

California State University,
Los Angeles

New Budgeting Allocation Model Development

November 2014 – Administration and Finance

Meeting Agenda

DATE: November 18, 2014

TO: Budget Allocation Model Task Force Members *

FROM: Mae Santos, Associate Vice President
Administration and Finance

COPIES TO: J. Tcheng, T. Allen, File

SUBJECT: **New Budgeting Allocation Model**

AGENDA

1. Overview
   http://www.calstatela.edu/sites/default/files/groups/Budget%20Administration/resource_allocation_model.pdf

   Administrative Procedure 212 - University Resource Allocation Plan
   http://www.calstatela.edu/sites/default/files/groups/Administration%20and%20Finance/Procedure/ap212.pdf

2. Timeline and Milestones
   http://www.calstatela.edu/sites/default/files/groups/Budget%20Administration/timeline.pdf

3. Review: CSU Budget Allocation Model Survey
   http://www.calstatela.edu/sites/default/files/groups/Budget%20Administration/survey.pdf

4. Review, Discussion, and Action: Budget Guiding Principles

   - Nevada System of Higher Education

     

     Nevada Budget
     Model Guiding Principl

   - Temple University
     http://www.temple.edu/cfo/decentralized-budgeting/documents/DBMprinciples1232013.pdf

   - Portland State University
     https://www.pdx.edu/sites/www.pdx.edu.budget/files/EightBudgetPrinciples-Jan09.pdf

   - University of Wisconsin – Milwaukee

     

     Wisconsin - Guiding
     Principles for a New L

5. Review and Discussion: Budget Allocation Models in Higher Education

- Education Advisory Board: Exploring Alternative Budget Models



Exploring-Alternative
-Budget-Models_Advi

- Education Advisory Board: Optimizing Institutional Budget Models



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- Allocating Resources - State Systems of Public Higher Education



Allocating Resources
- State Systems of Pu

- Resource Allocation in Higher Education



Resource Allocation
in Higher Education -

- Budget Model Matrix



Budget Model
Matrix.xlsx

6. Task Force Follow-Up Items

Distribution *

Covino, William - President
Chavez, Lisa – VPAF
Dial, Janet – VPUA
Gomez, Jose – Sr. VPE/COO
Frankl, Daniel – Faculty Appointee
McAllister, Peter – Dean, A&L
Ney, Cheryl – Provost/VPAA
Quan, Peter - VPITS
Ross, Tony - VPSA
Vera, Shane – ASI President
Warter-Perez, Nancy – Chair, Acad. Senate
Yup, Janet – Staff Appointee

Overview

California State University, Los Angeles
University Resource Allocation – Process for Change

CURRENT ALLOCATION MODEL – OVERVIEW

The University Resource Allocation, as defined by Administrative Procedure 212, establishes the policy and procedures for allocating the fiscal resources of the University. Campus budget allocations are based upon predefined Chancellor's Office allocations (formula-based) and the campus strategic initiatives (non-formula). Around January of each year, the President provides the preliminary budget guidelines that outline the campus priorities for the following year. The preliminary budget guidelines initiate the university's Resource Allocation Plan and these are provided to campus stakeholders for input, consultation, discussion and information.

Following the Governor's January Budget, the Chancellor's Office provides preliminary funding allocation information for the next fiscal year. Administration identifies the funding changes and prepares a resource allocation handout for the Resource Allocation Advisory Committee (RAAC). The RAAC's role is to advise the President on budget policy, planning, and resource allocation matters. As outlined in Administrative Procedure 212 Section 5.10, RAAC members include faculty, administration and student representation.

The Chancellor's Office issued the final 2013-14 budget allocation, B 2013-02, on July 24, 2013[1]. The University's 2013-14 General Fund base budget is $221,839,675 consisting of General Fund Appropriation, Tuition Fee Revenue, Non-Resident Tuition Revenue, and Other Fee Revenue and Reimbursements.

General Fund Appropriation	$ 103,544,039
Tuition Fee Revenue	112,223,870
Non-Resident Tuition Revenue	4,621,000
Other Fee Revenue & Reimbursements	1,450,766
Total Estimated Gross Budget	**$ 221,839,675**

The University has operated under a traditional incremental (or decremental) budget model in which, generally speaking, annual increases (or decreases) are adjusted by a uniform percentage. The University provides annual base-funding to the Executive areas in support of their on-going operations. The 2013-14 budget allocations were as follows: Academic Affairs 65.90%, Student Affairs 7.59%, Administration and Finance 13.37%, Information Technology Services 7.98%, Office of the President 3.58%, and Institutional Advancement 1.57%[2]. Benefits pool, compensation pool and University-wide programs are centrally managed. Included in the Executive allocations are restricted funds dedicated for specific programs or purposes (i.e., Financial Aid programs, utilities, University Reserve, etc.). The restricted funds cannot be used towards operational needs or to fund division deficits.

SUMMARY BY EXECUTIVE OFFICE

	RAP BASE BUDGET	RAP RESTRICTED BUDGET	RAP ADJ. BASE BUDGET		RAP % BASE BUDGET
President's Area	6,760,859	(2,821,114)	3,939,745	a	3.58%
Academic Affairs	72,918,904	(328,500)	72,590,404	b	65.90%
Information Tech. Services	8,791,415	0	8,791,415		7.98%
Student Affairs	53,540,657	(45,174,869)	8,365,788	c	7.59%
Admin. & Finance	22,595,735	(7,863,787)	14,731,948	d	13.37%
Institutional Advancement	1,767,081	(35,880)	1,731,201	e	1.57%
TOTALS	**166,374,651**	**(56,224,150)**	**110,150,501**	f	**100.00%**

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Notes:

[a] Excludes University Reserves

[b] Excludes MSN graduate nursing

[c] Excludes Federal and State Financial Aid Programs

[d] Excludes Utilities, IRA, Child Care Center and Student Financial System upgrades.

[e] Excludes Catalog

[f] Excludes University-wide (i.e., Comp and Benefits Pool, Risk Pool premium) accounts which is about $11.5 M

Strengths of Current Model:

- Incremental budgeting provides budgetary stability and allows operating units/colleges to plan multiple years into the future due to the predictability of funding.
- Base budget funding is systematic and provides operational continuity.
- Incremental budgeting is simple to understand (transparency) and easy to implement (efficiency). It simplifies the allocation process (formula-based) and facilitates accounting.

Shortcomings of Current Model:

- Since only the incremental portion of the budgets is analyzed, this model may perpetuate inequities in funding that existed and does not encourage redirection of funds.
- Incremental allocation model is limited in its vision. The divisions are accountable for what they spend in the most basic sense. The model does not measure or link performance-based outcomes, relevance, quality and productivity with funding levels. The divisions have sense of base budget ownership (property rights).
- Based budget does not account for cost increases due to inflation or other economic uncertainties.

NEW RESOURCE ALLOCATION MODEL – TIMELINE

	TARGET DATES
1. Preliminary planning, research, and evaluation of requirements for development of new resource allocation model. This includes an assessment of current funding model.	Sep. 2013 – Dec. 2013
2. Establish Budget Allocation Model Task Force to develop campus allocation principles and priorities and explore allocation model options. Recommended committee composition: Resource Allocation Advisory Committee (RAAC); VP for Engagement and Economic Development and Chief of Staff; and one staff appointed by the President.	Jan. 2014
3. Assessment of base expenditure need: After the 2013-14 mid-year assessment, conduct campus wide zero-based assessment to establish fiscal year 2014-15 base expenditure need.	Feb. 2014 – Apr. 2014
4. Design framework of the new allocation model(s) based on items 1 and 3.	May 2014 – Feb. 2015
5. Vetting and feedback from campus constituents on allocation models.	Mar. 2015 – June 2015
6. Selection and communication of the new allocation model.	Jul. 2015 – Sep. 2015
7. Implementation of new allocation model.	Fiscal Year 2016-17
8. Post implementation evaluation and refinement of adopted model.	Jul. 2016 – June 2017

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BUDGET MODELS IN HIGHER EDUCATION

There are six budget models or budget-related practices used in higher education. The following overview of the budget models was derived from Hanoverresearch's published study[3]:

Incremental Budgeting

Definition: Traditional budget model where budget proposals and allocations are based upon the prior year's funding and only new revenue is allocated. Budget reductions are made as a percentage of the institution's historical budget, and are typically across-the-board.

Benefit: Incremental budgeting has been popular in higher education since it is easy to implement, provides funding stability, and allows units and institutions to plan multiple years, due to the predictability of the model.

Drawback: Difficult to determine where costs have been incurred and how these costs contribute to revenue and value creation. Institutions are accountable for what they spend.

Zero-Based Budget

Definition: The previous year's funding level is not considered in developing the following year's budget. Every part of the institution must re-request funding levels, and all spending must be re-justified.

Benefit: Zero-based budgeting is an effective way of controlling for unnecessary costs. Since departments and divisions do not automatically receive a certain sum each year, all money allocated to a unit has a purpose, keeping waste and discretionary spending to a minimum.

Drawback: Zero-based budgets take longer to prepare; hence, implementation is difficult.

Activity-Based Budgeting

Definition: Activity-based budgeting allocates funding to institutional activities with the highest return (in the form of increased revenues) for the institution. This may include developing and designing:

- Activity groupings for budgeting, in coordination with campus leaders and constituents;
- Fund resource grouping;
- Budget processes whereby allocation plans are used to align resources to institutional strategic objectives; and
- Implementing an activity-based campus budget allocation process.

Drawback: Requires substantial time and resource commitment, which may not be feasible for some institutions.

Responsibility Center Management (RCM)

Definition: Responsibility Center Management is more aligned with management philosophy than a budgeting strategy. The model supports the achievement of academic priorities within an institution, and allows for a budget which closely follows those priorities. RCM grants operational authority to divisions, colleges/schools, and other units within an institution, allowing them to prioritize their academic missions. Each unit receives all of its own revenues and incomes, including the tuition for its enrolled students. Each unit is also assigned a portion of government support (where applicable). However, units are also responsible for their own expenses, as well as for a portion of expenses incurred by the university's general operations.

Benefits: RCM has been used as a solution to budgetary constraints. RCM may induce deans to pursue new revenue sources since their division/school/college would receive all of its revenue.

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Drawbacks: Competition for students promoted by RCM could cause deans to resort to inefficient measures to prevent students from enrolling in courses in other colleges.

Centralized Budgeting

Definition: All decision-making powers are vested with upper level administration. Typically colleges and universities combine aspects of centralized budgeting with decentralized budgeting.

Benefits: Since central budgeting is typically combined with another process, the rationale for choosing which units are centrally budgeted is adoptable. For example, when combined with performance-based funding, colleges might centrally budget those divisions for which no performance metrics can be reliably identified. Another reason to implement centralized budgeting is that some expenses are necessary to the basic functioning divisions, and are therefore not optional.

Drawback: When budgeting is centralized and the element of competition is removed, departments may be less motivated to generate revenue.

Performance-Based Budgeting (PBB)

Definition: Performance-based budget awards funds based on performance, which is determined by a number of defined outcome standards. The most effective performance budgets will show "how dollars fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result."

Benefit: Performance-based budget should give an institution a good idea of how money is expected to translate into results. Performance-based systems are often imposed on public systems of education as a result of greater accountability demands. Linking the funding of public institutions to the results they deliver lends an increased level of transparency to expenditures among institutions reliant upon public financial support.

Drawback: The budget process must include time for the review of performance measures and time for discussion of performance against expectations, and then allocate dollars against those outcomes.

University Resource Allocation Guiding Principles

The following principles will guide the University's resource allocation process:

- Aligns budget and resources with the University's strategic plan, mission, vision and goals.
- Recognizes the differences and varying needs across divisions and programs.
- Provides for differential growth and differential needs within the University.
- Provides certainty of allocation (within the realities of public funding) for long-term efficiency and stability
- Assures transparency in decision making
- Be fair and equitable, based on the chosen plan and policies of the University.
- Promotes collaboration among divisions

The following are the desired characteristics of a funding formula or guideline, according to published study of the Nevada System of Higher Education[4]:

Equitable
The funding formula should provide both horizontal equity (equal treatment of equals) and vertical equity (unequal treatment of equals) based on size, mission and growth characteristics of the institutions.

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Adequacy-Driven
The funding formula should determine the funding level needed by each institution to fulfill its approved mission.

Goal-Based
The funding formula should incorporate and reinforce the broad goals of the state for its system of colleges and universities as expressed through approved missions, quality expectations and performance standards.

Mission-Sensitive
The funding formula should be based on the recognition that different institutional missions (including differences in degree levels, program offerings, student readiness for college success and geographic location) require different rates of funding.

Size-Sensitive
The funding formula should reflect the impact that relative levels of student enrollment have on funding requirements, including economies of scale.

Responsive
The funding formula should reflect changes in institutional workloads and missions as well as changing external conditions in measuring the need for resources.

Adaptable to Economic Conditions
The funding formula should have the capacity to apply under a variety of economic situations, such as when the state appropriations for higher education are increasing, stable, or decreasing.

Concerned with Stability
The funding formula should not permit shifts in funding levels to occur more quickly than institutional managers can reasonably be expected to respond.

Simple to Understand
The funding formula should effectively communicate to key participants in the state budget process how changes in institutional characteristics and performance and modifications in budget policies will affect funding levels.

Adaptable to Special Situations
The funding formula should include provisions for supplemental state funding for unique activities that represent significant financial commitments and that are not common across the institutions.

References:

[1] CSU 2013/14 Enacted Budget Allocations
http://www.calstate.edu/budget/fybudget/coded-memos/B13-02-Memo.pdf

[2] 2013-2014 University Resource Allocation Plan (RAP)
http://www.calstatela.edu/univ/budget/plan1314.php

[3] "6 Alternative Budget Models for Colleges and Universities," April 2, 2012 , Hanoverresearch.com
http://www.hanoverresearch.com/2012/04/6-alternative-budget-models-for-colleges-and-universities/

[4] "Nevada System of Higher Education – Evaluation of the NSHE Funding Formula," May 2011, MGT of America, Inc.
http://system.nevada.edu/Nshe/index.cfm/initiatives/formula-funding-study/mgtnshe-formula-funding-report/

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Administrative Procedure 212

University Resource Allocation Plan

Administrative Procedure

Number:	212
Effective:	Interim
Supersedes:	5/28/04
Page:	1 of 5

Subject: UNIVERSITY RESOURCE ALLOCATION PLAN

1.0. PURPOSE:

To establish the policy and procedures for allocating the fiscal resources of the University.

2.0. ORGANIZATIONS AFFECTED:

2.1. All organizational units of the University as defined in the University Resource Allocation Plan.

2.2. The Resource Allocation Advisory Committee.

3.0. REFERENCES:

3.1. Office of the Chancellor memoranda: December 13, 1984 and June 26, 1987, Subject: Budget Advisory Committees.

3.2. Clarification of the Respective Roles of the Academic Senate and the University Administration (endorsed by the Academic Senate on February 19, 1985, and the President on February 26, 1985).

3.3. University Resource Allocation Plan, published annually by Financial Services.

4.0. POLICY:

It is the policy of the University to conduct and maintain a resource allocation process which requires each division to adjust its annual operating budget in accordance with funding received from the Chancellor's Office.

The University Resource Allocation Advisory Committee will include faculty, administration, and student representation. It will advise the President on budget policy, planning, and resource allocation matters.

5.0. DEFINITIONS:

5.1. Adjusted Base Allocation - The previous fiscal year base allocation adjusted for increases and/or decreases in funding.

Approved: _____ **Date:** _____

5.2. Base Allocation - Current fiscal year allocation.

5.3. Executive Officers - The University President and Vice Presidents.

5.4. Chief Financial Officer - The Vice President for Administration and Chief Financial Officer.

5.5. Senior Administrator - An administrator III or IV.

5.6. Operating Budget - Fiscal resources available to divisions to accomplish program objectives.

5.7. Operating Unit - An academic department/school/division or an administrative unit reporting to a senior administrator.

5.8. Division - Operating units reporting to an executive officer.

5.9. Resource Allocation Request - Refers to budget changes requested by executive officers for their divisions.

5.10. University Resource Allocation Advisory Committee (RAAC) - Committee appointed by and advisory to the President on budget policy, planning, and resource allocation matters. The membership of the Committee is as follows:

1. Provost and Vice President for Academic Affairs, or designee (chair)
2. Vice President for Administration and Chief Financial Officer, or designee
3. Vice President for Student Affairs, or designee
4. Vice President for Information Technology Services and Chief Technology Officer, or designee
5. Vice President for Institutional Advancement, or designee
6. Chair of the Academic Senate, or designee
7. One faculty member appointed by the Committee on Committees
8. President of the Associated Students, Inc., or designee
9. One college dean appointed by the President
10. One non-academic administrator appointed by the President
11. Senior administrator for Administration and Finance/Financial Services (without vote)
12. One staff member appointed by the President

5.11. College Resource Allocation Advisory Committee - Committee appointed by and advisory to the dean of each college on issues regarding the resource allocation request for the college. The committee shall consist of five (5) members including a college administrator appointed by the dean to serve as chair, as well as representation from faculty, department chairs, and students.

6.0. RESPONSIBILITIES:

6.1. The President will:

6.1.1. Seek advice regarding budget priorities for the coming year. This will include, but is not limited to, a joint meeting with the Academic Senate Executive Committee and Fiscal Policy Committee on an informal basis, prior to submitting to governance for consultation.

6.1.2. Establish budget guidelines after receiving campus input.

6.1.3. Provide instructions to the University Resource Allocation Advisory Committee.

6.1.4. Approve allocations.

6.2. The University Resource Allocation Advisory Committee will announce and hold open meetings to review the proposed University Resource Allocation Plan and submit recommendations to the President.

6.3. The Chief Financial Officer (CFO) will:

6.3.1. Review the proposed budgets requested by the executive officers for their divisions.

6.3.2. Advise the President on the fiscal implications and appropriateness of the proposed budgets.

6.4. The Executive Officers will:

6.4.1. Request budgets based on division priorities and University budget guidelines.

6.5. Senior Administrators will:

6.5.1. Review for consideration operating unit resource allocation requests.

6.5.2. Communicate recommended operating unit resource allocation requests to the appropriate executive officer for consolidation.

6.6. College Deans will:

6.6.1. Convene and communicate the college's resource allocation priorities and request to the College Resource Allocation Advisory Committee.

6.6.2. Review and communicate the final college proposed budget to the Provost and Vice President for Academic Affairs. The College Resource Allocation Advisory Committee and college units shall be advised when the request is communicated to the Provost.

6.6.3. Communicate final allocations to college units.

6.7. Budget Administration will:

6.7.1. Review and consolidate proposed resource allocation plans.

6.7.2. Identify funding changes received from the Chancellor's Office.

6.7.3. Prepare the Resource Allocation Plan document and code budget allocations to the ledger.

6.8. Operating Units will communicate resource allocation requests to the appropriate senior administrator on an annual basis.

7.0. PROCEDURES:

7.1. For planning purposes, divisions will print, analyze, and retain month-end and year-end financial reports. This historical financial data is to be used to prepare each division's resource allocation request.

7.2. Resource Allocation Plan

7.2.1. Operating units will communicate resource allocation requests on an annual basis to the appropriate college dean/senior administrator.

7.2.2. The Resource Allocation Advisory Committee for each college will review the priorities and the college resource allocation request and submit recommendations to the dean. Normally, this action occurs during Winter or Spring Quarter.

7.2.3. College deans/senior administrators will communicate a consolidated resource allocation request to the appropriate executive officer.

7.2.4. The executive officers will review and communicate to the Chief Financial Officer their division's resource allocation request. The resource allocation requests will identify resources directed to achievement of Strategic Plan initiatives.

7.2.5. For all divisions, the Budget Office Administration will consolidate the recommended budget requests for submission to the President through the CFO.

7.2.6. The Chief Financial Officer will forward to the President the proposed University Resource Allocation Plan along with comments and/or advice on fiscal implications.

7.2.7. The President will forward the proposed plan with instructions to the University Resource Allocation Advisory Committee.

7.2.8. The University Resource Allocation Advisory Committee will announce and hold open meetings to review the proposed plan and submit recommendations to the President.

7.2.9. The President will review the recommendations and take action.

7.2.10. After the President approves the allocations, Budget Administration will publish the University Resource Allocation Plan. This document provides each division with pertinent information regarding its annual operating budget.

7.2.11. Budget Administration will provide Resource Allocation Plan forms to each division. Each division will complete RAP-1 and RAP-4 to reflect adjustments to base allocations.

RAP-1 Redistribution Within Base Allocation - Completed to justify the redistribution of resources within the base allocation.

RAP-4 Revenue Program - Completed by areas that collect fees, earn revenue or utilize funds from other than general fund sources. A detailed estimate of resources and an explanation for utilization of funds must be provided.

7.2.12. Upon receipt of the college allocation, the dean will communicate final allocations to the college units and College Resource Allocation Advisory Committee.

8.0. APPENDICES:

8.1. RAP-1

8.2. RAP-4

Timeline and Milestones

NEW RESOURCE ALLOCATION MODEL
IMPLEMENTATION TIMELINE

	TARGET DATES
1. Preliminary planning, research, and evaluation of requirements for development of new resource allocation model. This includes an assessment of current funding model.	Sep. 2013 – Dec. 2013
2. Establish Budget Allocation Model Task Force to develop campus allocation principles and priorities and explore allocation model options. Recommended committee composition: Resource Allocation Advisory Committee (RAAC); VP for Engagement and Economic Development and Chief of Staff; and one staff appointed by the President.	Jan. 2014
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8. Post implementation evaluation and refinement of adopted model.	Jul. 2016 – June 2017

CSU Budget Allocation Model Survey

CSU Budget Allocation Model Survey

Campus	Founded	Total Acreage	Enrollment	Operations Estimate (2012-2013)	CSU Budget Allocation Model[a]	Endowment	Athletics	Athletics Nickname	2014 U.S. News Rank	Washington MonthlyRank	Forbes Rank	KiplingerRank (California)
San Jose	1857	154	30448	$239.16 million	Incremental	$74.81 million	NCAA Div. I	Spartans (MWC)	36	151	272	NR
Chico	1887	119	16356	$145.76 million	Hybrid: 1) Central budget that's funded first 2) Incremental to allocate remaining funds to each division	$42.17 million	NCAA Div. II	Wildcats (CCAA)	42	165	424	NR
San Diego	1897	270	31899	$281.24 million	1) Incremental budgeting process where each division (and institutional - i.e. benefits pool) has a base level of funding and determine each year what new funding (or reduced funding) is available for allocation. 2) In past years, took a pro-rata approach in allocating/de-allocation funding. 3) For the 2013/14, underwent a strategic planning process and available funding (after accounting for mandatory costs commitments – i.e. health, retirement benefits) was allocated based on prioritizing funding of strategic initiatives and critical support needs. 4) Divisional budget process is decentralized so once the base funds are allocated, each division has the discretion to reallocate to colleges/departments based on their own internal methodologies which vary across campus.	$136.41 million	NCAA Div. I	Aztecs (MWC)	152 (Nat. Univ.)*	151	264	8
San Francisco	1899	134	30500	$240.64 million	Incremental	$51.20 million	NCAA Div. II	Gators (CCAA)	54	61	462	NR
San Luis Obispo	1901	9678	18679	$211.80 million	Incremental	$168.37 million	NCAA Div. I	Mustangs (Big West)	9	NR	170	9
Fresno	1911	1399	22565	$183.53 million	The cabinet may allocate some of the new projected revenue to specific projects or programs and the remaining balance is allocated by percentage to the divisions.	$129.45 million	NCAA Div. I	Bulldogs (MWC)	36	10	366	NR
Humboldt	1913	144	8116	$92.87 million	Incremental (Considering RCM)	$22.27 million	NCAA Div. II	Lumberjacks (CCAA)	53	40	NR	NR
Maritime	1929	87	973	$29.11 million	Centralized	$3.72 million	NAIA	Keelhaulers (CPC)	2**	NR	293	NR
Pomona	1938	1438	22156	$178.82 million	Incremental	$55.58 million	NCAA Div. II	Broncos (CCAA)	33	122	336	10
Los Angeles	1947	175	21755	$177.77 million	Incremental	$18.56 million	NCAA Div. II	Golden Eagles (CCAA)	100-129	11	NR	NR
Sacramento	1947	300	28750	$209.53 million	1) Incremental for initial allocations 2) Use Centrally held pooled funds when allocating funds for benefits & compensation	$28.32 million	NCAA Div. I	Hornets (Big Sky)	66	54	450	NR
Long Beach	1949	323	36279	$277.02 million	Hybrid: 1) Incremental - concentrate budget planning approach on potential budget increments/decrements 2) Centralized - employee benefits, campus-wide utilities, financial aid, & CSURMA 3) Activity-based - In FY 2013-14, prioritized campus strategic priority areas & student success initiatives & provided earmarked budgets for these areas	$44.08 million	NCAA Div. I	49ers (Big West)	32	106	363	12
East Bay	1959	341	13851	$135.46 million	Incremental	$10.37 million	NCAA Div. II	Pioneers (CCAA)	90	491	NR	NR

CSU Budget Allocation Model Survey

Campus	Founded	Total Acreage	Enrollment	Operations Estimate (2012-2013)	CSU Budget Allocation Model[a]	Endowment	Athletics	Athletics Nickname	2014 U.S. News Rank	Washington MonthlyRank	Forbes Rank	KiplingerRank (California)
Fullerton	1957	236	37677	$268.77 million	Incremental - Aligned With Campus Strategic Initiatives.	$34.28 million	NCAA Div. I	Titans (Big West)	35	14	423	NR
Northridge	1958	353	36164	$278.31 million	Incremental	$63.64 million	NCAA Div. I	Matadors (Big West)	60	28	441	NR
Stanislaus	1957	220	8882	$77.43 million	Incremental	$9.23 million	NCAA Div. II	Warriors (CCAA)	57	123	NR	NR
Dominguez Hills	1960	346	13933	$93.67 million	Incremental	$10.16 million	NCAA Div. II	Toros (CCAA)	100-199	5	NR	NR
Sonoma	1960	269	9021	$81.50 million	Incremental	$35.02 million	NCAA Div. II	Seawolves (CCAA)	42	501	NR	NR
San Bernardino	1965	441	18234	$146.27 million	Incremental	$19.17 million	NCAA Div. II	Coyotes (CCAA)	57	96	399	NR
Bakersfield	1965	375	8520	$74.81 million	Incremental	$17.96 million	NCAA Div. I	Roadrunners (WAC)	90	59	NR	NR
San Marcos	1988	304	10610	$89.54 million	CSUSM uses a decentraliized budgeting philosophy. CSUSM uses a variation of Zero-Based Budgeting (ZBB). The variation to this budgeting approach is to continue to maintain a base budget at the campus, division and salary levels and apply ZBB at the department/operating expense level. A campus base budget in maintained on an ongoing basis as an internal control for the budgeting process. The President determines the use of any incremental changes.	$17.26 million	NAIA	Cougars NAIA Independent	70	239	NR	NR
Monterey Bay	1994	1365	5609	$66.62 million	1) Incremental for main operating fund with requests for new base budget distribution by division with line item detail 2) Central pool for benefits for main CSU Fund 485, and distribute monthly on basis of actuals to specific dept. & line item benefit cost; central pool as distributed by CO for compensation, & distribute on basis of actuals 3) Not incremental for one-time funds 4) Divisions can keep 50% of unspent funds in main operating fund; division called "Campuswide" where some of the big institutional programs are housed, like CSURMA, the benefit pool, compensation pool, etc. 5) Unspent funds from campuswide are dedicated to institutional needs 6) All other funds operate on basis of revenue received	$14.02 million	NCAA Div. II	Otters (CCAA)	66	93	NR	NR
Channel Islands	2002	1193	4920	$63.67 million	Other: 1) NACUBO staffing benchmarks for employee (including faculty) hiring 2) CSU SFR average specific to faculty hiring 3) Require data behind employee requests – benchmarking etc. 4) Have a set amount for new employee one-time and start up ongoing costs	$9.23 million	None	Dolphins (N/A)	66	443	NR	NR

[a] Information provided by CSU Campus Budget Officers via budget survey.

* U.S. News & World Report ranks San Diego State University in the National Universities category as it offers Ph.D programs.
The other universities in the California State University system are ranked in the Regional Universities (West) category as they do not offer Ph.D programs.

**Cal Maritime only awards undergraduate degrees and therefore is ranked separately from the other campuses of the California State University. It is ranked in the "Regional Colleges" category.

Source: http://en.wikipedia.org/wiki/California_State_University

Budget Guiding Principles in Higher Education

- **Nevada System of Higher Education**
- **Temple University**
- **Portland State University**
- **University of Wisconsin Milwaukee**

Nevada System of Higher Education

Nevada System of Higher Education:

University Resource Allocation Guiding Principles

- Aligns budget and resources with the University's strategic plan, mission, vision and goals.
- Recognizes the differences and varying needs across divisions and programs.
- Provides for differential growth and differential needs within the University.
- Provides certainty of allocation (within the realities of public funding) for long-term efficiency and stability
- Assures transparency in decision making
- Be fair and equitable, based on the chosen plan and policies of the University.
- Promotes collaboration among divisions

The following are the desired characteristics of a funding formula or guideline, according to Nevada System of Higher Education's published study.[4]

Equitable
The funding formula should provide both horizontal equity (equal treatment of equals) and vertical equity (unequal treatment of equals) based on size, mission and growth characteristics of the institutions.

Adequacy-Driven
The funding formula should determine the funding level needed by each institution to fulfill its approved mission.

Goal-Based
The funding formula should incorporate and reinforce the broad goals of the state for its system of colleges and universities as expressed through approved missions, quality expectations and performance standards.

Mission-Sensitive
The funding formula should be based on the recognition that different institutional missions (including differences in degree levels, program offerings, student readiness for college success and geographic location) require different rates of funding.

Size-Sensitive
The funding formula should reflect the impact that relative levels of student enrollment have on funding requirements, including economies of scale.

Responsive
The funding formula should reflect changes in institutional workloads and missions as well as changing external conditions in measuring the need for resources.

Adaptable to Economic Conditions
The funding formula should have the capacity to apply under a variety of economic situations, such as when the state appropriations for higher education are increasing, stable, or decreasing.

Concerned with Stability
The funding formula should not permit shifts in funding levels to occur more quickly than institutional managers can reasonably be expected to respond.

Simple to Understand
The funding formula should effectively communicate to key participants in the state budget process how changes in institutional characteristics and performance and modifications in budget policies will affect funding levels.

Adaptable to Special Situations
The funding formula should include provisions for supplemental state funding for unique activities that represent significant financial commitments and that are not common across the institutions.

Reference:
[4]http://www.hanoverresearch.com/2012/04/6-alternative-budget-models-for-colleges-and-universities/
"Nevada System of Higher Education – Evaluation of the NSHE Funding Formula," May 2011, MGT of America, Inc.

http://system.nevada.edu/Nshe/index.cfm/initiatives/formula-funding-study/mgtnshe-formula-funding-report/

Temple University

Temple University's Budget Model
Guiding Principles
(working draft as of May 2013)

Based on the continuing conversation with faculty, staff and the thoughtful consideration of the steering committee, a set of guiding principles has been developed to help us frame the process. These principles will guide the process throughout its life in all circumstances irrespective of changes in its goals, strategies or leaders:

Mission-driven: In order to support the university's mission of providing an excellent education at an affordable cost, Temple's budget practices must contain appropriate incentives to support academic quality and efficiency. Certain priorities, initiatives or activities that are central to the overall university mission may require the financial support of the revenue centers. The budget model recognizes that Temple's primary mission is to support its teaching and research enterprise first, and its goals and success supersede those of the individual units and revenue centers.

Align Authority with Responsibility and Accountability: The closer the point of an operating decision is to the point of implementation, the better the decision is likely to be. Realign the authority for making decisions with their financial outcomes. Authority to make decisions should be pushed down to the revenue centers along with the responsibility or accountability for such decisions.

Fairness: The budget model should be consistent, predictable and transparent. Considers a student-focused approach to the delivery and funding of services to ensure equitable access to services and facilities while allowing for schools/colleges to offer additional services to their students.

Encourage Innovation, Entrepreneurship and Efficiency: Create and introduce financial incentives to encourage and recognize appropriate risk taking and efforts to enhance revenue or reduce expenses. Support and reward units for interdisciplinary collaborations and discourage unnecessary internal competition.

Simplicity: The budget model, including the allocation of revenues and indirect expenses, should be simple to understand, explain and maintain.

Portland State University

Eight Guiding Principles for the Budget Planning Process (2009-2011)

January 20, 2009

Overview

Budget allocation decisions will be:

1. Conducted in a deliberative, participatory, and transparent manner.
2. Balanced, recognizing the important role of academic and administrative support in promoting student success, faculty productivity, and overall program quality.
3. Based on programmatic contributions to one or more of the five guiding themes and the associated initiatives, including Provide Civic Leadership, Improve Student Success, Achieve Global Excellence, Enhance Educational Opportunity, and Expand Resources and Improve Effectiveness.

Budget allocation decisions will:

4. Recognize the need to support faculty and staff, who are key to advancing the five guiding themes.
5. Recognize the primacy of instruction and research.
6. Support policies that increase revenue streams justified by the market and mitigate actions that impact student access.
7. Address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to lead higher education in the Portland metropolitan region in the long term.
8. Acknowledge that local administrators are in the best position to recommend allocations within their units but recognize the ultimate budget authority of the President.

Guiding Principles

1. Budget allocation decisions will be conducted in a deliberate, participatory, and transparent manner. Work with the appropriate faculty governance and administrative bodies, soliciting input from all stakeholders and providing information on a regular basis.

EXAMPLES OF POTENTIAL ACTIONS

- Hold open budget forums
- Meet regularly with the Faculty Senate Budget Committee
- Consult regularly with the Council of Academic Deans and the FADM Council
- Make regular reports to the Faculty Senate
- Communicate regularly to the campus using Portland State Currently

2. Budget allocation increases will be balanced, recognizing the important role of academic and administrative support in promoting student success, faculty productivity, and overall program quality. Recognize that faculty and students are most successful when they are provided effective administrative as well as academic support.

EXAMPLES OF POTENTIAL ACTIONS

- Maintain adequate service unit staff to conduct business processes for student registration and financial aid

Portland State UNIVERSITY

Eight Guiding Principles (CONT.)

January 20, 2009

3. Budget allocation decisions will be based on programmatic contributions to one or more of the five guiding themes and associated initiatives.

PROVIDE CIVIC LEADERSHIP—Lead as a civic partner, deepen our engagement as a critical community asset, demonstrate leadership in regional innovation, serve as an anchor institution in the Metro area.

EXAMPLES OF POTENTIAL ACTIONS

- Maintain and continue efforts to:
  - Co-design economic development strategies with city and the University
  - Contribute to economic development of the Portland metropolitan region and the state of Oregon

IMPROVE STUDENT SUCCESS—Ensure a student experience that results in higher satisfaction, retention and graduation rates.

EXAMPLES OF POTENTIAL ACTIONS

- Implement recommendations from the First Steps for Student Success Committee

ACHIEVE GLOBAL EXCELLENCE—Distinguish the institution nationally and internationally through the accomplishments of its faculty, reputation of its programs, and preparation of its students for the new "Flat" world.

EXAMPLES OF POTENTIAL ACTIONS

- Improve academic program quality by continuing our commitment to:
  - Increase tenure-line faculty
  - Conduct regular, meaningful assessment of program outcomes
  - Provide distinctive community based learning opportunities

ENHANCE EDUCATIONAL OPPORTUNITY—Ease the transition and create more effective pathways for students to move from K-12 to higher education.

EXAMPLES OF POTENTIAL ACTIONS

- Improve pathways to higher education:
  - Maintain efforts with K-12 and community colleges, particularly for under-represented groups
  - Increase online learning opportunities

EXPAND RESOURCES AND IMPROVE EFFECTIVENESS—Expand resources in each of the funding streams (national, state, private, business partnerships, research, tuition), manage resources effectively, and match investments to strategic priorities.

EXAMPLES OF POTENTIAL ACTIONS

- Continue to build capacity to attract external funding through focused investment in program development
- Limit or eliminate low enrollment courses (e.g. set minimum enrollment standards for under graduate and graduate courses and plan curricular offerings based on enrollment in previous years)
- Continue to monitor academic program productivity and cost and consider reduction in funding for those programs where the productivity is low compared to the resources allocated and cost
- Carefully assess space allocation and utilization to minimize lease costs
- Evaluate organizational and operational issues for effectiveness and efficiency over the long term
- Identify and implement organizational and operational changes that improve efficiency and effectiveness

Eight Guiding Principles (CONT.)

January 20, 2009

4. Budget allocation decisions will recognize the need to support faculty and staff, who are key to advancing the five guiding themes. The strength of the University is dependent on accomplished faculty and staff, and there is administrative commitment to ensuring necessary staffing and competitive compensation.

EXAMPLES OF POTENTIAL ACTIONS

- In the array of possible actions to reduce budgets in the short term, support for faculty & staff will continue to be a high priority

5. Recognize the primacy of instruction and research.

EXAMPLES OF POTENTIAL ACTIONS

- Preserve instruction to help ensure students' progress toward degree completion.

6. Budget allocation decisions will support policies that increase revenue streams and mitigate actions that impact student access. Revenue enhancement is an alternative to budget reduction and can allow the institution to continue to provide access to the range of academic programs that are required to support the educational needs of the metropolitan region.

EXAMPLES OF POTENTIAL ACTIONS

- Increase and enhance private and other external support for the University
- Enhance support services to promote improved retention
- Consider differential tuition for selected undergraduate and graduate programs based on market demand*
- Invest in programs where additional enrollments produce tuition revenue in excess of the investment required for program expansion
- Increase the numbers of non-resident students who pay full (or nearly full) non-resident tuition rates
- Increase resident undergraduate tuition*
- Provide incentives for those faculty with externally funded research to cover a portion of their salaries (currently assigned to the E&G budget) from grant funding

*Reserve some funds for mitigating increased student expense.

7. Budget allocation decisions will address the immediate, short-term budget issues while ensuring that the University emerges in the strongest possible position to lead higher education in the Portland metropolitan region in the long term. Meet the needs of budget reductions for 2009-11 while ensuring the institution's long-term standing. View the current situation as part of a cycle, not a permanent condition; the approach to budget management and planning will reflect this dynamic. Decisions will be made to manage our way through this situation using all of the tools we have available.

EXAMPLES OF POTENTIAL ACTIONS

- Delay the refilling of selected positions – both administrative and academic
- Use the fund balance – both centrally and in the academic units – as one tool to address short falls on a temporary basis to maintain our ability to serve students through instructional and other support services
- Explore unit-specific, multi-year approaches to achieving biennial reductions in expenses
- Delay or suspend the implementation of any new academic program where the tuition generated by additional students does not cover the investment required to offer the program
- Consider institution-wide approaches to managing through the budget shortfall by:
  - > Establish a temporary salary (or FTE) reduction

> Reduce or suspend non-essential travel and purchases

> Establish a temporary teaching load increase of one class (or two) over the two-year period for tenure-line faculty, especially those who are not research active

8. Budget allocation decisions will acknowledge that local administrators are in the best position to recommend allocations within their units but recognize the ultimate budget authority of the President. Local administrators should be responsible for managing their budgets in the best interest of both the unit and the institution and consistent with agreed upon budget principles as well as controls and guidelines to be developed by the University. At the same time, the president retains ultimate authority and may have to decide on centralized measures for the good of the institution.

EXAMPLES OF POTENTIAL ACTIONS

- Continue to work with administrative groups such as the Council of Academic Deans and administrative directors in developing strategies for cost reduction

University of Wisconsin Milwaukee

Guiding Principles for a New UWM Budget Model

The new budget model must be inclusive, predictable, enduring and responsive to evolving needs.

The new budget model should integrate the University's strategic plan with budget planning

- The model must allocate resources in a manner that supports the University's core mission and vision.
- The budget model must stimulate strategic growth and innovation
- The model must encourage entrepreneurship and interdisciplinarity
- The Budget model must foster the ability to conduct long-range planning

The new budget model should align accountability with desired behavior

- The model must foster accountability (look at what we have to-defined???)
- The model must encourage the streamlining of operations, the elimination of duplication, the creation of efficiencies and the review of all campus units to ensure they are meeting desired outcomes aligned with Strategic goals
- The model must promote stakeholder decision-making based on valid data that is transparent, timely and accessible for all
- The model must align authority with responsibility
- The model must be transparent
- The model must promote shared responsibility for shared functions

The process for developing and implementing a new budget model:

- Must be transparent and collaborative
- Must be incremental and allow the university to manage the change
- Should be done with an understanding of the common good of the university
- Must be inclusive of all stakeholders

Revised 4/19/12

Budget Allocation Models in Higher Education

- **Allocating Resources State Systems of Public Higher Education**
- **Resource Allocation in Higher Education**
- **Budget Guiding Principles: Budget Model Matrix**

Allocating Resources State Systems of Public Higher Education

ALLOCATING RESOURCES

State Systems of Public Higher Education

Similar Issues, Different Methods

9 Case Studies

We have reviewed how ***9*** different states – Indiana, Maryland, Minnesota, Missouri, Ohio, Oregon, Pennsylvania, Tennessee, and Texas – allocate funds to their constituent campuses. There are two unmistakable conclusions that come from this effort. First, the discussion about resource allocation in these states is ongoing, very public and very thoughtful. There is a rich, complex and fascinating public record on this topic easily available on their websites. Second, the issues these states confront are no different than we face in NYS; but the methods used to respond cover a broad and nuanced range. This is the value of the review. Comprehending this range of approaches broadens our perspectives and suggests new possibilities for resource allocation methods.

The material we have drawn upon comes from policy and technical documents obtained from websites or from discussion with system staff. Since the Committee is responsible to create a sophisticated and technical resource allocation concept, we are providing in appendices a fair amount of technical detail about each state's method. We have "boiled down" hundreds of pages of description available from each state to a short written summary and ***10-15*** PowerPoint slides in the appendices.

This summary paper gives a high-level synthesis of each state's method and major observations from the review. These are our interpretations of their written material and we reserve the right to modify interpretation upon further research. The concluding section offers a few next steps we might consider in completing our work in SUNY.

SELECTING THE STATES

We first looked to find a study that already did the work we were beginning. That search produced an excellent paper prepared for the State Higher Education Executive Officers Organization's (SHEEO) national meeting in 2006 by Mary McKeown-Moak of MGT of America, Inc. This report presented survey results of funding formula use across the country. We learned that ***38*** states use formulas in a large variety of ways, the definition of a funding formula, the features of an optimum formula and the emerging trends in formula design and usage. Yet, this survey treated the subject of formula in a very general manner. We had no choice but to conduct a state-by-state review.

We attempted to determine a rational basis to select the states we would review. But, a set of clear and obvious criteria was not evident. It became apparent that the choice of states would depend on the best materials we could find in a short timeframe. We did feel it was important to choose enough examples to prevent speculation that the choice of subjects was biased by campus or sector interests. After extensive web searches and calls to contacts in a few system offices, we found good data from these ***9*** states. The review was set.

These ***9*** states have very different methods. Some systems use formulas for all sectors; many focus on research universities and comprehensive colleges in one or multiple formulas; one system focuses exclusively on the comprehensive colleges.

Most systems, but not all, drive their allocation with enrollment at the core; many systems are doing multiple things at the same time – improving performance, executing hybrid models, benchmarking with peers within their method of funding distribution.

OBSERVATIONS

Set down below are recurring observations that come from this review:

1. ***Policy imperatives drive new and changing methods of resource allocation.***

   Special task forces, new governors, Chancellor/system initiative, and published statewide plans are asserting policy directions that are forcing new methods for resource allocation. The major policy drivers are the following:

   - Improving performance – degree attainment, "at risk" student success, course completion, research performance (all).
   - Linking system funding levels to peer state levels – defining competitive and equitable funding levels as an advocacy strategy with state government (Maryland, Minnesota, Oregon, and Missouri).
   - Meeting state needs – workforce, economic development, research innovation, economic competitiveness, access for all residents to public higher education (all).

2. ***Sectors are often defined using the Carnegie classification system. The approach to sector inclusion in resource allocation methods is not uniform although the predominant approach is to recognize sector and mission differences within one funding formula. The following approaches were discovered in this review:***

   - Research (flagship) universities funded outside of funding formula (Pennsylvania, Minnesota)
   - Sectors funded by different formulas (Ohio)
   - Sectors funded by one formula accommodating mission differences (Indiana, Maryland, Missouri, Oregon, Tennessee, Texas)
   - Texas is the only institution that funds it health related institutions largely by formula.

   One of the more interesting results of this review is that most institutions recognize mission/sector differences within one methodology. It seems clear that they feel the underlying formula structure need not be essentially different as long as the formula truly responds to the differential needs of campuses doing different things. Even in Ohio, the only state with different formulas published for different sectors, the system employs common methods to build much of their state share of instruction funding for all sectors. The Ohio method is not appreciably different in this regard than

the single methods used in Maryland, Missouri, Oregon, Tennessee and Texas. Only in Pennsylvania and Minnesota are the needs of big research universities funded apart from the rest of the institutions of the sector. More research should be undertaken to determine how these research universities are funded. Also, it may be worth a more extended examination of the Texas system's formula funding of its health-related institutions to determine its applicability here in NYS.

3. ***Campuses are encouraged to recommend differential tuition rates and retain tuition revenue in most states. But, tuition revenue is a factor in the design and use of funding formulas in different ways in different states.***

   - Indiana – established differential tuition and substituted those revenues for state resources to create a performance funding program structure on a campus-by-campus basis.
   - Maryland, Minnesota, Tennessee – determined a total funding need and allocated state support above a projected revenue level from tuition. In Tennessee, it appears that if state funding plus projected tuition revenue does not equal formula funding need, that gap becomes the basis for a tuition increase proposal.
   - Texas – Undergraduate tuition revenue is distributed through the funding formula; graduate/professional tuition is managed by the campus.
   - Pennsylvania, Oregon – funding formula only recognizes state resident undergraduate enrollments. Campuses must charge a non-resident tuition rate that funds the full cost to educate non-resident undergraduates in these systems.

4. ***Formulas allocate funds for different purposes in different states:***

   - Indiana – performance system beyond the base
   - Maryland – funding per student FTE to reach ***75th*** percentile of institution-specific peer institutions.
   - Minnesota – subformulas for instruction and academic support, institutional support and student services, facilities, library, research and public service and enrollment adjustments totaling to a funding need.
   - Missouri – funding to fill gaps between discipline/level in Missouri compared with peer benchmarks and performance funding formulas on top of the base.
   - Ohio – state share of instruction with performance elements embedded.
   - Oregon – cost of enrollment.
   - Pennsylvania – subformulas for cost of enrollment, plant costs, support costs and a performance funding system totaling to a funding need.
   - Tennessee – Moving to a ***100%*** performance driven base formula plus fixed costs.

- Texas – subformulas for cost of enrollment, infrastructure, a teaching experience supplement and, for health-related institutions, a research enhancement formula totaling to a funding need. The Texas system also funds a performance system above the base.

5. ***Five states utilize enrollment distribution matrices that weight enrollments by discipline and level of instruction. The range of complexity and the range of difference in cost values is large.***

   - Matrices range from ***8*** cells (Pennsylvania) to ***68*** cells (Texas). In Ohio, separate costing methods are developed for ***26*** discipline groups at the undergraduate and graduate levels.
   - The factor of cost difference between a low cost lower division offering and a low cost doctoral offering ranges from ***3*** (Missouri, Oregon, and Pennsylvania) to ***10*** (Texas).

6. ***The use of comparative peer funding levels to allocate campus funds and link existing funding levels at system and campus levels to normative funding levels is greater than expected. This appears to be sound advocacy strategy as well as a sensible basis for allocating resources.***

   - Maryland – the comprehensive peer selection process and the recognition that different institutions require different peers and even different peer selection processes based upon their mission.
   - Minnesota – the use of peer spending patterns for institutional and support services, library and research and public service budgets for these difficult to budget categories.
   - Missouri – "funding gap analysis" by discipline and level of instruction allowing for a more precise examination of funding distribution inside the campus as well as to argue for campus level funds to fill funding gaps.

7. ***Beyond the funds allocated by formula, most, if not all, states budget for strategic initiatives, target programs, set-asides and "off-the-top" funds for specific purposes. Interestingly, no state funded a geographic differential. In fact, the Pennsylvania system offered convincing rationale for not implementing a geographic differential. The most commonly identified special funding items beyond the base formula allocation were the following:***

   - System-wide expenses
   - Support funds for regional campuses
   - Small campus adjustments
   - Support for special programs or for formula enrichment in program areas where state workforce needs are greatest

- Support for institutes/centers and research development in particular fields; (e.g.; Engineering).

8. ***Every state has adopted some form of performance funding system. Some of these systems have been integrated into mainstream cost of enrollment cell matrices through creative weighting strategies and others have layered performance funding formulas on top of the core formula. In most states, new funds have not been provided for these purposes requiring formula designers to carve percentages of funding from the base. Listed below are a variety of performance funding target areas implemented or being designed at this moment.***

    - % increase in degrees awarded and low income degrees awarded and degrees awarded to minority students and degrees awarded in key disciplines
    - Course completion
    - Research expenditure match – wide variation of math percentages
    - Economic development incentive
    - Two-year transfer incentive
    - 6 Year graduation rate incentive
    - % State residents enrolling grad/professional study
    - Increases in institutional need based aid wards
    - Performance on licensure examinations
    - Increasing "at risk" student enrollments
    - Degree to enrollment ratios
    - Second-year persistence rates
    - Minority faculty %
    - Faculty with terminal degrees %
    - Cost efficiency – cost per FE below benchmark
    - Faculty productivity – credits per FTE faculty
    - Tennessee – moving to ***100%*** of formula funding for performance measurement
    - % courses taught by tenured or tenure-track faculty

9. ***All states moving to new systems/formulas have implemented them over time. No system has felt comfortable reducing more than 1% of any campus allocation in one year. Tennessee predicts that its new performance based formula could result in as much as 5% fluctuation up or down in campus allocation. The state will implement this system, therefore, over a several year period. Ohio has instituted "stop loss" protections preventing campuses from losing more than 2% over the next 2 years.***

10. Every state asserts the critical importance of good, undisputed data. The analytical capacities of every system office were significant in at least the following ways:

- Excellent grasp of costs by budget function and by program/course.
- The ability to compare system data with peer data.
- Excellent modeling capacities.

RECOMMENDATIONS – WHAT COULD THIS MEAN FOR SUNY?

This study confirmed that formulas are not employed to redistribute large amounts of money from one campus to another. They are used to adjust mindsets; to raise consciousness on matters of critical importance; to give a sense of equity, fairness and rationality to the highly politicized activity of resource distribution. The mindsets being adjusted are those of leaders and decision-makers at system campuses and those of external sponsor and opinion-makers who influence the funding and future direction of the system. The act of modifying a resource allocation method is a critical opportunity to assert a policy direction that can change critical behaviors inside and outside the system.

There are two overarching examples of how the use and, in particular, the redesign of funding formulas relays messages about what is important inside and outside the system. First, there is the pervasive focus on "performance" and, in particular, performance in helping students attain their educational objectives as quickly and as cost-effectively as possible. Every state, except Minnesota and Maryland, links performance in degree attainment, course completion, student success to funding in interesting ways. Campuses must focus on the many factors that contribute to better performance in these areas to receive extra funds or avoid the risk of funding reduction. External benefactors are hinging their current and future support of the system on the performance measurements these funding systems now make available in these areas.

Second, these states are creative in using peer data in the funding formula design. If used strategically, these data can help achieve multiple purposes at the same time:

- Identify current standing as a system in funding levels relative to comparator systems.
- Identify funding gaps and funding inequities across campuses.
- For campus leaders, as well as system officials, identify funding inequities across program and budget functions within and across campuses.
- Recognize campus mission differences in a selection of peers that is institution or sector-specific.

From these understandings, the system and the campuses can develop modified funding approaches at both levels grounded in a national comparative context rather than an insular closed system context. And, the system can create an argument with

state government officials about future funding need based upon the system's current national standing using sound, objective peer system data.

The examples offered by Minnesota, Maryland and Missouri are particularly instructive. The Minnesota model is an excellent blending of sound program and budget function cost comparison analysis inside the system with an effective use of peer financial data. The result is a building block allocation model that funds all campus activity based on simple and clear peer comparisons both inside and outside the system. In Maryland, the entire allocation system is built simply on the goal of funding its campuses at the ***75th*** percentile of the average funding level per student at the appropriate peer universities for each campus. The peer selection process, which recognizes that different institutions can and should have different peers, is the critical analytical effort at the core of Maryland's approach. And, in Missouri, comparison of funding levels with peers has resulted in a four-year provision of "gap" funds by the state to bring campuses and programs to comparative funding levels. This has become a rational tool for both the Missouri system and Missouri campuses in determining how to distribute resources effectively.

If funding formula redesign can alter key mindsets, what are the mindsets this SUNY redesign would hope to address? There are multiple possibilities but one in particular is to validate the perception that SUNY is underfunded in critical ways. We believe this funding gap is compromising SUNY performance in two key areas. First, students are not achieving their degree objectives quickly enough and effective transferability around the system is hindered by a lack of instructional capacity in 4 year institutions. Second, especially at the research universities, performance is not competitive with comparator universities because the faculty base per students enrolled is much smaller than at these other peer universities.

Whatever the opinion about the observations in this last paragraph, the most important recommendation coming from this review is to ask SUNY leadership to make clear now the policy objectives and mindset changes sought in this discussion about resource allocation. The second key recommendation is to commission a study of funding at all levels – system/campus/program/course/ credit hour – compared with peer universities. Perhaps we can leverage the efforts already achieved in Minnesota, Maryland and Missouri to reduce the time and expense of this effort. Once we understand the extent and distribution of the funding gap across the system, we can begin to think about formula design that responds to the gaps and defined policy imperatives. We can also clarify and sharpen our advocacy efforts with state government around a rational, data-driven argument. Absent this intelligence and a stated purpose, the politics of the status quo at all levels and the need to protect at the campus level the current base will not be confronted by an analysis that can point a way to meaningful change.

Resource Allocation in Higher Education

Resource Allocation in Higher Education - Budgetary Concepts and Terms, Allocation Concepts and Terms, Achieving Normative Consensus, Conclusion

university institution allocations institutions

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Institutions of higher education–be they large public universities or small private colleges–are not homogeneous organizations. Because of differing missions, goals, programs, histories, traditions, laws, and explicit procedures, they obtain and expend revenues, or financial resources, in myriad ways. Therefore, there is no universal model about the best way to allocate financial resources within higher education. Nevertheless, there is general consensus within the U. S. higher education community about the meaning of certain terms pertaining to resource allocation, as well as a general consensus about certain methods and processes for channeling financial resources into specific programs and projects.

Budgetary Concepts and Terms

For the layperson, the terms *budget* and *allocation* are often confused. Although the two terms are certainly related, and often synonymous, there are differences that one should be aware of in order to gain an appreciation of the resource allocation process.

Broadly interpreted, the term *budget* represents both an institution's revenue sources and its expenditures. For public institutions, this side of the coin is usually comprised of legislative appropriations; tuition based on the number of credit hours and level of courses taken; contracts and grants–which comprise revenues received from external sources for research and certain types of off-campus program development; auxiliary operations–which refer to on-campus operations that are self-supporting, for-profit enterprises (such as the campus bookstore, cafeteria, and laundry); and local funds. Local funds, particularly within public universities, refer to those revenue sources not kept within the state treasury, but within local banks. Local funds may be comprised of fees and assessments charged against students for the support of campus-wide student activities, intercollegiate athletics revenues, concessions, and financial aid monies.

Taken together, these revenue sources make up an institution's operating budget. They represent the totality of monies required to finance the institution's normal and recurring expenses (its core operations). However, this is not the complete picture, for the operating budget does not include fundraising revenues, which are monies donated to the institution by private donors, usually for specific purposes (such as endowed academic chairs, athletic scholarships, or a new academic program that is acceptable to the institution and a priority of the donor). Although fund-raising revenues have become ever more critical for institutional operations, they are rarely considered part of the traditional operating budget.

Expenditures represent the most common understanding of the term *budget*. In this sense, the budget formally represents the institution's strategic priorities and associated costs. That is, the budget is a detailed plan for expending revenues for various institutional purposes. Moreover, these purposes are, or should be, focused on long-term strategic imperatives that parallel and support the accomplishment of the institution's most critical needs and aspirations.

Traditionally, expenditures for the operating budget fall into certain main categories that apply to both public and private institutions. Certainly, the largest slice of the budget pie is earmarked for instruction and research (I & R)–the core activities of any college or university. At Florida State University, for example, approximately 70 percent of the operating budget is designated for I & R purposes. Other large slices of the budget pie include administrative support services, such as centralized computing and accounting services; student services, such as the registrar's office and financial aid; plant operations and maintenance, including grounds, building services, and utilities; and libraries.

Expenditures from the operating budget are generally *unrestricted.* That is, there is some flexibility in allocating resources within and between the various categories that make up the operating budget. However, there are also restricted budgets, both within and external to the operating budget. *Restricted* means just that–monies can only be expended for strict, narrowly defined purposes. For example, within I & R, a public university could receive a restricted legislative appropriation to fund a Title IX (gender equity) program. Likewise, restricted budgets outside the operating budget may include monies earmarked for sponsored research or financial aid monies received from external sources, such as the federal government.

For most core operations, whether financed by unrestricted or restricted budget expenditures, one should be aware of exactly how the monies are earmarked within the major expenditure categories. Generally, the monies fall into three main activities: (1) salaries and benefits, which are certainly the most costly activities; (2) capital outlay, which refers to major purchases of expensive equipment, such as computer systems; and (3) expense items, which include less expensive items and continuing costs such as office furniture, service contracts, expendable supplies, and travel.

One critical budgetary category that is not considered a part of the traditional operating budget is *fixed capital outlay,* which comprises the monies earmarked for major construction and renovation projects. The *auxiliary budget,* also kept separate from the core, concerns the receipt and expenditure of monies obtained from revenue producing campus enterprises (e.g., a bookstore). Institutions with medical schools and teaching hospitals often have separate budgets for these purposes.

Some institutions have service-center budgets, which refers to certain centralized services such as photography, printing, and copying. These services are not financed by operating budget expenditures. Rather, units under the umbrella of the service-center budget are reimbursed for their services by charging operating budgetary units, which, in turn, pay the service-center unit from operating budget expenditures, usually from the expense category.

Allocation Concepts and Terms

For the purpose of understanding the differences (and nuances) between the concepts of *budget* and *allocation,* one could say that the formal budget is the architecture (or basic plan per category) of how monies will be expended. *Allocation,* however, refers to the actual funneling of dollars to various units within an institution. In some instances, allocation flows will exactly mimic the expenditure categories. However, were this always the case, the descriptive analysis of budgets and allocations would end here. Rather, allocations often do (and should) have an element of flexibility built within them to reflect changing environmental conditions–including both internal and external environments, such as political circumstances, economic exigencies, and the strategic direction of the institution.

Although most institutions do permit some flexibility within their allocation decisions, many eminent higher education leaders, such as Dr. James J. Duderstadt, the former president of the University of Michigan, have publicly noted that far too many allocation decisions have become overly mechanistic. This has become particularly true within large, public institutions, which have also publicly expressed their collective concern over the ineffective and inefficient ways that monies are allocated. In addition, the National Association of College and University Business Officers (NACUBO) has also publicly expressed concern about the deficiencies currently inherent within internal allocation systems and processes.

Before discussing normative issues concerning how such deficiencies may be corrected, one must first understand the basic processes of allocations, particularly within the unrestricted I & R category. Historically, both academic and administrative units have relied upon incremental budgeting for determining allocations. Incremental budgeting simply means that the unit will sum the dollars contained within its current (annual) salary and benefits, capital outlay, and expense activities, and then increase the sum by a percentage to cover inflation and other expected cost increases. Incremental budgeting certainly simplifies the allocation process and facilitates accounting. With limited exceptions, incremental budget requests are accepted as forwarded to the central budget authority, funds are allocated according to the three major activities, and the unit lives within the allocations. At some institutions, academic and administrative units, with approval of a central budget authority, are able to transfer a minimal percentage of funds among salaries and benefits, capital outlay, and expense–if critical exigencies so demand. Nevertheless, this type of allocation system remains basically static.

The problem with static allocation systems is that they are inherently unable to anticipate change. Duderstadt duly notes that within large public universities, legislative appropriations, in terms of real dollars, have continuously diminished since the 1970s. Diminishing public appropriations, coupled with the opportunities and threats posed by a volatile environment, limit an institution's ability to adapt. During extreme economic situations, static allocations based upon incremental budgeting could actually spell the death of a public institutions' major academic offerings.

Another allocation process, often coupled with incremental budgeting, is formula-based allocation. This can be more flexible than simple incremental budgeting, because such formulas are usually based upon total credit hours or full-time head count per academic unit. This type of allocation process rewards those academic units that are most popular with students, and therefore does provide flexibility to fund those programs that are most in demand. Conversely, if an academic program is critical to a university's mission, but does not attract large numbers of students, it is automatically punished by formula-based allocations. In short, this is a market-based allocation process. While a for-profit organization can and should allocate its resources into the maintenance and expansion of its most profitable offerings, higher education institutions are striving for both tangible and intangible successes that may not necessarily be popular among students.

Colleges and universities, recognizing the inadequacies of incremental and formula-based budgeting, have enacted certain allocation adjustments to enhance flexibility and the quality of certain programs. At one university, for example, a 1 percent flat tax was charged against the allocations to all academic units to replenish a central reserve fund and enhance certain graduate programs. However, according to a report by that university's provost, this type of allocation mechanism proved itself insufficient to meet most challenges facing the institution.

In order to meet institutional objectives, and depending upon the authority granted to an institution by its governing board or its state legislature, an institution may be required to reduce allocations in one area to cover allocation demands in another. In order to meet the salary needs of the faculty, for example, resource allocations may be significantly diminished for libraries, computing systems, or facilities maintenance.

Flat taxes and other short-term options, such as hiring adjunct faculty or downgrading positions, can only operate at the margin, however, because not enough financial resources are generated, particularly on a long-term basis, to solve problems resulting from a lack of allocation flexibility. Similarly, wholesale raiding of funds from one allocation category to fill the coffers of another, if permitted, can only serve to weaken the entire university structure over time. Whether the allocation process is incremental, formula-based, or stopgap in nature, such processes focus only upon short-term, year-to-year allocations.

In 1999, Drs. Edward Ray and William Shkurti, the provost and senior vice president for finance, respectively, at Ohio State University, succinctly stated the problems accruing to that particular institution as a result of allocation inefficiencies:

- Current practices were not supportive of the instructional mission.
- Current practices were not supportive of the research mission.
- Current practices did not provide sufficient incentives to reduce costs and/or generate additional revenues required to address academic priorities.
- Current practices did not provide sufficient accountability for the costs of individual unit decisions that impact the entire university.

Achieving Normative Consensus

The problems inherent within traditional budgetary and allocation processes indicate the need for a new approach. Notwithstanding the fact that public institutions are further hampered by legislative mandates, private institutions also face the same problems inherent within incremental and formula-based allocations.

The challenge facing higher education is to embrace new philosophies and outlooks that take a long-term, wide-ranging view of what the institution is, what it should be, and how it can move from what is to what should be.

Appropriate, sufficient, and equitable resource allocation processes simply can no longer be based on what worked in the past. In this sense, most colleges and universities have embraced strategic planning–a long-range, holistic examination of what the overall mission of the institution should be; in other words, a vision. To better define this vision, one must further ascertain the specific goals that should be set to accomplish the mission, and what environmental factors exist–internally and externally–that can either enhance or inhibit the accomplishment of the vision. Specific questions need to be asked, such as: What does the university plan to accomplish over the next several years? How does the university plan to accomplish its goals and objectives? What resources are needed to carry out this plan? What are the funding sources from which the institution can obtain the necessary financial support?

To best answer these questions, institutions should first examine their decision-making structures. Colleges and universities are not pyramidal, hierarchical structures ruled by an autocracy at the top that transmits decrees downward through the chain of command. Conversely, colleges and universities cannot be anarchistic organizations where decision-making is randomly conducted by individual units. The problem, thus, is to create a decision-making structure that seeks consensus through participation.

At one Eastern university, for example, allocation decisions remain the basic prerogative of university executives, such as the president, provost, vice president for finance, and the deans. Nevertheless, to reach its highest-priority strategic objectives, faculty and staff members from colleges and departments are invited to submit their own ideas on how best to achieve the institution's overall mission, long-term strategic initiatives, and specific goals–all within the context of maintaining and enhancing the quality of priority programs identified by strategic planning. Specifically, faculty and staff members are requested to review the allocation and adequacy of resources vis-à-vis the quality of programs relative to peer institutions, the centrality of programs to the university's mission, and the cost-effectiveness of programs relative to the best practices of higher education and the private sector. To facilitate and direct this endeavor, a university-wide committee, the Strategic Plan Advisory Committee (SPAC) was formed. SPAC not only identified allocation problems in detail, it helped develop a long-term, multiyear plan that will enable the university to respond to special opportunities and eventually solve the most basic and continuing allocation problems.

Similarly, at the small, private-college level, Wheaton College in Massachusetts has set up a formal group–the Budget Advisory Committee–similar to the SPAC. Wheaton's committee, consisting of faculty and staff members, reports directly to the college president, and operates with the long-term view that allocations should be treated as strategic investments, not simply as annual costs. Hence, it has determined that allocations should regularly include reallocations from lower priorities to higher priorities, and that cost savings should be actively pursued in order to increase the college's strategic flexibility.

In short, if realistic and successful allocation processes are to be developed and accepted throughout the institution, structural arrangements must be designed to facilitate the participation of stakeholders and attainment of consensus.

Once consensus on basic allocation-decision parameters is achieved, a second consideration includes the formal allocation structures and processes that might be adopted. To help identify these means, decision-makers and participants in the decision-making process should be provided with feasible and workable alternatives.

One alternative, as suggested by Duderstadt, is an institution-wide, integrated resource-allocation model he calls *Responsibility Center Management*. Resource-allocation decisions are shared between academic units, administrative units, and the central administration. After determining strategic priorities, this alternative allows critically-important units to keep the resources they generate, makes them responsible for meeting costs they incur, and then levies a tax on a unit's expenditures to provide a central pool of resources for supporting central operations and facilitating flexibility funding. This

alternative has the potential to reduce some of the inequities and inefficiencies inherent within formulaic or incremental allocation processes.

Another alternative is *substitution,* or the elimination or reduction of noncritical activities to release allocations for more critical, strategically oriented activities. This alternative not only reallocates resources to those programs deemed most critical for strategic purposes, it also alerts the public and the institution's stakeholders that the college or university has taken cost effectiveness very seriously.

Other structural and process alternatives for resource allocations include: differential tuition rates based upon program popularity; using foundation allocations to replace traditional allocations; permitting the carry-over of surpluses from one year to another; and permitting the most productive research units to retain a large portion of the overhead (indirect) costs assessed against their research awards. The point is that viable and reasonable alternatives should be presented at the start of the analysis in order to preclude time being wasted.

Conclusion

Traditional budgetary and resource allocation procedures that have been utilized for decades in America's colleges and universities are rapidly losing their functionality. Indeed, reliance upon their continued use can cause irreparable damage to the system of higher education.

Budgets and resultant allocations are complicated subjects. Because of their complexity and a reliance on the fact that they worked well enough in the past, inertia exists. However, in light of the volatile higher education environment of the early twenty-first century, the increasing inequities and inefficiencies of current systems and processes, and greater demands for accountability by legislative bodies and institutional stakeholders, structures and procedures for budgeting and allocating financial resources must be re-examined. The task is not easy–the problems are complex, and consensus about what should be done is difficult to attain. Nevertheless, to ignore the problem can, and will, have a negative impact upon public and private higher education systems.

See also: ACCOUNTING SYSTEMS IN HIGHER EDUCATION; FINANCE, HIGHER EDUCATION.

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<a href="http://education.stateuniversity.com/pages/2368/Resource-Allocation-in-Higher-
Education.html">Resource Allocation in Higher Education - Budgetary Concepts and Terms, Allocation Concepts
and Terms, Achieving Normative Consensus, Conclusion</a>
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Budget Guiding Principles

Budget Model Matrix

California State University, Los Angeles

Budget Allocation Model Task Force

DRAFT

Budget Guidling Principles - Budget Model Matrix

	Incremental Budget	Zero-Based Budget	Activitiy-Based Budget	Responsibility Center Management	Centralized Budget	Performance-Based Budget
Equitable The funding formula should provide both horizontal equity (equal treatment of equals) and vertical equity (unequal treatment of equals) based on size, mission and growth characteristics of the institutions.						
Adequacy-Driven The funding formula should determine the funding level needed by each institution to fulfill its approved mission.						
Goal-Based The funding formula should incorporate and reinforce the broad goals of the state for its system of colleges and universities as expressed through approved missions, quality expectations and performance standards.						
Mission-Sensitive The funding formula should be based on the recognition that different institutional missions (including differences in degree levels, program offerings, student readiness for college success and geographic location) require different rates of funding.						
Size-Sensitive The funding formula should reflect the impact that relative levels of student enrollment have on funding requirements, including economies of scale.						
Responsive The funding formula should reflect changes in institutional workloads and missions as well as changing external conditions in measuring the need for resources.						

California State University, Los Angeles

Budget Allocation Model Task Force

DRAFT

Budget Guidling Principles - Budget Model Matrix

	Incremental Budget	Zero-Based Budget	Activitiy-Based Budget	Responsibility Center Management	Centralized Budget	Performance-Based Budget
Adaptable to Economic Conditions The funding formula should have the capacity to apply under a variety of economic situations, such as when the state appropriations for higher education are increasing, stable, or decreasing.						
Concerned with Stability The funding formula should not permit shifts in funding levels to occur more quickly than institutional managers can reasonably be expected to respond.						
Simple to Understand The funding formula should effectively communicate to key participants in the state budget process how changes in institutional characteristics and performance and modifications in budget policies will affect funding levels.						
Adaptable to Special Situations The funding formula should include provisions for supplemental state funding for unique activities that represent significant financial commitments and that are not common across the institutions.						

Task Force Follow-Up Items

California State University, Los Angeles

Budget Allocation Model Task Force

Budget Guiding Principles
Budget Model Matrix

	Incremental Budget	Zero-Based Budget	Activitiy-Based Budget	Responsibility Center Management	Centralized Budget	Performance-Based Budget
1. Transparent - Easy to Understand The funding formula should be inclusive and effectively communicate the budgetary process and how changes in State, CSU, and campus allocations/policies will affect funding levels. The funding model should be simple to understand and can be easily communicated to the campus community and stake holders.						
2. Equitable The funding formula should provide equitable allocations consistent with the University's strategic initiatives.						
3. University-Wide Standards with Divisional Flexibility Divisions and colleges should have flexibility to best manage their budgets. They should have autonomy to manage their budget as long as they adhere to University-wide standards.						
4. Accountiblity and Autonomy with Distinction Vice Presidents and Deans will be accountable for performance and accountable to the general public. Able to prioritize the welfare and well-being of students.						
5. Mission Sensitive - Represents Collective Interest of University Funding model needs to be mission sensitive and incorporate campus strategic initiatives into the planning.						

Budget Model C. .parison

Model Name	Principle Characteristics	Pros	Cons
Incremental Budgeting	Traditional budget model where budget proposals and allocations are based upon the prior year's funding and only new revenue is allocated. Budget reductions are made as a percentage of the institution's historical budget, and are typically across-the-board.	Incremental budgeting has been popular in higher education since it is easy to implement, provides funding stability, and allows units and institutions to plan multiple years, due to the predictability of the model.	Difficult to determine where costs have been incurred and how these costs contribute to revenue and value creation. Institutions are accountable for what they spend.
Zero Based Budgeting	The previous year's funding level is not considered in developing the following year's budget. Every part of the institution must re-request funding levels, and all spending must be re-justified.	Zero-based budgeting is an effective way of controlling for unnecessary costs. Since departments and divisions do not automatically receive a certain sum each year. All money allocated to a unit has a purpose, keeping waste and discretionary spending to a minimum.	Zero-based budgets take longer to prepare; hence, implementation is difficult.
Activity-Based Budgeting	Activity-based budgeting allocates funding to institutional activities with the highest return (in the form of increased revenues) for the institution.	Activity-based budgeting allows for the development and designs for: •Activity groupings for budgeting, in coordination with campus leaders and constituents; •Fund resource grouping; •Budget processes whereby allocation plans are used to align resources to institutional strategic objectives; and •Implementing an activity-based campus budget allocation process.	Requires substantial time and resource commitment, which may not be feasible for some institutions.

Budget Model C. parison

Model Name	Principle Characteristics	Pros	Cons
Responsibility Center Management (RCM)	Responsibility Center Management is more aligned with management philosophy than a budgeting strategy. The model supports the achievement of academic priorities within an institution, and allows for a budget which closely follows those priorities. RCM grants operational authority to divisions, colleges/schools, and other units within an institution, allowing them to prioritize their academic missions.	RCM has been used as a solution to budgetary constraints. RCM may induce deans to pursue new revenue sources since their division/school/college would receive all of its revenue. However, units are also responsible for their own expenses, as well as for a portion of expenses incurred by the university's general operations.	Competition for students promoted by RCM could cause deans to resort to inefficient measures to prevent students from enrolling in courses in other colleges. Over emphasis on maximizing profits ("quantity of students") rather than on program quality could erode academic standards and therefore make students worse off than centralized models. Additionally, the focus on revenue generation could shortchange research since the focus is more on teaching.
Centralized Budgeting	All decision-making powers are vested with upper level administration. Typically colleges and universities combine aspects of centralized budgeting with decentralized budgeting.	Since central budgeting is typically combined with another process, the rationale for choosing which units are centrally budgeted is adoptable. For example, when combined with performance-based funding, colleges might centrally budget those divisions for which no performance metrics can be reliably identified. Another reason to implement centralized budgeting is that some expenses are necessary to the basic functioning divisions, and are therefore not optional.	When budgeting is centralized and the element of competition is removed, departments may be less motivated to generate revenue.
Performance-Based Budgeting (PBB)	Performance-based budget awards funds based on performance, which is determined by a number of defined outcome standards. The most effective performance budgets will show "how dollars fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result."	Performance-based budget should give an institution a good idea of how money is expected to translate into results. Performance-based systems are often imposed on public systems of education as a result of greater accountability demands. Linking the funding of public institutions to the results they deliver lends an increased level of transparency to expenditures among institutions reliant upon public financial support.	The budget process must include time for the review of performance measures and time for discussion of performance against expectations, and then allocate dollars against those outcomes. Difficult to establish uniform performance metrics across divisions.