

**BUDGET REDESIGN COMMITTEE  
REPORT**

**May 2009**

## Budget Redesign Committee Members

### FY 2008-09

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**The University of Arizona**  
**Budget Redesign Principles**  
**May 2009**

1. **Strategic Plan**. Budget redesign should support behavior, strategies, and initiatives that are consistent with the mission and goals established in the University's Strategic Plan.
2. **Incentives**. Beyond what currently exists, budget redesign should provide appropriate and logical budgetary incentives to enhance revenues and to control costs. Incentives should be clear, intuitive, and direct.
3. **Negative Outcomes**. Guided by the Strategic Plan, budget redesign should anticipate and avoid negative outcomes. Sufficient funding and agreements, for example, need to be provided to support valued higher cost efforts such as the Honors College program and Graduate Interdisciplinary Programs.
4. **Balance**. Constant attention should be paid to the balance between the local-level incentives and control provided to responsibility centers by budget redesign and the "common good" of the larger University community.
5. **Transparency**. Budget redesign should be communicated, implemented, and maintained in a manner that is clear and consistent throughout the campus community.
6. **Simplicity**. Consistent with the principle of transparency, budget redesign should be kept simple to understand, implement, and administer, even though the many details of University costs and revenues can be complex.
7. **Predictability**. Budget redesign should have rules that are clear and consistently applied, resulting in predictable outcomes that enable effective planning throughout the campus.
8. **Adaptability and Evolution**. Budget redesign should be adaptable to changing circumstances and be revised as the University community learns more about the process and outcomes.
9. **Central Funds Investment**. A central pool of discretionary funds should be maintained to ensure that the mission and goals of the University are adequately addressed, particularly where the budget redesign model fails to provide appropriate incentives or is in danger of producing unintended outcomes.
10. **Data Quality**. Consistent with the Mosaic implementation, University administrative systems and processes should maintain adequate data to administer budget redesign. Moreover, the data environment needs to be rich enough to address ancillary questions that will arise from the redesign.
11. **Risk**. Budget redesign should be implemented and maintained in a manner that does not create undue levels of risk, either at the University or responsibility center levels. This should include a "hold harmless" provision at the point of initial implementation.
12. **Communication**. Constant and direct communication should occur to assure that all campus constituencies and stakeholders are thoroughly informed about the budget redesign elements, issues, and processes.

## **Budget Redesign Elements**

Following are recommendations for implementation of a budget system that embeds incentives related to the university's strategy and mission into its funding mechanisms. This budget redesign provides incentives for each college to better align college and university goals. The system will require fine-tuning over time as various committees better understand the behavioral responses of units and faculty to the individual and combined incentives, and as changes occur in the university's operating environment. The revenue recommendations relate to that portion of the university's budget that reflects tuition, however cost assignments are also addressed as part of the elements of the redesign process. Funding sources other than tuition will continue to be allocated by the university administration. Indirect cost recovery policies, summer session and outreach college tuition policies will not change at this time, but will be re-evaluated after implementation of the new model. The success of this model is dependent, in part, on the ability of colleges and departments to plan for changes in the economic environment by holding some funds in reserve. A few of the following recommendations will require incremental funding from university sources other than tuition.

We recommend implementing the new incentive budget by holding college budgets neutral at the beginning of the first year of implementation. Therefore it is the incremental changes in student enrollments and incremental changes in measures used for cost assignment from year to year that affect future periods' budgets. Temporary teaching funds provided in the budget neutral year will be considered part of each college's base budget going forward. A three-year rolling average will be used to determine changes in enrollments and the cost assignment measures.

### **Tuition policies**

#### **Undergraduate tuition**

- Undergraduate tuition is defined as the amount of tuition dollars after reductions for financial aid including set-asides, waivers and QTRs.
- Undergraduate tuition will be split based on student credit hours and majors according to the following formula: 75% weight on SCH and 25% weight on number of majors. Headcount of majors will include lower and upper division.
- The proportion of resident to nonresident undergraduate tuition will be averaged across the university and this will be the distribution rate for undergraduate tuition.
- Differential undergraduate tuition and program fees (after reductions for financial aid including set asides, waivers and QTRs) will be directed 100% to the college of enrollment.
- Temporary funding for expanding lower division seats will no longer be available because a proportion of tuition will automatically flow with seats.
- When a double major resides within one college, tuition for one major will be credited to the college. When a double major resides in two different colleges, the tuition will be split.

#### **Graduate tuition**

- Graduate tuition (including differential tuition and program fees but excluding set asides, waivers, and QTRs) will be directed 100% to the college of enrollment.
- For the implementation of the budget redesign system, no changes will be made in the way that graduate tuition waivers and scholarships are allocated across colleges. This will be reconsidered when the first review is undertaken.

## **Honors and Graduate Interdisciplinary Degree Program Incentives**

Because they are institutional priorities, the Honors and Graduate colleges' budgets will include amounts that can be used as incentives to provide honors classes and graduate interdisciplinary degrees. Funds from these pools will be allocated to colleges based on SCH for honors classes and Majors for GDP. Because the honors and graduate program funds are likely to be limited, colleges will be encouraged to continue to provide these services to students, even though there may be no direct remuneration.

## **Cost Assignment**

An ideal cost assignment system would consist of cost pools with identifiable activities that cause costs to increase or decrease. However, the real world of cost and activities is not that simplistic. First, many costs in our setting are part of a common good, and usage by unit may not be relevant. Further, if there is a cause and effect relationship between college activities and costs, our internal information systems may not have data that is readily available to measure changes in these costs at the college level. Accordingly, we need a basic set of cost assignment categories that will probably expand and these will definitely change over time as our internal information systems improve and as we gain more experience with responsibility centered budgeting. The following are the committee's recommendation of cost assignment categories and assignment methods for the implementation phase. Formulas for assigning these costs will need to be determined in the next several months after more study of the underlying cost behaviors. While these cost assignment recommendations may appear to be minimalistic, we believe that these are appropriate first steps toward a more complete cost assignment model.

### **1. Costs related to headcount (faculty and student)**

- Currently telephone and IT costs are allocated based on FTE. These costs will continue to be allocated in the same manner.
- Library and student services (including a small tax for Honors and GDP) will be allocated based on student headcount. The next step is to identify all of the costs that belong in this cost pool by identifying all of the students services provided at a central level. An advantage of this type of allocation is that these costs will increase with increases in enrollments and student credit hours (and tuition flows will also be increasing), however these costs will also go down proportionately as enrollments decrease within a college so that the loss of revenues from decreases will be softened.

### **2. Costs over which units have control**

- Housekeeping costs – some sort of pricing scheme will be developed so that colleges can pay for different levels of service.
- While we would like to assign utility costs, we recommend that this occur at a future date when it is easier to identify the costs with each specific unit and their activities.

### **3. An allocation of general administration costs**

- We recommend that a sub-committee analyzes the current tuition taxes that are levied on differential tuition and outreach and other activities to determine whether a simple flat tax could replace the variety of taxes currently in place.

## Other issues

- During the next six months, a plan needs to be developed to streamline and strengthen the current governance system to solve problems of implementation/abuse of the new system.

## Responsibility Centers

The 15 Resource Centers generate revenues from tuition, 22:1 state funding, grants, and other external sources. These centers also receive expenses. The Support Centers and Activities are essentially cost allocation pools. The Support Centers provide services to the Resource Centers and to other Administrative and Support Centers. Some of the costs from these centers are pooled and allocated to the Resource Centers. Support Activities provide specific types of services to both Resource Centers and Support Centers and costs for these activities are allocated to Resource and Support Centers. We realize that there will be changes in the organization structure of the university over the next few semesters. We recommend that the tuition funds and cost assignments flow to colleges. We believe that focusing on the resource centers listed below will preserve the incentive value of the system.

## Resource Centers

### *Undergraduate and Graduate*

College of Agriculture and Life Sciences  
Eller College of Management  
College of Architecture and Landscape Architecture  
College of Education  
College of Nursing  
Zuckerman College of Public Health  
College of Engineering  
College of Fine Arts  
College of Humanities  
College of Science  
College of Social and Behavioral Sciences  
College of Optical Sciences

### *Graduate*

College of Medicine – Tucson and Phoenix  
College of Pharmacy  
College of Law

## Support Centers and Activities

*Support Centers (Could be allocated based on student head count and faculty FTE count)*

University IT

Networking and phone services (*currently allocated based on faculty FTE count*)

Student Services and library (*Could be allocated based on student headcount*)

Admissions, Registrar, Financial and Other Advisors

The Learning Technologies Center (LTC)

Housekeeping Services

University administration (*simplification of current tuition tax system*)

## **Next Steps**

A committee needs to be appointed for the next phase of implementation. From this larger committee, three sub-committees need to be established as follows

- (1) A formula committee will speak with accountants at other universities that have implemented responsibility budgeting to understand various actual formulas for cost allocation/taxes. This committee will conduct simulation analyses with our historical data and the cost and tuition formulas to determine the effects of each formula and their interactions. From these simulations, the final formulas, policies, and procedure will be developed.
- (2) A communication committee will get the word out on campus and help educate the relevant stakeholders about the details of the system.
- (3) An implementation committee will establish/identify governance systems and develop the steps for the actual implementation phase. Further, this committee will develop a code of conduct that reflects the integrity of the curriculum development and delivery processes and an oversight process for potential abuses such as college offering courses that replicate required prerequisite courses from other colleges such as basic English and math courses.

We recommend an implementation date to be determined. The three years used in the rolling average can be determined by the implementation committee and could exclude FY09. This will be determined after analysis of the effects of the 09 year in budget simulations.

A consultant with experience in implementing responsibility budget models needs to be retained to analyze the final formulas, policies and procedures to make suggestions for improvements.