Executive Board

CPB's Budget Model Working Group: Budget Model Analysis_06-16-2020

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UCLA Academic Senate
Council on Planning and Budget
Budget Model Working Group

CPB's Budget Model Working Group: Discussion of New Budget Model, along with Recommendations

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I. Introduction and background[1]

The campus is contemplating transitioning from its incremental budget model to a new budget model patterned after the University of Michigan's budget model.[2] In our view, it is important to build-in appropriate metrics and guardrails in the new budget model so as to safeguard academic excellence. In what follows, we focus on recommendations pertaining to undergraduate teaching as well as research, since these constitute the grand majority of the academic part of the budget. There are other important considerations such as graduate education and space and rollout, which we hope to focus on later. Since other parts of Academic Senate will be weighing in on other facets of the new budget model, we stick closely to matters related to specifics of the core budgetary mechanisms and their impact on academic excellence.

In studying this issue, we have looked at the budget models of the University of Michigan,[3] the University of Washington,[4] the University of Florida,[5] UC Davis,[6] Indiana University Bloomington,[7] and UC Riverside.[8] The University of Washington and UC Davis explicitly patterned themselves after the University of Michigan model.[9,10] The University of Washington model is especially valuable since they have done a very transparent review process.[11] A useful contrast is the Indiana University, Bloomington, which was the first to deploy a very decentralized model in 1990-91;[12] and UC Riverside has recently pursued a similar model.[13] The University of Florida seems to be in the process of moving away from such a decentralized model.[14] We learned of UC Davis and UC Riverside through discussions of the budget model changes at UCPB.[15]

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[1] The references are organized as links in footnotes. Often these are to publicly posted documents on university websites. We often link to the website that contains the specified document, rather than to the document itself, so that one can see its context and origin.

[2] For a helpful table which quickly describes the incremental budget model and other budget models, and which quickly enumerates their strengths and weaknesses, see the the first Appendix.

[3] https://obp.umich.edu/budget/budget-model/. In addition to these public materials, we also have access to a set of slides entitled "Activity Based Budgeting University of Michigan" (dated February 15, 2019) which the University of Michigan shared with APB.

[4] https://www.washington.edu/opb/uw-budget/activity-based-budgeting/

[5] https://cfo.ufl.edu/presentations-resources/presentations/

[6] https://financeandbusiness.ucdavis.edu/bia/budget/model

[7] https://obap.indiana.edu/rcm-at-iub/index.html

[8] https://fpa.ucr.edu/budget-model-refinement

[9] The Daily, March 7, 2012 http://www.dailyuw.com/news/article_6acb2faf-de4b-5994-beef-563e03c4aa18.html

[10] https://www.ucdavis.edu/news/defining-future-transforming-our-budget-process/

[11] https://www.washington.edu/opb/uw-budget/activity-based-budgeting/abb-committees-and-reports/

[12] This decentralized model is sometimes called "Responsibility-Centered Management". See the Appendix.

[13] https://fpa.ucr.edu/budget-model-refinement

[14] https://cfo.ufl.edu/presentations-resources/presentations/. See in particular pp. 9-11 of "Presentation to 2018 SACUBO," https://cfo.ufl.edu/wp-content/uploads/2018/10/SACUBO-Presentation-April-2018.pdf and compare this to the historical discussion on p. 4 of: https://web.archive.org/web/20150908165121/http://cfo.ufl.edu/media/cfoufledu/documents/RCMManual083120 12.pdf and SACUBO-Presentation-UF-Auburn-5.8.18 https://abc-insights.com/wp-content/uploads/2018/05/SACUBO-Presentation-UF-Auburn-5.8.18.pdf

[15] p. 2 of UCPB meeting of December 4, 2018 https://senate.universityofcalifornia.edu/_files/committees/ucpb/ucpb-minutes-12-4-18.pdf

We have received two briefings from APB.[16] We have also sent a list of questions to them and received a very helpful set of responses. The briefings mentioned the University of Michigan, the University of Washington, the University of Florida as templates. It also mentioned UNC and Temple, but these seem like less useful comparisons: UNC switched gears in 2016 and went to a different 'all funds' budget model,[17] and Temple uses the more decentralized model.[18]

We also looked at the last time the campus tried to change the budget model.[19] This was in 1995-96 to 1997-98, and it was proposed that the campus change to the decentralized model. It appears that faculty opinion on the change ranged from "very negative to slightly positive."[20] However, this change in the budget model was only partially implemented, and was quickly withdrawn, with a reversion to the incremental system. Our understanding is that this reversion was due to the change in chancellor, as well as the problem of devising complicated cost-sharing mechanisms for funding public goods under the decentralized model. It is not clear that there are any budgetary lessons to be learned from this past episode, since the model under consideration today is not of the decentralized kind. Finally, it ought be added that while the campus consulted with the University of Michigan in 1995-1996, this was when Michigan itself was moving towards the more decentralized model. In particular, Michigan experimented with a more decentralized model in 1997-1998 before moving to their current model with its distinctive high tax which flows back to the center in 1998-1999.[21]

II. The need for a new budget model

As we understand it, there are at least main three reasons why a new budget model is called for. First, the campus and its sister campuses face a unique set of financial constraints. In particular, sources of revenue which we have deployed in the past-- such as tuition increases and increases in the number of out-of-state students-- are no longer open to us. Hence, merely to maintain the status quo, we need to incentivize revenue-producing activities such as more undergraduate teaching, more research, and self-supporting programs. Second, the current system of incremental budgeting and the chancellor's comparatively low level of independent funds lead to a situation where the campus is not able to act

[16] The slides were entitled "UCLA budget model discussions Fall 2019" (September 30 2019 CPB meeting). The Excel file is called "UCLA New Budget Model Simulator - All Academic Units".

[17] "In 2016, University began due diligence to move toward an incentive-based budget model with Responsibility Center Management (RCM) principles. To ensure budget model preserves the collaborative nature of our culture, new EVC/Provost and VC for F&O decided to pause implementation and begin work on an interim step of an 'all funds' budget model and process." https://bot.unc.edu/files/2019/03/finance-infrastructure-audit-committee-april-3-2019-public.pdf

[18] https://temple-news.com/university-decentralized-budget-explained/ and https://finance.temple.edu/rcm-temple. See also the discussion of the comparatively small strategic fund on p. 29 of: https://finance.temple.edu/sites/finance/files/RCM%20at%20Temple%20FY2014_FY2017.pdf

[19] A useful summary of the initial planning is the June 5-6, 1995 Lake Arrowhead Retreat, entitled "QF-RCM Conference" in the Academic Senate files. For the campus website on the project, see: https://web.archive.org/web/19991119010258/http://www.rcmproject.ucla.edu/ as well as the articles in the Daily Bruin, such as: http://dailybruin.com/1997/09/21/ucla-departments-ease-into-new/ . For a popular discussion written before the initiative was withdrawn, see: Wilms, Wellford W., Cheryl Teruya, and Marybeth Walpole. 1997. "Fiscal Reform at UCLA: The Clash of Accountability and Academic Freedom." Change: The Magazine of Higher Learning 29 (5): 40–49. https://doi.org/10.1080/00091389709602336

[20] See the quotation from Aimée Dorr, chair of the UCLA Academic Senate, in: *Notice* Vol. 21, No. 5, March 1997, https://senate.universityofcalifornia.edu/_files/news/notice/pdf/mar97notc.pdf

[21] p. 10 "Budget Model Review" from FY19 at: https://obp.umich.edu/budget/budget-model/. This document is listed as "Budget Model Review" on the aforementioned website, but the document itself bears the title "Report on the State of the Budget Model and Budget System at the University of Michigan."

strategically and nimbly to grow new programs. Third, while the current incremental budget system has the virtues of stability and predictability, it does a poor job of allocating increased resources to parts of campus that are doing an increased amount of teaching or research.[22]

We have also heard of a fourth motivation, namely: the current recharge system of providing central services is inefficient and creates an incentive to underuse central services. For instance, units are billed for calling the police and they function as monopolies which set prices. However, there is no estimate for how much savings could be generated by moving away from the current recharge system. Further, we know of no cases where the campus has suffered any demonstrable harm from underusing central services. Finally, a quick glance at the literature indicates that the proposed new budget model does not always fare well at eliminating monopoly-like behavior.[2324] That said, a cursory look at other campus' deployment of similar models suggests that much good-will could be incurred by measuring the extent to which academic programs have grown much more than central services,[25] and APB has rightly stressed this in its presentation.

As for the new system of incentives, they may be more effective if the budget model was deployed at the local departmental level. At the University of Michigan and the University of Washington, it is deployed only at the level of the school.[26] But these institutions had slightly different aims and operated in different circumstances. For instance, the University of Washington was primarily aiming at transparency rather than revenue growth,[27] and it was deployed "during a time of enrollment growth, tuition increases, and flat compensation."[28] And the University of Michigan model was explicitly designed as a counterweight to "incentives to enhance local well-being."[29] We do not know of any similar system that has been launched with an explicit aim of generating revenue (or stabilizing revenues when other sources have been cut off). And the incentives may be more effective if it was common knowledge that the additional teaching and research was going to impact the departments that were doing this additional work. That said, there may be cases of some departments on campus that share a large amount of resources so that it would not be wise to deploy at the departmental level *per se*. And perhaps a virtue of having the Deans play a role in the process would be so that they can cross-subsidizing units in their school

[22] Of course, this is a basic weakness of incremental budgets. See the first appendix.

[23] For a discussion of this problem under a model like the proposed one, see e.g.: "Faculties as purchasers do not really know the costs of centrally provided services. They know those costs only as 'prices' that are attributed to them" (p. 107 of: Deering, Darren, and Daniel W. Lang. 2017. "Responsibility Center Budgeting and Management' Lite' in University Finance: Why Is RCB/RCM Never Fully Deployed?" Planning for Higher Education 45 (3): 94. https://search.proquest.com/openview/a60afcacd8748014be3a9ba802fa74e6/1?cbl=47536&pq-origsite=gscholar

[25] The University of Washington does this on p. 20 of their Introductory PowerPoint to their new budget model, at https://s3-us-west-2.amazonaws.com/uw-s3-cdn/wp-content/uploads/sites/162/2018/12/13132431/2018.5.10_ABB_Newcomers_Presentation.pdf The University of Michigan does this on p. 26 of their slides "Activity Based Budgeting University of Michigan" mentioned earlier.

[26] https://www.washington.edu/opb/uw-budget/activity-based-budgeting/abb-frequently-asked-questions/, and p. 7 of "Budgeting with the UB Model" https://obp.umich.edu/wp-content/uploads/pubdata/budget/ub_model.pdf

[27] See p. 1 of "ABB Overview, March 2011" from https://www.washington.edu/opb/uw-budget/activity-based-budgeting/abb-committees-and-reports/

[28] See p. 1 of "Overview of Activity Based Budgeting (ABB) Trends at the UW in Seattle – FY18 Update" from https://www.washiFY18ngton.edu/opb/opb-briefs/.

[29] The University Record, November 19, 1997, Text of Provost Nancy Cantor's Senate Assembly Speech http://www.ur.umich.edu/9798/Nov19_97/speech.htm.

that are central to the school's mission but which in and of themselves do not do a lot of teaching or research.

III. The teaching-major split, the associated incentives, and academic excellence

One key part of the proposed budget model is the teaching-major split. In the current proposal, this is set at 80%-20%, meaning that 80% of a given student credit hour goes to the unit that taught the course, whereas 20% of the student credit hour is given to the unit which houses the student's major. Different institutions at different times have used different versions of the split:

Institution	Dates	teaching	major
University of Michigan[30]	1997-98 to 2001-02	0%	100%
	2002-03 to 2007-09	25%	75%
	2008-09 to present	50%	50%
UC Davis[31]	2012-13 to present	60%	40%
University of Florida[32]	2016-17 to present	70%	30%
University of Washington[33,34]	2011-12 to 2017-18	60%	40%
	2017-18 to present	80%	20%
UCLA proposed budget model	na	80%	20%

The teaching-major split has varied effects on academic excellence. The following describes the basic dilemma:

> At one extreme, all or most of revenue could follow the location of credit hours [i.e. going all towards the teaching]. This setup has a number of potential problems: (1) There is the possibility that some courses will be designed primarily as profit centers, based on expected popularity rather than academic merit. (2) There are incentives for schools and colleges to reconfigure their

[30] p. 9 of "Budgeting with the UB Model" https://obp.umich.edu/wp-content/uploads/pubdata/budget/ub_model.pdf. They call the teaching-major split the instruction-enrollment split. See also item 3.3 p. 20 of "Budget Model Review" from FY19 at: https://obp.umich.edu/budget/budget-model/

[31] https://financeandbusiness.ucdavis.edu/bia/budget/model/undergrad-tuition. They split total tuition dollars into teaching vs. major. Further, the 40% is further split into 30% for the major and 10% for degrees awarded, but we have merged in the table them to facilitate comparison.

[32] P. 9 SACUBO Presentation – April 2018 https://cfo.ufl.edu/presentations-resources/presentations/

[33] p. 2 item IV of Activity Based Budgeting (ABB) Phase II Committee final report https://www.washington.edu/opb/uw-budget/activity-based-budgeting/abb-committees-and-reports/ and p. 9 of May 2018 ABB Newcomers Presentation Slide Deck https://www.washington.edu/opb/uw-budget/activity-based-budgeting/data-and-tools-for-abb-tuition-revenue-and-distribution-calculations/

[34] Note that the University of Washington does not split a student credit hour per se into teaching vs. major, but rather splits total tuition dollars into teaching vs. major (like UC Davis, described above).

> curricula along mercantilist lines, requiring that their students take many courses at home, and even duplicating offerings of other schools and colleges. [...]
>
> The other extreme is to have tuition follow registrations [i.e. going all towards the major]. This solves the problems of mercantilism and potential pandering, but it also removes the incentive to provide broadly-pitched courses to students from other locations on campus. Additionally, it provides an untoward incentive to admit students and have them do as much of their work as possible elsewhere. Both extremes have advantages and pose problems.[35]

The proposed new UCLA budget model leans toward the first extreme.

It is the view of the working group that the 80%-20% split is the right split, provided the guardrails and metrics which we enumerate below are put into place. This is for three reasons. First, all the other institutions enumerated above tend to gravitate towards this end of the spectrum. Second, any version of the split that tends towards the center is likely to come with *both* kinds of problems, rather than with merely half of one kind of problem and half of another. Third, incentivizing a quick increase in new majors (without a correspondingly quick increase in ladder faculty) can do harm to academic quality and the associated reputation of the campus.

We would also note that APB reports that the 80%-20% split seems right for fiscal reasons. In particular, this split has been used successfully on this campus for the past seven years in the context of the Undergraduate Academic Incentive Fund.[36] The main reason for its success has simply been that it aligns the funding with the costs associated with teaching and advising students (i.e. overall, it costs more to staff the courses with instructors and less to pay the student affairs officers).

Recommendation 1: Given the role that course offerings will play under the new budget model, it would be good to track them in a more systematic manner than we presently do, so as to prevent damage to reputation, "pandering" teaching, grade inflation, and cutting of teaching resources. We propose tracking the following information in a single uniform system across campus: the median and mean grades by course and department and school; the student credit hours taught by ladder faculty versus lecturers, by course and department and school; the median undergraduate class size[37]; as well as the more qualitative information such as accessibility of faculty and advising by faculty. Different parts of the university already track these disparate pieces of information for other diagnostic purposes. For instance, the aforementioned qualitative information is currently tracked in the senior survey organized by the Center for the Advancement of Teaching.[38] And average GPA per quarter by college and division is tracked

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[35] The University Record, November 19, 1997 Text of Provost Nancy Cantor's Senate Assembly Speech http://www.ur.umich.edu/9798/Nov19_97/speech.htm. This argument is reiterated on p. 3 of the UC Davis Undergraduate Tuition Allocation, Version 3, which is at the very bottom of this site: https://financeandbusiness.ucdavis.edu/bia/budget/model/undergrad-tuition.

[36] For a short description of the program, see p. 45 of the WSCUC Institutional Report, Fall 2018 Community Review version. http://wscuc.ucla.edu/wp-content/uploads/2018/10/UCLA_WSCUC_InstitutionalReport_Public_Review.pdf

[37] A common concern about these systems is that, as far as teaching goes, it only incentivizes the creation of large lecture courses. "One chair's comments summarized our overall findings: 'The number of unique courses was reduced, and [we] now have more shared courses across specialties and more core courses that are now large lecture courses'" (p. 1 of: FCAS Report to ABB, http://depts.washington.edu/opbfiles/web/FCAS%20Report%20to%20ABB%20Committee.pdf). See also the first item on p. 19 of UC Davis' Budget Allocation Assessment Report https://ucdavis.box.com/s/3x837zyjmrme3i57d6f57dpuqzkqe8qi

[38] http://www.college.ucla.edu//seniorsurvey/

by the registrar's office. The recommendation would be to unify the collection of such data and to be thinking about this data alongside the increases and decreases in student credit hours that are going to be determining the teaching portion of the budget. This would be easy to do, if built-in at the outset. And building-in such metrics to the model at the outset would alleviate the problem of only learning about problems later, and without any supporting data.[39] A similar set of remarks apply to degrees, although the evaluation and tracking of these is perhaps already more well-established. But with respect to degrees, we respectfully suggest that 8 year intervals under which reviews of academic degree programs take place may not provide sufficient monitoring of what is likely to be a rapidly evolving situation as units adapt to the new system. More generally, it would be good to determine at the outset how and when the campus was going to review the impact of the new budget model on academic excellence.

Recommendation 2: Put median and mean course GPA on transcripts. This would be, in our view, the quickest and easiest way to disincentive grade inflation. Under the new model, there will be great pressure to teach more students with fewer resources. Hence, some counterweight is needed in order to make sure that this does not happen in a way that lowers academic standards. Moreover, putting median and mean course GPA on transcripts has the virtue of being effective immediately, in that it makes vivid to departments and instructors the harm caused to the students and to the institution by lowering academic standards.

Recommendation 3: Under the new proposed system of incentives, different schools will sometimes be competing with one another for student credit hours. This might well end up happening through new course offerings. Currently the approval of undergraduate courses goes through the Undergraduate Council, which delegates the authority for new courses in existing majors to the Faculty Executive Committee of the school in which the course is housed.[40] In typical cases this approval is handled by the chair of the committee via the consent calendar, that is, without discussion by the committee as a whole. It might be wise to recommend to Undergraduate Council that they consider handling this responsibility themselves at the committee or subcommittee level, since they will be able to represent a campus-wide perspective.

Recommendation 4: In both the development of new courses and new degrees, the campus should have a notification and consultation system for departments or units who would be negatively impacted by the new course or degree. This is because hearing out negatively impacted parties about their concerns would be one way to maintain high standards of academic rigor. In the case of courses, the University of Washington has considered a campus-wide Planning Notice of Intent (PNOI) system,[41] and it might be wise for our campus to consider this as well, both for courses and degrees. Past experience suggests that even very good institutions can fail to maintain academic quality under new systems of incentives, in the absence of adequate systems of review.[42]

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[39] See again p. 19 of UC Davis' Budget Allocation Assessment Report https://ucdavis.box.com/s/3x837zyjmrme3i57d6f57dpuqzkqe8qi

[40] See pp. 3-4 of "Guide to Undergraduate Course and Program Approval" https://www.senate.ucla.edu/committee/ugc

[41] See p. 4 of ABB Oversight Committee (2017 – 2018) final report. https://www.washington.edu/opb/uw-budget/activity-based-budgeting/abb-committees-and-reports/

[42] For instance: "Put another way, a working knowledge of calculus is probably not sufficient to qualify one to teach calculus at a research University" (*ibid.* p. 2). And: "Full-page ads in the [USC] *Daily Trojan* touted courses such as the drama class that required no reading. ('Tired of reading Shakespeare? Kill off your [general education] requirement, sit back and eat popcorn, and watch it being performed.')" p. 116 of Kirp, David L. 2004.

IV. Mechanisms and accountability in tax rates and research

Inspired by the University of Michigan model, under the new UCLA budget model, a flat 20-25% tax rate will be implemented for core units (5-10% tax for non-core Units). This tax will provide a stronger central investment fund for the central administration to make strategic investments (in the case of UCLA, the center is the Chancellor/EVC). This flat tax is also meant to simplify the current UCLA tax system. The University of Michigan put their current system into place in 1998-99, after experimenting with a more decentralized model in 1997-98.[43] Until 2014-15, research at the University of Michigan was taxed at 11%, clinical revenues at 4% and other taxable expenditure 24%.[44] These rates were replaced by a flat general tax rate, which is now at 21.4%.[45] The motivation for this change tax was to "[prevent] units from gaming the system" by shifting items to lower tax rates, and to "fund new initiatives".[46] Regarding the latter, it appears that the earlier overall lower tax rate was unable to fund "university initiatives and operating expenses for administrative units in the "hard economic times" circa 2008.[47]

In our questions to APB, we asked for more information about the justification for the flat tax of 20-25% as it pertains to the particulars of our campus' needs. The answer was that this number was what was needed so that the the academic units and central units could be funded similarly under the new budget model to how they are funded under the current budget model. That is, the reason was ultimately to forge a kind of continuity between the current budget model and the new budget model, so as to prevent disruptions in moving to the new budget model. Given this rationale, it might be wise to revisit this tax rate as the campus gains more experience with the new budget model.

A separate but related issue has to do with Indirect Cost Recovery (ICR) rates. UC policy requires recovery of all costs, direct and indirect, associated with extramurally funded research, which is essential to maintaining the operations of a research university, as articulated in the Academic Personnel Manual at APM-20.[48] Indeed, "UC is the largest university recipient of federally sponsored research, with most of our funding coming from the NSF and the NIH."[49] ICR is estimated to generate $200M annually that will flow to the Chancellor/EVC, but the formula for calculating ICR is complicated.[50] Currently, the Chancellor keeps 60.1% of the grant overhead, leaving the allocation for Deans in North campus to only 39.9%. In the School of Medicine, the Deans are allocated 44% of the grants' overhead, but after special projects only

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Shakespeare, Einstein, and the Bottom Line: The Marketing of Higher Education. Revised edition. Harvard University Press).

[43] See the last paragraph of section I of this document.

[44] p. 4 "Budget Model Review" from FY19 at: https://obp.umich.edu/budget/budget-model/ This document is called "Budget Model Review" on the aforementioned website, but the document bears the title "Report on the State of the Budget Model and Budget System at the University of Michigan." An earlier document from 2008 entitled "Budgeting with the UB Model" on that website describes the earlier non-flat-tax system in more detail on p. 13.

[45] P. 18 of the slides "Activity Based Budgeting University of Michigan" and p.

[46] p. 5 "Budget Model Review" from FY19 at: https://obp.umich.edu/budget/budget-model/

[47] P. 16 "Budgeting with the UB Model" https://obp.umich.edu/wp-content/uploads/pubdata/budget/ub_model.pdf

[48] https://www.ucop.edu/academic-personnel-programs/_files/apm/apm-020.pdf

[49] https://www.ucop.edu/research-policy-analysis-coordination/policies-guidance/indirect-cost-recovery/recovering-the-costs-of-research.html

[50] https://www.apb.ucla.edu/Portals/90/Documents/Budget%20Admin/BdgtOHDistirbutionModel.pdf

50% of the discretionary portion goes to departments, which represents only 19.8% of the original indirect amount received by the Chancellor. For basic-science (non-clinical) departments this represents their total budget.

On the basis of the initial presentations form APB, it was a little unclear whether, under the new model, ICR will pass through directly to Deans with the same or a different formula. For instance, under the current model, when the Chancellor keeps 60% of ICR, this is in essence a type of tax. Hence, the question arises as to whether, under the new budget model, 100% of ICR funds will pass through directly to the units. In its responses to the working group, APB has indicated that the basic design is to distribute 100% to the units where the grant expenditures that are generating the ICR are taking place. Overall, under the new system, the basic design is that the Chancellor keeps 40% of the ICR. However, APB indicates that they want to develop some alternatives for units with grant dollars that are not generating ICR. The working group hopes to continue discussion with APB about this important open item.

Turning now to a more general point, a recurrent concern on campuses that have emulated the University of Michigan Model is the level of transparency and accountability in the center's allocation of funds. For instance, in the review of UC Davis's budget model, there was a complaint that "*University leaders do not understand the decision making logic behind the Provost incremental allocations, roughly 46% of the core funds, leading to a trust gap."*[51] In the case of the University of Washington, the requests for the "Provost's reinvestment fund" and the subsequent allocations are publicly posted,[52] and so there is great transparency in some respects. However, in their review they noted a similar complaint about the funding of central units: "Deans and faculty expressed concern with regard to administrative funding levels and a lack of transparency with regard to how tax money was deployed to fund administration."[53]

Recommendation 5: It would be good if it was decided, at the outset, how to publicly document the use of the strategic funds and its contribution to academic excellence (and other parts of the campus' mission). That said, perhaps publicly posting numbers and requests is not the right way to proceed. One model that seems worth thinking about is the "compact" system deployed the University Minnesota when they first rolled out a decentralized system:

> The third part [of the budget model] is the development of agreements (termed "compacts") between the provost and each of the constituent colleges on strategic plans and goals, programs, all-fund budgets, and evaluation procedures. In the development of these compacts, each of the deans meet on several occasions with the provost and his staff both to review the current performance against previous compacts and to develop new understandings about the forthcoming year. All of these mutual understandings are transmitted through signed "compact" agreements.[54]

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[51] P. 20 of UC Davis' Budget Allocation Assessment Report https://ucdavis.box.com/s/3x837zyjmrme3i57d6f57dpuqzkqe8qi

[52] https://www.washington.edu/opb/uw-budget/annual-budgets/

[53] P. 3 Charge letter for ABB Phase III Review (2019 – 2020) https://s3-us-west-2.amazonaws.com/uw-s3-cdn/wp-content/uploads/sites/162/2019/12/04123557/ABB-Phase-III-Charge-Aug-2019.pdf

[54] P. 296 of: Hearn, James C., Darrell R. Lewis, Lincoln Kallsen, Janet M. Holdsworth, and Lisa M. Jones. 2006. "'Incentives for Managed Growth': A Case Study of Incentives-Based Planning and Budgeting in a Large Public Research University." The Journal of Higher Education 77 (2): 286–316. https://doi.org/10.1080/00221546.2006.11778927. Note that in 2000, at the request of the regents, the University of Minnesota stopped doing the compacts *per se* and rather shifted to a University Plan, Performance, and Accountability Report, which incorporated the compacts and two other reports. See

More generally, public documentation is one facet of accountability, and it is less than obvious what accountability mechanisms (if any) there are on the center's use of the strategic funds. In particular, the Deans and Academic Senate have no oversight role in these matters.

Finally, we would close by mentioning that in the case of the University of Michigan, the University of Washington, and UC Davis, there was no indication of the mechanism by which the tax rates would be raised or lowered. As indicated above, tax rates did change significantly at the University of Michigan during the hard economic times of 2008.

Recommendation 6: These last two issues, namely lack of accountability and lack of mechanism to modify tax, might have a common solution. In particular, perhaps the Deans and the Academic Senate could have a voice in decisions about whether to modify tax. Presumably a useful kind of transparency would emerge from the deliberations about why the increase (or decrease) in tax was warranted.

http://www.academic.umn.edu/accountability/pdf/2004_2005/0405_summary.pdf and for a list of these see https://conservancy.umn.edu/handle/11299/174174

V. Appendix: table on different budget models

For reference, the following is a table on different university budget models from a textbook.[55] UCLA currently practices incremental budgeting. Throughout this document, we have been referring to Responsibility-centered budgeting as the "decentralized model." The University of Michigan's model does not fit into any of the categories listed below, since its origins lie in taking the decentralized model and solving the problem of paying for public goods with a high flat tax (see the end of Section I of this document).

Table 3.4. Strengths and Limitations of Budget Models

Budget Model	Highlights	Strengths	Limitations
All-Funds	Emphasizes a holistic goals-oriented perspective Takes into account all sources of revenue and expense	Facilitates the monitoring of resource allocation in pursuit of institutional goals	Effective implementation of an all-funds model Requires a robust accounting management system
Formula	Relies on the use of specified criteria in allocating resources Development of the formula is critically important Retrospective in nature Most commonly employed in public higher education	Transparency Efficiency of operation Strength in linking state priorities for higher education to resource allocation	Tends to further privilege the larger and more selective institutions Vulnerable to manipulation for political purposes
Performance-Based	Allocation of resources premised on attainment of performance measures	Transparency Strength in linking state priorities for higher education to resource allocation	Values embedded in priorities and process may disadvantage some units Vulnerable to manipulation for political purposes
Incremental	Establishes across-the-board percentage changes in expenditures over current budget based on assumptions regarding revenues for coming year Fairly common across higher education	Provides equal treatment for units Reduces conflict or competition Easy to implement Scalable across a variety of institutions and contexts	Inequities as the rich get richer Reliance on current budget can serve to obscure poor allocation and weak management May fail to respond to changes in institutional priorities, market forces, or emerging opportunities
Initiative-Based	Requires units to return portion of their budgets for the purposes of funding new initiatives May be one-time or recurring adjustments Units apply to the pool to support new initiatives	Units are required to reexamine practices, programs, and performance Can amass a substantial pool for new projects Encourages focus on institutional priorities Stimulates creativity Sacrifice and redistribution demonstrate to constituencies that institution is frugal and deserving	Values embedded in priorities and process may disadvantage some units Some core service units are expected to contribute without opportunity to create new initiatives Disproportionate impact of contributions on units with scarce resources
Planning, Programming, and Budgeting Systems	Premises on tightly integrating strategic planning, budgeting, and assessment Decisions a function of identified challenges and opportunities, weighing risk/reward ratios, and monitoring performance	Tightly links budget to planning Responsive to emerging challenges and opportunities	Time-consuming Requires precision regarding desired outcomes and quantifying the potential risks and rewards Assumes some period of stability
Responsibility Center	Locates responsibility for unit budget performance at the local level Units are seen as revenue centers or cost centers Units are allowed to retain some portion of end-of-year budget surplus	May lead to increased performance and facile responses Encourages both entrepreneurship and innovation Provides an incentive for strong budget management	Can lead to a stratification of units Stratification can in turn lead to increased competition and divisiveness Entrepreneurship may result in decisions not tightly linked to institutional priorities Academic capitalism
Zero-Based	Each item in the budget must be justified at the time the budget is developed Assures active monitoring of the link between institutional activities and institutional goals	Works wonderfully in theory Far more common to see some hybrid form	Incredibly laborious process Can increase anxiety May lead to disincentive to commit deeply to pursuing initiatives

[55] Table 3.4 in the electronic version of: Barr, Margaret J., and George S. McClellan. 2018. *Budgets and Financial Management in Higher Education*. John Wiley & Sons.

VI. Appendix: links to budget models at other relevant campuses

Here are some helpful links to the websites of other relevant campuses and their budget models. This information was also in the footnotes to section I, but is repeated here for ease of reference:

The University of Michigan: https://obp.umich.edu/budget/budget-model/

The University of Washington: https://www.washington.edu/opb/uw-budget/activity-based-budgeting/

The University of Florida: https://cfo.ufl.edu/presentations-resources/presentations/

UC Davis: https://financeandbusiness.ucdavis.edu/bia/budget/model

Indiana University Bloomington: https://obap.indiana.edu/rcm-at-iub/index.html

UC Riverside: https://fpa.ucr.edu/budget-model-refinement

UCLA Academic Senate
Council on Planning & Budget

June 16, 2020

Re: Council on Planning and Budget's Recommendations and Reflections on the New Budget Model

In preparing its comments to the Academic Senate Leadership, the Council on Planning and Budget (CPB) engaged in a careful review of budget models at other universities and of UCLA's own history of attempts to alter its model. Summaries of these analyses are contained in a longer document that provides the basis for many of the thoughts, concerns, and recommendations outlined here.

The current budget model has been in existence since approximately 1998-1999, with only minor adjustments over time. During this period, UCLA has grown and changed enormously as has its financial underpinnings. CPB understands the need to adapt the budget model to the changing environment and stress the important role that the Academic Senate must play in ensuring that UCLA retains its prominence as the top public university in the world. To that end, the various councils and committees all have roles to play. In this document, we highlight some of our most important concerns and provide recommendations for how some of these concerns might be addressed.

Some of the most important implications of the new budget model are the incentives it embodies for units to manage resources efficiently and to be entrepreneurial in expanding available resources. While providing such incentives is laudable, we note that there is also the potential for these incentives to create conditions that are not well-aligned with the long-term goals of UCLA. Under the new model, resources flow to units based on the number of student credit hours (with more weight given to SCH for majors), self-supporting and professional degree tuition, and indirect cost recovery. In the interest of maximizing revenue, units may be overzealous in their effort to attract students to both state and self-supporting programs.

Our goal in this document is to illustrate the potential implications of these incentives and suggest practices to ensure that all campus units are aligned in their support of the core mission of the university—academic excellence in education, research, and service. We provide comments and recommendations to the following bodies: (1) Executive Vice Chancellor/Provost and Office of Academic Planning and Budget (APB), (2) Deans, (3) Academic Senate's Undergraduate Council, (4) Academic Senate's Graduate Council, (5) Academic Senate's Council on Planning and Budget (CPB), (6) Academic Senate's Council on Academic Personnel (CAP), and (7) Academic Senate Leadership and/or Executive Board,

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We end with a discussion of the remaining issues to be addressed in developing the new model. We encourage all parties to work together to finalize these decisions as well as to develop metrics by which the success of the new model might be judged.

To the Executive Vice Chancellor / Provost and Academic Planning and Budget

Shared governance is essential to the mission of the university and has a long history at UCLA. This shared responsibility must be preserved throughout the planning, implementation, and evaluation of this new budget model.

1. Consult with the Academic Senate. The EVC/Provost plays an enormously important role in setting the agenda for the University and in allocating funds to see that vision through. We believe strongly that the campus is best served by frequent consultation with the Academic Senate in setting this agenda and assessing how units might best be supported in fulfilling their missions.

2. Provide access to data needed by the Senate Councils and Committees to further their missions with regard to maintaining both access and excellence across campus.

3. Some units will struggle more than others under the new model, and the financial repercussions of the pandemic will likely exacerbate these struggles. Vigilance will be needed to ensure that the academic mission of the University—in terms of research, teaching, and service excellence—does not suffer. The Graduate Council, Undergraduate Council, and Council on Research should be important participants in this regard.

4. Ensure that Deans receive the training and assistance they need to help their units thrive under the new budget model. Deans will bring different strengths to the table and many may not have had the experience or expertise in managing resources to this extent. Assistance from Academic Planning and Budget (APB) in budgetary matters will be important as will assistance from the Provost's Office in setting the academic agenda and in understanding how to best leverage resources.

5. Work with CPB and the Academic Senate more broadly as soon as problems arise in order to implement solutions quickly and effectively.

6. Meet regularly with CPB to monitor the roll-out and implementation of the new model and draw on CPB and the Academic Senate Leadership more broadly to help faculty on campus understand the ramifications of the changes and the reasons behind them.

7. Provide additional resources, if necessary, when there is a change in leadership. There are always some "costs" when a new dean is brought in to lead a unit. With the new budget model these costs will be amplified and underlying departments will have to adjust to changes in priorities and budgeting decisions. The importance of four-year plans and the length of terms for deans at five years could exacerbate any

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issues. We encourage the EVC/Provost and APB to provide additional support during these transitions and help ensure that departments do not immediately face dramatic changes in their underlying budgets or programmatic guidelines.

8. Initial conditions matter. Much thought has been given to variation across units in their ability to capitalize on SSGPDPs. Less well analyzed is the variation in the ability of units to monetize other assets. Units which "own" classrooms or other meeting spaces have the opportunity to rent those spaces to other units earning a stream of revenue. Given the shortage of space on campus and the growing need for space for SSGPDPs, these differences could potentially lead to unintended inequities and prohibitively large use costs for non-revenue generating programs. These differences should be assessed and their impacts included in discussions of other allocations across units.

9. Clarify the mechanisms by which tax rates and other parameters may change under the new budget model and involve CPB and Senate Leadership in discussions of such change.

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To the Deans

1. Work with local Faculty Executive Committees (FECs) and Department Chairs in developing four-year strategic plans and setting the academic vision for the units.

2. Clearly outline the incentives accruing to Departments under their purview so decanal and departmental efforts are aligned.

3. Be mindful of existing priorities and budgetary incentives when new deans assume their posts and make every effort to ensure that departments do not immediately face dramatic changes in their underlying budgets or programmatic guidelines.

4. Pay particular attention to the balance between rewarding departments who respond to incentives to produce additional revenue and supporting those who are unable to do so.

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To the Undergraduate Council

We believe that some of the strongest incentives resulting from the change in the budget model are those encouraging units to increase the enrollment of undergraduates, both undergraduate majors and non-majors. These incentives could potentially be a boon for undergraduate education with units competing in the quality of the undergraduate experiences they offer. However, units may also try to attract students through grade inflation, easier courses, varying the number of required courses in a major or units per course, or directly taking students away from "competitors" with "local" versions of courses offered elsewhere.

Undergraduate Council (UgC) will play a key role in protecting the quality of the undergraduate educational experience. We encourage UgC to think proactively of ways to measure today's baseline level of performance and to guard against changes that negatively affect the educational experience. We pose some possible mechanisms and respectfully suggest that 8-year intervals are unlikely to provide sufficiently timely monitoring during the transition period in what is likely to be a rapidly evolving situation.

1. Remain watchful of potential deterioration in the excellence of academic programs as a result of shifting funding patterns. UgC is best positioned to assess what data are most useful in assessing quality and how that might vary across fields. To that end, the UgC should be empowered to work with the registrar or other administrative units to collect these data in a systematic way.

2. Remain watchful to issues of access and diversity as units respond to new incentives.

3. Metrics, such as median grades per class, or other such indicators that UgC deems appropriate, can be used to monitor and guard against grade inflation. Reporting can serve as a safeguard of academic excellence and appropriate light ought to be shed on changes in grading patterns.

4. Careful oversight of changes in major requirements—adding or deleting required courses or units per course to attract more student credit hours (SCRs)—while some changes will be in the best interest of academic excellence, others may be more self-serving. These issues currently come before UgC so require only that they be considered from this angle as well. Departments proposing such changes ought to assume some of the responsibility for adequate justification.

5. Careful oversight of new courses to avoid duplication elsewhere on campus. Currently much of the authority for the approval of undergraduate courses is delegated to the relevant Faculty Executive Committee (FEC). Given the incentives for units to behave strategically, we suggest that the Council carefully monitor changes in courses and major requirements. The UgC could request that the relevant FEC / department supply documentation regarding how the change might impact other departments or units and perhaps include supporting letters from those departments.

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6. Implement mechanisms to ensure that summer courses are taught with the same rigor as courses offered during the academic year.

7. Undergraduate Council should exercise oversight over Summer certificate programs, camps, etc. These have the potential to generate revenue but can also damage our brand if we do not establish mechanisms to ensure their quality.

Because salaries are felt at a more local level with the new model, there will be increased incentives to economize on the cost of teaching—replacing ladder faculty with non-ladder faculty, or more highly paid faculty with less expensive faculty. To the extent that these changes affect the undergraduate experience Undergraduate Council ought to monitor the distribution of teaching duties and changes over time.

1. Are classes becoming larger?

2. Are a larger share of credit hours being taught by non-ladder faculty?

3. Are there fewer independent study contracts being offered?

We recognize the additional burden placed on Undergraduate Council with these recommendations and suggest that they seek help from the Academic Senate in reassessing priorities and / or allocating tasks as efficiently as possible.

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To the Graduate Council

With respect to graduate education, the new budget model includes strong incentives for the continued growth of self-supporting and professional degree programs. Graduate Council has been working hard to keep up with new proposals, and with the new model the arrival of such proposals will potentially accelerate. Some of these programs may not flourish and units may be tempted to lower admissions standards to fill seats. A similar problem would arise should student preferences change and currently successful programs become less popular.

We recommend continued vigilance in the establishment and evaluation of Self-Supporting Graduate Professional Degree Programs (SSGPDPs), in terms of their academic content, the quality of the students who matriculate over time, and in the accounting of any negative effects the expansion of such programs—both in the number of programs and the number of students in existing programs—might have on state-supported programs. For example:

1. Remain watchful of potential deterioration in the quality of programs afforded students as a result of shifting funding patterns.

2. Remain watchful to issues of access and diversity as units respond to new incentives surrounding self-supporting degree programs and other revenue enhancing programs.

3. How have GRE, GPA, TOFEL or other measures of student achievement for the incoming classes changed over time? To what extent does the quality of academic preparation vary across programs? Graduate Council is best positioned to assess what data are most useful in assessing quality and how that might vary across fields. To that end, the Council should be empowered to work with the registrar or other administrative units to collect these data in a systematic way.

4. How have the number and quality of applicants changed over time? One would hope that the quality would improve over time as information about the program spread.

5. How are TAs allocated to the self-supporting program? Are stronger TAs assigned to self-supporting programs to ensure student satisfaction at the expense of state-supported programs?

6. Although difficult to measure, do faculty spend less time advising Ph.D. students or undergraduates than they have in the past?

7. Are there protections in place to avoid diluting the quality of the state-supported degrees?

8. If units increase undergraduate enrollments, will the increased demand for teaching assistants (TAs) lead to increases in the workload for TAs or a dilution in the quality of graduate students in state-supported programs in an effort to attract more students to fill TA positions?

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To the Council on Planning and Budget

Obviously CPB needs to play a critical role in the implementation and maintenance of the new budget model. It should:

1. Be a resource for the Councils and Committees of the Academic Senate in providing assistance in understanding the implications of the new budget, working with APB to obtain information from various units, and helping monitor the overall budget situation.

2. Work closely with APB throughout the process to help ensure the incentives do not put in jeopardy our academic mission, to reduce the effect of unforeseen consequences, and to respond as quickly as possible in making adjustments.

3. Monitor the costs of shifting to the new budget model to ensure that any increases do not encroach significantly on the proposed financial gains. One of the important structural changes will be the growth in importance of local budgetary units. APB is well aware of the need to train budget personnel within divisions. However, in moving to a more local budget model, there will be extra overhead costs incurred.

4. Assist APB in the review of the budget component of the Deans' Four-Year plans to ensure that the budget forecasts are reasonable and in line with other goals of the unit. This policy was in place previously and we strongly advise continuing it.

5. Work with APB to help ensure responsible spending at the Center. In the new model in which resources for the Center derive from the units, there may be less incentive to economize.

6. Work with APB to monitor the financial health of SSGPDPs and advise Graduate Council when programs might need to be disestablished. The increasing pressure to establish SSGPDPs may lead to programs that are less financially successful and changes over time in demand may mean that programs that once flourished could run into financial difficulties.

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To the Council on Academic Personnel

Given the more localized budget model, deans have an incentive to economize on faculty salaries, with lower increases in merit reviews, less aggressive retention offers, and bias toward hiring less accomplished (lower-salaried) faculty. Similarly, units might not fill a faculty line and replace a ladder faculty member with an adjunct professor if it helps the bottom line of deans.

1. Monitor carefully the merit review processes in conjunction with the Vice Chancellor of Academic Personnel. Faculty are likely to be pulled away from current obligations and expected to assist in more entrepreneurial efforts such as development, SSGPDPs, and monetizing intellectual property. While it is likely that faculty will still prioritize research, the new budget model may disincentivize and thus negatively affect departmental and university service as well as undergraduate teaching. (For example, many SSGPDPs pay faculty to serve on admission committees while state-supported programs do not.) Preserving UCLA's mission as one of the world's top educational and research institutions in of first order importance. To that end, we recommend that CAP:

2. Monitor carefully changes in service and teaching commitments over time and endeavor to weight as appropriate participation in such during the review process.

3. Monitor carefully the quality of research produced by faculty as changes in the funding model potentially result in changes in faculty research time.

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To the Academic Senate Leadership & Executive Board

In addition to creating incentives for units to manage efficiently and grow resources effectively, the new budget model also will provide additional funds for the central administration. These funds can serve an important purpose in advancing UCLA's mission, developing new and innovative programs, and supporting interdisciplinary work. They also can be used to offset negative consequences of the new model likely felt by some units, and ensure that we remain at the forefront of research and teaching across a broad range of disciplines.

This arrangement also provides a critical opportunity for the role of shared governance. We encourage in the strongest possible sense, the Chancellor and EVC/Provost to work with the Senate in setting priorities, building a campus vision, and implementing that vision. We believe that the Academic Senate can:

1. Work with the EVC/Provost on setting campus priorities and helping to ensure that funds are used to advance our shared academic mission.

2. Work with the Central Administration to ensure that Senate Councils and Committees have access to data needed to fulfill their charges.

3. Work with APB Oversight of Central Administration to ensure that funds are allocated across campus in accordance with our mission and priorities.

4. Work with the Undergraduate Council, the Graduate Council, and the Faculty Executive Committees to ensure that Interdisciplinary programs do not fall through the cracks with the new model.

5. Provide charges to other Academic Senate Committees or form working groups as warranted.

More generally, some units will struggle more than others with the new budget model. The Academic Senate needs to be mindful of areas in which funding appears to be out of line with the teaching and research missions of the university.

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