BUDGET REBASING: PROCESS and OUTCOMES

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5 April 2006

INTRODUCTION

Oregon State University's *Strategic Plan for the 21st Century* envisions the University to be among the Top 10 land-grant institutions in America. To achieve this vision, OSU will focus on three goals:

1. Provide outstanding academic programs that further strengthen our performance and pre-eminence in the five thematic areas.
2. Provide an excellent teaching and learning environment and achieve student access, persistence and success through graduation and beyond that matches the best land grant universities in the country.
3. Substantially increase revenues from private fundraising, partnerships, research grants, and technology transfers while strengthening our ability to more effectively invest and allocate resources.

Additionally, OSU will prioritize its academic resources and investments to focus on achieving distinction in selective areas within five thematic areas: advancing the arts and sciences as the foundation for scientific discovery, social and cultural enhancement, and progress in applied professions; understanding the origin, dynamics, and sustainability of Earth and its resources; optimizing enterprise, innovation, and economic development; realizing fundamental contributions in the life sciences and optimizing the health and well-being of the public; and managing natural resources that contribute to Oregon's quality of life and growing and sustaining natural resource-based industries.

Enhancing the quality of our teaching and learning environment, developing distinctive academic programs that define us as a leading land-grant university, building a world-class faculty, and creating a diverse university community requires that we define and pursue activities that contribute maximally to our goals, that given our current resource constraints our efforts are focused and aligned across the university, and that we are entrepreneurial in pursuing new revenue generation strategies.

An essential component of our total revenue is the Education and General (E&G) Fund budget. The primary components of the E&G budget are tuition and fees, state subsidy support, and revenue from Indirect Cost Return. While the E&G budget by itself is not sufficient for the University to achieve its aspirations, it is important that E&G resources are allocated to support each unit's contribution to the multiple facets of OSU's mission, and that the budgeting process provides a level of budget stability and predictability.

After a two-year process of examining its E&G budget allocation process, the University is introducing a revised, distributed budget model. The budget review process analyzed sources and use of funds for each academic unit, linking revenues and expenses explicitly to generating units. The budget approach has two key elements: (1) budget rebasing that establishes new base budgets effective fall 2007 and (2) sharing of marginal revenue from tuition and state subsidy support and from indirect cost recoveries, and allocation of expenses beyond the 2006-07 academic year.

BUDGET REBASING PROCESS

During the 2004-2005 academic year the University initiated an analysis of the way Education and General (E&G) funds revenues are allocated to academic and support units. The Budget Allocation Model (BAM), used since 2003, essentially rebased budgets each year. There were no recurring base budgets for academic units other than resource fees or targeted funds they receive directly. The BAM was a productivity-based relational budget where units received a proportion of the total productivity funds in relation to their proportion of total student credit hours, majors, etc. The budget review process sought to establish base budgets and then have productivity driven allocations of budget increases or decreases from the base budget. It is expected that establishing base budgets will provide a certain level of budget stability and predictability.

Guiding Principles

- Budgets are not an end in themselves, but a means to position units to contribute to the mission of the University and to the achievement of its strategic plan.
- Allocation of resources should be linked to units' missions.
- The E&G fund revenues and unit expenses are explicitly linked to generating units.
- Budget decisions will be based on accurate information about programs, incomes and costs that are consistently defined and rigorously reviewed.
- Budget reallocation decisions will align expectations for the mission of a unit, consistent with our strategic plan.
- While rebasing of budgets will result in reallocation of resources, the budget process must allow units to be entrepreneurial and pursue revenue generating strategies based on their comparative advantages while ensuring the common good of the University.
- Our budget process, discussions, and decisions will be transparent and consultative.

Analysis

Two groups played an important role in the budget restructuring deliberations. The University Budget Committee led the overall analysis process, including developing and refining the methodology, developing strategies for allocating overhead costs to academic units, and helping in the refinement of data and assessing its accuracy. The Provost's Council critiqued and provided input during the development phase of the project and then provided input to university leadership relative to outcomes and their impact. Compilation of data and analysis was performed by the Office of Budget and Fiscal Planning.

The methodology involved the following steps:

1. Allocate revenues to departments/colleges (referred to as academic units). The primary components of revenues are state subsidy based on the resource allocation model used

by the Oregon University System, tuition, and Indirect Cost Return. It also includes revenues generated through Summer Session and by offering courses through Extended Campus. These elements are already included in the university's base budget and are intended to fund teaching of the current levels of student credit hours.

2. Allocate expenses to academic units. These include:
    a. Direct expenses, resulting from faculty and staff salaries and overhead costs, and services and supplies.
    b. Overhead costs, where costs associated with administrative and academic support units are allocated to academic units as beneficiaries of services provided.
3. The difference between total revenues and total costs is a measure of the net revenue or cost for each academic unit. Net revenue implies that an academic unit is generating more revenue than it is expending, thus contributing to other units on campus. Net cost implies the opposite, i.e., a unit is using more resources than it is generating.

Statewide Public Services (Agricultural Experiment Station, Forestry Research Laboratory and the OSU Extension Service) and Auxiliary units are also included in the analysis. These units contribute to OSU's mission in many ways. They also are recipients of the administrative and support services provided by the University.

Table 1 illustrates the cost allocation basis and the rationale used for allocating administrative overhead costs to academic units, Statewide Public Services (SWPS) and Auxiliaries. Some variability is inherent in the extent that such services are used by different units, and an attempt was made to represent some of this variability particularly with SWPS and Auxiliaries. However, it must be recognized that the intent of the analysis is to capture the directional trends and broad differences between revenues and expenses.

Data for fiscal year 2004 (2003-2004) and fiscal year 2005 (2004-2005) were used in the analysis. It was assumed that two years data would help us to smooth out some of the annual variability is revenues and expenses.

Table 1. Re-Basing Analysis Administrative Overhead Cost Allocation Methodologies

Principle: Proportionately allocate net costs, once only, to consumers or beneficiaries of services provided.

Overhead Unit	**Cost Allocation Basis**	**Rationale**
Summer Session	Summer Session student credit hours (pro rata distribution)	Services benefit units offering summer session courses. These same units receive summer session revenues and related RAM allocations based on student credit hours.
Student Affairs	Total academic year student credit hours (pro rata distribution)	Services benefit students in instructional programs. These same units receive instructional revenues and related RAM allocations based on student credit hours.
Athletics	Undergraduate academic year student credit hours (pro rata distribution)	Subsidy is to support intercollegiate athletic programs the primary purpose of which is to enhance the undergraduate experience.
Office of the President	Total Unclassified and Classified employees (FTE)	Time and effort is distributed across institutional programs, and most efforts serve the institution generally.
Office of the Provost and Academic Affairs	70% Unclassified FTE (Instructional, Research & Professional), 30% undergraduate student credit	Time and effort is primarily devoted to faculty matters in academic, research & professional programs. In addition, significant effort is focused on undergraduate program issues.

	hours	
University Advancement	Total Unclassified and Classified employees (FTE)	Time and effort is distributed across institutional programs, and most efforts serve the institution generally.
Institutional Management	E&G Expenses Grad Fee Remissions allocated to SWPS based on actual costs	Pooled expenses for instructional and other E&G costs. Non-E&G programs pay these costs directly. Remissions directly support SWPS research programs
University Libraries	48% Graduate student credit hours, 32% Faculty FTE, 20% Undergraduate student credit hours	University Libraries' estimate of actual utilization of programs and services.
Facilities Services	Assignable Square Footage and Space Classification	Distributes facility operating and maintenance costs based on occupancy, utilization and space function. Includes costs of common and shared (unassigned) space.
Finance & Admin	Total expenditures (all funds)	Distributes costs based on utilization of services. Financial, administrative, accounting and purchasing functions are provided across all fund types.
Graduate School	Graduate academic year student credit hours (pro rata distribution)	Services benefit graduate programs. These same units receive instructional revenues and related RAM allocations based on graduate student credit hours.
Information Services	50% Unclassified, Classified & Graduate Assistant employees; 50% total academic year student credit hours	Estimated allocation of investments in systems and staffing to support academic, research and administrative users. Allocated costs are net of other recoveries.

BUDGET REBASING OUTCOMES

Table 2 summarizes the outcome from the base budget analysis. Different spending patterns in the two years are primarily due to the timing of expenses and one-time expenses. Although this process will undergo continuous refinement as cash flow patterns for future fiscal years are analyzed, the FY04 and FY05 analysis has provided a directional sense of major differences between resources generated and resources received.

Table 2. Sources and Uses Summary (FY04 and FY05)

	Net Revenue (Cost) (in $000) FY04	Net Revenue (Cost) (in $000) FY05	Transfer From/To Net as % Revenue FY04+FY05
ACADEMIC COLLEGES			
Agricultural Sciences	$ 474	($ 395)	0.4% transfer from
Business	1,930	1,950	17.5% transfer from
Education	73	(465)	4.2% transfer to
Engineering	3,281	(358)	4.4% transfer from
Forestry	(291)	(831)	14.8% transfer to
Health and Human Sciences	3,285	5,238	22.4% transfer from
Liberal Arts	5,003	5,219	14.8% transfer from

Oceanic and Atmospheric Sciences	(971)	(1,890)	18.9% transfer to
Pharmacy	1,476	755	12.9% transfer from
Science	6,445	9,182	16.8% transfer from
Veterinary Medicine	(799)	(4,802)	24.7% transfer to
OTHER UNITS			
Agricultural Experiment Station	(868)	(3,688)	
Extension Service	341	(1,006)	
Forestry Research Laboratory	(824)	(827)	
Auxiliary Services	(2,413)	(2,383)	

The Colleges of Business, Health and Human Sciences, Liberal Arts, and Science contribute substantial amount of the resources that they generate to the University. The Colleges of Liberal Arts, Health and Human Sciences, and Science deliver the baccalaureate core to the University, as reflected by SCHs in table 3. Additionally, the College of Science provides the undergraduate core curriculum in mathematical, physical and biological sciences required by most of the professional programs. The College of Business provides business and entrepreneurship curriculum that is increasingly being required by professional programs.

Table 3. Annual SCHs, Enrollment and Research Data (Average for 2003-04 and 2004-05)

	Student Credit Hours	Enrollment	External Grants and Contracts (millions)
Agricultural Sciences	35,717	1,465	$35.86
Business	53,985	2,296	0.04
Education	10,129	448	1.34
Engineering	81,041	3,710	19.78
Forestry	12,463	526	13.19
Health and Human Sciences	89,163	2,561	7.23
Liberal Arts	186,566	3,371	0.52
Oceanic and Atmospheric Sciences	4,678	94	28.30
Pharmacy	15,788	489	1.98
Science	202,427	3,179	31.3
Veterinary Medicine	6,140	110	1.21

The magnitude of transfers from the Colleges of Business, Health and Human Sciences, Liberal Arts, and Science reflect the fact that the core teaching enterprise is disproportionately funded at a low level. Consequently, the first priority is to reduce the net contributions from these four colleges over the next five years to less than 10%. While the total allocation for the next five years depends on the availability of resources to the University and proposed use of new funds, it is expected that $7.5 million in recurring funds will be transferred to these four colleges over the five period of 2006-2011. Based on the magnitude of the net resource transfer, new resources will be allocated among the four colleges as follows: Science, $2.5 million; Liberal Arts, $2 million; Health and Human Resources, $2 million; and Business, $1 million. Of the total amount, $2.5 million will be transferred to these colleges in 2006-2007, distributed as follows: Science, $1 million; Liberal Arts, $800,000; Health and Human Sciences, $200,000; and Business, $500,000. It is expected that the new resources will be used to address faculty staffing needs in areas of increasing enrollment and to improve the quality of the learning environment, consistent with the first two goals of the strategic plan.

There will be no change in the base budgets for other academic colleges. It is important to recognize that none of the colleges are funded at an optimal level. The Colleges of Agricultural Sciences, Engineering, Forestry, and Oceanic and Atmospheric Sciences, are critical to University's Top-10 vision. These colleges contribute significantly to the research mission and they offer some of the most visible and recognized programs. The College of Engineering has the highest student enrollment among all colleges. Many of the programs offered through these colleges are resource intensive. While there are relatively high transfers to the Colleges of Forestry and Oceanic and Atmospheric Sciences, the E&G budgets for these two colleges are relatively small and are inadequate to sustain growing research and outreach activities. It is anticipated that as new resources become available, these four colleges receive additional resources on a selective basis for targeted initiatives.

The College of Education is a relatively small unit and receives a relatively moderate transfer of E&G funds. It has been entrepreneurial in its approach of creating a double-degree undergraduate program and in generating significant revenue through use of technology and distance education. Growth in the College will be closely monitored over the next few years to assess the adequacy of resources.

The Colleges of Pharmacy and Veterinary Medicine offer professional degrees. The University has more flexibility in setting tuition rates for these two professional programs. The College of Pharmacy is a net contributor of resources (Table 1). While there are no new resources being added to the College of Pharmacy, a tuition increase plan has been initiated that will add approximately $4 million over the next five years. In addition to increasing faculty in critical areas, the College of Pharmacy will use some of the additional resources for increased rent as it moves its clinical group located at the OHSU campus in Portland to a new building at OHSU's riverside campus.

The College of Veterinary Medicine is a net recipient of resources. However, the College of Veterinary Medicine is in a "start-up" phase as it recently started to offer all four years of the program in Corvallis. The small animal clinic is just getting started and the large animal hospital is in the middle of a renovation project. It is anticipated that the College of Veterinary Medicine will start generating significant additional revenue from its clinical operations in the next few years. Like the College of Pharmacy, a tuition plan is being developed for the veterinary medicine program. The goal is to make the Colleges of Pharmacy and Veterinary Medicine more self-sustaining, decreasing their reliance on the E&G budget.

Resources for Rebasing

Resources for rebasing budgets for Colleges of Business, Health and Human Sciences, Liberal Arts, and Science will come from three principal sources: a decrease in the E&G subsidy provided to Athletics, appropriate overhead charges to Auxiliaries and Statewide Public Services, and increased revenue from Extended Campus expected to be returned to central administration for reallocation.

The University provides subsidies to university-affiliated operations, such as Athletics, the OSU Foundation, and the OSU Alumni Association. These operations contribute significantly to the success of the University and to the enrichment of students' experiences. Resources provided by the University have supported growth in these operations. By mutual agreement, the University will decrease the subsidy provided to Athletics over the next five years, starting with a $1.5 million decrease (from $4 million) in 2006-2007. While the University will continue to maintain its current support for the OSU Foundation, it is expected that as the Capital Campaign matures, the OSU Foundation will become a self-sustaining operation. As the Capital Campaign evolves, the University will also assess the outcomes from its financial support provided to the OSU Alumni Association and continuation of that support.

Academic units in total generate positive revenues that subsidize Statewide Public Services and Auxiliary Services through the overhead services (Table 1). Statewide Public Services include the Agricultural Experiment Station, Forest Research Laboratory, and the OSU Extension Service. It is recognized that the sources and use data for Statewide Public Services is more complex because they intersect with the academic enterprise in many ways. While recognizing this complexity, it is important that Statewide Public Services are assessed an overhead charge that recovers some of the overhead services provided to them. The University will implement a phased-in schedule of charges over a five year period to recover appropriate overhead costs from Statewide Public Services.

Similar to the Statewide Public Services, Auxiliary Services (including Housing and Dining, Memorial Union, Dixon Recreation Center) are also recipients of University services. The University increased overhead charges to Auxiliaries to 1.5% in 2005-2006 following an Oregon University System mandate to recover costs from Auxiliary units. Following this directive, the University will further increase the overhead charge to 3% in 2006-2007. This will generate an additional $900,000.

In 2002, the University agreed to a 5-year budget distribution model with Extended Campus that allows Extended Campus to use its incremental fee to support its operation while returning 80% of its generated revenue to academic units and using the other 20% for building program inventory. At the end of the five years in 2008-2009, the 20% revenue used for building their programs will return to central administration for reallocation. It is expected that this will amount to approximately $700,000 per year.

Since the completion of its strategic plan, the University has made selective investments in teaching and research initiatives. In many cases, these are multi-year commitments expected to be used as “seed money” for developing new programs. In all cases, continued support for these initiatives will be dependent on outcomes. As resources invested in these initiatives become available over the next few years, they will be returned to the E&G budget. A transparent process will help define the future use of the resources, including possible use in high-return, high-risk areas of growth.

Revenue Growth

As articulated in the University Strategic Plan, we must increase revenues to enhance the quality of the educational experience for our students, and to increase program excellence. Additionally, the University needs to examine the principles used for allocating new resources to provide appropriate incentives for units to contribute effectively to the implementation of the Strategic Plan. For example, to increase research, a significant proportion of new F&A recovery must go to programs that account for sponsored research. Similarly, to significantly enhance the quality of the learning environment (e.g. to decrease student to faculty ratios) resources from increases in state support and tuition must be directed to relevant programs. Additionally, the University must build a central reserve fund that, among other things, can be used to improve physical and information infrastructure for teaching and research, and for continued investments in targeted opportunities.

The University and academic units will pursue multiple approaches for increasing revenue, including:

- Maximizing revenue through tuition, including appropriate tuition rates and a higher proportion of non-resident students
- Private fund raising through the Capital Campaign
- Targeted state funds for signature research and economic development areas, and other line item funding sources
- Distance learning and summer session programs
- Revenue through partnerships, royalties, patents and other activities
- Cost reduction through elimination of duplication in services across the university and focusing of programs and services
- New entrepreneurial models for structuring and delivering programs

The State Board of Higher Education is currently working on strategic directions for the state system. We hope that the State Board provides us with greater flexibility in setting tuition rates and pursuing entrepreneurial revenue enhancing activities. Similarly, academic units within OSU are encouraged to take greater responsibility for identifying and implementing revenue generating initiatives and for spending decisions.

The rebasing process protects selective investments made to promote long-term growth and to enhance the learning environment. However, continuation of resources invested in those initiatives will be conditional upon an annual review of programs with respect to plans articulated to advance the goals of the Strategic Plan. Furthermore, since in many cases the investment is "seed money" for a fixed time period, the resources will be returned to the total E&G pool of resources for reallocation per the revised budget allocation model (see the following section) or targeted for new strategic initiatives.

ANNUAL CHANGES OF REVENUES AND EXPENSES

The revised budget model generates budget adjustments that can be managed within the next five years. Base budgets will be reviewed and set every five years, with the first review in 2011-2012. A five-year review of budgets in the context of basic assumptions used in revenue and cost projections and OSU's share of state support from the Oregon University System, and changes in enrollment, student credit hour, and other productivity measures is necessary on a periodic basis.

There will be changes in total annual E&G revenues and total annual E&G expenses from one year to the next. Annual changes in revenues may result from state subsidy support, increases in tuition and fees, and increases resulting from indirect cost recoveries as a result of more research or a higher F&A rate. Informed by our experiences with using the Budget Allocation Model, the University Budget Committee has been charged to develop a model and guidelines for allocating marginal revenue and allocation of expenses beyond the 2006-07 academic year. This process, including review and input from the Provost's Council and the Faculty Senate Executive Committee among others, will be completed by the end of the 2005-06 academic year.

<Model/Guidelines for allocation of marginal revenue/costs will be added by June 30, 2006>

BUDGETS FOR SUPPORT UNITS

The budget model assumes that academic support units are funded at an appropriate level for the services they provide to the University. In the development of the Budget Allocation Model in 2003, it was suggested and subsequently used as a target, that approximately 30% of the E&G

budget be allocated to support units. However, there has not been a systematic review of support units, both in terms of adequacy and quality of services provided or the resources allocated to units.

A draft of guidelines for reviewing the effectiveness and efficiency of all support units has been developed and is of being reviewed by the Provost's Council, the Faculty Senate Executive Committee, and others on campus. The intent of the review will be to provide the programs an opportunity to reflect on their programs and services; solicit input from students, staff, faculty, and other stakeholders on the services provided; develop approaches to enhance quality of programs and services; ensure accountability; and enhance alignment of programs and services between support and academic units and with the OSU strategic plan. Implementation will start during the 2006-2007 academic year.

<Support Unit Review Guidelines will be added by June 30, 2006>

SUMMARY

The 2006-2007 unit budgets plus the $7.5 million addition to Colleges of Business, Health and Human Sciences, Liberal Arts, and Science, represent base budgets for each unit for the next 5 years. While the budgets will be reviewed each year in the context of each unit providing effective programs and services and making progress towards its strategic goals, maintaining budgets for a period of time will provide a level of budget stability and predictability. The budget transfers to the four colleges are based on funding current levels of student credit hours (SCH) and deal primarily with historical inequities in funding colleges that have experienced significant growth in SCHs as a result of teaching bac core and service courses for the university. Allocation of new resources must be aligned with growth and strategic goals of the university. A revised budget model, currently in development, will define guidelines for allocating new revenues.

It is important that the University and its units pursue revenue generating strategies. Implications of such strategies should be carefully thought through in advance to insure that they contribute to University goals of enhancing the student learning experience and achieving distinction in selective programs, while avoiding unintended consequences for other parts of the university.