It should be **strategic** in nature

The above sets of insights were used to inform the BMWG’s efforts in Phase 2 to develop a new framework for resource allocation at UWM.
SUMMARY AND ANALYSIS OF OTHER UNIVERSITY APPROACHES

The issues faced by UWM in its current budget model are by no means unique. Below is a discussion of how other universities have addressed issues related to tuition and state appropriation distribution, federal indirect cost recovery, and the creation of subvention funds. Areas of commonality between the approaches include the following:

- Each divided campus units into two categories – activity based and non-activity based. Activity based units received a significant share of their funding as a function of what they do, i.e. enrolling students, obtaining grants, selling merchandise, etc. Non-activity based units do not generate sufficient revenues to cover an appreciable portion of its operations.

- Each employed a set of formulas to distribute the revenues generated to the various academic units or activity centers.

- Several (Cornell, University of Michigan, Penn State, UC Davis) included some form of a subvention or support pool, in order to provide some flexibility and discretion in the allocation of resources. The subvention pool was a discretionary pool of funding that differed in size from university to university. However, in each case it provided central administration with a greater degree of flexibility in the allocation of resources across campus.

- Each established a short list of resource buckets or pools, in order to achieve a relative degree of simplicity in the distribution of resources. These typically included funds from tuition and fee based revenues, State appropriations and Federal Indirect Cost Recovery revenues. The relative simplicity depended on the degree to which formulas were employed in the distribution of the resource budgets. Some universities used relatively few formulas – UC Davis, the University of Michigan and Cornell. Others – Iowa State for example – used significantly more formulas.

- No model added new resources to the systems - new revenues were generated by the activities of the activity centers - additional students, higher tuition and/or fees, increased research - or from more funding from the state.

- Each did, however, seek to incentivize productivity in the activity centers and to facilitate the flow of revenues in a more direct and transparent manner.
**Tuition Distribution**

Each of the universities examined pooled their tuition revenues prior to distribution. However, pooling methodologies differed between universities:

- Iowa State has several tuition pools that include separate pools for undergraduate tuition, professional tuition and graduate tuition pool. Each of these pools was then distributed based on a set of criteria and formulas.
- UC-Davis established simpler structures by creating only two tuition pools – undergraduate tuition and graduate tuition – which were then distributed to activity centers based on different criteria.
- University of Michigan pooled only the undergraduate tuition while distributing graduate tuition directly to the unit generating the revenue.

In distributing tuition, each university considered the following categories:

- Undergraduate students
- Graduate and professional students
- Instructional portion of tuition
- Nonresident portion of tuition

Below is a summary of how each university treated each category.

**UNDERGRADUATE STUDENT TUITION DISTRIBUTION**

For each university considered, undergraduate tuition was pooled and then distributed to activity centers, based on a combination of unit of instruction, degree major/college of enrollment, and degrees awarded. Below is a chart listing each university’s distribution approach, which represents tuition revenues net of any funds taken off the top.

**Table 6 – Undergrad Tuition Distribution**

<table>
<thead>
<tr>
<th>Undergraduate Tuition Distribution</th>
<th>Unit of Instruction (SCH)</th>
<th>Degree Major or College of Enrollment</th>
<th>Degrees Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>UC Davis</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>Iowa State</td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Ohio University</td>
<td>85% (SCH averaged over 2 years and weighted by costs of instruction)⁴</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>University of Michigan</td>
<td>50%</td>
<td>50%⁵</td>
<td></td>
</tr>
<tr>
<td>Cornell University</td>
<td>Mix based of SCH and College of Enrollment Set by Provost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Penn State</td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

Additional factors include the following:

⁴ Ohio University distributes tuition using SCH averaged over 2 years to smooth year to year fluctuations in SCH. Units with decreases in SCH are buffered and given time to recover.
⁵ University of Michigan incorporates tuition differentials into the distribution of the College of Enrollment portion of student tuition.
• Penn State, UC Davis and University of Michigan assessed a subvention pool tax that was directed in part to a central campus support fund. More on this practice is provided below in the section on Subvention Funds.

• Iowa State and Ohio University also assessed the undergraduate tuition pool for financial aid prior to distributing the revenues to the activity centers.

**GRADUATE STUDENT TUITION DISTRIBUTION**

The universities examined employed, for the most part, two basic strategies for distributing graduate and professional student tuition – either 100% to the college of enrollment, or some mix distribution between the unit of instruction and the college of enrollment.

**Table 7 – Graduate Tuition Distribution**

<table>
<thead>
<tr>
<th>Graduate &amp; Professional Student Tuition Distribution</th>
<th>Unit of Instruction (SCH)</th>
<th>Degree Major or College of Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa State</td>
<td>Revenue shared with students taking courses outside their college of enrollment based on SCH</td>
<td>100%</td>
</tr>
<tr>
<td>Ohio University</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Cornell University</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Penn State(^6)</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>UC – Davis (see discussion below)  (^6)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The University of Michigan, in the original design of its RCM model, allocated 100% of the tuition to college of enrollment. However, in 2008-09 the current allocation method was adopted to link revenues to the cost of providing instruction and to provide incentives to schools and colleges to offer courses that benefit students from other schools and colleges. The costs associated with support these programs – graduate student remissions, financial aid, etc. was assessed to each college after tuition was distributed.

The exception in how graduate and professional student tuition is distributed was UC Davis which, in December 2013, issued a white paper outlining a proposed change to how it distributes graduate and professional tuition revenue. UC Davis explains on its website that it chose not to recalculate the amount a unit receives in tuition annually based on enrollments. It explains that the stability was a key principle of any new funding model proposals. Therefore, anticipating enrollment growth in the coming years, UC Davis chose to employ an incremental model for the allocation of graduate and professional student tuition. The bulk of the incremental (i.e. marginal) tuition growth (67%) will go to the Provost subvention fund, which in turn will support TA remissions and graduate student fellowships. The other incremental tuition growth will go to the college of enrollment.

\(^6\) Penn State assesses a 20% subvention tax on all tuition revenues except for PhD students. The percentages shown in the chart for Penn are applied to the tuition revenues net of the subvention tax.
The following universities have further defined how instructional and nonresident portions of tuition are to be allocated:

**Table 8**

<table>
<thead>
<tr>
<th>University</th>
<th>Undergraduate</th>
<th>Graduate and Professional</th>
</tr>
</thead>
<tbody>
<tr>
<td>UC Davis</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 1</td>
<td>Instructional Portion 67% to Subvention Pool, 33% to College of Enrollment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Out of State Portion 100% of PhD &amp; 50% of Masters tuition to Subvention pool, 50% of Masters to support Graduate Programs</td>
</tr>
<tr>
<td>Iowa State</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 1</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 2</td>
</tr>
<tr>
<td>Ohio University</td>
<td>Instructional portion 85% on SCH and 15% Major (see Table 1)</td>
<td>No Weighting by residency. 100% of Instructional and Out of State Portions to College of Enrollment</td>
</tr>
<tr>
<td></td>
<td>Out of State portion 85% on SCH and 15% for majors for non-resident students only</td>
<td></td>
</tr>
<tr>
<td>University of Michigan</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 1</td>
<td>No Weighting by residency or pooling. 100% of Instructional and Out of State Portions to College of Enrollment</td>
</tr>
<tr>
<td>Cornell University</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 1</td>
<td>No Weighting by residency or pooling. 100% of Instructional and Out of State Portions to College of Enrollment</td>
</tr>
<tr>
<td>Penn State</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 1</td>
<td>Instructional and Out of State Portions are pooled and distributed as described in Table 2</td>
</tr>
</tbody>
</table>
State Appropriation Distribution

State appropriation was distributed in one of three basic ways:

- Formula (Ohio University and Iowa State)
- Incremental budgeting
- Central pool distributed at the discretion of the Chancellor/President and Provost (to just the schools and colleges as is the case at Iowa State and Cornell or to all units, as is the case at UC Davis)

Table 9

<table>
<thead>
<tr>
<th>State Appropriations Distribution Methods</th>
<th>Directly to Schools &amp; Colleges</th>
<th>Directly to Support Units</th>
<th>Distributed by Central Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ohio University</td>
<td>Formulas based on course completion and degree completions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iowa State</td>
<td>Portioned amount set by Provosts and President and distributed based on Student FTE</td>
<td>Distributed to Support Units with annual incremental increases</td>
<td>Portion managed by Provost and President for strategic investments in Schools &amp; Colleges</td>
</tr>
<tr>
<td>University of Michigan</td>
<td></td>
<td>Distributed to Support Units with annual incremental increases</td>
<td></td>
</tr>
<tr>
<td>Cornell</td>
<td>Distributed based on student FTE to supplement tuition revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UC Davis</td>
<td></td>
<td></td>
<td>Pooled as a Support fund and distributed to all units by Provost</td>
</tr>
</tbody>
</table>
**Indirect Cost Recovery**

For each examined university the distribution of Indirect Cost Recovery funding was based on the activity based model and was used to incentivize the growth of funded research. Each university employed one or more formulas in determine how much of the Indirect Cost Recovery funds flowed to the unit generating the funds and how much flowed to the various support units.

The Table 10 summarizes the distribution methodologies.

**Table 10**

<table>
<thead>
<tr>
<th>University</th>
<th>Indirect Costs Recovery Distribution Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Michigan &amp; Ohio University</td>
<td>100% to unit expending research funds (with a corresponding charge for facilities and administration costs)</td>
</tr>
<tr>
<td>Cornell University</td>
<td>2% to the PI; 98% to the unit expending the research funds (with a corresponding charge for facilities and administrative support)</td>
</tr>
<tr>
<td>UC Davis</td>
<td>34% to the administrative home of the award and 66% to the central campus</td>
</tr>
<tr>
<td>Penn State</td>
<td>88.5% to the Dean of the school receiving the grant; 10.5% to campus subvention (support) pool; 1% to a research facilities fund</td>
</tr>
<tr>
<td>Iowa State</td>
<td>10% to the campus central research administration office; 55% to the academic unit expending the research funds (10% to the academic unit central administration and 45% to the department or center conducting the research); 5% to the PI; 25% to a facilities fund to support research and to support faculty startup packages</td>
</tr>
</tbody>
</table>

**Subvention Funds**

As mentioned above, a number of the universities examined employed the use of some form of subvention or support fund. The BMST found that it was the subvention fund that served as the vehicle for allocating resources towards strategic initiatives and the adjustment of funding based on changing campus priorities.

In each case, this subvention fund was created by taxing (via a formula) one or more of the following resource streams: Tuition revenue, State Appropriation and Federal Indirect Cost Recovery funds. The subvention fund was, in each case, managed by the Provost or by both the Provost and the President.

The creation of a subvention or support fund is a modification of the basic ‘activity-based’ or ‘responsibility-based’ model. The pool allows the Provost and President to retain considerable discretion and the system, thus, is designed to produce flexible resources that can be reallocated across units each year.

In its literature explaining its UB Model, the University of Michigan provides some insight why it created a General Fund Supplement pool, its version of the subvention fund.
“Beginning in fiscal year 2002-03, the University of Michigan experienced a series of one-time rescissions, base appropriation reductions and delayed payments of enacted appropriations leading to considerable uncertainty in building and retaining the budgets...During this time it has been essential to place academic unit funding as the highest institutional priority and to provide differential changes in funding for academic units while at the same time providing funding for new initiatives and directions. The flexibility of the budget model has been a critical element in our ability to continue to make progress in high impact areas...The General Fund Supplement (GFS) represents the additional support provided to a unit beyond the net revenues and costs...The UB model was designed so that most units would still need supplementation rather than function as “a tub on its own bottom”. It is this element that gives the Provost leverage in determining the budget and, therefore, set the activities undertaken by units. The GFS represents both the historical measure of a unit’s necessary funding and the accretion (or decline) of funds provided through subsequent policy and programmatic decisions.”

UC Davis recently, in 2012, implemented its own version of the subvention fund that they have labeled their Provost Allocation. Below are selected excerpts from a Working Paper published by UC Davis in spring 2012.

The purpose of the Provost Allocation is to support the common good and promote excellence across the campus...Most basically, the Provost Allocation is the distribution method for non-formula driven sources of funds.

The new budget model is not intended to make units independent but establish a balance between independence of units and institutional coordination and cooperation. To respect that balance, both the Provost and Chancellor and the units need a role in deciding funding levels. Furthermore, there will always be initiatives that the center is in the best position to identify and promote. Initially we will not have significant new, uncommitted funds, but over time we expect the Provost Allocation to provide funding for initiatives.

2012-13 marks the fifth consecutive year of core fund budget shortfalls. There are two primary sources of budget shortfalls on the institutional level: reductions in State appropriations and increases in fixed costs. We will continue to take a coordinated response to [budget] shortfalls, taking an institutional perspective to determine the appropriate adjustments including budget cuts and the use of alternative funding sources to minimize the impact and ensure equitable treatment. The Provost Allocation will be the vehicle for the institutional response, since the final decision about a budget cut may often come in the form of a reduction in the Provost Allocation.
Below is a summary of how each institution with a subvention fund sources that fund.

Table 11

<table>
<thead>
<tr>
<th>University</th>
<th>Sources for the Subvention Fund</th>
</tr>
</thead>
</table>
| UC Davis          | • 100% of unrestricted State appropriation  
                   • Provost share of tuition (30% for undergrad, see Table 3 for grads)  
                   • Provost share of Indirect Costs Recovery (66%)  
                   • Institutional Overhead Assessment on auxiliary and auxiliary like activities. |
| University of Michigan | Taxes on the revenues of Activity Centers  
                          • General Tax levied on adjusted expenditure base (other than sponsored grants and contracts)  
                            o 2% to auxiliary units  
                            o 21% to research units on non-sponsored research expenditures  
                            o 24% to schools and colleges  
                          • Research Tax of 11% of sponsored research expenditures |
| Penn State        | • 20% of Tuition (ex. PhD tuition)  
                   • 10.5% of Indirect Cost Recovery |
| Iowa State        | • Portion of unrestricted State appropriation |
| Cornell University | • 10% of undergraduate tuition |

It should be noted that in implementing new budget models, each university established a period of time in which schools and colleges were ‘held harmless’ while base budgets were reset based on the newly established ‘formula based’ distribution of tuition revenue. In most cases, it was the subvention pool that was used to ‘balance’ the budgets of the various units during the ‘hold harmless’ phase.

Other Comments on the Approaches Reviewed

While some universities used relatively fewer formulas and achieved what the BMST felt was a fairly simple model, there can still remain a degree of perceived complexity. For example, the University of Michigan, which when compared to Iowa State, employs fewer formulas, found in a 2005 outside review of their budget model that many campus constituents complained that the model’s complexity discouraged some from attempting to understand it. The BMST concluded that while formulas provide predictability, they often reduce the amount of flexibility and prove hard to adjust over time, thus reducing the flexibility and responsiveness of the model.

Complexity is also determined by the number of and kind of taxes employed in the budget model. The University of Michigan’s budget model is made more complex through the employment of multiple taxes, designed to assess administrative and facility costs to the various activity centers on campus. The degree of taxes employed directly correlated to the degree to which the institution had instituted the RCM model of resource allocation. All of the models reviewed (with the exception of UC Davis) attempted to allocate costs to the various activity centers. UC Davis, the exception, applied a broad tax to the tuition pool and did not attempt to allocate costs to the activity centers, assuming costs will be covered by the broad tax that funded the Provost’s subvention pool.
From a presentation point of view, both the UC Davis and the Iowa State budget models were fairly transparent (i.e. easy to follow and understand) although the Iowa State budget model was relatively more complex (i.e. more distribution lines and formulas). Transparency was achieved in well written and illustrated flow charts and examples – despite the complexity of the model.
APPENDIX – B

RECOMMENDED CHANGES
RECOMMENDATIONS FOR A NEW BUDGET MODEL

Based on the insights outlined in Appendix A, the group decided to recommend fourteen adjustments, grouped into three categories, to the current model that would address the six desired features of a new UWM budget model. These recommendations are also an attempt to address the concerns raised with our current resource allocation model. The Budget Model Working Group anticipates the cumulative effect of the recommendations will be a resource allocation method that provides a set of incentives designed to reward behaviors that move UWM towards its mission and strategic priorities.

Financial Framework

Recommendation #1:

Clearly identify the source of campus revenue by making a distinction between the flow of state appropriations and tuition revenues. While the UW-System distributes the largest portion of our funding to our campus in the form of state appropriation and tuition pool (Fund 101), we have the ability to distinguish between what portion of the fund 101 distribution to campus units is from tuition and what portion is from State appropriation. Testing of the proposed model revealed this important fact: the State appropriation portion of the fund 101 funding has been significantly reduced in recent years (due to numerous funding cuts by the State) and that what remains of the State allocation is restricted to very specific spending categories. The BMWG believes this initial step of distinguishing State Appropriations from the tuition portion of the fund 101 budget is critical in beginning to move beyond an incremental form of resource allocation to one that is more strategic and flexible.

Recommendation #2:

Create separate tuition streams for undergraduate and graduate students. Both the undergraduate and graduate tuition streams should be assessed an approximated 40% (tentative amount – may change as the campus establishes spending range targets based on the types of campus activities) tax off-the-top. In the higher education literature regarding resource allocation and management, this is referred to as a ‘revenue tax’. This ‘revenue tax’ funding will form the majority of the funds within a ‘Subvention fund’ which will provide funding support to most of the schools and colleges, academic support functions (Libraries, Graduate School, etc.), non-academic administrative units (Finance and Administrative Affairs, Student Affairs, etc.) and campus wide strategic initiatives, see recommendation number 3. The remaining 60% of the tuition will then be distributed to the schools and colleges generating the revenues. While this recommendation calls for the pooling of undergraduate tuition for distribution, it does not call for the pooling of graduate level tuition. Instead, at the graduate level, tuition will directly follow the student to the school or college in which the student is enrolled. The rationale behind this distinction is that unlike graduate students, undergraduate students are much more likely to enroll in courses outside of their college of enrollment. Thus, enrollment declines or increases in one academic unit impacts (through the course a student takes) the fortune of other units. The pooling of the undergraduate tuition allows the distribution of tuition revenue to reflect that fact that enrollment at the undergraduate level is a shared concern.

It is important to note that the BMWG originally believed a 20% revenue tax would be sufficient to fund the various campus support functions. However, this original 20% target was established two biennial budgets ago and UWM has subsequently seen two significant reductions to its State Appropriations.

Recommendation #3:

Create a Subvention Fund managed by a Resource Allocation Group and with oversight by the Chancellor, the Provost and the Chief Business Officer. This subvention fund will be used similarly to the way UC Davis and the University of Michigan uses their subvention funds. The BMWG believes the creation of a subvention fund along with the creation of
a Resource Allocation Group will provide needed flexibility in aligning campus resources with identified core and strategic needs while ensuring the overall fiscal integrity of the University.

This subvention fund should be used to address the following:

1. Supplementing the funding for schools and colleges
2. The funding of critical academic support functions such as the Libraries, the Graduate School, the Office of Research, the Office of the Provost and other support units reporting up through the Office of the Provost
3. The funding of the non-academic administrative support units, including Finance and Administrative Affairs, the GEA units reporting to the Chancellor and Student Affairs.
4. The creation and directing of discretionary resources to key campus priorities

Funding Allocations and Assessments

TUITION

Recommendation #4:

Pool undergraduate tuition and academic fee revenue (the instructional and resident portions), and distribute based on the following criteria:

- SCH
- Degree Majors
- Degrees Awarded

In testing the proposed budget model, the BMST considered several weighting schemes for the three metrics. In the end, the BMWG is recommending a 70% SCH, 20% Degree Majors and 10% Degrees Awarded weighted scheme. Based on the lessons learned from the universities studied (particularly the University of Michigan) the group believed it important to continue to distribute a significant portion of undergraduate tuition based on SCH to allow resources to flow to the unit providing the instruction. Our own testing revealed that lowering the portion of the undergraduate tuition revenue distributed based on SCH significantly lower than 70% had the undesirable effect of distributing less revenue to UWM’s largest unit – L&S. However, to direct resources to the college of enrollment and to address the costs of delivering higher level course7, the BMWG has included a weighting for degree majors. Furthermore, to reward retention the group has included a weighting for degrees awarded.

This new distribution methodology for undergraduate tuition revenue would reset the base budgets of the schools and colleges. The undergraduate tuition component is determined by the instructional load (SCH), degree majors and degrees awarded. (Other factors in resetting the base budget are treated in the following recommendations.)

It is important to note that the recommended weighting scheme (70/20/10) is not fixed and could be altered in future years if through experience and analysis the campus leadership, guided by the advice of the Resource Allocation Group, determines a different distribution is needed.

---

7 It is understood by the BMWG that undergraduate students do not declare majors typically until their junior year.
Recommendation #5:

Allocate all of the school/college share of Graduate tuition by college of enrollment. Modeling of other distribution formulas revealed the swings in base allocations to academic units to be too severe. Furthermore, graduate students tend to take the bulk of their courses within the school/college in which they are enrolled. For these two reasons, the BMWG recommends allocating graduate tuition revenue (after the application of the ‘revenue tax’) directly to the school/college in which a student is enrolled.

Recommendation #6:

Address concerns with differential instructional costs across units through allocations made from the Subvention Fund. The BMWG agreed that the subvention pool represents a built-in mechanism for addressing this concern. The group also recognized the need to have good costs accounting data – i.e. information on the relative instructional costs across different academic disciplines. To that end, the campus will need to invest the appropriate resources towards developing and publishing reports with instructional costs data. Compelling and analyzing this data for use in resource allocation decisions will be the responsibility of the Resource Allocation Group.

Recommendation #7:

Use the Subvention Fund to soften the impact of sharp, sudden enrollment downturns. Such downturns are a risk for tuition dependent campuses and the BMWG took up the topic of mitigating the impact of this risk through the resource allocation model. The BMWG agreed that while some minor actions could be taken to provide a small degree of protection against enrollment downturns (e.g. using multi-year average SCH to distribute the undergraduate tuition pool), there exists no simple mechanisms to fully eliminate the impact of sharp enrollment fluctuations. The group, therefore, concluded the best way to address this risk is through annual allocations from the recommended subvention pool. Therefore, the group recommends that the Resource Allocation Group (see recommendation #10) consider the effects on enrollment downturns on individual units when making resource allocation recommendations to the campus leadership during the annual budget building process.

STATE SUPPORT

Recommendation #8:

Allocate Unrestricted State Appropriations (not budgeted for Fringe Benefits) to the Subvention Fund. The original recommendations of the BMWG (prior to testing of the model) included the idea of funding the non-academic support functions primarily from State Appropriations. However, the model testing/simulation using fiscal year 2014 data revealed the fact that only $16M of the $122M budgeted State appropriation funding in 2014 was unrestricted. The remaining amount (approximately $106M) was either restricted for specific uses or allocated for fringe benefit expenses. Furthermore, the BMWG recognized that the reductions in the State Appropriations that have occurred since fiscal year 2014 have further diminished the unrestricted appropriations. As a result, the BMWG recommends that any remaining unrestricted State Appropriations be placed in the Subvention fund.

INDIRECT COST RECOVERIES

Recommendation #9:

Distribute the majority of Indirect Cost Recovery funds to the school or college receiving the award. The group recommends giving 80% to the schools and colleges, with the remainder of the funding allocated to the subvention fund.
Administration and Oversight

Recommendation #10:
The BMWG considered several potential ways to govern the process of resource allocation at UWM. The below table outlines five different options discussed by the group.

Table 12- Resource Allocation Governance Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Deliberation</th>
<th>Review</th>
<th>Final Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - Small and Nimble</td>
<td>Chancellor, Provost, CBO</td>
<td></td>
<td>Chancellor, Provost CBO</td>
</tr>
<tr>
<td></td>
<td><em>A total of 3 people</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B – Partnership</td>
<td>• Chancellor, Provost, CBO (3)</td>
<td>APBC</td>
<td>Chancellor, Provost CBO</td>
</tr>
<tr>
<td></td>
<td>• Reps from each governance group (4)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>A total of 7 people</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C - Inclusive</td>
<td>• APBC rep (1)</td>
<td>APBC</td>
<td>Chancellor, Provost CBO</td>
</tr>
<tr>
<td></td>
<td>• governance group reps (4)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director of Office of Budget and Planning (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director of BFS (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provost Budget Officer (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reps for each of the 5 campus panther teams (5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>A total of 13 people</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D – APBC Directed</td>
<td>• APBC (16)</td>
<td></td>
<td>Chancellor, Provost CBO</td>
</tr>
<tr>
<td></td>
<td>• Director of Office of Budget and Planning (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director of BFS (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provost Budget Officer (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Admin reps (??)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>A total of 19 to 21 people</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E – Team of Experts</td>
<td>• APBC appoints 4 long term reps</td>
<td>APBC</td>
<td>Chancellor, Provost CBO</td>
</tr>
<tr>
<td></td>
<td>• Provost Appoints 1 long term rep (a Dean)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• VC of Student Affairs appoints 1 long term rep</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director of Office of Budget and Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Director of BFS</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provost Budget Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The group must include representation from Faculty, Academic Staff and University Staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>A total of 9 people</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The BMWG is recommending Option E, the Team of Experts because of the degree of deliberation required to make the best possible resource allocation decisions and because of the need to engage governance while containing the size of the committee.
Specifically, this team (termed the Resource Allocation Group) will perform the following functions:

H. This group will have and maintain extensive knowledge of the financial status of the university. Some of the kinds of data the members will need to understand include UWM budgets, current and historic costs accounting records, funding balances, central financial commitments, and financial forecasting principles.

I. In addition, members will have to become familiar with the key drivers of a university’s financial performance including, but not limited to: instructional costs by program, course demand, administrative costs as a function of student and/or staff FTE, space demand and utilization, enrollment patterns and projections, research funding patterns, etc.

J. The group will establish basic resource allocation principles that will guide annual resource allocation decisions. For example, the group will need to determine which sets of metrics will be used to inform resource allocations to both academic and administrative support units (faculty FTE, student FTE, student credit hours, assignable square feet, research expenditures, etc.). Appendix B contains research from the Educational Advisory Board outlining some of the types of categories of metrics the group could employ.

K. The group, in consultation with the campus leadership, will need to understand the University’s strategic plan and to provide to leadership an evaluation of both the financial costs of proposed strategic initiatives as well as an estimate of the potential financial return on any strategic initiatives.

L. Annually, after deliberations based on the above factors, the Resource Allocation Group will issue recommendations for resource allocation to the campus leadership team along with a six year forecast of the campus’ Net Operating Income.

M. Finally, the Resource Allocation Advisory Group will be tasked with recommending any future changes to the resource allocation model to campus leadership.

N. Appointed members will be asked to serve 3 year terms.
APPENDIX – C
Simulation of Proposed Model Using Prior Year Data
UWM CAMPUS FUNDING ALLOCATION ILLUSTRATION

To illustrate the effects of the proposed resource allocation model, the model was applied to the revenues generated by the University during Fiscal Year 2015 (July 1, 2014 – June 30, 2015). In that year the campus generated $547,000,000 in operating revenue. If the proposed model had been used to generate a Subvention Fund, the formulas within the model would have divided the revenue into the following categories:

Table 13 - Fiscal Year 2015 Funding Splits Using Proposed Model

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>126,200,000</td>
</tr>
<tr>
<td>Tuition Revenue</td>
<td>134,900,000</td>
</tr>
<tr>
<td>Sponsored Research</td>
<td>52,400,000</td>
</tr>
<tr>
<td>Auxiliary Revenue</td>
<td>97,100,000</td>
</tr>
<tr>
<td>General Operations Revenue</td>
<td>13,600,000</td>
</tr>
<tr>
<td>Development Revenue</td>
<td>12,000,000</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>4,800,000</td>
</tr>
<tr>
<td>Restricted Revenue</td>
<td>900,000</td>
</tr>
<tr>
<td><strong>Base Funding - Subtotal</strong></td>
<td><strong>431,900,000</strong></td>
</tr>
<tr>
<td><strong>Subvention Pool</strong></td>
<td><strong>105,100,000</strong></td>
</tr>
<tr>
<td><strong>Total 2015 Funding</strong></td>
<td><strong>537,000,000</strong></td>
</tr>
</tbody>
</table>

The Base Funding – Subtotal amount of $431.9M represents the model’s distribution of funding to the various campus Divisions via policies governing the use of funds by type and the formulas built into the model. The formulas within the model also deposit $105M into the Subvention Pool. These allocations are illustrated below in Figure 4.
While the model would have employed formulas and policy rules to allocate the $431.9M in Base Funding, the $105M in the Subvention Pool would have been allocated to the campus Divisions based on recommendations from the Resource Allocation Group to the Chancellor, Provost and Chief Business Officer. In making their recommendations, the Resource Allocation Group would have considered, for example, a unit’s performance against identified campus priorities (see Appendix D for more information), a unit’s overall costs structure, a unit’s expenses as a share of the campus’ overall expenses, etc.
To illustrate the model’s potential impact on individual units, the simulations of the model’s allocation of resources (using Fiscal Year 2015 data) are shown below for the College of Letters and Science and Finance and Administrative Affairs.

**College of Letters and Science Funding Allocation Illustration**

Below, the College of Letters & Science is used to illustrate how the proposed model would have allocated Base Funds to a Division had the budget model been in place for Fiscal Year 2015.

In 2015 the College of Letters & Science generated and received, through its operations and restricted State Appropriations, $131,600,000 in gross revenue for the campus – which must meet both the direct and indirect expenses\(^9\) of a revenue generating unit. That year, UWM’s current Incremental + Marginal Tuition budget model allocated $88,500,000 of the $131,600,000 to L&S to meet the College’s direct costs. In that same year, however, the College incurred $103,000,000 in direct expenditures - $14,500,000 more than it was allocated by the current budget model. This is summarized in Table 14 below.

Table 14 - L&S Fiscal Year 2015

<table>
<thead>
<tr>
<th>L&amp;S Gross Revenues</th>
<th>$ 131,600,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal Tuition Model’s Allocation for Direct Expenses</td>
<td>$ 88,500,000</td>
</tr>
<tr>
<td>L&amp;S Actual Direct Expenses</td>
<td>$ 103,000,000</td>
</tr>
<tr>
<td>Difference Between Allocation &amp; Expenses</td>
<td>$(14,500,000)</td>
</tr>
</tbody>
</table>

As can be seen in Table 15 below, the proposed model would have allocated a base budget of $83,000,000\(^10\) which is $5,500,000 less than the College actually received in allocations for Fiscal Year 2015.

Table 15 - L&S Treatment in New Budget Mode

<table>
<thead>
<tr>
<th></th>
<th>2015 Actual Allocations</th>
<th>2015 Model Base Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriations &amp; Tuition Pool</td>
<td>38,200,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Non-pooled Tuition Revenue</td>
<td>24,500,000</td>
<td>55,800,000</td>
</tr>
<tr>
<td>Sponsored Research</td>
<td>19,900,000</td>
<td>20,900,000</td>
</tr>
<tr>
<td>Auxiliary Revenue</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>General Operations</td>
<td>1,900,000</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Development Funding</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>88,500,000</strong></td>
<td><strong>83,000,000</strong></td>
</tr>
</tbody>
</table>

\(^9\) Direct expenses include Faculty and Staff salaries, equipment, supplies, etc. Indirect expenses include the maintenance of facility and grounds, the Libraries, the Office of Research, Human Resources, etc.

\(^10\) The base allocation of $83M does not include an allocation of funding for Fringe Benefit expenses. The model does allocate both all fringe benefit expenses and the corresponding State Appropriation funding to meet these expenses. However, to provide a clearer comparison of Actual 2015 Allocations to what the model would have allocated, the Fringe benefit funding was excluded from this illustration.
Had the model been in place, along with the proposed governance structure, the Resource Allocation Group would have made recommendations about how much additional funding (from the Subvention Pool) should have been allocated to L&S to support the College’s operations. The Resource Allocation Group would have considered the campus strategic priorities, L&S’s strategic initiatives, the College’s overall costs structure and key performance metrics in making its recommendations. Thus, in addition to the base allocation of $83million, the School would have received an additional allocation from the Subvention Fund.

Table 16 - L&S Base Allocation with Subvention Funding

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>L&amp;S Gross Revenues</td>
<td>$131,600,000</td>
</tr>
<tr>
<td>L&amp;S Allocation for Direct Expenses</td>
<td>$83,000,000</td>
</tr>
<tr>
<td>Subvention Fund Allocation</td>
<td>$XXXXXX</td>
</tr>
</tbody>
</table>

The below graph depicts the College’s total allocation by funding type *if the Resource Allocation Group had allocated a Subvention Funding amount of $5,500,000* (the difference between L&S’s actual allocation and the proposed model’s base allocation).

**Figure 5 - Simulation of L&S**
Finance and Administrative Affairs Allocation Illustration

Below, the Division of Finance and Administrative Affairs is used to illustrate how the proposed model would have allocated Base Funds to the Division had the budget model been in place for Fiscal Year 2015.

Finance and Administrative Affairs is not classified as a ‘revenue generating’ unit but as a ‘support’ unit. Many of the costs incurred by support units are passed on to ‘revenue generating’ units as Indirect Costs. For example, the Facilities department within the Division of Finance and Administrative Affairs incurs significant expense in maintaining the campus facilities. In the past these expenses were primarily met by the funding received from State Appropriations. However, major reductions to State Appropriations in recent years has resulted in insufficient State Appropriations and means that the vast majority of the costs of maintaining the campus’ facilities are passed on to those units generating revenue through their operations.

In 2015 Finance and Administrative Affairs generated and received, through its operations and restricted State Appropriations, $24,000,000 in gross revenue. That year, UWM’s current incremental budget model allocated $50,000,000 to FAA to meet the Division’s expenses. In that same year, the Division incurred $51,600,000 in expenditures - $1,600,000 more than it was allocated by the current budget model. This is summarized in Table 17 below.

Table 17 - FAA Fiscal Year 2015

<table>
<thead>
<tr>
<th>FAA Gross Funding</th>
<th>$</th>
<th>24,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Model’s Allocation</td>
<td>$</td>
<td>50,000,000</td>
</tr>
<tr>
<td>FAA Actual Expenditures</td>
<td>$</td>
<td>51,600,000</td>
</tr>
</tbody>
</table>

| Difference Between Allocation & Expenses | $     | (1,600,000) |

As can be seen in Table 18 below, the proposed model would have allocated a base budget of $24,000,000\textsuperscript{11} which is $26,000,000 less than the Division actually received in allocations for Fiscal Year 2015.

Table 18 - FAA Treatment in New Budget Mode

<table>
<thead>
<tr>
<th>State Appropriations &amp; Tuition Pool</th>
<th>2015 Actual Allocations</th>
<th>2015 Model Base Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-pooled Tuition Revenue</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sponsored Research</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Auxiliary Revenue</td>
<td>9,800,000</td>
<td>9,800,000</td>
</tr>
<tr>
<td>General Operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development Funding</td>
<td>1,600,000</td>
<td>1,600,000</td>
</tr>
<tr>
<td>Grand Total</td>
<td>50,000,000</td>
<td>24,000,000</td>
</tr>
</tbody>
</table>

\textsuperscript{11} The base allocation of $24M does not include an allocation of funding for Fringe Benefit expenses. The model does allocate both all fringe benefit expenses and the corresponding State Appropriation funding to meet these expenses. However, to provide a clearer comparison of Actual 2015 Allocations to what the model would have allocated, the Fringe benefit funding was excluded from this illustration.

\textsuperscript{12} 100% of the $12,600,000 allocated to FAA in the proposed model is for utility payments (electricity, heating, etc.).
Had the model been in place, along with the proposed governance structure, the Resource Allocation Group would have made recommendations about how much additional funding (from the Subvention Pool) should have been allocated to FAA to support the Division’s operations. The Resource Allocation Group would have considered the campus strategic priorities, FAA’s strategic initiatives, the Division’s overall costs structure and key performance metrics in making its recommendations. Thus, in addition to the base allocation of $24million, the Division would have received an additional allocation from the Subvention Fund.

Table 19 - FAA Base Allocation with Subvention Funding

<table>
<thead>
<tr>
<th>FAA Gross Revenues</th>
<th>$ 24,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAA Allocation for Direct Expenses</td>
<td>$ 24,000,000</td>
</tr>
<tr>
<td>Subvention Fund Allocation</td>
<td>$ XXXXXX</td>
</tr>
</tbody>
</table>

The below graph depicts the College’s total allocation by funding type if the Resource Allocation Group had allocated a Subvention Funding amount of $26,000,000 (the difference between FAA’s actual allocation and the proposed model’s base allocation).

Figure 6 - FAA Funding Simulation

![FAA Fiscal Year 2015 Graph](image-url)
APPENDIX – D
Research on Performance Goals Used in Higher Education Resource Allocation
In its 2014 study entitled Optimizing Institutional Budget Models, the Education Advisory Board (EAB) provided research on how other higher education institutions have incorporated performance goals into their resource allocations. The EAB followed this study with a 2015 study entitled Breaking the Trade-Off Between Cost and Quality in which it identified the 5 primary drivers of academic costs and capacity. The Budget Model Working Group is recommending that a Resource Allocation Team begin to establish metrics for the campus by using the following 6 categories to establish performance goals and metrics for UWM.

**Funding Student Success**

The student success goals deliberately links performance incentives to a unit’s achievement of identified student outcomes and completion targets.

Two examples from the EAB study included:
- Incorporating state performance targets into resource allocation see F
- Linking resource allocation to the enhancement of student services

Below is a summary of UW-Eau Claire’s program that ties resource allocation to student success.

---

**EAB RESEARCH**

The EAB Study referenced UW – Eau Claire’s practice of linking a portion of a unit’s funding to student performance (their Strategic Accountability Matrix – SAM).

- Institution-level collection of 25 metrics broken into nine categories:
  1. Sustainability (financial)
  2. Development (gifts, grants)
  3. Tuition
  4. Student Progression
  5. Course Availability
  6. Student Interest
  7. Student Demographics
  8. Advising
  9. High-Impact Experiences

- Metric performance connected to $400K annual merit pool, split 80/20 between departments and colleges (avg. dept. payout ~$9K).
- Merit payouts connected to departmental progress towards individual & collective goals on each metric.
Funding Research Excellence

Research excellence goals link resource allocation to achievement of established research outcomes. Two examples are:

- Awarding a portion of funding (from subvention pool) based on publications and faculty performance
- Linking a unit’s funding to external awards

Funding Campus Priorities

Priority setting provides mechanisms that align a unit’s resources with mission critical priorities of an institution. For example, a campus may want to increase student access to study abroad programs or bolster diversity among the faculty.

The EAB’s 2014 study on Optimizing Institutional Budget Models cited two examples taken from other institutions.

<table>
<thead>
<tr>
<th>Mechanisms forAligning Funding with Priorities</th>
<th>Description</th>
<th>Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Control</td>
<td>Mandate activity spending on institutional priorities</td>
<td>Forces reallocation toward priorities</td>
</tr>
<tr>
<td>Strategic Plan Funding Allocations</td>
<td>Outline institutional goals and mission</td>
<td>Provides clear vision of institutional priorities</td>
</tr>
</tbody>
</table>

EAB RESEARCH

Elon University
- 6,400-student private university located in Elon, North Carolina
- Budget model requires budget allocations to be directly linked to university strategic plan
- Strategic planning process develops operational and financial plans for each initiative and objective

Ideas the BMWG Heard from UWM

Reduce course duplication by mandating that units share the tuition revenue generated from duplicate courses.
Managing Unit Margins
Managing Unit Margins involves establishing revenue and cost control targets to protect institutional resources. For example, units may be required to maintain a positive margin – always have a positive net operating income – on an annual basis. Resource based incentive measures are then established to reward those units that meet the established requirements. The below chart list a few mechanisms that could be employed by the Resource Allocation Team (taken from the EAB 2014 study Optimizing Institutional Budget Models).

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
<th>Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain Sharing</td>
<td>Portion of efficiency gains shared with units</td>
<td>Incentivizes units to look for savings</td>
</tr>
<tr>
<td>Improvement Goals</td>
<td>Saving goals assigned to units</td>
<td>Sets explicit saving goals for units</td>
</tr>
<tr>
<td>Contribution Targets</td>
<td>Units assigned contribution targets</td>
<td>Incentivizes revenue growth or cost reduction</td>
</tr>
</tbody>
</table>

Common Metrics for Major Expense Categories
The Education Advisory Board also presented research into how campuses have sought to right size and contain costs (Indirect costs to Academic units) within support functions. Below is a chart summarizing the findings.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Revenue Tax</th>
<th>Expense Tax</th>
<th>Faculty FTE</th>
<th>Staff FTE</th>
<th>Student FTE</th>
<th>SCH</th>
<th>Alternative Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Admin</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Business Services</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic Affairs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Student majors, Graduates</td>
</tr>
<tr>
<td>Library</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>Fee-for-service</td>
</tr>
<tr>
<td>Facilities</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>Net assignable square feet</td>
</tr>
<tr>
<td>Research Admin</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td>ICR, Research Expenses</td>
</tr>
</tbody>
</table>

Most Common and New Budget Model Approach
The 5 Biggest Instructional Costs Drivers on Campus

“These areas offer the greatest opportunities to realign academic resources while maintaining or enhancing quality. Analyzing the 'microeconomics' of academic units in each of these areas can often identify targeted opportunities to realign costs in ways that can avoid the negative impact of across-the-board budget cuts or the elimination of entire academic programs.” – Breaking the Trade-Off Between Cost and Quality, EAB, 2015

In its 2015 study entitled “Breaking the Trade-Off Between Cost and Quality”, the EAB identified the 5 most important drivers of academic costs and capacity. They are:

1. Section offerings
2. Course offerings
3. Course completion rates
4. Curricular complexity
5. Faculty course loads

As the Resource Allocation Group deliberates on its recommendations for Subvention Fund allocations it should reference data along these five drivers of costs.

Ideas the BMWG Heard from UWM

Establish expenditure target ranges. For example, a school/college’s historic ratio of expenditures per SCH could be used to set upper and lower bounds on a unit’s annual overall costs. This would inform how much funding a unit receives from the Subvention Fund.
APPENDIX – E

Q&A on the Proposed Budget Model Changes
Hold Harmless Period

*Question:* What is the rationale (budgetary and/or academic) for the hold harmless period?

*Response:* The hold harmless period would provide units time to adjust to any potential resource allocation adjustments that would occur as a result of the new model.

*Question:* How long will schools and colleges be “held to no harm”?

*Response:* As UWM, through the work of the Budget Planning Task Force, CCOET and each Division, works to address a significant structural deficit, it will be imperative for the team of individuals tasked with overseeing the resource allocation process at UWM to carefully deliberate competing priorities while working within the framework of the institution’s fiscal realities. One of these realities is that a ‘hold harmless’ period may not be feasible due to very limited resources.

Tuition Distribution Metrics

*Question:* What are the primary objectives of using the 3 metrics?

*Response:* The primary objectives of using the 3 metrics are to achieve the following:
- **SCH** – Incentivize growth in enrollment and to ensure the units providing instruction are adequately funding
- **Majors Declared** – As the model uses majors declared at the junior and senior levels, this metric is to incentivize retention of students
- **Degrees Awarded** – This metric is to incentivize improving graduation rates

*Question:* What is the precise formula used to translate these three performance metrics into the allocation of funds? i.e. please provide, DollarsAllocated = F(SCH,#Majors,#Degrees)

*Response:* 
- SCH – 70%
- Majors Declared – 20%
- Degrees Awarded – 10%

*Question:* Once the budget model is agreed to, presumably this formula is set in (very soft) concrete. What is the campus procedure for changing the formula?

*Response:*
The BMST is proposing a Resource Allocation Team of campus experts (both faculty and administration) that annually evaluate the formulas for their effectiveness is driving desired behavior. If needed, this group will have the ability to recommend to the Chancellor, Provost and CBO a different allocation formula.

**Subvention Fund**

*Question:* What are the plans and procedure to alter the allocation of the subvention fund after the initial adoption of the new budget model?

*Response:* The BMST is recommending that annually the Resource Allocation Team (i.e. the team of faculty and staff experts) will apply a series of measures and make subvention fund recommendations to the campus leadership (Provost, Chancellor and CBO). These measures could include campus strategic priorities, a unit’s costs structure relative to some established standards (e.g. the level of Institutional Support expenses per student FTE or SCH) and State, Federal and local compliance requirements.

**Subvention Fund**

*Question:* What is the planned oversight of the subvention fund, and what role will governance play in the distribution of the subvention fund

*Response:* While the ultimate governance structure for the subvention fund will be determined by the Chancellor, the BMST is recommending that a relatively small group (~7-9 individuals), made of faculty and staff experts in planning and budgeting, annually apply a series of agreed upon measures and metrics to determine potential subvention fund allocations. This work would be conducted with the end goals of balancing the campus budget, sustaining the core missions of the institution and furthering strategic priorities. The BMST is also recommending that the allocations of this Team be reviewed by the APBC and then forwarded to the Chancellor, Provost and CBO for final approval.

*Question:* Should the campus APBC have a role in the decision-making?

*Response:* The BMST is recommending that the APBC be responsible for selecting 2 of the 7-9 members of the Resource Allocation Team. Also, the BMST is recommending that the allocation recommendations of the Team be reviewed annually by the ABPC.
Question:
It seems like tuition generating units, especially Letters & Science will be subsidizing the units that are not generating sufficient tuition. What are the plans for achieving these reductions in (i) the schools/colleges that do not generate enough tuition, and (ii) the non-academic support functions, and how are they reflected in the official budget model?

Response:
The budget model does not explicitly outline any reductions in funding to either schools/colleges or non-academic support units. The model does, through subvention fund allocations, have the built-in flexibility that would allow the Resource Allocation Team, using an agreed upon set of measures, to recommend shifts in how resources are allocated across campus. These recommendations could result in decreasing (or increasing) support to different schools/colleges as well as non-academic support functions.

Quality Control

Question:
How can we ensure that academic quality is not damaged by the model’s focus on incentivizing revenue generation and student retention focus, and by the new incentives the new budget model creates for duplication of courses across units, etc?

Response:
Both the current model and the new model allocate tuition revenue based on SCH. The research of the BMST revealed that most institutions use this method to distribute tuition revenue (in part or in full) to ensure areas delivering instruction are sufficiently funded. The model, in its current state, does not explicitly address course duplication. In it’s research, the BMST did not find any institutions that included formulas in its base model to address course duplication.

However, some institutions do augment their base budget model with additional performance based tools. The UWM APBC is currently contemplating such a tool that would allow units to share the revenues of course that are currently duplicated. At the time of this report, this tool or methodology had not been finalized nor tested.

Duplication of Course Offerings and Interdisciplinary Programs

Question:
What will the process be for centrally coordinating course offerings in light of incentives to offer duplicates?

Response:
The BMWG deemed questions pertaining to the coordination of course offerings to be beyond the scope of the work of the BMWG. However, the co-chairs of the BMWG have forwarded this comment to the Provost and the APBC for their consideration. Also, the Chair of the APBC, who is also the co-chair of the BMWG reported that the APBC has taken up the topic of course duplication and is exploring ways to address the issue through resource allocation. The APBC plans to present their analysis to the Resource Allocation Group once it is formed.
Question: What tools in the model provide incentives for research/scholarly work vs. teaching?

Response: The primary incentive in the model for research/scholarly work is the greater return on the Indirect Cost Recovery (ICR) funds to schools/colleges. In the current model only 30% of the ICR funds go to schools/colleges. The new model proposes that 80% of the ICR funds go to schools/colleges. This allows schools/colleges to use the funds to provide research support (grant matches, bridge support, support staff) as appropriate within their unit.

Question: How does the model incentivize increasing or improving graduate programs?

Response: The proposed model provides a return of approximately 60% of the revenue generated by a graduate program to that graduate program.