A New Budget Model
Problems of Current Budget Structure

1) Units and University operate on two different accounting processes
   - The University operates on a GAAP basis
   - The units operate on a modified cash basis

Consequences:
   - Units and the University are held accountable by different standards and manage towards different goals
   - What constitutes a balanced budget at the unit level can be a deficit at the university level

2) Cost and revenue allocation is incomplete
   - Space
   - General administrative expenses
   - Undergraduate tuition

Consequences:
   - Creates potential misalignment between programmatic priorities, resource allocation and fundraising objectives
Implications

- Current budget process provides units with targets too late, after important decisions (hiring, student enrollment) have already been made.
- Creates cost-cutting mind-set rather than a focus on overall budgetary performance.
- The “Quads” (i.e., College, Humanities, SSD, PSD) have a distributed decision structure where the key decision makers (e.g., Deans) do not have the right information or incentives.
- Creates incentives to use restricted fund balances as savings accounts leading to unexpected and significant expense increases late in the budget year.
- Weakens incentives for budget-relieving fundraising, e.g. undergraduate financial aid.
- Lack of clarity on IDCs encourages “IDC shopping.”
- Since space costs are not properly accounted for, efficient use of space and financial planning for capital projects is difficult.
New Budget Structure

1) Structure all operations as self-contained economic units
   - Each unit will manage towards its own bottom line target (positive or negative) with three year rolling targets (FY18, FY19, FY20)
   - FY 17 will serve as base-line (translated from current budget into new form)
   - The goal is to improve each unit’s overall bottom line by 10% in 2020 (10 x 20) while the University reduces administrative expenses at the same rate
   - Units are empowered to reach these targets as appropriate given their programmatic goals (cost reduction, revenue growth through teaching or fund-raising)
   - The bank: surpluses can be saved for future years, loans cover short-falls

2) GAAP-based unit financial reporting
   - Annual budgetary formula: GAAP revenue - GAAP expense ≥ bottom-line target
   - Gifts, grants and space are accounted for exactly as for the University as a whole creating better alignment and coordination across units and between units and the University
Implications

- Recognizes faculty time and effort involved in teaching and in supporting departmental majors outside the classroom (e.g., thesis support, LOR writing)
- Puts decisions about how to manage budgetary trade-offs in the hands of those entities most knowledgeable about specific programs (i.e., the units)
- Incentivizes collaborative teaching and other curriculum innovations
- Enables multi-year planning which is critical to successful faculty recruiting
- Retains policy of distributing all indirect cost revenue to academic units
- Enhances current practice of providing central funding for strategic faculty hiring including recruitment of a diverse faculty body
- Encourages better use of classroom space