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# UToledo Budget Modernization





# Welcome!

- Today's session is being recorded and will be accessible on UToledo's Budget Modernization Website:  
[www.utoledo.edu/offices/budget/rcm/](http://www.utoledo.edu/offices/budget/rcm/)
- We will be collecting and answering virtual questions today. Any questions not directly answered during our session will be answered on UToledo's Budget Website FAQ Page.
- If you have additional questions after today's open forum, please use the Online Recommendation Form found at [www.utoledo.edu/offices/president/key-initiatives/](http://www.utoledo.edu/offices/president/key-initiatives/) and *select Budget Modernization.*



# Agenda

1. University Tackling Challenges: 2020-22 Key Initiatives
2. Overview of the budget modernization initiative
3. Present the project guiding principles
4. Provide background on university budgeting
5. Discuss key components of incentive-based models
6. Review key milestones completed
7. Present key takeaways & next steps

# 2020-2021 Key Initiatives



The following eight initiatives were identified as near-term goals by President Postel and focus on increasing efficiencies, addressing operational challenges, and embracing innovative ideas.

Key Initiative	Team Leaders
Develop and implement a system approach to the elimination of racism on UToledo campuses	Dr Willie Mckether Dr. Cyndee Gruden
Develop a department and plan for Enterprise Risk Management	Matt Schroeder Charles Jake
Develop and implement a Strategic Enrollment Management plan	Ben Barros
Enhance educational opportunities and partnerships through Academic Affiliation Agreement with ProMedica	Dr. Chris Cooper Dr. Amjad Hussain
Enhance, stabilize and sustain UTMC	Rick Swaine Dr. Lance Dworkin
Develop and implement Reinvestment Strategy	Dr. Karen Bjorkman Dr. Bill McCreary
<b>Develop and implement Budget Modernization*</b>	<b>Sabrina Taylor Brenda Grant</b>
Modernize Human Resources	John Elliot Melissa Hurst

**\*“Developing & implementing a new budget model that supports and encourages innovation and collaboration is critical to the future financial stability of UToledo. The new incentive-based budget model will directly link student success outcomes to strategic academic investments” – President Postel**

# University of Toledo Project Governance



Huron has partnered with individuals comprising the Steering Committee in the budget modernization effort, under the executive sponsorship of Karen Bjorkman and Matt Schroeder.

Executive Sponsors	Title
Karen Bjorkman	Provost and Executive Vice President for Academic Affairs
Matt Schroeder	Executive Vice President for Finance and Administration, CFO

Steering Committee Members	Title
Brenda Grant (Co-Chair)	Associate VP for Academic Finance
Sabrina Taylor (Co-Chair)	Assistant VP Budget & Planning
Ben Barros	Professor, Dean of College of Law
Mohammad Elahinia	Chair of MIME Department, Distinguished University Professor, and Director of MIME Strategic Initiatives
Mike Dennis	Associate VP for Finance and Treasurer
Jamie Fager	Senior Business Manager, Natural Sciences & Math
Charlene Gilbert	Dean, College of Arts & Letters, Professor of Film
Margaret (Miggie) Hopkins	Professor of Management, College of Business & Innovation
Gary Pollack	Dean, College of Pharmacy & Pharmaceutical Sciences
Bryan Pyles	Senior Associate Dean Admin & Finance, College of Medicine & Life Sciences
JD Smith	Professor of Astronomy, Department of Physics & Astronomy
Michele Soliz	Associate VP for Student Success & Inclusion, Office of Multicultural Student Success

# Project Goals

One of the key priorities for UToledo as identified by President Postel was a move towards modernizing UToledo's budget model and process.

## *Project Goal*

The University is reviewing UToledo's approach to resource allocation across campus. The primary goal is to **develop a new incentive-based budget model** and **process** that is **transparent** and **empowers local units** to manage to an all-funds budget.


Key objectives to achieve this goal include:

 **Review current budget practices**

 **Create guiding principles** to inform future state methodology

 **Engage campus**

 **Develop an incentive-based budget model**

 **Redesign the budget process**

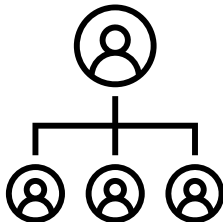
# Budget Model Modernization Efforts



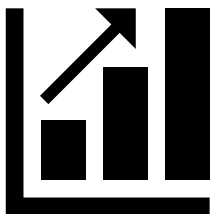
University of Toledo is not alone in discussing resource allocation across campus, Universities rethinking their budget methodology continues to grow.



# What is incentive-based budgeting?



Incentive-based budgeting is a management philosophy designed to support the achievement of a college's mission by de-centralizing budget authority – transferring it from central administration to individual colleges.



The primary goal of performance-based budgeting is to incentivize individual college or academic units to take ownership over their revenues and expenses while keeping their own interests in line with the overall mission.



# Guiding Principles for UToledo



The Steering Committee finalized the following principles to guide the engagement and model creating moving forward.

UToledo's approach to budgeting and resource allocation should:

- Promote **healthy fiscal performance**, creativity, and innovation by providing **incentives and flexibility** to University units.
- Establish reliable, **short and long-term fiscal expectations** that allow units to **actively plan** for and manage to multiple budgetary years.
- Allocate resources to **mission-centric offerings** with an eye on promoting a **university-wide culture** that is collaborative and data-driven.
- Utilize a **transparent budget methodology** that is clear, precise, and **simple to understand and operationalize**.
- Ensure there are **open lines of communication** with campus stakeholders, including faculty, staff, and students, as it relates to model methodology, processes, and management.

# Shifting University Budgeting Focus

In order to optimize the benefits of effective planning and forecasting, universities are transitioning to a more strategic form of budgeting.

## Traditional Budgeting

- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that **reset annually**



## Strategic Budgeting

- **Plan** for developing resources
- **Prioritization** of resource allocations for strategic initiatives
- **Explanation** of the internal economy
- Mechanism to create institutional **incentives**
- Tool to empower departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of **accountability**

# Spectrum of Incentivized Models



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

## Incentive Based Budget Model Iterations

More Centralized

Less Centralized

Customized Incentive-Based Budgeting	Traditional Incentive-Based Budgeting	Each Tub on its Own Bottom (ETOB)
<ul style="list-style-type: none"> <li>A higher degree of central control</li> <li>Local units keep a majority of their revenue but give up more than in the traditional incentive-based budgeting model through a higher subvention “tax” paid</li> <li>Through increased tax revenue, central administration has greater ability to subsidize colleges, fund strategic initiatives, and support mission-related programs</li> </ul>	<ul style="list-style-type: none"> <li>Some centralized control</li> <li>Local units keep most of the revenue they generate, but give up some to a central pool through a subvention “tax” paid</li> <li>Taxes generated can be used by the central administration to subsidize colleges, fund strategic initiatives, and support mission-related programs</li> </ul>	<ul style="list-style-type: none"> <li>Extremely de-centralized model; Academic units essentially operate as their own financial entities</li> <li>Very little strategic control held by the central administration</li> <li>No sympathy for market forces - under-performing units must cut costs or generate more revenue to cover any losses incurred</li> <li>Only three U.S. institutions use this extreme iteration, one of which is shifting away</li> </ul>

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

# Overview of Budgeting Alternatives



Incremental budgeting is the most common approach to university resource allocation, though an array of alternative and hybrid models exists.

## Common Budgeting Models

Incremental Budgeting	Formula Funding	Performance Funding	Incentive-Based Models
<ul style="list-style-type: none"> <li>▪ Centrally driven</li> <li>▪ Current budget acts as “base”</li> <li>▪ Each year’s budget increments (decrements) adjust the base</li> <li>▪ Focus is typically placed on expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unit-based model focused on providing equitable funding</li> <li>▪ Unit rates are input-based</li> <li>▪ Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Unit-based model focused on rewarding mission delivery</li> <li>▪ Unit rates are output based</li> <li>▪ Annual fluctuations are driven primarily by changing production and not from changes to rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus on academic units</li> <li>▪ Incorporates a devolution of revenue ownership to local units</li> <li>▪ Allocates costs to revenue generating units</li> <li>▪ Utilizes a centrally managed “subvention pool” to address strategic priorities</li> </ul>

**It is very common to find institutions that are utilizing multiple budget models simultaneously, either as hybrid models or models to facilitate various university missions.**

# Incentive-Based Budgeting

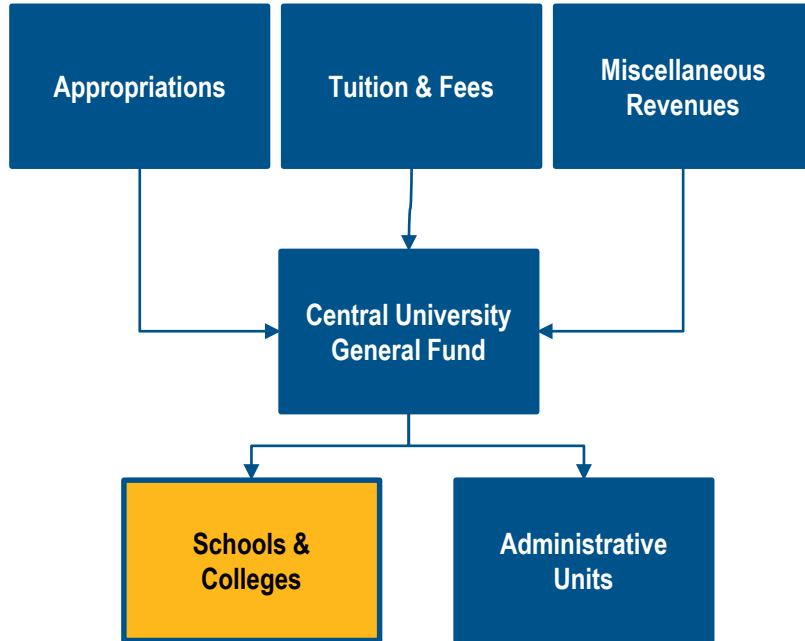


Incentive-based budgets are generally considered as models that incorporate the elements of revenue devolution, cost allocation, central subvention funding, and localized accountability.

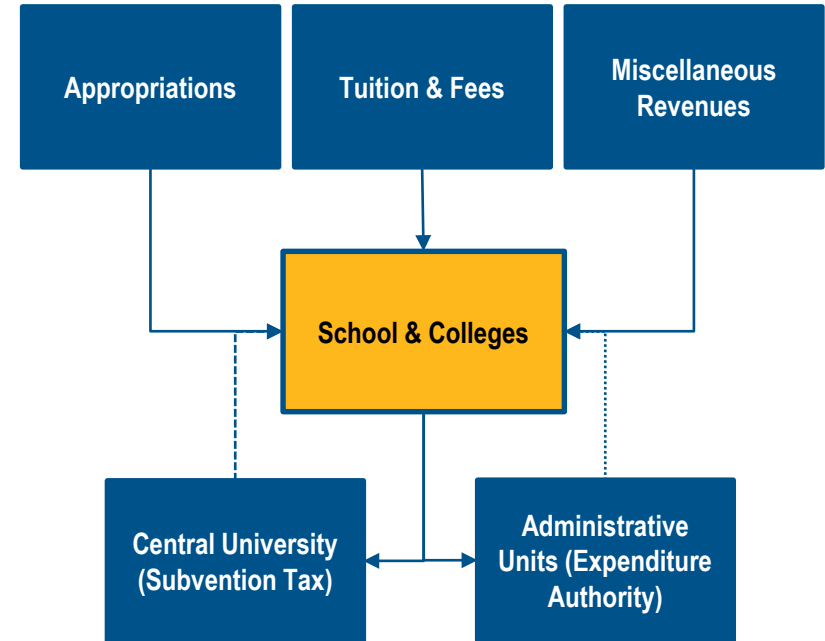
Benefit	Description of Benefits
<b>Revenue Decentralization</b>	<ul style="list-style-type: none"> <li>▪ Models devolve ownership of revenues from central administration to centers which generate them</li> <li>▪ In particular: tuition and fee revenues, direct research revenue, indirect (F&amp;A) research revenues, and endowment and gift revenues</li> <li>▪ The majority of models also devolve state appropriations based-on agreed upon methodologies</li> </ul>
<b>Cost Allocations</b>	<ul style="list-style-type: none"> <li>▪ Optimal decision-making requires that the full costs of activities be understood, not just direct costs, but also those associated with facilities usage and central services provided</li> <li>▪ Understanding how indirect costs are allocated enables planners to estimate full marginal costs</li> <li>▪ Each center pays for its total costs with the revenues it owns plus a share of centrally owned revenues</li> </ul>
<b>Subvention and Strategic Funding Pool Creation</b>	<ul style="list-style-type: none"> <li>▪ The provision of direct resources for strategic initiatives benefits the whole of the institution</li> <li>▪ Allocations from central sources to responsibility centers called “subventions” are used to offset mission-critical units with high operating costs. In part, this addresses the economic problem of the commons</li> </ul>
<b>Financial Accountability</b>	<ul style="list-style-type: none"> <li>▪ In exchange for devolving revenue ownership, the system requires bottom-line responsibility and rewards strong fiscal performance: Centers retain positive operating margins and repay negative ones</li> <li>▪ Financial accountability is a means, not an end in universities, and annual budget plans must still be reviewed and approved by university leaders</li> </ul>

# Illustrative Incentive-based Funds Flow

Traditional Budget Model Funds Flow



Incentive-based Model Funds Flow



Source: Curry, J.R., Laws, A.L., Strauss, J.C. (2013). *Responsibility Center Management: A guide to balancing academic entrepreneurship with fiscal responsibility*. National Association of Colleges and University Business Officers.



# Model's Impact On Decision-Making

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

## UT Senior Administrators

Are no longer “all things to all people” by decentralization of budget decisions

## President, Provost, and CFO

Adds additional clarity in University priorities and strategic initiatives

## Deans

Increases transparency between revenue generating activities and mission-driven activities

## Administrative Units

Connect service levels and resource levels

## Department Chairs and Faculty Members

See how activities drive funding for their respective units

# Key Model Creation Decision Points



There are generally 10 key decision points when developing an incentive-based budget model. Over the next several weeks, Huron will facilitate discussions of each decision point with the Steering Committee.

	Element	Description	Status
1.	<b>Model Philosophy</b>	How decentralized should budgeting authority be? How closely aligned to economic reality?	
2.	<b>Model Structure</b>	How should institutional units be classified and treated (e.g., college/school, administrative & support, auxiliaries)?	
3.	<b>Tuition</b>	What is the appropriate balance of allocating tuition based on instructed credit hours v. department enrollments?	
4.	<b>State Appropriations</b>	What activities (e.g., instruction, advising, research, central support) should these funds support?	
5.	<b>Research Support</b>	How should growth and quality of the research enterprise be incentivized and subsidized?	
6.	<b>Cost Pools</b>	How many cost pools should be established? How much detail should be available about overhead costs?	
7.	<b>Cost Allocations</b>	What metrics should be used to allocate administrative overhead costs?	
8.	<b>Scholarships, Aid and Waivers</b>	What types of financial aid and scholarships should be charged directly to faculties/schools and what should remain as a central cost?	
9.	<b>Subvention Funding</b>	How large should the subvention ("strategic investment") pool be? How should it be funded, and how should investments be allocated back to the institution?	
10.	<b>Model Sensitivity</b>	How responsive should the model be to one-year changes in institutional activity? E.g., How long should changes in enrollment take to affect model allocations?	

**Decision Status Key**

**Completed**
**In Discussion**
**Not Begun**



# Model Implementation Timeline



UToledo is currently working to develop and refine an incentive-based model that will be used as a basis for future budgeting efforts at the University.

Phase	Fall 2020	Winter 2021	Spring 2021	Summer 2021	Fall 2021	Winter 2022	Spring 2022	Summer 2022
Initial Assessment, Model Development, and Launch	[Yellow bar spanning Fall 2020, Winter 2021, and Spring 2021]							
Evaluation and Stakeholder Engagement		[Yellow bar spanning Winter 2021 and Spring 2021]						
Infrastructure Development and Parallel Process			[Yellow bar spanning Spring 2021, Summer 2021, Fall 2021, Winter 2022, Spring 2022, and Summer 2022]					
Full Incentive-Based Model Implementation						[Yellow arrow pointing right from Winter 2022 through Summer 2022]		

**Initial Model Completion**

Even after a model methodology has been settled on, Toledo must spend several months testing the model, setting up governance structures, and developing a new budget formulation calendar prior to go-live in Summer 2022.

# Key Takeaways & Next Steps



## Key Takeaways

- UToledo has explored the benefits and considerations of an incentive-based model and is moving forward with changing the university's model structure.
- UToledo will adopt an incentive-based model that provides central support to sustain and support mission-critical programs.
- Initial model structure and methodology have been set by the Steering Committee and are currently being reviewed by academic deans.

## Next Steps

- Continue to meet with academic deans, business officers, department chairs, and other institutional stakeholders to gain additional feedback. Hold additional open forums as necessary to share budget model updates.
- Conduct a retreat (March 22) with the Steering Committee and academic deans to develop an agreed-upon model for use in a parallel process.
- Consider infrastructure, policies, and reporting capabilities that are needed to successfully implement a new budget model.

# Questions?

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**Budget Modernization Web Site**

[www.utoledo.edu/offices/budget/rcm/](http://www.utoledo.edu/offices/budget/rcm/)