University Budget Committee
February 18, 2022
Covell 117 or Zoom

Meeting Materials Include:

- SRBM Key Issues – FINAL (dated 2/7/2022)
- SRBM Revenue Sources & Uses
- Budget Model Overview

Context for Key Observations and Potential Changes in the SRBM

The Shared Responsibility Budget Model (SRBM) review process (referred to as "the review" for the remainder of this document) engaged five workgroups, each focused on a different aspect of the university's work. The process also included facilitated conversations with college leadership, faculty, administrative and support units, and staff supporting units' financial work[1]. Positive aspects of the budget model, challenges resulting from the current model, and ideas for changes and improvements in both the budget model and the budget process have been identified because of the review.

Some of the observations and concerns identified in the review are rooted in narratives that units have created to frame and think about unit budgets, incentives, and the intersection of budget with institutional and unit strategy. Narratives on the role of the budget model emerged, for example, in conversations where the budget model was cited as the reason for not pursuing some decisions, such as sharing supervision of a graduate student or offering a course with an experiential learning component or abandoning strategic goals because there was "not enough money". This narrative framing the budget model as the reason for "not" doing things—or as the reason to pursue work that would not have been otherwise considered—is an important finding from the review to reflect on.

The narratives we tell ourselves:

Re-occurring themes from the review included several polarities (either/or thinking), including

- Scarcity/Abundance
- Haves/Have nots
- Specificity/Holistic
- Transparency (Simplicity)/Complexity
- Certainty/Uncertainty
- Stability/Change

The focus on a single "side" of these polarities, as expressed in the narratives, is self-limiting. Working to identify potential "third" ways may provide a fruitful avenue for the future conversations related to the SRBM and revenue distribution process.

The incentives for our work:

In the review, both academic and administrative conversations indicated, that "the budget doesn't provide an incentive for ________ [many different things]." The current SRBM was simultaneously identified by many as too complicated. This led workgroups to consider the role of the SRBM in creating incentives within the university community. The breadth of OSU's educational mission, outreach and engagement activities, and research and scholarship make identifying incentives to explicitly recognize every activity contributing to the university's mission challenging. The budget (however it is distributed) supports faculty time, creates space and tools for education and scholarship, and sustains services to satisfy a need or goal of individuals, units, and the university. Investments are made because of the results enabled, not the revenues generated. For example,

- Faculty members' engagement in scholarship and research because of a deep commitment to knowledge and interest in professional contribution.
- Commitment of school and departmental faculty to undergraduate and graduate education because of the difference it makes students' lives.
- The commitment of faculty and staff in the Statewide Public Services to make a difference in communities.
- Development of experiential learning to attract students, to engage students, and to support retention and graduation.

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[1] A longer document with detail on the review process and the findings from the campus conversations is available on the Budget and Resource Planning website.

- The use of cutting-edge equipment and facilities to solve persistent and critical challenges funded through creative strategies to bring in equipment and to build and renovate facilities.
- A commitment to serving the people of Oregon in Corvallis, in Bend, in Portland, at the coast, and through experiment stations and extension offices throughout the state.
- A shared vision of OSU as an R1 and Land Grant public university.

Managing revenues and expenses is a necessary part of an organization. Revenue creation is not the focal point, rather the focus is the impact that will be created. While other R1 universities use revenue-based budget allocation models strongly influenced by credit hours and graduates, the commitment to research or engagement is not questioned. Recognizing that credit hours and graduates create revenue that enables the work of a comprehensive R1 university is critical (indeed, the university's largest investment in research is the investment in the research component of tenure line faculty appointments). The university's mission and the reasons for pursuing that mission do not change as available resources wax or wane. To move forward, we must find a way to communicate that the university budgets do not define OSU's mission and that the budget model is not the driver of our collective work. The mission and goals of the university are not defined by a revenue target but by aspirations related to our mission.

The challenge of shared responsibility:

This brings us to the reality that we are unable to fund every new idea, sustain every existing activity, and advance each strategic goal simultaneously. Annual expense growth (driven by salaries and benefits) consumes a significant portion of revenues. This does not, however, limit what is possible.

OSU's complex structure, broad mission, and diverse stakeholders result in a multitude of potential investments. The university stewards over $600M in revenues from E&G operations alone. Those revenues create tremendous positive impacts locally, regionally, and globally. The distribution of revenues to address strategic and institutional priorities requires shared ownership and leadership in the decision-making process. The budget model is not a strategy; it is one of many tools to support university-level strategies. Decisions related to budget allocations must balance the diverse needs resulting from comprehensive university that OSU is. The budget model was named "Shared Responsibility Budget Model" to emphasize that annual budget decisions require collaboration to advance, over time, all the university's strategic goals.

Colleges and central units have autonomy in how allocated budget is used to support unit-level and institutional goals and strategic objectives. This autonomy allows for innovation and flexibility, with accountability. It can also foster a "local" perspective with a focus on gaming the model or on "poaching" existing students or programs to obtain a "greater share of the pie." A shared perspective, would instead focus on opportunities to grow enrollment, increase research, or innovate costs-of-delivery to benefit the entire institution. Budget models do not provide inspiration; they sustain an institution. Aspiration and change come from vision and collective decision making. A focus on budget instead of goals does is analogous to a focus on grades instead of learning. Developing mechanism for collaborative decision-making and creating a balanced narrative that does not limit us is the shared responsibility of university, college, unit, and faculty leaders.

We look forward to sharing this full summary document with the campus community and to discussing how to allow the SRBM and associated processes to support the institution's mission, as well as the proposed changes for FY23 and FY24 budget cycles.

Best regards,

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Dean, University Honors College
Chair, University Mission Workgroup

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The following pages provide summarize the results of the SRBM review process and include:

- Key observations synthesized from the SRBM review process
  - Budget Model: Key Concerns and Observations
  - Budget Process and Communication: Key Concerns and Observations
- Potential changes and adjustments
  - FY23 Budget Cycle: possible technical and process changes
  - FY24 Budget Cycle: possible structural and principal adjustments

Key Observations and Potential Changes in the SRBM

This document summarizes the University Mission Workgroup's assessment of the most critical issues to address in revising the SRBM. Many stakeholders identified the value of the transparency created by the SRBM and simultaneously felt that communications of the model and allocation details could be improved. The model has encouraged units to think about enrollment and costs and helped units understand where the university's revenues come from, has made them think about costs, and has encouraged creative thinking and planning. The potential changes noted next are intended to address the key concerns identified by stakeholders and are intended to improve the model, while retaining the positive outcomes resulting from implementing the SRBM.

1. Key Concerns and Observations

Budget Model: Key Concerns and Observations

- **Complexity of the model**. The model is too complicated. This makes it hard to use as a predictive tool (which is important in deciding when to commit to tenure-track hires or other long-term investments) and hard to communicate about to unit heads and faculty. The complexity is also extended to the college level when colleges extend the use of the model to make allocations at the department level.
- **Ecampus revenue sharing model**. The Ecampus revenue sharing model has worked well for academic units, and it is important to retain especially for units that have made Ecampus a central part of a unit's work. There are concerns about Ecampus revenue distribution processes changing by some units, but other units see the need to tax all revenues the same so that Ecampus and differential tuition contribute fairly to institutional and college overhead costs.
- **Scholarship and engagement visibility and allocation.** Scholarship and engagement are viewed as undervalued in the model. The relative weighting of research seems low compared to the weights on enrollment, and engagement is not part of the revenue allocation. The metric of total F&A recovery is too narrow to recognize the breadth of scholarship at OSU. Structures that encourage tenure-rank faculty hiring are desired. It is important to communicate the total funding for research and engagement in all parts of the model and the OSU budget and to recognize OSU's mission of engagement as well as teaching and scholarship.
- **Curriculum and pedagogy**. The budget model should not drive curriculum or pedagogy. Changes like the revision of the Baccalaureate Core should require adjustments in the model rather than the model constraining the design of the core.
- **Experiential learning and high-cost courses**. Recognition of some pedagogical elements might be appropriate. For example, experiential learning (field courses, lab courses, studio courses, etc.) is known to improve student completion. These types of investments are not recognized in the model and only implicitly encouraged in the model through the degree completion allocations.
- **How is the model "calibrated"?** The original budget model allocations reflect historical structures, capturing recognizable cost differences but also perpetuating historical disparities.

These issues are more visible as enrollment growth in Corvallis waned. Is it possible to reconsider the weights and pool sizes based on benchmarks to peer institutions?

- **CIP code-based weights**. There are legitimate cost differences between different kinds of courses and course offerings in certain disciplines. However, the CIP code-based weights used now to recognize cost differences are rooted in the history of disciplines which includes long-standing gender and racial inequities. Are there better alternatives?
- **Community support and strategic funding**. Community support should be renamed to emphasize its strategic nature. There are insufficient funds allocated to strategic investments such as bridge funding, pilot project funding, strategic faculty hiring, equipment replacement and renewal, and other strategic initiatives.
- **Space policies and model incentives**. There should be an incentive to encourage units to manage space use more actively and to give up underutilized space.
- **Lack of predictability**. The model encourages colleges to pursue multi-year strategic changes. However, some colleges that made changes based on the model's incentives have seen negative consequences when changes in the productivity pool size (from university costs like debt service and growth of the Ecampus pool) or unpredictable overrides (to balance revenue shortfalls) block delivery of funds "earned" in previous years.
- Three-year average. The current mechanism of three-year, moving averaging for purposes of buffering in the distribution of revenues has mixed results because it delays the impact of decisions colleges make. Revisions could explore a different "buffering" approach.

<u>Budget Process and Communication: Key Concerns and Observations</u>

- **Communication of context and "big picture**". Many aspects of the budget are not well understood. There would be value in more easily accessible context addressing topics that include (but are not limited to) national and regional demographics, cross-subsidies within the university, number of graduate students who are self-paid, categories of revenue and expense, budget trends by unit, contribution margins by unit, and changes in various components of the budget over time. It would be useful to communicate the relative impact (consequences and magnitude) of various model parameters.
- **Lack of a values lens and strategic "map".** It is not clear how the budget distribution aligns with (and is shaped by) the strategic plan and the university's goals for inclusive excellence. The link between budget and the missions and obligations in the university's R1 and land-grant designations is not clear or explicit.
- **Documentation**. The model needs clear documentation of data, data definitions, structures, and timelines. There should be versions specific to different audiences.
- **Large research project planning**. Faculty are increasingly pursuing large research projects that cross college boundaries and often involve multiple institutions. These need planning, support, and services different than single PI grants. OSU lacks a consistent strategy for how to address those needs. There should be a clear strategy for supporting this kind of work.

2. Potential changes and adjustments for discussion:

<u>FY23 Budget Cycle: possible technical and process changes</u>

- Move truly university costs (debt service, insurance, OSUF contracts, etc.) to being taken "off the top" so there is clarity on what is a shared institutional cost and what is part of the service and support pool (in FY23 to the degree possible without radically altering pool sizes or splits).
- Budget to available revenues (i.e., do not use negative central budget reserves to allow larger allocations to units than projected revenues allow).

- The professional colleges (Pharmacy and Vet Med) do not fit well in a productivity-informed model. Move them to a block funded model (revenues plus appropriate strategic support).
- Rename and clarify structure of the community support fund to emphasize that those allocations are strategic and support key parts of the university's mission.
- Technical adjustments (neutral to units).
  - Graduate health budget into college allocation. This is the only remaining central allocation (other than settle-ups and annual salary increases) that goes fully out to units. Other graduate assistant costs are already in the model allocations.
  - Replace productivity allocations to non-academic units. These create incentives for activities not central to the work of the unit and unit leaders prefer they are not used.
  - Replace or drop the 7.4% tax on dedicated funds. While reasonable in theory, this approach has been very labor intensive and created unexpected behaviors. All revenues should contribute to overhead costs fairly (not necessarily equally) and that structure should be easy to administer.
  - Centralize services that are charged for into the model. This would be by assessments to non-E&G units or budget reallocation collected centrally and then distributed to the unit responsible for the service. Examples include network services, community network, credit card charges, background checks and business center costs.
  - Remove floor funding calculation. This currently affects only PHHS and can be addressed in other ways in the model.
  - Consider a materiality level for the model. The model is allocating budget, which is always an estimate of revenues. There would be value in identifying a level of rounding in budget or a level at which tracking individual headcount or credit hours are immaterial relative to the cost of making "last dollar" estimates.
  - Refine and clarify modeling of revenues (all sources) to create more transparency to units (which may assist with predictability in the longer term). This is an important element of the communication plan and could help with unit-level strategic planning.
- Create a document from a values lens that connects the SRBM to the University's strategic goals and missions. Explain how the budget distribution aligns with (and is shaped by) the strategic plan and the university's goals for inclusive excellence. This statement would be valuable in creating a broader understanding of how the budget and budget processes are connected to the work of the university. These statements should note the university's R1, engagement, and land-grant designations and how these designations impact mission and obligations.

<u>FY24 Budget Cycle: possible structural and principal adjustments</u>

- Move all truly university costs (debt service, insurance, OSUF contracts, etc.) to being taken "off the top" so there is clarity on what is a shared institutional cost and what is part of the service and support operating pool.
- Look for benchmarks to calibrate spending on academic colleges and administrative or support functions at similar universities. Use that, with an assessment of OSU's strategic needs, available resources, and changing curricular trends (including Bacc Core revisions) to reassess the splits between academic and support units and the relative sizes of productivity pools.
- Simplify the formulas for distribution of revenue to make the model easier to use for planning, forecasting, and prediction.
- Consider using an e-campus model with a fixed dollar allocation per SCH for all credit hours. Drop the distinction between lower-division and upper-division credit hours and drop the disciplinary weights for credit hours.

- Increase the proportion of the model that is distributed on strategic criteria and try to create a true “strategic investment fund” in the Provost’s Office.
- Retain an allocation for degrees but consider replacing the current disciplinary weights with an alternate measure of program cost that relies less on historical disciplinary salary structures.
- Add a space metric to unit allocations to encourage active space management.
- The research productivity metrics could be reconsidered to acknowledge all types of scholarship. One approach could use a base allocation proportional to the number of research active faculty or tenure-rank faculty (and PhD students or professorial rank faculty on soft money?) in a unit as a metric.
- Revisit graduate student incentives and the relative weights for doctoral and masters degrees.
- Create a final values lens and statement on the alignment of the budget model with the strategic plan. This would be a core part of revised communications about the budget and the budget model.
- Reconsider the three-year moving average formulation so that part of the funding is less subject to overrides that devalue the financial return from investments colleges committed to.
- Revisit the incentive in the model to encourage collaboration with OSU-Cascades and consider how that might be extended to OSU academic programs at other locations, e.g., Hatfield, Portland Center, etc.
- Consider adjustments to the process for determining funding for administrative units, e.g., metric-driven, service-level agreements, stakeholder expectations, and separating fixed cost escalation (as in utilities or third-party contracts). Consider how to allow for mechanisms that recognize that different academic units have different levels/types of expectations for central services--limited charge-back models or shared-funding models might be appropriate in these cases, though there is agreement that charge-backs in E&G funded units should be rare.

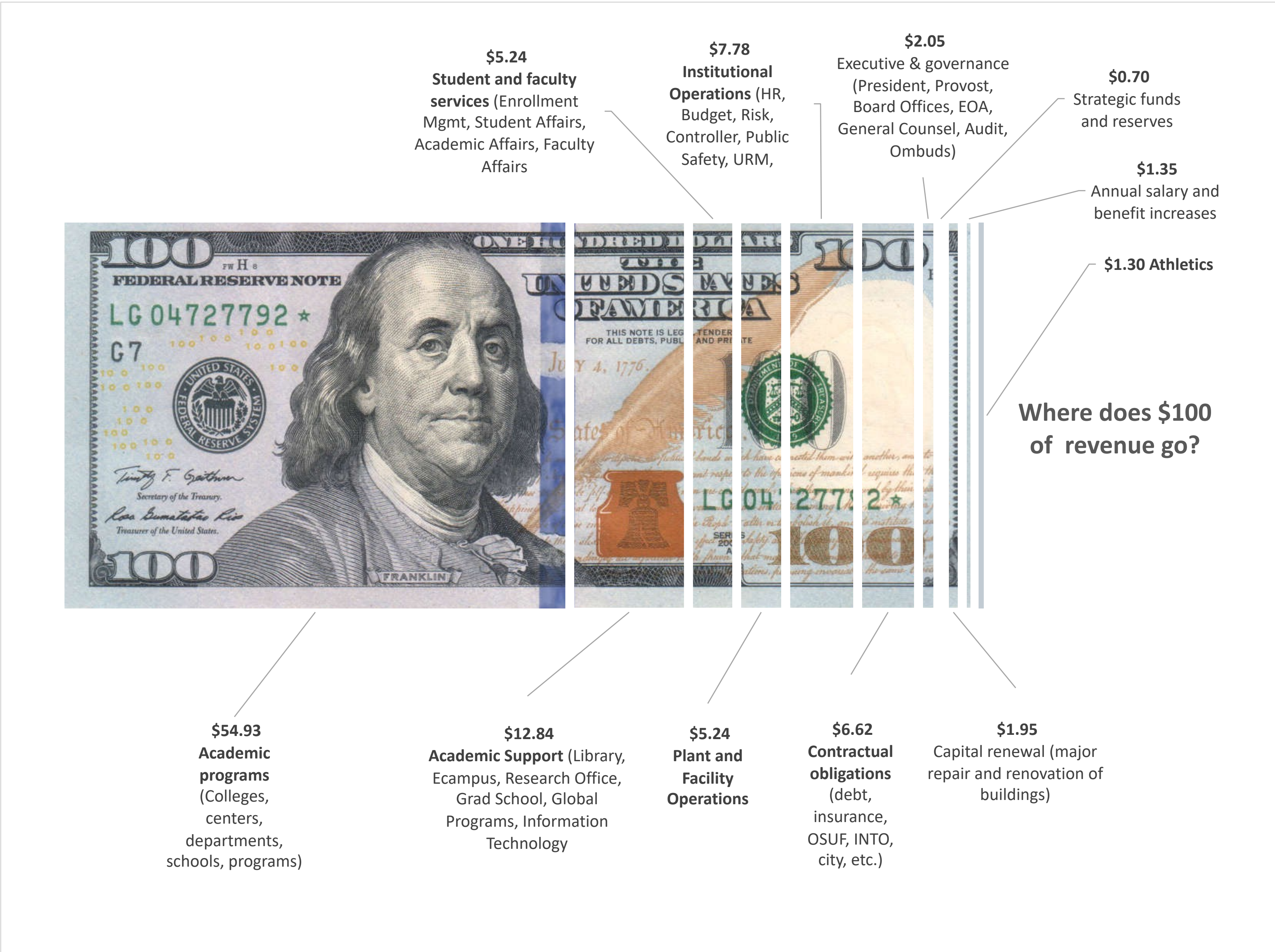
Corvallis Shared Responsibility Budget Model (SRBM)

Where do the revenues that are distributed by the SRBM in 2021-22 come from?

State general funding				
Undergraduate metrics	$	95,926,344		
Graduate & Professional metrics	$	28,004,935		
Other metrics	$	7,439,239		
State earmarked	$	16,264,096	24.0%	State funding
Net tuition (estimate)*				
Resident undergraduate	$	81,240,938	63.7%	Net tuition and fees
Non-resident undergraduate	$	76,831,731		
Graduate & Professional	$	60,037,797	64.1%	Undergraduate sources
Ecampus Undergraduate	$	141,212,840		
Ecampus Graduate	$	15,690,316	7.0%	Indirect cost recovery
Summer	$	9,136,938		
Student Fees	$	8,293,684		
Indirect Cost Recovery	$	43,200,000		
Sales and services	$	18,478,104		
Other	$	14,630,894		
Total	**$**	**616,387,855**		

*after ~$60M of institutional aid, most to resident and non-resident undergraduates

Where do the revenues distributed by the SRBM go?



Oregon State University Corvallis Shared Responsibility Budget Model

OSU's process for the allocation of the Corvallis-campus Education and General budget moved to a new "Shared Responsibility Budget Model" (SRBM) for the FY19 fiscal year (the model was partially implemented for academic units in FY18). This change began with discussions in 2014-15 and addressed a number of concerns that included:

- Deans, department chairs, central leadership, and the heads of major support units felt the existing budget process was unclear, hard to understand, and didn't serve the interests of their units;
- Incentives for different kinds of activities (e.g. campus vs. Ecampus teaching) were not clear and not aligned;
- Deans were not clear on what program choices will change their budget picture;
- Central leadership lacked sufficient reserves to support strategic decisions, contribute to unit-level initiatives, and buffer units from unexpected downturns in enrollment or state funding;
- Small, incremental budget decisions were "clogging" the management and strategy-setting process for the Provost and VP for Finance and Administration;
- The mechanisms to balance the level of service desired by Colleges with the costs of those services (vs. other investments like new faculty or graduate remissions) were not clear.

The new budget process intended to:

- Link budget clearly to the programs and results delivered by academic units;
- Be transparent and consultative;
- Recognize academic success also requires strong service, support, and facilities services;
- Encourage financial decision making at the local level to align decisions with OSU's strategic goals
- Be equitable and predictable, to allow unit leadership to plan for the future
- Keep the university and all of its components financially healthy

Why "Shared Responsibility"?

The University Budget Committee and the Provost's Council did not feel that a pure Responsibility Centered Management[1] (RCM) budget model would fit OSU's culture and needs. They endorsed a hybrid approach that used elements of RCM budgeting but that encouraged collaborative decisions about revenue generation, investments in services and academic programs, and the development of cross-unit collaboration. The model attempts to clearly show the relation of budget allocations to the work of academic delivery units and activities of service, support, and management units.

Overview:

The model allocates budget for three major functional areas:

- **Academic program delivery**: This includes academic colleges, centers and institutes, and some teaching delivered by other units. These funds support delivery of instruction, research, and engagement. These activities generate most of the revenue that supports OSU.
- **Academic support, institutional operations**: These functions include academic support (the library, information services, graduate school, research administration, etc.); student and faculty support (student affairs, undergraduate studies, etc.); plant and facilities operations; and institutional operations (finance and administration, business centers, etc.). These services are essential to allow the colleges to deliver programs and for students and faculty to access support for their work.
- **Financial stability and university commitments**: This includes commitments for debt service, contracts with the Foundation and INTO-OSU, reserves for mid-year salary increases, reserves for settle-up of tuition and returned overhead, charges paid to the city and other entities, and similar costs. It also includes contingency funds for revenue shortfalls or unexpected costs. These costs are necessary to maintain OSU's financial stability and obligations to partners. Most of these costs benefit multiple units across campus and are therefore budgeted centrally.

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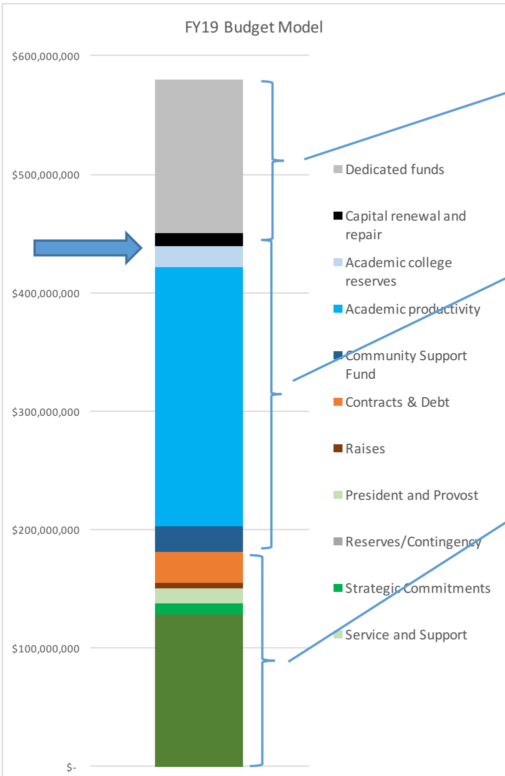
[1] A brief summary of university budget models: https://www.hanoverresearch.com/insights-blog/6-alternative-budget-models-for-colleges-and-universities/

Figure 1: Schematic of the distribution of Education and General (E&G) revenues through the budget model. The allocation builds from the top of the left hand bar downwards (i.e. the first step is the distribution of dedicated funds).



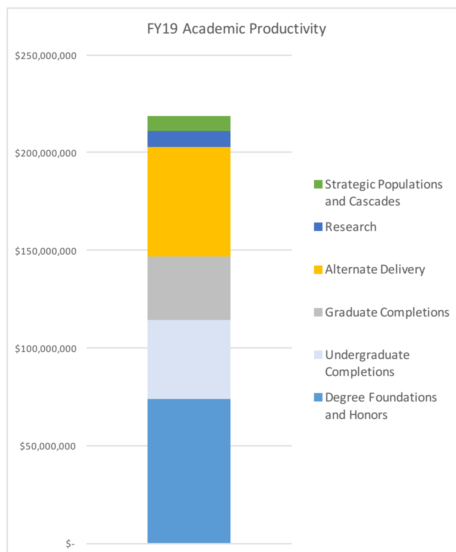
Dedicated funds (22% of total): Sales and service, earmarks, F&A recovery, fees, differential tuition over base tuition, endowment match AND capital renewal and repair funds

Academic funds (45% of total): 59% of balance (this is a decision point in model—how much to academic vs support) with three parts:

- Academic college reserves (distributed during the year)
- Academic productivity
- Community Support Fund (fixed amounts outside productivity)

Support and management (31% of total): 41% of balance; debt and contracts, raise pools, contingency and reserves, strategic commitments (non-recurring ideally), athletics, service and support units, executive functions

FY19 OSU-Corvallis E&G Budget Model Revision



Strategic populations: by degrees awarded to Pell recipients, URM students, international students, 3 years total

Research: by F&A recovery, 3 years total

Alternate delivery: Ecampus and Summer, 80% of net tuition by credit hour, current year actuals

Graduate completions: 40% credit hours, 60% degrees, 3 year totals, weighted by level and discipline

Undergraduate completions: 40% credit hours, 60% degrees, 3 year totals, weighted by level and discipline

Foundations: service teaching by credit hours, 3 year totals, weighted by level not discipline