

# PORTLAND STATE UNIVERSITY: Rethinking our Financial Future

## *The Final Report of the Financial Futures Taskforce*



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**Table of Contents**

Executive Summary ..... 4

Towards a New Budget Model..... 4

    Recommendation 1..... 5

    Recommendation 2..... 5

    Recommendation 3.....5

Next Steps..... 6

Rethinking our Financial Future..... 7

Background on the Financial Futures Taskforce..... 9

The Charge to the Financial Futures Taskforce (FFTF)..... 9

History and Literature Review: Budgeting in Higher Education..... 10

Incremental/Decremental Budgeting (Baseline) Model..... 11

Zero-Based Budgeting (ZBB)..... 11

Program, Planning and Budgeting System (PPBS)..... 11

Performance Budgeting..... 12

Responsibility Center or Revenue Based Budgeting (RCBB)..... 13

Further Findings/Lessons on RCBB..... 14

Summary of strengths/weaknesses..... 16

Towards a New PSU Budget Model..... 17

PSU Budget Issues: Revenues..... 18

    Subsection One: State Appropriations..... 18

    Summary of Principles/Recommendations..... 20

    Subsection Two: Tuition and Fees..... 21

    Summary of Principles/Recommendations: Tuition, Fee Remissions and other Fees..... 24

    Subsection 3: Research/Indirect Cost Recovery..... 25

    Summary of Principles/Recommendations: Research Contracts/Grants..... 26

    Subsection 4: Gift Funds..... 26

    Summary of Principles/Recommendations for Gift Funds..... 27

    Subsection 5: Auxiliaries and Designated Operations Funds..... 27

    Summary of Principles/Recommendations: Auxiliaries and Designated Operations..... 28

    Subsection 6: Miscellaneous Revenues..... 29

    Summary of Principles/Recommendations: Internal Charges in Service Centers..... 29

PSU Budget Issues: Expenditures..... 30

    Subsection One: Instruction..... 31

    Summary of Recommended Principles: Instruction..... 32

    Subsection Two: Research..... 33

    Summary of Recommended Principles: Research..... 33

    Subsection Three: Public Service..... 34

    Summary of Recommendations/Principles: Public Service..... 34

    Subsection Four: Academic Support..... 34

    Summary of Recommendations/Principles: Academic Support..... 35

Subsection Five: Student Services.....	35
Summary of Recommendations/Principles: Student Services.....	35
Subsection Six: Institutional Support.....	36
Summary of Recommendations/Principles: Institutional Support.....	37
Subsection Seven: Operation/Maintenance of Plant.....	37
Summary of Recommendations/Principles: Operation and Maintenance of Plant.....	38
Subsection Eight: Auxiliaries/Designated Operations.....	39
Summary of Principles & Recommendations: Auxiliaries and Designated Operations....	39
The New Budget Model: Summary Recommendation and Next Steps.....	39
Appendix One: Summary of History/Literature.....	42
Appendix Two: Revenue Issues: Principles and Recommendations.....	47
State Appropriations.....	47
Tuition.....	48
Fees.....	49
Research Contracts/Grants and Indirect Cost Recoveries.....	49
Gift Funds.....	49
Auxiliaries and Designated Operations.....	49
Appendix Three: Expenditures Issues: Principles and Recommendations.....	50
Instruction.....	50
Research.....	52
Public Service.....	53
Academic Support.....	53
Student Services.....	54
Institutional Support.....	54
Plant Operation and Management.....	55
Auxiliaries.....	55
Appendix Four: Financial Futures Committee Charge.....	57
Appendix Five: Financial Futures Taskforce Members.....	58
Appendix Six: PSU Budget Life.....	60
Appendix Seven: Draft Budget Models.....	61

## **Executive Summary**

The past 15 years have been a period of explosive growth at Portland State University (PSU). During that time, the university has increased its enrollment by 100 percent – and is now Oregon’s largest, most diverse university. However, even as PSU has grown, the amount of state support it receives has diminished significantly. This trend is likely to continue, and has become *the* major management challenge for the University. Thus, PSU’s future will depend greatly on how successfully it increases institutional revenue streams and how carefully it deploys these resources going forward.

As the state has disinvested in higher education, PSU has had to evolve to become a largely tuition and fees supported institution. Consequently, the old methods of managing the University budget – which neither recognizes the gigantic shift in revenue sources or incentives to increase revenues as is required by a much more market driven institution – have proven inadequate. In the future, the University will need a new budget allocation strategy that ensures tuition resources provide support for our common purposes (the Taskforce has adopted the ideal of “the Commons” to express the infrastructure that supports the academic enterprise we are all engaged in) by addressing core institutional needs as well as the strategic university goals that will shape PSU’s future. This new comprehensive budgetary strategy will incentivize schools and colleges to maintain an ideal enrollment mix that maximizes revenues while improving the quality of their instructional programs.

In its quest for an appropriate new budget model, the Financial Futures Taskforce (FFTF) – convened and charged by the President – analyzed all of the budget allocation models commonly used in higher education, they are: Incremental/Decremental Budgeting (Baseline) Model; Zero-Based Budgeting (ZBB); Program, Planning and Budgeting System (PPBS); Performance Budgeting (PB); and Responsibility Centered or Revenue Based Budgeting (RCBB).

### **Towards a New Budget Model**

The five models for university budgeting, individually or in combination, illustrate the methods used by the higher education community in their budgetary processes and show that most Universities interested in distributing budget responsibility more broadly across the institution have turned to some form of performance/responsibility-revenue based budgeting. However, PSU’s current budget process reflects the slow accretion of individual revenue and expenditure budget decisions over time and is not suitable for the challenges of today’s fiscal environment. By using an outdated incremental/decremental budget process, PSU lacks the proper structure to encourage revenue generation and the application of these growing revenues to support the strategic goals of the whole institution while providing adequate support for the “commons” – or infrastructure - of the institution. Thus, the FFTF decided its work should center on the development of a set of principles that could be applied to what it had learned in its analysis of existing budget models, to create a new budget model, specifically tailored to PSU’s needs.

To organize its work, the FFTF divided its deliberations into two strands: revenues and expenditures. By analyzing the university’s budget allocation process through these two lenses, the FFTF was able to dig deeply into the data and institutional knowledge that underpin the current budget allocation process. This was a necessary first step towards developing a set of

principles upon which to base a new budget model. Developing these principles – for both revenues and expenditures – was the primary output of the Taskforce. Beginning with revenues, the Taskforce created budget development principles in six subcategories: state appropriations, tuition and fees, indirect cost recovery, gift funds, auxiliaries/designated operations, and finally miscellaneous revenues including bonds, and other charges. Using the same sub-committee structure (but with different membership), the Taskforce then created similar principles for: Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Plant Operation and Management, and Auxiliaries. The principles the Taskforce arrived at after exhaustive analysis, discussion, and deliberation form the basis for the following recommendations.

**Recommendation 1:** The FFTF recommends that PSU begin to phase in a *New Budget Model* designed to encourage revenue generation as well as the strategic goals of the University. This New Budget Model would be designed by a taskforce of budget experts with oversight by a special advisory council convened for this purpose. The New Budget Model would be phased in over a period of one to three years and its primary purpose would be to apply the University resources in the most effective manner to support the missions and strategic goals of the institution while providing adequate support for the “commons” – or infrastructure - of the University.

**Recommendation 2:** The FFTF recommends that the *New Budget Model* return the revenues earned to the units that generate these revenues. More specifically, where tuition (and all related enrollment driven fees and differentials) and RAM funding can be attributed to student credit hours generated in an academic unit (at the college or school level) - in the interest of better aligning incentives with action - then the funding should be allocated to that unit. The Taskforce further recommends that tuition (and related funds) and RAM funds be pooled in order to accomplish this goal. The transparency of this methodology will make it easier for senior leadership, academic deans, department chairs, and faculty to correlate institutional performance with fiscal health. Elements of performance, which include not only student credit hour generation, but academic productivity such as degrees granted, should also be used as metrics for resource allocations. This fundamental premise, what we will call the *Revenue and Performance Pool*, should be the starting point for the New Budget Model. The funds returned to schools and colleges would then be managed by those deans and all program, personnel, and support expenses within those units would be the responsibility of those officers, while any cross subsidization which a dean felt was required within his/her school or college would be allowable.

**Recommendation 3:** The FFTF also recommends that the second major element of the New Budget Model be a *Strategic Investment Pool*. Without this element, little progress can be made achieving essential University goals such as effective management leading to robust enrollments and student success; faculty research and partnerships development and the overall expansion of the research mission; or creating a culture conducive to fundraising which can supplement core University funds. Funds for a Strategic Investment Pool must represent a certain percentage of the university’s overall resources and “come off the top” of annual budget allocations. Furthermore, a Strategic Investment Pool must be recognized as an annual financial commitment whose investments are categorized by area of desirable actions arrayed on a step by step timeline (extending at least three biennia) with all costs identified. Setting these strategic investment

priorities must be undertaken as a follow up planning process by the President and his Executive Committee.

**Recommendation 4:** Finally, the FFTF recognizes the collaborative nature of our work and the critical need to adequately support the University infrastructure – “the Commons” - we all share. Therefore, the FFTF recommends that the third major element of a New Budget Model be a *Cost-based Administrative Overhead Charge* system which would be applied to all academic units generating the fundamental revenues of the institution. This charge system would include all elements of central administrative support including: institutional support; student services; operation and maintenance of plant; some academic support (that which is not college or school specific) and importantly; space allocations and related leasing or financing obligations. This new charge system would require a thorough re-examination of the current more limited administrative overhead charge system. The University Budget Office is well positioned to undertake this effort as it piloted such a study and cost based charging model four years ago. The elements of cost analysis should systematically compare the relationships of such costs with peer comparators and with relevant professional standards.

### Next Steps

Even as the FFTF concludes its work, it is clear that there is more work to be done. Each of the four recommendations will take significant research, analysis, and community support if they are to culminate in the desired outcome of an operational New Budget Model. Senior leadership will be needed for oversight of the development and implementation of this model. New policy will need to be created in support of this model. Reasonable targets will need to be set for each element of the model and a methodology for the annual collection of pertinent data will need to be put in place, particularly in relationship to the Goals of the Strategic Investment Pool. Furthermore, a working group will need to be formed to devise a transparent and clearly understood methodology to set the Cost-based Administrative Overhead Charge. Finally, a roll out of the FFTF Report, its charge, its purposes, its fundamental analysis and the principles undergirding the New Budget Model should be organized in early Fall 2011 so there is an opportunity for the deans, the Faculty Senate and administrative leadership of the entire campus to engage in a broad discussion of the Report. All of these steps, and new ones that will undoubtedly emerge as the work continues, need to happen if the full charge of the Financial Futures Taskforce is to be completed.

## **PORTLAND STATE UNIVERSITY: Rethinking our Financial Future**

### ***The Final Report of the Financial Futures Taskforce***

As Oregon's only public, urban research university, Portland State University's (PSU) value to the state has never been greater. Chartered by the legislature in 1946 to provide the Portland Metropolitan region with an accessible, affordable, liberal arts university, PSU enjoyed moderate, but steady growth through its first 50 years. The past 15 years however, have been a period of explosive growth – the university has increased its enrollment by 100 percent during that time – and now PSU is Oregon's largest, most diverse university. However, this growth has occurred during a period of gradual state disinvestment in higher education which has now become *the* major management challenge for the University. PSU's future will depend greatly on how successful it is at increasing institutional revenue streams and how carefully it deploys these resources going forward. Increased revenues combined with prudent budgeting will not only serve the University's core mission of educating thousands of Oregonians – as well as out of state and international students – it will enable the University to improve its student matriculation, retention, and graduation outcomes. Increased revenues and an appropriate budget process, one that incents the highest and best use of resources, will also strengthen the University's case for additional support from the philanthropic community making it possible for PSU to expand its portfolio of grants and contracts while positioning the University to make strategic investments in innovative new scholarship and research in the future.

While PSU has changed, so has the State and what was once a natural resource dependent economy has evolved to become a regional knowledge economy that is now poised to play a larger role in the world economy. However, an economy based on innovation and knowledge makes particular demands on universities by requiring them to help supply its need for a continuous stream of well educated workers. The OUS Chancellor recently acknowledged this symbiotic relationship by stating that Oregon is finally becoming a “college going” state and it has now become state policy to support such behavior. A target for educational attainment has been adopted by the Oregon State Legislature (the 40-40-20 goal) that will provide Oregon with the college educated citizenry it needs to be competitive in the world economy. As PSU works to help meet this goal, it is very likely it will continue to grow. Today, PSU educates over 30,000 students and is a key partner with the Portland Metropolitan region in solving problems and catalyzing innovation and economic growth through an expanding base of research activity and the continuation of its most successful community engagement programs. Tomorrow, Portland State will be expected to graduate its share of students to meet the challenges of the 40-40-20 goal. However, the direction of PSU's future development and its ability to meet the State's educational attainment targets are challenged by the continued decline in State support. When the fiscal climate is such that declining state support is converging with continuously rising costs – many of which are State mandated – it becomes clear to the University's leadership team that the institution's ongoing fiscal health must be of primary concern.

In the past fifteen years, as PSU has shifted from a largely State supported to a largely tuition and fees supported institution, old methods of managing the University budget, including the treatment of both revenues and expenditures, have become less efficacious. While budgetary

practices and policies have also evolved over these years, taken as a whole, they have not produced a cohesive university budgeting strategy, one which recognizes the gigantic shift in revenue sources supporting the institution, nor the implication of a much more market driven institution.

On the horizon, there appears to be an opportunity for a changed relationship with the State of Oregon. It is conceivable that sometime within the next biennium, the Oregon University System and PSU will gain an important measure of independence from state management. This in turn may provide some opportunities for new efficiencies and alternative ways of delivering support services to the University. Anticipation of this changed relationship pivots on the concept of a performance compact with the State. This compact, once established, will require more sophisticated administrative practices so the University can manage to metrics such as student retention and success while still expanding its research base and remaining on course to achieve other important institutional goals. Should the OUS and PSU “reset” their relationship with the State of Oregon; the cost containment side of the budgeting ledger will look somewhat brighter. Even so, University leadership will need to carefully craft tuition and fee decisions if they are to successfully optimize and manage tuition revenues.

In the future, students who now pay the lion’s share of the overall cost of instruction will have more choices. What their dollar buys at PSU as compared to other institutions will become a measure of quality as they evaluate the institution they plan to attend. In this context, market forces must influence many of the decisions the University now makes, including decisions about how to set tuition levels, deploy budget resources, and allocate financial aid and fee remissions to assist with the overall OUS goal of affordability. In the future, the University will need a new budget allocation strategy that ensures tuition resources provide support for our common purposes (the Taskforce has adopted the ideal of “the Commons” to express the infrastructure that supports the academic enterprise we are all engaged in) by addressing core institutional needs as well as the strategic university goals that will shape PSU’s future. At the same time, a comprehensive budgetary strategy must incent schools and colleges to continue to maintain adequate enrollments while improving the quality of their instructional programs.

Given its location, its programming, and its need to meet its share of the State’s 40-40-20 goal, it is likely that PSU will continue to grow, albeit in a much more strategic and planned way. It is also clear that the dominant source of revenue will continue to be student tuition and fees. To optimize the use of these precious dollars, PSU needs a new budget model that provides incentives and disincentives for institutional behavior from the top university leadership through academic and administrative units. While the aim of these incentives and disincentives is to increase revenue, while minimizing costs, this budget model must also address how revenue sources such as indirect cost recoveries; administrative overhead charges; donor and gift funds; as well as auxiliary charges and other revenues help the institution address principles of affordability, equity, and rationality in the budget process and its outcomes. Creating such a model is the overarching purpose of the Financial Futures Framework Committee.

## **BACKGROUND ON THE FINANCIAL FUTURES TASKFORCE**

In 2009, President Wiewel received a report from the Long Term Institutional Fiscal Strategies Committee (LTIFS), a body charged with doing a broad review of challenges to the University and identifying opportunities for improvement in the overall management of the institution. That Committee was chaired by Dean Marvin Kaiser and produced its report in July. Simultaneously, the President through a series of leadership retreats established a set of strategic priorities for the institution, many of which were discussed by LTIFS as well as the Council of Deans, the Finance and Administration Council and the Faculty Senate over the past few years. These strategic priorities address most of the important issues facing the University including: concerted enrollment management; a conducive environment for the expansion of the research mission; expanding online academic offerings; regional collaborations with Oregon Health Sciences University and Portland Public Schools, the Portland sustainability leadership and planning community among many others; and, not least, fostering revenue enhancement through careful future financial management and fundraising. A key recommendation of the LTIFS Committee, as well as the Vice President for Finance and Administration (VP FADM) concerning financial management was to review the entire fiscal history of the University and to examine the University's current budgetary methods and framework.

### **The Charge to the Financial Futures Taskforce (FFTF)**

Convened by President Wiewel in the fall of 2010, the FFTF was given the charge (See Appendix Four) to examine the history of the University's financial life in order to understand the past and current position of the institution and to examine and discuss likely financial futures for the institution. This first phase was organized by the VP FADM and the University Budget Office staff prior to the convening of the Taskforce, per se. This allowed for a thorough compilation of budget history to share with the Committee upon its commencement. The Committee was further charged with recommending principles leading to a new budget model and allocation process for the University in future years. The Committee was asked to look at the incentive and disincentive structure of the current budget framework and recommend how incentives appropriate to desirable budget outcomes could be implemented in a new budget model. The ultimate goal was to produce a new budget model, one that is responsive to emerging financial realities and that best serves the mission of the institution and the strategic goals established by University leadership.

The Financial Futures Taskforce (FFTF), chaired by the VP FADM, Lindsay A. Desrochers and the Vice President for Academic Affairs and Provost, Roy Koch, undertook its work in late Spring of 2010 and organized a large, broadly representative campus Taskforce of twenty four members (See Appendix Five) for the year long effort to study and remodel the University budget framework.

**Methodology:** The work of the FFTF began with an educational process that provided the Taskforce members with a thorough understanding of the financial history of the University and, most importantly: the direction of trends in that history and how the University compared with peers on budgetary metrics. At the beginning of the new academic year, 2010-11, the Taskforce organized the next phase of its work into three strands:

- 1) an examination of revenue sources: how those sources are currently managed; what incentives and disincentives exist in current policies and practices; and what principles should guide future management;
- 2) an examination of expenditures; how allocations are currently made; what incentives and disincentives exist in current policies and practices; and the principles that should guide future allocations; and finally
- 3) an examination of models, data, and information from other institutions which might help inform the development of a new budget model for PSU and the pre-development modeling of budget allocation methods.

The University Budget Office in FADM, together with the Fiscal Planning and Strategies unit within the Office of Academic Affairs, undertook this work with the Taskforce members. The three strands began their work in the fall, with the examination of revenue, conducted in six subcommittees organized by revenue source. The second strand proceeded to an examination of expenditures in eight subcommittees organized by function in the winter; simultaneously with these two strands, a third group composed of staff and select committee members reviewed the history and literature in the field and worked on developing sample budget models and running simulations of these models. We will begin with the historical/literature review of budgeting in higher education.

## **HISTORY AND LITERATURE REVIEW: BUDGETING IN HIGHER EDUCATION**

The development of a new budget model is a rational response to the needs of *this* University, at *this* time. But Oregon is not the only state disinvesting in its universities and PSU is not the only university suffering from this phenomenon. In order to better understand how other universities are responding to budget reductions in general, as well as to learn from the experiences of peers who might have undergone, or might be undergoing a similar redesign of their budget allocation models, the FFTF did a review of the pertinent literature. Generally, we found that many states are undergoing a serious re-examination of the fiscal relationship to their public university systems and some states: Colorado, Florida, South Carolina, and Virginia – in addition to Oregon – are actively engaged in re-setting this relationship. In some cases, the impetus for change has come from state policymakers who want to make sure the increasingly limited state funding available for higher education is supporting tangible outcomes for students and state residents. In other cases, public higher education leaders are seeking “regulatory relief” from state governments in order to gain institutional control or flexibility over tuition setting, purchasing, hiring, and other administrative processes, with the implicit understanding that any future growth in state funding for higher education will be limited at best (Layzell, 2007 p. 2).

A number of different budget allocation models are used in higher education. Although there are differences between the methods used by State Legislatures to allocate funds to universities and the internal allocation methods used by the universities themselves, in our investigations, the FFTF chose to focus on the budget allocation models that were most

commonly used in higher education while searching for a methodology that would help us better tie our revenue and expenditures to the educational and administrative principles we value. The models we reviewed are summarized here:

### INCREMENTAL/DECREMENTAL BUDGETING (BASELINE) MODEL

This budget model uses the current year's base budget as the starting point for the next year's budget decisions. Usually, marginal adjustments are made to the base budget that allow for differences in "line items" planned for the next year. These generally include cost increases/decreases to salaries, benefits, services and supplies, equipment, debt, etc. Line item budgets are required by law as they become the basis for financial reporting up to relevant government, auditing, regulatory or accrediting entities and they are often tied to formulas relating to inflation or cost drivers (imposed by outside entities or agencies as well as internal calculations) to legal obligations such as debt and so forth. Frequently, small strategic adjustments to the base budget may also be made which relate to some institutional level initiatives, but these again, usually result in marginal changes in terms of the total budget impact. Incremental/decremental budgeting emphasizes the historical stability of the budget and usually allocates on the basis of "fair shares" of either new revenues or decreased revenues (such as state revenue reductions). This budgeting model, which has the deepest history and is linked to line item budgeting, is focused on the control of expenditures. Its greatest deficiency is that it enshrines a base budget which may not reflect the strategic necessities of an institution's current environment. This budget model is typically used in higher education (both public and private); it is organized by program activity categories as defined by NACUBO and as reported in IPEDs. Entire programs are rarely affected by changes in baseline budget models. In this model, outcomes and performance are less important than maintaining stability, which is done by making only marginal adjustments to the historical base.

### ZERO-BASED BUDGETING (ZBB)

This budget model requires a time intensive, comprehensive review of the entire budget as a starting point for next year's budget decisions. In theory, all funding is made available for redirection in any given year for institutional mission and goals. ZBB is rarely utilized by higher education (or for that matter, government entities). The implication of ZBB is that all programs will be re-examined annually (or biennially) and that all programs are vulnerable to change on an annual or biennial basis. Hence programmatic stability, including commitments for long term expenditures such as tenured faculty and four year degree resources, etc. is hard to guarantee. Because in fact, universities have significant fixed costs including tenured faculty, union contracts, debt, academic program commitments to students etc, there is little utility in the comprehensive ZBB approach to budgeting. However, some government agencies as well as universities do have cycles of selected program reviews which can open up at least some programs to more frequent thorough budget examination.

### PROGRAM, PLANNING AND BUDGETING SYSTEM (PPBS)

Program, Planning and Budgeting System, PPBS, was initiated in the 1960s in the federal government by the Department of Defense (DOD) with the intent of linking the budget process

to planning and strategic program goals. In the DOD, planning was launched and strategic goals were developed and then attached to programs. Program activities were then directly linked to projected costs, or budget cost centers. In higher education during this same period, NACUBO introduced the more formalized model of functional program categories in its budgeting and accounting literature.<sup>1</sup> The categories were: Instruction; Research; Public Service; Academic Support; Student Services; Institutional Support; Operation of Maintenance and Plant (modified somewhat over time).

The NACUBO budgeting categories have provided the framework for organizing budgeting and financial reporting for many decades now and they form the basis for reporting information to the IPEDs data system in higher education. Most universities now use Incremental/Decremental Budgeting with the required line items for personnel, operations, debt etc. and overlay this process with the NACUBO functional/program categories. To achieve actual budgeting decisions, most institutions are guided by the historical base budget, but then introduce formulas to determine how any new revenues - or lost revenues - will be allocated. Typically, these formulas use student credit hours and sometimes packages of expenses related to additional personnel and for services and supplies (including technology, travel, equipment etc). Institutions also sometimes make marginal adjustments with the university's strategic goals in mind. However, because there is great variation in the actual planning and strategic goal setting within higher education institutions, true PPBS as such may be limited. To achieve a true PPBS approach to budgeting, there is an implicit need for an institutional plan and a clear set of strategic goals which can then be specifically and consistently related to budget decision packages. Rare is the institution that has fully achieved a PPBS approach.

## PERFORMANCE BUDGETING

In more recent decades a fourth type of budgeting model has been gaining momentum in government and higher education; that is Performance Budgeting. Moves towards Performance Budgeting are driven sometimes by increasing demands from the political environment for greater efficiency in use of university resources and sometimes by universities themselves which recognize that the inexorable decline of state funding and concomitant demands for higher tuition costs to students *must* be accompanied by accountable budgeting. Performance Budgeting is now emerging in higher education as a useful budgeting approach because it moves an entity (university or other) along the continuum away from simple marginal adjustments to a base – or even program activities support with linkage to program goals – towards a focus on the outcomes expenditures have actually achieved. Consequently, this general model is adept at focusing the budgeting process on measured performance rather than resource inputs to a base budget composed of line items or program activities.

Performance Budgeting can relate to many diverse goals. It can relate to the goals of a state to move more students through the higher education process to graduation; or to the goals of a university to improve retention and graduation rates. Or goals may relate to advancement of

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<sup>1</sup> College and University Budgeting: An Introduction for Faculty and Academic Administrators, Larry Goldstein, Ed, revised 2005.

a university towards a level of research activity and an expanded research mission. Or goals may relate to the fiscal health of an institution; the welfare of its faculty and staff; and affordability for its students. These goals may indicate that allocation decisions advance the growth of revenue for the institution overall; advance the level of faculty compensation; or hold the line on student costs. In Performance Budgeting, all of these goals are associated with inputs which produce metrics against which goal achievement can be measured.

## RESPONSIBILITY CENTER OR REVENUE BASED BUDGETING (RCBB)

There are many variations on Performance Budgeting and one which has engendered much interest in the higher education community over the last few decades is Responsibility Center or Revenue Based Budgeting (RCBB) which is based on the premise that revenue generation is a primary performance factor. Prior to the development of RCBB, only a few institutions organized their budgeting approach in a decentralized manner. Most prominently, Harvard University used a concept that became known as “each tub on its own bottom.” At Harvard each school or college was fully dependent on its own revenues and in turn responsible for its own expenses; operationally this has meant that the Harvard University is largely a confederation of schools/colleges and central University leadership is weak. Individual units at Harvard must achieve financial self sufficiency which allows little room for non self sufficient units to survive. Harvard may be unique in this model, but its premise of unit responsibility took root as an interesting concept which other institutions then began to discuss in the 1980s.

The RCBB movement began in earnest in the late 1980s at the Indiana-Purdue University, when that University adopted the concept of establishing the generation of revenue and attribution of expense as a primary means upon which to base allocations. The Indiana experiment was explained in Edward Whalen’s renowned book, Responsibility Center Budgeting: An Approach to Decentralized Management for Institutions of Higher Education (1991). While all universities continue to produce line item budgets (as required by law for public institutions) which are then overlaid with NACUBO functional categories for purposes of reporting to IPEDs, and most institutions continue to use a historical incremental/decremental approach to budget decision making with some attention to the application of formulas and strategic goals, over the last few decades a number of colleges and universities have adopted some variation of a financial management/budgeting system which more directly connects budget allocations with unit activity or productivity (RCBB). Often these Universities have modified the model during the course of implementation; much has been learned as a result of two decades of experimentation. The bottom line, however, is that RCBB may dramatically turn the tables within an institution, resulting in a greater sense of ownership by academic leaders for both revenue generation and costs. This can only succeed for an institution, however, if the entire university is accounted for in the calculus and the overall university mission remains at the core of leadership accountability.

The idea of RCBB is that allocations are made to academic units based largely on revenues earned by those units, and conversely, costs or expenses are budgeted fully to units which incur them. Thus there is a greater proximity of revenue source and responsibility for costs to the actual locus of program implementation within the institution. This concept was based on the expectation that it would motivate units to enhance their revenue generation, a

much desired goal, and also motivate units to curb unnecessary costs, as the model was designed to align budget allocations with the actual use of resources. There are myriad complications with RCBB, especially considering the various revenue sources – not all of which are within the control of an institution - such as tuition and fee decisions, state appropriations or research contracts/grants as well as indirect cost recoveries (which reflect faculty choices more than institutional choices). To the extent revenue sources are not fully within the control of the university, the RCBB model may require some modification. Further, in its earliest guise, RCBB required multiple, intricate and complicated budgeting formulas and continuous data gathering and the labor intensity and sophistication of developing costing and revenue models was a challenge. Further, the model implicitly questioned the value of those units or activities which did not generate sufficient funds to cover at least their full costs (plus their share of the support of the general university administrative structure). The complexities of this early model at Indiana have led to many refinements of RCBB as others adopted and adapted it. But the essential premise remains attractive as it has become evident that universities must be responsive to extreme changes in the fiscal landscape and calls for accountability in how they manage their resources. As a direction for Portland State University, there is much to recommend a modified, hybrid RCBB approach. But before joining that specific discussion, a summary of the major findings concerning RCBB would be in order.

### **Further Findings/Lessons on RCBB**

Initially very little empirical research was conducted that could validate or challenge the efficacy of RCBB (Hearn et al., 2006). Whalen’s initial history of the effort at Indiana was the starting point for this literature and is a detailed and explanatory review of decentralized budgeting; it continues to be the most consistently referenced document in the literature. It is, however, based on a single institution and considering it was written concomitantly with its implementation, it can include no retrospective analysis of the system’s efficacy. In more recent years, additional studies or examinations of RCBB experiments have been undertaken.

Strauss and Curry, two individuals who have been very prominent in RCBB and involved in the implementation of such processes at several different universities around the country as well as having served as consultants to many other universities, compiled their experiences into a NACUBO publication entitled: “Responsibility Center Management: Lessons from 25 Years of Decentralized Management” (2002). What follows are Strauss and Curry’s major points regarding this budget management model:

- RCBB attempts to couple decisions with responsibility by making a fundamental tradeoff: ownership of revenues for financial responsibility, including indirect cost of programs. It is intended to place academic decision making in the context of (full) costs and benefits; that is, all direct and indirect costs related to academic programs.
- It is intended to be a means to achieve academic and university goals, it is not intended to allow financial conversation to over shadow academic ones.

- It is intended to involve faculty and academic leadership in considering financial as well as academic issues when making tradeoffs between competing claims. Since faculty have a tendency to consider only academic issues and local (to the department) benefits, this model works better at the college/school level. In Curry's words: "Local optimization does not always lead to globally optimal outcomes."
- All revenues generated by an academic unit are assigned to that unit, but then a "subvention" or "tax" is applied to the unit revenues. This subvention/tax can compensate for the wide disparity in unit costs of different academic programs by providing subsidies to some academic units. Further, the subvention/tax can cover costs of administration and support services in the overall institution as well. (Note: many institutions have retained the idea of central, off the top funding to manage the administrative infrastructure of the university or some variation thereof.)
- Strauss and Curry note, however, that this subvention mechanism is not intended to be "welfare." Overall, the transparency of revenue and cost information is fundamental to the model's implementation.
- It is recognized that faculty and students are attracted to an institution, not just an academic unit, thus the RCBB must support overall institutional health.

In addition to these points, Strauss and Curry noted the following:

- To be successful, the model needs to be relatively simple. There is no perfect allocation formula and all details are always arguable. Oversight is required.
- To be successful, modifications or changes must be allowable as any institution has a unique and changing environment and culture, as well as practices.
- The RCBB method reinforces desired goals as accountability is measured in terms of both outcomes and inputs.

And finally, they claim that:

- No institution that fully implemented RCM has entirely returned to its previous budgeting methodology.

## **Summary of strengths/weaknesses**

RCBB advocates, including Strauss and Curry claim that the model encourages more entrepreneurial behavior on the part of academic units and faculty; that it encourages more responsible decision making on the part of academic units which can now see and evaluate more clearly the true costs associated with their programs and, where there is full distribution /attribution of administrative and support services costs, this includes the university's administrative and support costs. In general, advocates claim that there is a better overall understanding of marginal costs and revenues and of the intersection of tuition and fees to program support. There is also a better understanding of the long term vs. short term picture. This in turn causes academic leadership to pay closer attention to students and the student market as well as the quality of programs offered.

RCBB does have some drawbacks - some would say weaknesses - depending on the environment within which it exists. Some were noted above: most especially there is significant complexity which would complicate the financial management and budgeting process if a pure RCBB model were followed. Early implementers found significant challenges in regularly updating the very detailed and extensive calculations required by the model. If RCBB, as a practical budgeting method, is highly laden with comprehensive, detailed, and changing costing and revenue formulas it can easily collapse under its own weight. There is a further challenge in that the pure RCBB model requires schools and colleges to have very sophisticated financial and budgeting staffs. Some basic choices regarding the level and depth of such formulas needs to be determined for effective implementation at any institution and central budgeting and financial management offices need to establish standards for cost/benefit determinations as well as appropriate administrative overhead charge structures. With an enhanced responsibility on the part of academic units for understanding costs and revenues, there needs to be upgraded quality in budgeting/financial staff in those units. This can be a major challenge for an institution which is thinly staffed (which PSU surely is). Again, however, central university offices can be made responsible for such calculations and a more modified approach to the model which keeps it "simple" - as Curry urged - can be found.

RCBB requires a shift in thinking on the part of the core academic units in terms of both revenue and costs and this is a culture change for many. Tuition pricing becomes a major topic. Fee remissions to ameliorate pricing decisions must also become a consideration. The central university leadership needs to establish expectations for affordability among other goals. In many institutions (including PSU), tuition and fee decisions are not fully within the control of the institution and as such the idea of a pure RCBB model is not possible. Tuition and fees may be allocated to units based on a generation principle, but the actual level of those revenues rates will likely be less than optimal. According to RCBB advocates academic units should be incented to offer programs that are attractive to students; but the downside of this behavior can be unproductive and inefficient delivery of instructional services across the university. This latter situation calls for a strong hand in what is essentially a regulatory function, first at the college/school and then at the Provost level and without some ground rules, the positive incentives may unbalance the institution. Without a strong hand on the part of the central university leadership, schools and colleges may choose not to address overall institutional goals;

hence some portion of resources must stay with or return to the university to assure incentive funding for strategic goals.

## TOWARDS A NEW PSU BUDGET MODEL

The five models for university budgeting, individually or in combination, cover the spectrum of methods used by the higher education community in their budgetary processes. Many institutions in a bid to lodge responsibility more broadly across the institution have turned to some form of performance/responsibility-revenue based budgeting and these are some valuable lessons and possible directions for Portland State University to consider. As explained in the introduction, PSU's current budget process and outcomes reflects the slow accretion of individual revenue and expenditure budget decisions into a budget model that lacks coherence for the entire institution and is not suitable for the challenges of today's fiscal environment. PSU operates an outdated incremental/decremental budget process which does not fully align revenue sources with all university expenditure needs and strategic goals and which is not likely to maximize revenues the institution earns. At one time or another, marginal changes have been made to the budget base of most units; occasionally, strategic goals of the institution have been singled out and additional marginal budget allocations towards support of these goals have also been made. But the entire budget lacks a logic which encourages both revenue generation and the application of these growing revenues to support the strategic goals of the whole institution.

During the last decade the institution has shifted management, and in an ad hoc process, a growing portion of revenues (self support and indirect cost recoveries) to schools and colleges. The University has also introduced or grown various fees for service or overhead charges to supplement the general revenue base. This has been in response to the extreme loss of state support already discussed and is an inevitable outcome of this circumstance as well as the corresponding loss of overall buying power due to inflation. Using an incremental/decremental budgeting approach – while paying some notice to budgeting related to strategic goals - has limited the university's ability to carry out any overall strategic plan. In the last five years some attention to performance indicators, including student credit hours as a source of revenue generation and a performance indicator, has become an informal part of the budget process, but no major budget related re-alignments have been achieved during this time. Moving forward, the institution will need a budget model that allows University leadership to more efficiently allocate resources according to strategic goals and performance outcomes. This will necessarily mean a budget model that provides incentives to colleges and schools to increase revenue for the overall institution to a much more appropriate level, and which returns revenues largely to units as incentives to grow while taking adequate care to provide for the fundamental infrastructure of the institution.

To understand the budget life of Portland State and the complexities that must be understood in relation to any new budgeting approach, we now turn to the findings of the FFTF on revenues and expenditures patterns and practices.

## **PSU BUDGET ISSUES: REVENUES**

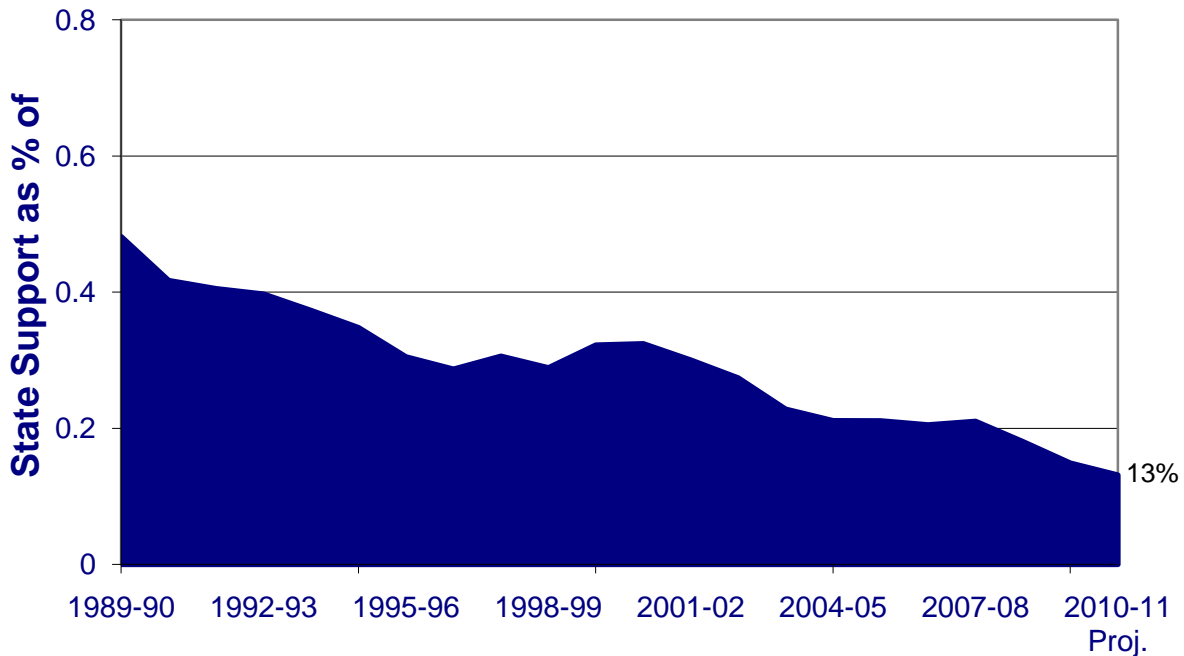
The historical and literature review suggests that for a performance based, revenue center budget model to be useful at PSU it will need to result in two fundamental outcomes: 1) it will increase and optimize the University's revenues sources; and 2) it will manage those revenue sources so they most efficiently serve multiple institutional purposes and strategic priorities - especially instruction and research. This section provides background on current budgeting practices at PSU related to revenue sources and it will outline some principles and recommendations in summary form. With regard to current revenue practices, it will look at how revenues are currently treated; what incentives and disincentives exist for creating new revenue; as well as other revenue related issues that are germane to the Taskforce's charge. This section is divided into six subsections: state appropriations, tuition and fees, indirect cost recovery, gift funds, auxiliaries/designated operations, and finally miscellaneous revenues including bonds, and other charges.

Following the description of each of the major current revenue sources is a summary of the principles and recommendations related to revenue sources that have resulted from the FFTF's deliberations. Subcommittees were asked to engage in a conversation about ways in which the university might increase the yield from all revenue categories and might improve the budgeting (and financial management) strategies concerning these revenues. They were also asked to identify the issues that could hinder the increase of revenues in these categories and to identify any incentives or disincentives looking forward.

### **Subsection One: State Appropriations**

As outlined above, Portland State University has seen a dramatic shift in revenue sources over the past 20 years. This is due to the State's declining investment in the University. The 2009-10 State appropriation to Portland State University was \$68.6 m. This included \$6.8 m in Federal Stimulus Funds. In 2010-11, the budgeted amount was \$64.1 m, which included \$5.4 m in Federal Stimulus Funds.

**Table 1: State Support**



Historically, state funding has come to PSU in two forms. First, and most importantly, the funds have been appropriated through the general Resource Allocation Model (RAM) of the Oregon University System. RAM is a budget allocation system largely based on in-state enrollments, levels of instruction and academic disciplines. The model provides higher levels of support for upper division and graduate work as compared to lower division work; it also provides higher levels of support for more expensive academic programs such as engineering or sciences and reduced support for less costly programs such as some social sciences and the humanities. All of the funds that have been allocated over the years to PSU using RAM and its predecessor model, the Budget Allocation System, have served as the fundamental resource base for the institution’s primary mission: instruction, non sponsored research, and scholarship. Limited funds within the RAM model have also been available for specific purposes including very minor amounts for faculty research or special allocations for small institutions. The RAM model, begun in 1999-2000, has never been fully funded and in fact has seen progressive, steady decline from a high of about 89% of the cell value, to the current level of 54.3%. Moreover, between 2003 and 2007, the OUS and State stopped funding new enrollments entirely. This had a singularly negative effect on PSU, occurring as it did during a period of sustained enrollment growth. While some of this lost revenue has been made up by OUS, the reality is that the overall – and sustained – loss to PSU has been significant. Consequently, the State’s funding of RAM must now be viewed as only a supplemental funding source for this institution. As illustrated in Table 1, we see that State support – as a percentage of the total of “all funds revenue” – has gone from 50% in 1990 to 13% in 2010-11. This graphic shows the persistent decline of State support and given the current economic climate, this trend is expected to continue for the foreseeable future, for example the proposed budget by the new Governor in 2011 for the upcoming biennium would further reduce state support by 23%.

Another important note on State Appropriations is that with the new gubernatorial administration it is very likely there will be changes in the assumptions underlying the future purposes of funding of this nature. The new governor has already suggested the university system funding allocation method should be redesigned to emphasize undergraduate education and specific areas that are important to the state's economic development efforts. In its current attempt to reset the relationship of higher education to the State, the OUS system has discussed moving more to a block grant funding approach which may emphasize different state goals than previously, including more emphasis on undergraduate student funding, with graduate student funding shifting more towards a tuition based approach. No details, however, concerning these ideas are as yet available.

In addition to providing general support, State Appropriations are also made for targeted programs and over the years certain specific programs have earned special funding appropriations from the state. Many of these programs are in the category of public service; a number of others are seen by state policymakers as strategic investments in economic development. The programs that have survived the perpetual biennial cuts are now a small handful of significant public service programs that are largely dependent on these appropriations. They include several programs which provide special high profile public services such as the Oregon Solutions Program, the Population Institute and New Leadership Oregon as well as special economic development initiatives in high technology; including engineering and computer sciences as well as the environmental and bio sciences. These initiatives provide vital funds to PSU and support faculty and equipment. Funding for these programs has always been treated as a direct pass through to the programs by the University Budget Office because the State has provided these funds for those purposes only. It is worth noting however, that especially in the area of engineering and computer sciences, as other resources have diminished, these funds have by necessity become a part of the base funding that supports programmatic faculty and research. Thus any losses in these funds would have the consequence of eroding basic support for fundamental academic programs.

### **Summary of Principles/Recommendations**

The Taskforce recommends that PSU continue to pursue its "fair share" of state funding from the State's Resource Allocation Model (RAM) - or its successor - regardless of the likelihood of decline. Also, RAM funding should remain part of the general pool of resource allocations within the institution and along with tuition revenues dealt with below, form a pool of resources allocated to schools/colleges based on revenue generation amongst other factors, with a structure to provide central administrative support services (See below under Expenditures). The Taskforce further recommends that the University continue to aggressively pursue funding from the State for high priority public service programs with research, training and economic development purposes. However, where state funding is withdrawn, the programs should not be continued unless there are compelling institutional reasons to do so. Because there is so much uncertainty about how the legislature will be able to fund higher education in Oregon, advocacy must be at the heart of any budget principle that addresses future state appropriations.

## Subsection Two: Tuition and Fees

As State support has declined, the University has become more and more reliant on tuition and fees as the only alternatives to State funding. In Table 2 the Cost of Instruction is shown in terms of dollars per full time equivalent (FTE) student. The two primary sources supporting the cost of instruction are also shown and the reader can clearly see how the State's share has diminished significantly over time. It is important, also, to note that while tuition and fees have been increasing, these revenue sources have not increased enough to keep PSU on par with the average of its peers in most expenditures categories.

**Table 2:** Cost of Instruction

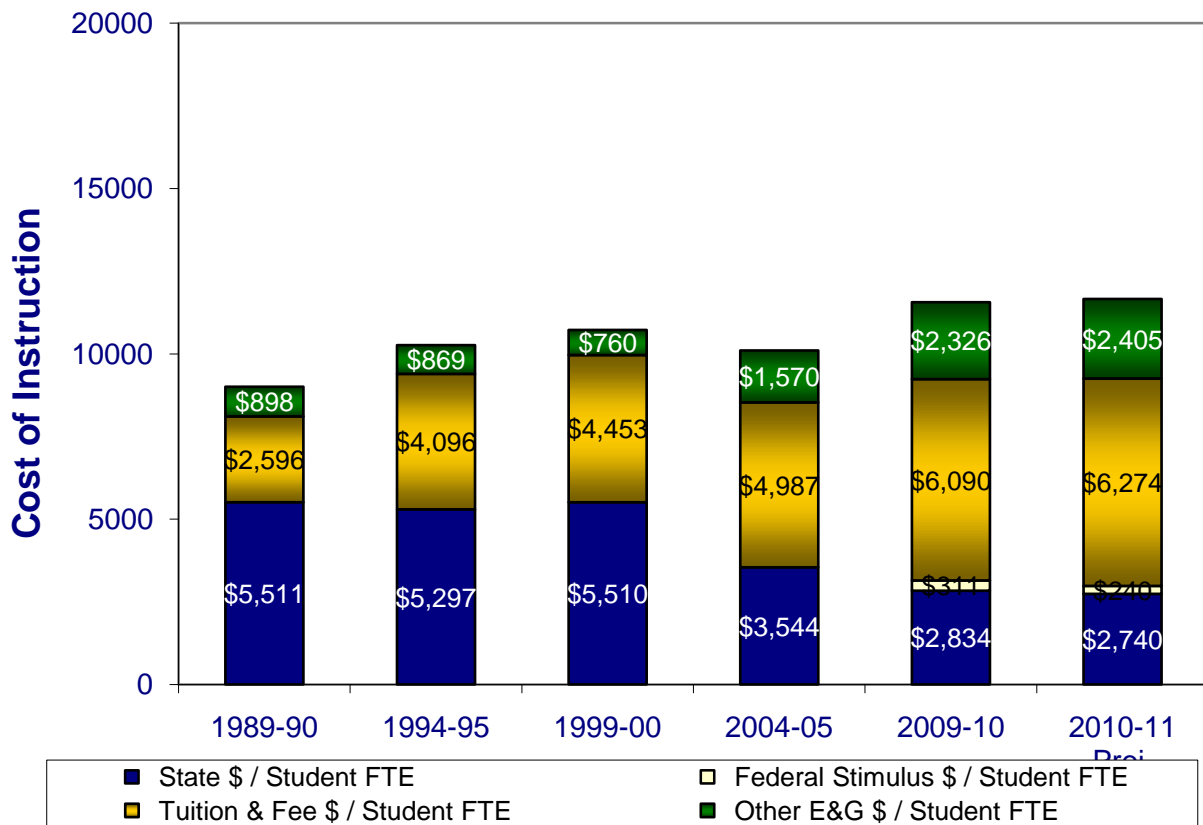


Table 3 from the Delta Cost Project shows the weakened fiscal position of PSU in relation to its peers. In point of fact, the actual buying power of the institution is less now than it was twenty years ago. Part of the reason for this is that tuition increases over these past two decades have been controlled by the state political process through budget notes establishing caps on tuition charges in general, and for undergraduate resident students in particular.

**Table 3: 2004/2008 Revenue - Peer Group Comparison**

*Revenue Sources (per Student FTE)*

	2004			2008		
	All**	PSU	PSU % of All	All	PSU	PSU % of All
Net Tuition	\$6,586	\$7,185	109%	\$7,726	\$7,246	94%
St / Local Approps	\$7,410	\$3,917	53%	\$7,379	\$4,352	59%
Fed, State, Local C & Gs	\$6,103	\$3,737	61%	\$6,654	\$3,765	57%
Auxiliaries	\$7,187	\$2,111	29%	\$9,069	\$3,251	36%
Priv Gifts, Grants, Contr	\$1,185	\$459	39%	\$961	\$259	27%
Investment Income						

For the purposes of the FFTF, this sea change in major revenue sources has made it necessary to delve deeply into many related funding issues including: how tuition and fees should be set; how tuition and fee revenues - the now dominant revenue source supporting the cost of instruction - come to the institution; and where those revenues are controlled within the institution. Also, the FFTF has considered whether tuition and fee revenues are being set at optimal levels as well as whether they are being used properly to support the mission and strategic goals of the institution.

Tuition Setting: Base, Self Support, Differential and more...

During the past fifteen years of rapidly increasing enrollments, Portland State has managed its growth with fewer and fewer state resources and frequently capped tuition. Tuition revenues as well as myriad fees have entered the University’s ledger through a variety of means. For example, the University charges a general tuition to undergraduate and graduate students which like all tuition and fees is approved by the OUS Board. For purposes of discussion here, we will call this “base tuition.” To base tuitions, the University has added additional tuition charges to nonresident students, largely based on what the market will bear.<sup>2</sup> All base and nonresident tuition as well as general state funding has been used as a general pool of revenues managed by University leadership to cover fundamental program requirements. Allocations have been made to academic units based on historical budgets, with faculty roster obligations and the generation of student credit hours being amongst the most important, but not exclusive strategic allocation factors.

Certain strategic initiatives to create new programs such as engineering and computer sciences in the 1990s required new allocations to support their incipient growth. Administrative programs have also been funded on a historic budget base, but over many years of reductions most of these services are now operating on a bare bones basis. Generally, the administrative service structure is lower on the list of peer averages than the academic or academic support

<sup>2</sup> With the exception of the Western University Exchange (WUE) program which has allowed students in selected programs from western regional states to attend PSU on the basis of 150% of resident tuition. And with the exception of certain international programs which have negotiated discounted tuition for certain strategic purposes.

areas, although it is true that *all* PSU expenditure categories are below those averages. New allocations are now generally made on the margins and there has been no exact relationship between either, revenue generation by academic units and allocations, or requirements for support services based on workload demands.

In addition to the base and nonresident tuitions, the University introduced what were called “resource fees” in the mid 1990s to enhance funding for certain purposes. For example, the first resource fee was the student information technology fee, the revenue from which was used exclusively to support information technology for students. Additionally, program fees, also called “resource fees” were added to the School of Business Administration, MCECS, Social Work, FPA, and CLAS programs over time. As fees, these revenue sources then are program specific and cannot be used for general university support. For accounting purposes, in recent years the resource fees have been rolled into the base tuition, but the amounts are still tracked and are dedicated to the purposes for which they were originally intended as was agreed upon with PSU’s student organizations. Another source of fees, generally known as “course fees”, is levied for specific purposes such as lab and studio use. Given the reductions in service and supply budgets in recent years, departments have come to rely on these fees to cover breakage and other course related costs; whether they are sufficient to fully cover these costs remains unknown. Most recently, a course fee for online courses has been introduced as a means to deal with the higher costs associated with such courses.

Similarly, and more recently, the University began allowing colleges or schools to propose additional tuition charges, called “differential tuition” for purposes related to meeting program costs, especially those costs which help develop the program such as student recruitment or marketing. Philosophically, differential tuition responds to market forces that suggest certain majors are popular enough – and provide enough well paying jobs – that students will be willing to pay a premium to enroll in these programs. The differential tuition idea is now being applied to both undergraduate and graduate programs in most schools and colleges for selected programs. Currently, all of the revenue from differential tuition remains with the college or school generating them. This has resulted in a strong incentive on the part of schools and colleges to create “differentials.” But as University needs have increased dramatically with the withdrawal of State support, the question of how best to utilize differential tuition capacity to help meet the *overall* needs of the University is an issue.

Finally, again in the 1990s, the University introduced a program called “self support” academic programs (both credit and non credit) and these programs charge tuition that is usually (but not always) aligned with PSU’s general tuition schedules. In theory, these programs are not part of the regular academic programs leading to degrees. Because self support programs provide academic units with a rare source of discretionary revenue, they have been rapidly expanding in recent years. At this time, academic self support programs account for approximately \$23 million and make up 9% of the Education and General budget. While self support programs that are for credit have been allowed in order to qualify the institution for additional RAM support, all tuition revenues are again retained by the colleges or schools. Thus, it has become necessary for the University to introduce an administrative overhead charge for these programs so they pay their fair share of administrative costs. Since they realize the tuition revenues, academic units have had a strong incentive to create self support programs even with

the administrative overhead charges. It has never been the University's intent that self support programs should replace regular academic programs, but there is concern that this has in fact happened in some instances thereby depleting overall tuition support for institutional purposes.

### **Summary of Principles/Recommendations: Tuition, Fee Remissions and other Fees:**

As PSU's single largest source of revenue and a growing source, the Taskforce recommends that special attention must be given to ensuring all types of tuition are fairly determined and reasonably distributed between undergraduate, graduate, resident and non-resident students. The Taskforce also notes that there should be a relationship between the charges to resident students and the actual cost of instruction as measured by peer institutions. Tuition should reflect the direct and indirect costs of instruction. It is recognized that non-resident tuition will be determined on a basis more related to what the market will bear. This latter concept conforms to the directions of the new governor. But the fundamental principle the Taskforce urges is that tuition be optimized so that rapidly diminishing state appropriation support can be replaced. While tuition and fee proposals are made by the campus, final decisions will remain under the authority of the OUS Board and will still be likely to be heavily influenced by political forces. Thus the institution and the Deans still have considerable leeway to intelligently grow tuition and vary it according to market considerations.

To best manage this now major source of revenue, the University needs to pool tuition resources (for all credit programs: in load; self support for credit; summer session; and programmatic resource fees) and regularly assess market forces and potential for growth of this revenue source with the level of state appropriation also in mind. A budget model which directs revenues largely to the source of generation can incent academic units to grow those resources and the Taskforce sees this concept as key to the future. The mix of factors which would result in such allocations is: student credit hours (indicative of revenue generation), degrees awarded, retention, research activity, program cost, RAM cell funding, and strategic initiatives.

Also, in order to assist students with the increasing burden of tuition and the university in meeting key retention and graduation objectives, the Taskforce recommends that fee remissions must grow and be targeted strategically to be in fair range of our peer institutions. Fee remissions are not expenditures, but losses of expected revenue and it is hard for the institution to see such losses; but it is also an important gesture to students to assist them in this way and if strategically developed, fee remissions can increase enrollments and retention. As a supplement, significant fundraising attention should be paid to the raising of scholarships and fellowships.

Not for credit academic programs should be charged a cost base administrative overhead charge so that the University is not subsidizing such self support programs as required by OUS policy. This costing basis becomes an important consideration as we move towards a new budget model and will take much analytical work on the part of the budget office to establish appropriate full recovery rates.

Summer session should begin to transfer to the regular academic program with a revenue sharing approach between schools and colleges as well as the continuation of administrative overhead support.

Additionally, the Taskforce looked at miscellaneous fees such as lab or course fees, and at a variety of charges to students for services. As PSU is forced more and more to generate its own income, developing principles to guide the management of student fees serves two purposes: 1) it will help students predict the true cost of their education; and 2) it will help address the perception that PSU is “nickel and diming” students through fees. Student fees for labs, courses or special services should be transparent, equitable to users, consistent across units and they should be set to cover actual costs of the services they are thought to provide and where certain high demand products/services allow, some fees may be set above cost to aid the departments, schools and colleges.

### **Subsection 3: Research/Indirect Cost Recovery**

Another major – although somewhat unreliable – revenue source to the University is research contracts and grants. Beginning in the 1990s, PSU has grown its research portfolio from a very modest \$6m to today’s \$58m. Most research dollars pay for the direct costs of the research activity, supporting faculty, graduate research assistants, equipment, and space among other costs.

Indirect Cost Recovery (ICR) is a revenue source that originates with research grants and contracts. The current federal rate for cost recovery is 46%. This does not mean that all federal grants/contracts receive that percentage amount, in fact it should be noted that ICR realized by any university is going to be less than the standard federal rate due to a number of exclusions and limitations. In FY 09-10, actual federal recoveries were 21% of all direct costs. Also, some smaller state and foundation grants can generate as little as 0%. Regardless of the size of the award, administrative costs to administer them tend to be similar. The University has not pursued a policy of trying to maximize indirect cost recoveries in the past and the actual recovery rate average could be improved for an institution of this kind. Nonetheless this is a revenue source that has been growing as a percentage of PSU’s overall budget and *unlike* Tuition and Fees this is a revenue source the University is working hard to increase. ICR revenues are budgeted for \$8.8m. With the goal of reaching \$100m in sponsored research grants and contracts, it is clear that ICR’s can become an even more substantial and reliable revenue source in the future if this area is carefully managed. With the establishment of a new Vice President for Research and Strategic Partnerships, this direction has been set by the President. ICRs are important to the overall fiscal health of the university because they are funds that can be spent on important strategic objectives. They also should help pay the overall cost of administrative and service units (such as research accounting, the library, space, and information technology) that support research.

Although PSU has enjoyed tremendous success in this area lately, to continue to grow research it is necessary to re-invest a certain proportion of ICR’s back into the infrastructure that supports it. This is made more difficult by the lack of transparency and consistency with which these funds are currently allocated. For example, we know that 3% of this revenue source goes back to the Oregon University System as an administrative surcharge. We also know that the deans of the colleges that generate ICRs receive a percentage of this revenue back from the Office of Research and Strategic Partnerships to spend as they deem necessary. What is unclear is whether the percentages returned to units are appropriate when compared to that returned to

the central budget for the cost of administrative overhead. Finding the right balance in the allocation of ICR's will be important if PSU truly wants to incent units and faculty to generate more grants and contracts and support them adequately so their research continues to be of a caliber high enough to attract even more support.

### **Summary of Principles/Recommendations: Research Contracts/Grants and Indirect Cost Recovery Funds**

Now that an explicit strategic goal of \$100 M has been set for the near term increase of PSU's sponsored research activity, the Taskforce recommends budget principles that will incent immediate revenue growth in this area and increase the amount of indirect cost recoveries to the university. Ideally, PSU would like to focus its efforts on grants and contracts that generate a minimum of 46% in ICRs. That said, it is important to acknowledge that the primary reason PSU faculty members conduct research are to address societal needs, push back the frontiers of knowledge, advance their professional careers, and give students experience with the scientific method. Thus, while generating revenue for the University from sponsored research is also an important factor and benefit for the University, it is not a motivation for the faculty. It is also important to note that research is an expensive enterprise, requiring significant University investment and prioritization of services if research faculty are to succeed. This includes administrative support, reduced teaching loads and space use; these costs are justified by increases to the institution's overall reputation, ability to recruit faculty and students, and appeal to potential donors, foundations, funding agencies and corporate partners.

The Taskforce also recommends that the university revisit its indirect cost recovery policies so that this revenue source may be maximized. This analysis should be spearheaded by the VP for Research and Partnerships, but with full buy in of the Executive Committee for a set of recommendations that get to how best to leverage faculty resources, identify fundraising supplemental assistance, and so forth. It is not anticipated that indirect cost recovery funds be pooled with tuition and state appropriations as is proposed in the above section; however, research performance should be one of the criteria used in the overall budget allocation model as discussed above. The management of indirect cost recovery funds is treated below in the Expenditure section.

#### **Subsection 4: Gift Funds**

Historically, gift funds as well as endowment earnings have not played a large part in PSU's budget or in its budgeting process. Typically, gifts come to the university with donor restrictions and are intended to pay for a specific program or capital project, endow a faculty position or a student scholarship - which offset Education and General expenses. In the past, the University has not secured substantial unrestricted funding. However, gift and donor fund development is very important to PSU and it did undertake its first Comprehensive Campaign some years ago under the previous presidential leadership. That Campaign was a success with over \$113m raised by the institution for a variety of purposes. In the four years since this campaign, the University has been considering how to move forward with its Development and Advancement process and whether an even more successful Campaign could be launched.

With the recent reorganization of the Development Office and the addition of a new Vice President for University Advancement, PSU's aim is to use gifts and donor funds to build an endowment that generates a reliable and ever increasing portion of the university's budget. However, it is clear that a culture of philanthropy needs to become a stronger part of PSU's institutional culture before a coordinated Advancement and Comprehensive Campaign with higher level revenue goals can succeed. And successfully raising donations and gifts, with special attention to unrestricted funds or even restricted funds for strategic university purposes, will require an investment of resources. Thus, expansion in this area will require the budget process to facilitate some investment in the necessary infrastructure with the understanding that a careful analysis of appropriate performance metrics, with a defined return on investment, will be a critical part of the process.

While expanding this revenue stream would assist PSU in achieving its strategic goals, it is not a replacement for tuition funds, which have now become the lion's share of revenues for the university's general programming. Nevertheless, additional revenue generated by a more robust Advancement program would help the University to increase the number of its capital projects; compete for larger and more prestigious research grants; and support more faculty, and students through endowed chairs, scholarships and fellowships.

### **Summary of Principles/Recommendations for Gift Funds:**

Whereas in many older universities, endowments and other types of private funding have been an important source of core funding, historically this has not been the case at PSU. With a shift to self generated income, this category must become more important to PSU in the future. The Taskforce recommends that the university plan for a greater part of its funding base to come from private sources. The Taskforce recommends that all units of the university community see private giving as a responsibility and that members of the Advancement division be seen as partners to all other units in this goal so there can be a collaborative sharing of information in this process. Further, the Taskforce recommends that institutional fundraising priorities be set, as well as targets for annual fundraising and a new comprehensive campaign; and that a return on investment philosophy guide fundraising strategies in the future.

### **Subsection 5: Auxiliaries and Designated Operations Funds**

Auxiliaries are also a growing source of revenue for the University, totaling \$80 million in 2009/10. Auxiliaries, which comprise student housing, transportation services, food service, student health center, and University Place, among a few other smaller activities, must be self supporting operations: their revenues must cover their operations. This principle is implicit in the definition of Auxiliaries; these are services to students and others that the state and tuition do not support. In the case of Intercollegiate Athletics, the program is considered a partial auxiliary in that student incidental fees support a significant portion of the program and student fee remissions to student athletics also do so. In addition to Auxiliaries are Designated Operations which totaled \$15 million in 2009/10. These are also considered self support programs that are generally supplemental to instruction including: not for credit self support academic programs; community education events such as conferences and workshops; and public service activities including not for credit short courses and camps. Auxiliaries and Designated Operation funds

support the programs that generate them. In some cases other types of revenues such as lottery revenues (for Athletics) supplement generated funds from fees or charges. The Auxiliaries and Designated Operations operate under rules that require maintenance of working capital (to cover at least 60 days operations) and they are limited in some instances in how funds may be used. Because Auxiliaries and sometimes, Designated Operations, can compete with private businesses external to the University such as local restaurants, rental housing, or private conferencing organizations, these operations must be sensitive to rate structures in the market.

Both Auxiliaries and Designated Operations are subject to the general administrative overhead charge to cover indirect costs which allows them to operate within the context of the university. Administrative and support services are expenditures that cross all units of the university. Given the decline in state support, charging administrative overhead to self support or auxiliary programs has been one way the University has paid for these services. Administrative overhead charges would typically be tied to the use of support and administrative services by various self supporting operations or programs, but until just four years ago, the University has chosen to impose these charges sparingly. With more interest in overhead charge policy at OUS, PSU has increased its overhead rates. In 2000, the average overhead rate was 8% and it has grown to 16% in 2010. Until just recently, student associations and clubs that used the University's central administrative services were exempt from this overhead charge. In 2007 this policy was changed and student organizations began paying a rate of 1%, which has grown to 4% in 2011. In addition, a different overhead level is paid by Auxiliaries and Designated Operations. Currently at 16%, this charge will be adjusted up to 18% in 2011. These charges have grown in recent years and are now closer to, if not entirely consistent with, a realistic actual cost basis. The revenues from these charges are an important and growing source of income for the university, standing at \$6m in 2009/10, which provides a support infrastructure for the Auxiliaries and Designated Operations, as well as all other programs.

Because PSU's Auxiliaries function more like a private business within the context of Portland or its region, there are some opportunities for growth through collaboration with both other public institutions and private ventures. Of special note is that auxiliary charges are most often additional costs to students for living services: housing, food, parking, transport, and health. All of these services must be funded adequately; however because these costs add to the total cost of attendance for all students who must use them, a balance between the need to fund services and a student's cost burden must be struck when thinking about strategies relating to auxiliary revenues.

### **Summary of Principles/Recommendations: Auxiliaries and Designated Operations**

The Auxiliaries at PSU play an increasingly important role in the overall finances of the institution and in the costs to students to attend. Additionally, Designated Operations as part of an instructionally related set of services is related to student cost. Therefore, the Taskforce recommends that special care should be taken to optimize revenues but minimize costs in these programs.

The Taskforce further recommends that more analysis be done of the actual costs basis for administrative overhead charges as this system of cost based charging for administrative support services will be a key feature of a new "responsibility" or "performance" based budget

model. Those charges should require that indirect cost should be fully covered as an eventual goal for the institution and as is required in OUS policy. The Taskforce also recommends that the overhead charges be equitably allocated including student activities, which have been at a very low level of charge.

Given the dynamic nature of the competitive environment within which they operate, the Taskforce also recommends that the Auxiliaries should regularly be reviewed for revenue generation and organizational and operational efficiency. There is also an opportunity to expand the revenue that is generated in this area by increasing the amount of Auxiliaries activity that takes place during “slack” periods such as summers and winter and spring breaks.

### **Subsection 6: Miscellaneous Revenues – Capital Outlay Funds and Internal Charges by Service Centers**

In addition to the five major sources of revenues that support the fundamental operations of the University in pursuit of its three part mission of instruction, research and public service, there several other categories of funds which enter the University’s ledgers. The largest category is capital outlay funds which can be cash, bond proceeds, fund transfers from other entities, donations/gifts, and proceeds from certificates of participation. All of these are restricted funds which must be directed to particular capital projects, minor or major. Additionally, the State has usually appropriated a specific amount of funding for capital repair or deferred maintenance. Again, these come to the University as targeted funds which must be applied to only capital items, usually with a list of approved projects. As they are not funds available for general operations of the campus, they are not directly relevant to the budgeting process for the University’s general mission. Of course, because they provide important physical properties for the campus and facilitate delivery of services, they should be noted. But they were not per se within the scope of the FFTF work.

A final revenue issue, however, is internal charge backs. Auxiliaries and Designated Operations can charge other internal units fees for service. These fees are approved in the regular annual fee approval process. An additional mechanism inside the University which the FFTF wished to take note of was the charge back system currently in use in the Facilities and Planning unit and the Office of Information Technology. Both units charge other units for a broad scope of services. Historically, the reason for the extensive charge back systems is that continuous budget reductions over a number of years in the core budgets of Facilities and Planning as well as in the Office of Information Technology stripped many core staff from these units or severely inhibited the growth of these support staff even as the campus was growing in numbers and physical size. Today, many services that would normally be considered fundamental university services must be charged out to individual units as they undertake physical projects or office moves. This has led to a very fractured and spotty approach to creating and maintaining campus infrastructure.

### **Summary of Principles/Recommendations: Internal Charges in Service Centers**

The FFTF took note of the fact that this charging system has created significant negative incentives and recommends that the University consider reviving the core budgets of the two service center operations: FAP and OIT in the interests of greater efficiency of resource use. (Further comments below in Expenditure Section)

## **PSU BUDGET ISSUES: EXPENDITURES**

Having thoroughly reviewed how PSU has historically handled its myriad revenue sources; having identified the issues affecting the revenue side of budgeting; and having proposed recommendations/principles that help guide our thinking towards a new budget model, we now turn to the expenditures side of the budget. We will examine how expenditures have been historically managed in the budgeting process; identify issues therein, and report on the recommended principles which have emerged from the Committee's discussions that will help inform a new budgeting model for PSU.

The Taskforce used the relevant Banner codes and NACUBO expenditure categories to organize themselves into subcommittees. These categories are: Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Plant Operation and Management, and Auxiliaries. It is important to consider that these program/functional categories contain traditional budget line items relating to salaries, wages, benefits, services and supplies, equipment, debt, reserves and so forth. It is also important to remember that all of the above mentioned program/functional categories require personnel support, that is salaries, wages, benefits and support for personnel activity. Even more importantly, we should keep in mind that the drivers of these line items are collective bargaining, both at the institutional and the State level, as well as benefits decisions which have essentially been mandated by the state. Almost 75% of the University budget is committed to such personnel costs and thus the outcomes of collective bargaining and state decisions drive the outcomes of the university budget in large measure. While these compensation requirements influence the outcomes for any given academic program, they also greatly limit the amount of discretion university budget decision makers have.

Although Expenditure subcommittees drew on most of same university experts (with some additions) as the Revenues subcommittees, the chairs and committee members were changed to better match the talents and experience of the committees to the NACUBO expenditure categories. Also, because the Taskforce found that some of the same issues came up in the Expenditures and Revenues subcommittee discussions, by reassigning committee members to new subcommittees it was able to make more efficient use of member's time and complete their charge more quickly.

As was explained under Revenue Recommendations/Principles, all budget principles need to relate to the mission and goals of the university. Having identified the history and current practices for university expenditure categories/allocations above, it remains to summarize the recommended principles for budget allocations – needed expenditures – going forward.

The expenditure principles are divided into the NACUBO expenditure categories, but where principles overlap within these categories we have treated them as clearly as we can. (For example elements of space costs are in various categories: but the overall need to rationalize space distribution and tie to cost management is called up in at least two different categories below.) The Taskforce members were asked to think about how we might better manage budget allocations and major budget expenses and what were the key/important issues in each of the expenditure categories.

**Subsection One: Instruction**

Instruction, being a core mission of the University, has always been a prime concern in the PSU budgeting process. Consequently, allocations within the University budget over time have led to a more favorable, but by no means acceptable, level of support for instruction as compared to the various support services. Table 4 shows the Delta data peer comparison.

**Table 4:** 2004/2008 Expenditures - Peer Group Comparison

*Expenditures (per Student FTE)*

	2004			2008		
	All	PSU	PSU % of All	All	PSU	PSU % of All
Instruction	\$8,691	\$6,387	73%	\$9,444	\$6,914	73%
Student services	\$1,284	\$599	47%	\$1,334	\$620	46%
Research	\$3,507	\$1,254	36%	\$3,523	\$1,591	45%
Public service	\$1,344	\$784	58%	\$1,367	\$440	32%
Academic support	\$2,314	\$1,337	58%	\$2,324	\$1,376	59%
Institutional support	\$1,596	\$1,072	67%	\$1,823	\$1,067	59%
OMP	\$1,681	\$793	47%	\$2,022	\$943	47%
Net fell/schol	\$1,261	\$936	74%	\$1,377	\$1,017	74%
Total E & G	\$21,679	\$13,161	61%	\$23,213	\$13,968	60%
Education Related*	\$13,807	\$9,465	69%	\$15,080	\$10,201	68%
Res. Related	\$4,771	\$1,699	36%	\$4,863	\$2,155	44%
PS/Related	\$1,839	\$1,062	58%	\$1,895	\$595	31%

\*100% of Instruction, Student Services and proportional shares of Academic Support, Institutional Support and OMP

\*\* "All" represents the average of select peer institutions, including Portland State University

Allocations to the seven schools and colleges have generally been based on marginal changes to the base budget of each unit, with salaries and benefits driving cost increases. When possible, some additional funding has been added for increased enrollments, but this is usually not sufficient to cover the full marginal costs of additional tenured faculty and support for that faculty. Enrollment dollars have depended entirely on the state RAM allocation and tuition growth and the combined growth of these revenues has resulted in significantly diminished per-student support. Also, when possible, some additional funding has been provided for hiring certain strategic program development positions. Over time, the budget base for each school or college became established with the core of that base being a roster of tenured/tenure track, permanent faculty who form the heart of the academic community at the University. The budget base of a number of schools has been further increased with the rapid growth of “for-credit self support” programs designed so that the tuition revenue remains with the program unit. The university captures a percentage of this revenue through an administrative overhead charge and retains (the diminishing) RAM allocation for the student credit hours generated by these programs.

Three years ago the University moved from a system of “revenue sharing” (something of a misnomer) to a more thorough allocation process at the beginning of the budget year to schools and colleges, the primary instructional units. “Revenue sharing” held back some funding at the Provost level, which was then allocated to a school or college based on actual enrollments as compared to individual enrollment targets set by those units. Schools and colleges sought the shift to an earlier deployment of all funds with the demise of “Revenue sharing.” Over time, because revenues were not maintained at historical buying power levels, there has been a growth in fixed term and adjunct faculty rather than tenured faculty, so that now the ratio between permanent and temporary faculty is 3:2.

### **Summary of Recommended Principles: Instruction**

The FFTF recognizes that instruction, as a core institutional mission, must be maintained at a high level of quality; which means that instruction and related functions of student services and financial aid (fee remissions, loans and grants and scholarships) combined are critical to PSU success. The FFTF sees the generation of student credit hours, enrollments, as a critical point for reward and incentivizing academic units.

The FFTF sees the continuation of the funding level for instruction at least at the historical level of 50% of the E & G budget, with rewards and incentives to the units through tuition growth so that the entire university pool of funds may be enhanced. The enhancement of overall revenues to the university is critical and can only be achieved with a proper incentive structure to the academic units which generate revenues.

A pooled approach to revenues for instructional units, which returns revenues to the units which generate them, but provides for adequate off the top, tax or subvention for administrative infrastructure of the institution and cross subsidization where needed amongst academic units is the right approach. Elements included in the allocation approach would begin with the student credit hours and related revenues generated, but also include differential tuition and resource fees generated; a factor for program cost levels; level of instruction; non-resident/resident ratios; majors/degrees completed; sponsored research activity among others. Some reasonable portion of this overall allocation would be reserved strategic investments by the University.

The FFTF recommends that academic deans be charged with fiscal management responsibility including maintaining quality, effectiveness, efficiency and relevance of their programs, which will, under a new budget model, require trained professional staff capable of evaluating and assessing revenues and costs and working collaboratively with the University Budget Office to meet university policies and establish a transparent environment for budgetary management.

Finally, space use is a growing budget item for academic units (as well as others) and the FFTF recommends that a complete space analysis with an eye to a needs approach for space allocation/utilization be developed.

## **Subsection Two: Research**

As explained in the revenue section above, research at PSU has grown dramatically and is intended to grow even more rapidly, currently reaching for a \$100 million target. The lion's share of the funds in the research line will be restricted revenues that are by definition directed to the principle investigators (PIs) for the direct costs of research. Of course the university has simply facilitated the application of these funds to the appropriate PIs in the past and will do so in the future provided sufficient research administrative infrastructure is in place to accomplish this task. The discretionary portion of the funding embedded in the RAM allocation model for general research has long since been allocated to specific faculty or program purposes. This is a minor part of the formula and indeed may not continue under the new model of block granting to OUS under discussion with the new governor. The largest discretionary funding relating to research is, of course, indirect cost recoveries (ICRs), which as noted under the Revenues Section, have grown, but could grow more with focused research administration practices as suggested in the recommendations. Historically, ICRs have not been a part of the overall university budget allocation process.

From an expenditure standpoint ICR's have served several purposes at Portland State: they have provided the schools, colleges and the Provost with some discretionary income to support strategic investments in innovative faculty research; they have helped pay for critical start up costs including research equipment; they have paid for graduate research assistants; and in some cases they even pay for full time faculty. How ICRs funds are used in the future within the university overall and the schools and colleges where research faculty reside is an area of university budgeting which is important from all perspectives. The University needs funds to meet strategic goals relating to research which includes both the direct costs of new research and new research faculty, while also maintaining and growing research support infrastructure; schools and colleges need such funds to accommodate and incent faculty research; and of course PIs are looking for funds to accommodate future grants opportunities. The funds derived from ICRs in general provide a critical element for support of the second core mission of the university and the appropriate leveraging of these funds in overall academic units and University activity is an important leadership objective.

### **Summary of Recommended Principles: Research**

The FFTF recommends that ICR funds be managed by the Office of Research and Strategic Partnerships. A formal structure for the distribution of ICRs should be established which includes percentages of funding for research support staff; some investment to academic units to incent research; and funding for central university units which provide key support for the research endeavor including the library, OIT, research accounting, human resources, and facilities/EHS. Furthermore, it is recommended that this distribution, while managed by the VPRSP, should be agreed to in collaboration with President, Provost, and VP Finance and Administration to assure all university purposes are assessed in this strategic deployment of funds.

**Subsection Three: Public Service** – Public Service at Portland State is in the broadest sense an expansive activity; one which is actually delivered in coursework (through hundreds of capstone and community based learning courses), in research outcomes and other ways, such as through Designated Operations (self supporting programs or activities). Most would say that “public service” is in the DNA of this university. But in the University budget, there is a specific category called “Public Service” and this is much more limited in its acceptable scope of activities. Expenditures in the sector of the PSU budget defined as Public Service can vary greatly. This is because most of the functions paid for in this category are performed by centers, institutes, and programs which either began with base funding from, or are largely supported by, State allocations. Although these centers, institutes and programs play a very important role in the University’s operations and are considered essential to its mission, the nature of their funding can make them vulnerable to political forces beyond the university’s control. This creates a difficult situation for PSU. While the University supports Public Service activities, unless they serve a campus wide function, they must engender external support or the host school or colleges must agree to support them if they are to survive the loss of state funding.

### **Summary of Recommendations/Principles: Public Service**

The FFTF recognizes that Public Service is one of the three core missions of the University and it should continue to be a part of the fabric of instruction and research as well as a set of discreet programs. Such centers, institutes and programs should continue for as long as state funding or other funding is available. The FFTF also notes that should state (or other external) funding be withdrawn, then the future of the programs will require evaluation as to its University wide benefit relative to the available campus resources or the relevant dean may decide to use their colleges’ resources to support the program.

**Subsection Four: Academic Support** – Academic Support is an expenditure category that covers such essential functions as the school and college leadership (deans and dean’s staff); the Millar Library; the Center for Academic Excellence; and The Science Support Center (both faculty development programs). Recently, it has also come to include the University’s redesigned Online Learning programs; general administrative support for Extended Studies and Summer Session; as well as central research administrative support. Allocations to these units come from a variety of sources. For example, library services is an allowable expenditure under federal indirect cost recovery funding guidelines and consequently, receives some of these funds. However, the basic funding for the Millar Library and its contents (along with most of the subcategories in Academic Support) do come from the general pool of tuition and state funds available to the University. Allocations to the Online Learning Program will come from a newly dedicated per student credit hour fee which will be calibrated to meet the actual startup costs for the program.

Historically, Academic Support as a category has been supported at roughly 70% of the peer averages (see Delta data) - similar to instruction itself. When compared to some other areas of support services this level of support is certainly more substantial. However it is still well below the average of PSU’s institutional peers which means that dean’s offices, faculty development support staffs for technology use, and science support - as well as the library - are thinly resourced. Another consideration discussed in the context of the Academic Support

subcommittee, although not necessarily accounted for in this funding category, was the use of space. The theme of the inefficient use of space emerged in many of the subcommittees which indicates both an awareness of the increasing costs of space to the University, as well as a belief on the part of the Taskforce that space could be a more efficiently used at PSU.

### **Summary of Recommendations/Principles: Academic Support**

Because the Library and Information Technology provide essential and comprehensive academic support, the Taskforce recommends these two resources continue to grow along with indirect cost recovery so they can continue to serve the needs of faculty research activities in the institution. The Taskforce also recommends that the staffing ratios currently in use may require more hiring flexibility given resource constraints.

The Taskforce urges that academic support sub-categories be evaluated in relation to how select peer institutions staff and manage dean's offices; support their library services; and provide for special faculty development services. These more detailed evaluations should provide benchmarks for a cost basis which can become part of an overall administrative overhead cost model. Finally, in order to cut costs to academic programs that must sometimes lease space, the Taskforce calls for an overall examination of space use and evaluation of different methods for charging for all space use in the University.

**Subsection Five: Student Services** – Student Services largely reside within the Office of Student Affairs (a unit which is currently in transition). Student Services include all of the enrollment management services: admissions, registrar, financial aid (the latter to be transferred to Student Affairs on 7/1/11), and counseling, advising and related services. In addition to these core services there are other student services such as business services (bursar), housing, parking and others which reside in the Finance and Administration units. The centrality of student services to the success of the institution has become a key element in the strategic goals and priorities of the University in recent years. The University leadership has identified several goals for creating a higher profile for Student Services which will hopefully lead to greater student success. Student Affairs functions cross many internal campus boundaries and touch all facets of the student experience and is understood to be key to an institution whose funding resource base has shifted dramatically towards tuition and fees.

Historically, Student Services have been under resourced at Portland State and when expenditures in this area are compared to PSU's peer institutions a significant imbalance is apparent. For example, in the Delta study, student services were at 66% of the average of the peer institutions, making it one of the lowest categories by comparison. There is some evidence that suggests this under resourcing has negatively influenced the University's retention and graduation rates. Thus, the University leadership has begun a process to fund elements of these services and to organize them in a more strategic way.

### **Summary of Recommendations/Principles: Student Services**

The Taskforce recommends that a concerted focus on student service allocations be made in the future; that the area should move from its current 4% to at least 6% of budget expenditures

overall in recognition of the importance of Student Services and especially enrollment management and advising for student recruitment and retention. Indicators of per student expenditures should be supplemented with metrics on the necessary staffing levels of enrollment management, advising, and counseling functions. These metrics should help establish a proper cost basis which can become a part of an administrative overhead cost model. The allocations to Student Services need to be coordinated with other activities in Academic Affairs and Finance and Administration units and programs should be aligned as much as possible to maximize efficiency and reduce the duplication of administrative infrastructure.

**Subsection Six: Institutional Support** – Institutional support at Portland State includes the executive leadership structure including the Vice President’s and President’s Office as well as a variety of key administrative and support functions such as university accounting, procurement, contracts, bursar, legal services, information technology services, campus public safety and emergency operations, media and communications, and government relations among others. These are fundamental activities which provide leadership as well as other core services for all aspects of the university’s business and mission.

Every administrative efficiency study the University has done in recent years has emphasized the leanness of PSU’s institutional support units and its administrative structure. Again, this is largely a result of the state’s disinvestment in higher education, which has hit administrative units hardest, triggering budgetary reductions and hindering growth even when enrollment and faculty increases would suggest that support services should grow. Returning to the Delta study’s comparison of institutional support (and other support services) we see an illustration of diminishing funding for such services. It is to be expected that the University would first seek to preserve as much instructional capacity as possible in budgetary reduction scenarios; however, after so many years of cuts, administrative units are now threadbare and struggle to provide even the basic service levels needed to do the University’s business. The OUS Internal Auditor has frequently opined on the thin support staff in major business/financial services in their findings and the recent Huron report has also made this point. Additionally, it is clear that there are substantial needs in legal and diversity services, human resources, campus public safety, and in particular information technology. The University is now a large and complex research university that is behind in terms of the infrastructure and software applications it needs to guide the business of instruction, research, and service. Some strategic investments have recently been made to support information technology, but the resource base is simply too thin to achieve all of the needed improvements.

Recently, in formulating a strategic vision for the successful future of the University, the President has decided to enhance some executive leadership roles. A vice provost for research has become a Vice President for Research and Strategic Partnerships; a new Chief Diversity Officer (by rolling in a former Affirmative Action position) was created; and a presidential Chief of Staff was hired. Finally, the President has recently announced his intention to elevate a Vice Provost for Student Affairs to a Vice President for Enrollment Management and Student Affairs in order to create a specific enrollment management division. This handful of positions, combined with the three previous V.P. positions now constitutes the leadership structure of the institution which is consistent with leadership groups at most peer institutions.

Additionally, the University is now piloting a new business service center model in the President's Office which serves not only that office, but the Chief Diversity Office, the General Council and the office of the V.P. for Advancement. It is hoped this will become a model for how other clusters (of offices) share business support services.

### **Summary of Recommendations/Principles: Institutional Support**

The Taskforce recommends that in these areas a budget allocation model establish a more detailed cost basis for services which uses appropriate peer institution and organizational comparisons and metrics for the functional areas under consideration. Staffing and other costs - especially in relation to information technology - should be evaluated in terms of what is essential to properly operate and maintain a central core of services. As with Student Services, for the University to meet its stated goals on research, online learning and other areas, information technology must be a priority. For all areas within Institutional Support, however, a rigorous analysis should be applied to staffing, service levels and goals set for bringing this area into relative conformity with other Universities. The use of peer percentage comparators and metrics on staffing and other costs should provide an administrative overhead cost basis to include in the new budget model.

Further, dispersion of funding throughout the institution that is currently being spent on duplicative services (especially in information technology) should be evaluated by the appropriate strategic planning and advisory groups so they can be reorganized to maximize the use of these resources while establishing priorities for new services, projects, and systems. For many central Institutional Support areas such as information technology; human resources; the budget office; and the business services office; new information technology systems - including the new Business Intelligence Project - are the interventions that will produce the greatest efficiency. In this case, information technology will become the centerpiece of our efforts to maximize efficiency for administrative services and the key to faculty and student support.

**Subsection Seven: Operation/Maintenance of Plant** – PSU operates over 50 buildings on 50 blocks within the University District, representing some 4.6m plus square feet. While the physical plant has grown significantly in the past decade, expenditures on the Operations and Maintenance of the campus, as with other categories of support services, are below the average of its peer institutions. Years ago, plant operations and maintenance were funded centrally, with allocations for deferred maintenance, preventative maintenance, and reactive maintenance work coming from Education and General as well as some specific state funds. Again, in this area like so many others, it has been necessary to divert funds to backstop losses to the critical functions of instruction and academic support. But the Taskforce recognizes the current situation in the Facilities and Planning Department, the result of multiple years of defunding core functions, is unsustainable.

In the last few years, the State of Oregon has provided bonds or otherwise funded large deferred maintenance and improvement projects in the physical plant. These projects are in the capital outlay budget and have been a welcome effort. Even with this support however, the University still carries \$200m in deferred maintenance of its existing buildings. While this state support helped the university “catch up” in some critical areas, these resources were earmarked

for specific projects and now that they have been completed, additional funding is no longer available to help with the ongoing needs of the University. In the course of its normal budget approval process, the State has from time to time provided some pots of money for minor capital repairs or deferred maintenance projects. These targeted funds, while welcome, are never enough to outstrip the continuing accumulation of deferred maintenance overall and few funds are available from the central resources of the University to provide for plant operations and maintenance.

Budget constraints have also limited the availability of staff for planning and space management. Few funds support the large planning tasks for the University District and the development of space plans for actual use. Even so, much progress has been made in reviewing and revising the University District Plan and the University, if staff is sufficient, is in a position to leverage this work and turn it into more detailed planning and projects.

One of the most difficult issues in this service area is the extent to which repeated budget cutting in plant operations and maintenance has created the need to fund many routine Operation and Maintenance services by “charging back” to internal units; including academic units. Most trades crew members who perform this work are now supported by charges to departments for projects. Besides creating quite a bit of tension within the institution – many units resent having to pay for services they consider essential and the responsibility of the central administration – the necessity to charge back has created perverse incentives for the facilities department to give priority to projects that can be charged back. This has created a negative incentive for departments to undertake many projects for fear that charges will be inflated so they create income for the facilities department to cover more than the fundamental work requested. The Taskforce as well as the Faculty Senate Budget Committee has this year called for a re-examination of this budgeting approach to plant operations and maintenance.

### **Summary of Recommendations/Principles: Operation and Maintenance of Plant**

As with Academic Support, the Taskforce recommends that the University carefully examine its available space and evaluate alternative ways of making parties responsible for space use. A budget model which actually accounts for space costs will naturally encourage academic and other users to be more efficient in space use, thus limiting the need for the University to acquire more space. The rationalization of space charges needs to be developed based on standardized metrics. Furthermore, the Taskforce recommends that wherever possible the Facilities and Planning unit prioritize preventive maintenance in order to retard growth of deferred maintenance and that it develop a matrix of all types of maintenance to help guide future funding decisions. Standardized metrics for the operation and maintenance of space should be developed and incorporated in the administrative cost basis which becomes part of the budget model. The Taskforce strongly urges a re-examination of the charge back system and establishing a goal to re-instate core funding of the facilities operations to avoid the hit and miss and uneven impacts of the current charge back system.

## **Subsection Eight: Auxiliaries/Designated Operations**

From an expenditures perspective, Auxiliaries and Designated Operations differ from every other category; they are unique. This is because they are required by statute to be self-supporting. Expenses must be covered by self-generated revenues and certain requirements such as maintaining a certain level of working capital are obligatory. Auxiliaries and Designated Operations also differ from other expenditure categories because they are often subject to market forces in a way that mainstream academic and other administrative support units are not and they have the ability to expand and contract depending on the popularity and price point of their products and services. At PSU, the success of Auxiliaries and Designated Operations enables them to pay overhead rates to the University which support the general administration, but also some of the service needs of the auxiliaries and designated operations. Although the explanation of Auxiliaries and Designated Operations in the Revenue section is sufficiently descriptive of the overall area, some additional principles and recommendations are summarized here.

### **Summary of Principles and Recommendations: Auxiliaries and Designated Operations**

The Taskforce recommends that Auxiliaries be managed to minimize costs and maximize revenues as a group; taking into consideration the need to keep student costs of attendance within a reasonable range. Managing the auxiliaries as a group will help optimize the revenues earned for the benefit of the university from this service area. Additionally, the Taskforce urges – as noted above in the Operation and Maintenance of Plant section – a careful reevaluation of the charge back system currently in use. Finally, and consistent with other recommendations above, the Taskforce recommends a full space study to determine a more transparent and equitable basis upon which to allocate and charge for space use. This would apply to the use of space in all units, regardless of whether that space is debt-financed, or leased.

## **REPORT CONCLUSION**

### **THE NEW BUDGET MODEL: SUMMARY RECOMMENDATION AND NEXT STEPS**

Having thoroughly examined the current University budget practices and realities and the possible financial future of the University, the Financial Futures Taskforce now recommends that the President and leadership team take steps to reconstruct the University budget allocation model according to the recommendations detailed above and summarized below.

Most central to these recommendations is the notion of a *New Budget Model* which is premised on the idea of returning revenues earned to the sources of those revenues. Where tuition (and all related enrollment-driven fees and differentials) and RAM funding can be attributed to student credit hours generated in an academic unit (at the college or school level), in the interests of better aligning incentives to action, the funding should be allocated to that unit. Pooling of tuition (and related funds) and RAM funds to accomplish this is recommended. The Taskforce believes that this step will encourage academic deans, department chairs and faculty to better recognize the correlation between performance and fiscal health. Elements of performance, which include not only student credit hour generation, but academic productivity

such as degrees granted, should also be incorporated. This fundamental premise of the New Budget Model, what we will call the ***Revenue and Performance Pool***, is only a starting point in the budget model. The overall percentage allocated to academic units for the Revenue and Performance Pool must be discounted to achieve other University needs. Before turning to those ideas, however, we note that the funds returned to schools and colleges would then be managed by those deans and all program, personnel and support expenses within those units would be the responsibility of those officers. Any cross subsidization which a dean felt was required within his/her school or college would be allowable.

In addition to turning the tables on the fundamental premise about core revenue treatment, the model must take careful account of the Strategic Priorities of the University as outlined in the very beginning of this report and of any modification of those priorities over time. Built into this model must be a ***Strategic Investment Pool***. Without this agreed upon element, little progress can be made in essential University goals such as effective overall enrollment management leading to robust enrollments and student success; faculty research and partnerships development and overall expansion of the research mission; or creating a culture conducive to fundraising to build support for core University expenditures. Off the top of annual budget allocations, a Strategic Investment Pool needs to be identified as an ongoing matter and as a further step, the Strategic Priorities of the institution need to be summarized into main categories of action and arrayed in a step by step timeline (extending at least three biennia) with price tags identified. The former requirement, a percentage for a Strategic Investment Pool, can be relatively easily inserted in a distribution of total funds. But the latter requirement must be undertaken as a follow up planning process of the President and Executive Committee in order to create a long range strategic budget plan.

Policies will need to guide the transition and ongoing implementation of the New Budget Model. For example, to secure mission integrity and avoidance of duplicative, non efficient academic program delivery, the Provost must act as an oversight entity and broker for academic program decisions. A specific process for this role needs articulation. Another example, the University budget and institutional research offices must maintain complete, accurate and up to date databases to provide the basis for model calculations. And the University Budget Office in concert with the Office of Academic Affairs, Fiscal Analysis, must act as the guidance entity for deans and dean's staff in fiscal analysis parameters. Policies and practices must be evaluated and promulgated concerning the competencies of central and local fiscal staff.

Throughout the detailed recommendations noted in the above sections on Revenues and Expenditures, there was recognition of important areas of University support services and underfunding in many of them. The administrative support of the institution is not expendable. It has become enormously fragile and the way in which it is funded is often irrational. If it continues in its current fragile and irrational condition, efforts to improve enrollment management, a key to future University finances and to research growth and a key to mission development, are at high risk. A New Budget Model must provide for an overall campus administrative support infrastructure. To best accomplish this, the Taskforce urges that the New Budget Model must contain an element as follows.

In other universities which have moved to a Revenue/Responsibility based budgeting approach, the element is sometimes called “subvention”, sometimes a “tax”, sometimes “indirect cost”, and sometimes “administrative overhead charges.” The FFTF would rather call this budget element the “commons” – or infrastructure - of the institution and support it with a ***Cost-based Administrative Overhead Charge*** system applied to all academic units generating the fundamental revenues of the institution. This charge system would include all elements of central administrative support including institutional support, student services, operation and maintenance of plant, some academic support (that which is not college or school specific) and, importantly, space allocations and related leasing or financing obligations. This new charge system would require a thorough re-examination of the current more limited administrative overhead charge system. The University Budget Office is well positioned to undertake this effort as it piloted such a study and cost based charging model four years ago. Elements of cost analysis should systematically examine relationships of such costs with peer comparators and with professional standards that are relevant.

IN SUM, THE NEW BUDGET MODEL contains three essential elements:

1. Revenue and Performance Pool
2. Strategic Investment Pool
3. Cost Based Administrative Overhead Charge (Support of the “Commons”)

The proportional percentages that each of these elements merit will depend on total revenue generation, peer and standards based cost analysis of administrative support costs and on the judgment of the University President regarding the need for University wide strategic investments over time.

In addition to the treatment of primary funding sources, tuition (and related funds) and RAM funds, there are other sources of revenues that will contribute to the overall enterprise. Both direct and indirect research funds as well as privately raised funds will enhance the missions of the faculty, schools and colleges of the University. The treatment of these funds going forward is described in our more detailed sections under Revenues and Expenditures above. It should be noted, however, that the Cost Based Administrative Overhead Charge system would be relevant for charging administrative overhead to research, auxiliaries and designated operations as well as core academic units. Appendix Seven shows three different illustrations of how the funds could flow in the New Budget Model. A charge from the President to continue the work of the Financial Futures Taskforce, focusing on modeling outcomes and undertaking administrative costs study are the next recommended steps.

## APPENDIX ONE: SUMMARY OF HISTORY/LITERATURE

The following is a list of the growing number of institutions that have implemented or are implementing a form of RCM/RCB. Where possible, we have provided a brief explanation of the overall RCM/RCB budget approach (with subsequent modifications), the weighting of factors for academic budget allocations, dates (implementation and initial review/planning), and lessons learned.

### **University of Pennsylvania – RCM**

Implemented in 1974, the revenue allocations at the University of Pennsylvania are as follows: 20% subvention (tax to central administration); 20% to the home school; 60% is distributed to units generating the student credit hours (SCH). In this model, no other performance metrics are imposed and costs and revenue are fully accounted for. While RCM was implemented to address costs, it has turned out to be a driver of revenue growth and has also helped create a culture of accountability. For more information:

<http://www.finance.upenn.edu/comptroller/rcm/>

### **University of Florida – RCM**

The University of Florida initiated an RCM committee in July 2008 and implemented this allocation model in FY 2011. Expenditures and Revenue are fully allocated through detailed cost accounting, while Revenue is allocated as follows: Tuition revenue is distributed with 70% following the SCH (weighted for cost of instruction) and 30% following enrollment (not weighted). State appropriations are assigned to colleges with 70% based on SCH and 30% based on enrollment. For tutorials and more information:

<http://www.cfo.ufl.edu/rcm/doc/RCMManual3182011.pdf>,

<http://www.hr.ufl.edu/training/rcm/index.html>).

**Note:** weightings are different than OUS RAM relative cell values.

### **University of New Hampshire – RCM**

Implemented in 2000, after a three year review period involving research and a feasibility study, the University of New Hampshire's model allocates Revenue in the following manner: Undergraduate net tuition (gross tuition less financial aid) is returned to the instructional unit listing the course based on weighted SCH (program cost) averaged over 2 years, minus a 20% allocation to central administration. Graduate net tuition flows directly to the school where the student is matriculated and 9% is then allocated to the central administration. Differential tuition flows directly to units, with a 9% allocation going to the central administration. Summer session Revenue allocations follow SCH with a 9% allocation to the central administration. No other performance metrics imposed. Costs and revenue are fully allocated based on a detailed cost accounting and allocation formulas are reviewed every 5 years. The University is working on simplifying the RCM model and aligning it with the institution's strategic goals. Some changes were implemented in 2006

and others have been proposed for 2011. For more information:

<http://www.unh.edu/vpfa/rcmimplementation.html>

### **University of Minnesota – IMG (Incentives for Managed Growth)**

Considered to be a very successful adaptation of RCM, this model was implemented in 1996 and became the subject of a case study published in *The Journal of Higher Education* (Hearn et al., 2006). The University of Minnesota model fully allocates revenue and costs as follows: 100% of tuition is returned to academic units - 75% by SCH and 25% by major.

Notable successes:

- incentives to grow revenue and manage resources worked;
- academic program approval is separate from the budget process;
- budget decisions are made at the college and not departmental level;
- and lessons:
- interdisciplinary activities require constant vigilance;
- issues such as scholarships and waivers need constant monitoring.

Recent modifications have been made to improve transparency; simplify the model (reduce the number of policy levers); do an all funds and all costs analysis; and create mechanisms that ensure greater accountability. For more information:

[http://www.budget.umn.edu/int\\_bud\\_model\\_overview.pdf](http://www.budget.umn.edu/int_bud_model_overview.pdf)

### **University of Michigan – RCM (called UB, University Budgeting)**

Implemented in 1995, and since modified, (earlier versions weighted SCH or majors too heavily) Michigan's model allocates revenue and cost using full cost accounting and uses general funds to supplement unit budgets when necessary (positive or negative). Tuition and registration fee revenue is allocated to units as follows: 75% of undergraduate revenue goes to the unit of enrollment, 25% goes to the unit of instruction with resident and non-resident averaged. 100% of Graduate revenue is allocated to the units of enrollment. Overall, this model is considered very successful as it has resulted in increased revenues for the institution. For more information:

[http://sitemaker.umich.edu/obpinfo/about\\_the\\_um\\_budget\\_model](http://sitemaker.umich.edu/obpinfo/about_the_um_budget_model)

See also Priest, Becker, Hossler, & St. John (2002).

### **Indiana University-Purdue University Indianapolis – RCM**

Implemented in 1989 under Edward Whalen's leadership as director of the university budget office; Responsibility Centered Management became the subject of his book. This system follows the outline of the book in fully attributing revenue and expense. The best resource for the evaluation of IUPUI's system is Whalen (1991).

### **Indiana University Bloomington – RCM**

A sister institution to IUPUI, this university implemented RCM in 1990 using the Whalen version of the model. Some lessons learned from a review of IUPUI's experience with RCM indicated that when state allocations are diminishing, deriving all of the University's central administrative funding from this source is a mistake. Indiana modified this situation to

include the implementation of a 1.5% Chancellor's Fund; they instituted a two-year weighted average lag between enrollments and fee income distribution to smooth out the revenue flows; and they introduced incentives for recruiting non-resident students. Revenues and Expenditures are fully allocated based on average SCH from the prior two-year period (previously they based allocations on enrollment projections, but this proved to be too unpredictable). After making necessary modifications over a period of years, the university remains committed to RCM. For additional information: <https://www.indiana.edu/~obap/>. See also Priest, Becker, Hossler, & St. John (2002) for thorough coverage of the history of IU Bloomington's transition to RCM.

### **USC – RCM**

Long a proponent of RCM, USC began its efforts to convert to this model as early as 1977, with full implementation occurring in 1982. The university often cites RCM as a significant contributor to its dramatic improvement in prestige and selectivity over the years since its implementation. Strauss and Curry were both involved in the implementation, and the system reflects the foundational components listed above. The university's website does not offer specific information about its RCM system at this time. For more information see: Amir Rahnamay-Azar, (2008) "Revenue center management at the University of Southern California: A case study" available at: <http://repository.upenn.edu/dissertations/AAI3311548/>

### **UCLA – RCM**

UCLA was notable for its initial hasty implementation of RCM and subsequent reversal (Wilms, Teruya, & Walpole, 1997). The university's culture was problematic for implementation, and it remains an often-cited cautionary tale about RCM. However, the university re-visited RCM in the late 1990s, this time engaging faculty, staff and administration in the 2-year evaluation and planning process. Though reports are not available via the website, there are references to RCM having been successfully implemented during its second effort.

### **Syracuse University – RCM**

Implemented in 2005, the RCM model at Syracuse allocates Revenue as follows: 25% based on enrollment (this portion is split if a student is enrolled in two colleges); 75% on instruction, which can also be split to encourage interdisciplinary studies. Revenue and Expenditures are fully allocated, with an interesting perspective on university public goods, the costs of which are allocated among all units. Syracuse maintains an RCM committee of faculty, staff and administration to continually evaluate the system. For more information: [http://budplan.syr.edu/BudPlan/display.cfm?content\\_ID=%23%28%28-%2C%0A](http://budplan.syr.edu/BudPlan/display.cfm?content_ID=%23%28%28-%2C%0A)

### **Ohio State University – Resource Centered Budgeting**

Ohio State began implementation of their RCB budget model in 2002 with a five-year rollout of “budget re-basing.” The institution-wide rollout was prefaced by the creation of shadow RCB budgets beginning as early as 1997. Revenue and expenditures are fully allocated; including both tuition and state appropriations. The central administration is funded through a 19% tax and another tax of 5% is levied on units for strategic investments. Revenue allocations are based on the two-year averages of SCH. Links to the history and mechanics of their system are available here: <http://www.rpia.ohio-state.edu/br/archive.html>

### **Kent State University – RCM**

Beginning implementation of their RCM model in 2007, Kent State allocates 20% of its Revenue based on enrollment and 80% on instruction based on two-year average enrollment. Expenses allocated based on the unit’s percentage of total revenue; these allocations are adjusted once every three years. For more information on the history and implementation of RCM at Kent State: <http://www.kent.edu/about/administration/business/rcm/manualweb.cfm>

### **Iowa State University – Resource Management Model**

Iowa State began a study that would lead to their conversion to an RCM system in 2005. They made the conversion and began implementation of their new model in 2009. Their model calls for net tuition Revenue to be allocated as follows: 25% is distributed based on enrollment and 75% on instruction. State appropriations are divided into four groups: 1) distribution by SCH; 2) to fund university leadership; 3) to partially support central service units; and 4) subvention. Expenses are generally attributed to units, although some specific expense categories are funded by identified revenue streams and not directly attributed to responsibility center units. The process and details of implementation are well documented and available at this website with hard copies available in OAA: <http://www.public.iastate.edu/~budget/buddev/overview.shtml>

### **University of Oregon –The Oregon Budget Model**

Initial planning in began in 2007 and the 1<sup>st</sup> year of implementation was July 2010. This model designates responsibility units (RUs) as the Deans of Schools and Colleges. The central administration budget is comprised of the state appropriation + taxes and a general fund supplement. Academic Units receive all tuition based on a 50-30-20 rule (50% undergraduate SCH, 30% undergraduate majors and 20% undergraduate degrees). Graduate tuition flows to the unit of enrollment. Summer session tuition is pooled and distributed based only on SCH. The academic unit allocations are based on projections and have a settle up process at year end. Units pay a tax to university based on expenditures from year N-2. In addition, a general fund supplement transfers between units and to the central administration, creating a baseline of existing cross subsidies to allow for implementation. For more information: <http://budgetmodel.uoregon.edu/>

The following institutions are reportedly using RCM in some form, though they do not provide extensive information on their websites:

University of Illinois - Urbana Champaign

Southern Illinois University

Marquette University

American University

University of Toledo

Clemson University

Harvard University

Washington University of St. Louis

Mercer University

Cal-Tech University

Vanderbilt University

Duke University

Auburn University

Clarkson University (considering)

University of Arizona (considering)

Temple University

University of Oregon

University of Toronto

West Chester University (PA)

Central Michigan University

University of Alaska

McGill University

Florida International University

Rensselaer Polytechnic Institute

Cornell

Claremont Graduate University

University of Illinois

Rensselaer Polytechnic Institute

University of Denver

University of Washington

## APPENDIX TWO: REVENUE ISSUES: PRINCIPLES AND RECOMMENDATIONS

### **State Appropriations:**

P1 - As an anchor institution that subscribes to the belief that investing in higher education is the state's best strategy for continued social and economic development, Portland State University (PSU) recognizes its responsibility to Oregon's citizens and will continue to be a strong advocate for the continued funding of Oregon's University System in general, and PSU in particular.

P2 - As Oregon's only Urban Research University, PSU plays a unique developmental role in the State and will continue to advocate forcefully for its "fair share" of state appropriations and for increased appropriations should the state's fiscal climate improve.

P3 - As a host institution for several of Oregon's signature "targeted" programs, PSU will continue to be an aggressive advocate for the secure funding of these statewide investments in critical areas of research, training and economic development.

### **Tuition:**

P1 - The University will make every effort to optimize tuition revenue.

P2 – Base tuition should relate to the cost (direct and indirect) to deliver programs. The University will receive and manage all for credit tuition. Definition of all tuition is: inload, self support for credit, summer, and resource fees.

P3 - The University will use one budget model for credit courses which adequately covers full cost to deliver programs. This new budget model will incent units based on various factors such as: student credit hours, degrees awarded, retention, research activity, program cost, RAM cell funding, and strategic initiatives.

P3 - The University will receive and manage differential tuition. The University will partner with units to set tuition rates reflective of market demand and total program costs, to the extent prudent and feasible.

P4 - Summer session will operate under same budget model as academic year with the goal of fully utilizing the revenue generating potential of summer term.

Until a new budget model is implemented, the following change in summer session is recommended:

The University should incent departments to increase summer enrollment by:

- a) allowing departments to participate in revenue sharing;
- b) assessing overhead to self support programs using revenue as basis;
- c) improving the efficiency of current summer session operating model.

P5 - Self Support programs will exist for 'not for credit' programs. Self Support programs must be 100% self sustaining. Administrative overhead rates will be assessed on an expenditures basis as required by OUS policy; study and timely decisions by the Budget Office regarding the appropriate rates is needed.

P6 - Outside funding resources should be increased to provide additional scholarship resources for students. Fee remissions should support the University's institutional goals and be aligned at a similar level as our peer institutions.

### **Fees**

P1 - Fees must be transparent to the students and departments.

P2 - Fees must ensure that the full cost of providing the product or service is covered.

P3 - Fees must ensure that multiple potential service users are treated equitably.

P4 - Any fee levied as an administrative charge needs to be consistent across units and programs.

P5 - Fees levied on high demand products, programs, or services may be set above cost to contribute to the overall benefit of the University.

### **Research Contracts/Grants and Indirect Cost Recoveries**

P1 - Because Research is an expensive enterprise, PSU should recognize the importance of building proper infrastructure support so that research activities can thrive. With this goal in mind, the University should establish a proper allocation model for the Indirect Cost Recovery pool to build university wide infrastructure support.

P2 - Because PSU is growing in size and ambition, and because its resources are highly constrained, the administration needs to preferentially promote those research grants that support agreed-upon strategic priorities and bring in full overhead\*, which in turn more completely offset their costs.

P3 - In order to better link allocation of resources with the strategic priorities of the University, those Faculty members that generate these “more desirable” grants should thus receive:

- the highest quality administrative support
- reduced teaching loads
- prioritized allocation of research space

\* Although some faculty members prefer (or are obligated to seek) grants that lack full overhead, they must recognize that the costs of administrating their research are subsidized by other faculty whose grants are fully burdened.

## **Gift Funds**

P1 - The endowment will be large enough to become one of the revenue streams supporting the budget.

P2 - Funding will be secured to support students, faculty, staff, programs and capital projects.

P3 – All units, working with University Advancement, will be engaged in establishing institutional fundraising priorities.

P4 - The institution is strategic in pursuing and securing private support and return on investment becomes an operational principle going forward.

P5 - University Advancement, Development and Advancement Services are viewed as valued partners by faculty and administration.

P6 - Sharing of information, collaboration and coordination among the academic units, University Advancement, and other central university planning units is a critical factor for success.

## **Auxiliaries and Designated Operations**

P1 - All pricing for auxiliary services should consider total cost of attendance, market factors and impact on employees.

P2 - All auxiliary enterprises should be regularly reviewed for revenue generation, organizational efficiency and alignment with Portland State's academic, administrative or community engagement objectives. The university should pursue and grow only those auxiliaries that also align with our mission.

P3- The overhead assessment policy for auxiliaries needs to become more equitable and more reflective of true costs of services and on the overall funding for university infrastructure.

P4 - The overhead assessment policy is currently 2 tiers (in 2010-11) – a 4% student and a 16% all other administrative overhead charge rate. The 5% cap on student funding activities need to be reviewed in order to reflect the same level of funding required for university general infrastructure.

P5 - Expanding revenue in areas that bring in outside dollars (ie no impact on total cost of attendance) is preferred to increasing overhead rate or increase burden on students. However, attention must be paid to impacts on the quality of services to campus when campus assets are used to make external revenue.

P6 - In order for any auxiliary service to serve its support function and maximize revenue, its rate structure should be calculated based on the “true cost” of all its activities. Cross subsidy

should be identified and units should strive to build rates that reduce cross subsidy and reflect the reality of costs incurred.

P7 - PSU should increase revenue from enterprises that can take place during slack periods, like the summer. Using any slack capacity should be a priority of the University.

P8 - As part of rate setting, all auxiliary units should also conduct annual planning to identify services, policies or procedures that can be adjusted to reduce costs or administrative overhead without sacrificing service, quality or accountability.

## APPENDIX THREE: EXPENDITURES ISSUES: PRINCIPLES AND RECOMMENDATIONS

### 1) Instruction:

**The Taskforce recommends the following principles guide future allocations of funds for instruction, the one of two primary missions of the University.**

P1 - Overarching principle: Instruction is recognized as a core institutional mission and maintaining a high level of instructional quality is a key to PSU's success. Alongside instruction, student services as well as scholarships and remissions play an important role for student success. Accordingly, the Taskforce recommends that the university reward units that both generate student credit hours (SCHs) and that meet appropriate metrics of quality. In as much as possible, revenues realized through enrollment growth and curricular efficiencies will be reinvested in instruction, student support services, and increased levels of remissions.

P2 - While the expenditures per full time equivalent student (FTE) remain lower than our peer institutions, the university will continue to support a level of funding for instruction at approximately 50% (historically, the range is 48-52%) of the Education and General budget. This approach will ensure that we maximize the available funds to improve quality, increase revenue through tuition growth and incentivize academic units involved in delivering the education. There should be allocation principles for Instruction budget and a related weighted set of metrics including at a minimum:

- Student Credit Hours (SCHs)
- Tuition generated (differential)
- Resource fees generated
- Program costs; High, Medium, Low
- Level of Instruction: grad/undergrad
- Resident vs. Non-resident enrollment

- Majors and/or Degree completion
- Sponsored Research

A small portion of the instruction budget will be allocated to strategic investments aligned with the Strategic Goals of the University as approved the President.

P3 - Space is a university expenditure that has been growing significantly.

Space Principle 1. There should be an accurate analysis of space used by:

- Academic and Non-Academic units for their activities;
- Comparison to an agreed upon set of metrics; and
- Appropriate incentives or penalties to maximize space utilization.

Space Principle 2. The university should develop an equitable approach for the distribution of space for core academic programs.

P4 - Academic Deans will be responsible for:

- Fiscal management of their budget allocation including allocation of funds within their school/college, and preserving budget flexibility.
- Quality, effectiveness, efficiency and relevance of their programs.
- Space utilization.

## 2) Research:

**The Taskforce recommends the following principles guide the allocations of indirect cost recovery funds as well as general university funds for the future support of research, one of two primary missions of the University:**

P1 - Indirect Cost Recovery expenditures should be primarily managed by the Office of Research and Strategic Partnerships and used to:

- Fund research support staff
- Provide investment funds for reallocation to the academic units
- Support central units - such as the Library and Information Technology, Research Accounting, Human Resources, Facilities/EHS– that support Research and Strategic Partnerships

A percentage in this expenditure category will be assigned to each area and reviewed periodically in collaboration with the Provost and VP Finance and Administration.

P2 - Education and General Funds of the University should supplement ICRs where possible and be used to support the core functions of Research and Strategic Partnerships, including: senior administrative staff and strategic expenditures that incent research growth

P3 – A periodic assessment should be done on all Research Centers to help guide future resource allocations to these units.

P4 - Maintaining space that is inefficiently distributed is an unsustainable practice. To ensure the effective use of scarce research space, a general accounting of all such space should be performed immediately. This will provide the University with a baseline for future space allocations. Research space found to be inefficiently used should then be reallocated based on revenue and productivity. Priority for new space should be given to sponsored research. It is anticipated that funds used to lease new research space will come from a variety of sources, including indirect cost recovery funds, as well as education and general funds, and other revenue sources.

### **3) Public Service:**

**The Taskforce recommends the following principles with respect to the future support of public service programs at the University:**

P1 - Public Service is an essential element of PSU's mission because it is fully integrated into our academic and research programs. Therefore, those public service programs receiving state funding should continue for as long as they continue to serve a strategic purpose and remained aligned with the PSU mission.

P2 - Should Public Service programs lose their state funding, it will be at the discretion of the Deans of the College's in which they reside whether or not to provide supplemental funding from that College's resources to continue the program.

P3 - If the Dean's are unable or unwilling to maintain the Public Service program, an analysis will be undertaken to determine whether the program - for strategic or financial reasons - should be continued; it is then at the discretion of the President whether or not to fund the program from central resources.

### **4) Academic Support:**

P1 - Because the Library and Information Technology provide essential and comprehensive academic support, and because this makes them an allowable expenditure under federal Indirect Cost Recovery funding guidelines, expenditures in this core service area should be tied to growth in research.

P2 – Because expenditures on leased space are such a significant part of the PSU budget, Academic Support units – like all other units – should be required to maximize space efficiency whenever/wherever possible.

P3 - Academic Support - in particular the Library and Information Technology - are units in which the service environment is rapidly changing. If they are to be managed with maximum effectiveness, some administrative flexibility is necessary in faculty staffing ratios and other major expenditure categories.

P4 - Information Technology should be the central administrative body for coordinating all major information technology purchases.

P5 – Tuition and State Appropriation funding will be assigned to units using a single budget allocation model, regardless of the mode of curricular delivery (fully online, hybrid classes, traditional)

P6 – An online fee will be used to fully support the additional infrastructure costs associated with online learning.

P7 – The online learning fee will be evaluated and adjusted on a regular basis.

## **5) Student Services:**

P1 - The student services budget allocation should reflect University priorities.

P2 - ‘Student service units are defined as the campus-wide services for students (ie. financial aid, advising, etc.), and not just the units that are organized as Student Affairs.

P3 - Over time, the student services allocation within the total budget should be increased from the current level (ie. 4% to 6%) while acknowledging such an increase in this service area would mean a decrease in another.

P4 - The allocation to Academic affairs and student services must be coordinated to maximize student success (ie advising, recruiting)

P5 - The allocation should be provided to cover basic or essential student services and special fees should be charged for services that may provide added value or additional service to students (special testing, equipment rental)

P6 - Student service units and programs should be aligned as much as possible to maximize administrative support and reduce infrastructure duplication

## **6) Institutional Support:**

P1- The performance metrics used to determine initial budget allocations to Institutional Support units in the New Budget Model should be based on a rigorous analysis of the staffing and effectiveness measures of these same units in PSU's group of OUS approved peer institutions.

P-2 The effectiveness goals and priorities that are set for Institutional Support as a condition of budgeting procedures should be supported by staffing and resource allocations that are within (insert % - or percentile) of their peers.

P-3 Should Institutional Support units suffer reductions that make it impossible for them to maintain the staffing and resources allocation percentiles called for in P2, then every administrative effort should be made to achieve the desired effectiveness goals and priorities by other means.

P-4 In order to ensure maximum effectiveness in Institutional Support units, a cross-institutional review board should be formed to consider the efficacy of unit procedures and policies.

P-5 Duplication of Institutional Support units which cross all functional areas of the University (i.e. Budget, I.T., H.R., etc.) should be discouraged, and wherever possible, these units should be collapsed for maximum efficiency and effectiveness. These units should be empowered and encouraged to carry out their policies and operational practices campus-wide.

## **7) Plant Operation and Management:**

P1 - Decisions regarding space acquisition and utilization need to be made in a consistent, transparent manner. These decisions should be based on standardized metrics designed to maximize the utility of all available campus space.

P2 - Recognizing that Facilities and Planning achieves its mission by doing service, deferred maintenance, preventative maintenance, and reactive maintenance work, this committee recommends that whenever possible and prudent, priority should be given to preventative projects since they use the University's limited operations and maintenance resources most effectively.

P3 - PSU should develop a budget and utilities expense management program that both minimizes total utilities expense - and the related energy loan debt service expenses - and utilizes these savings to support reinvestment in additional energy savings.

P4 - All contracts in the Operations and Maintenance expenditure category should be reviewed for competitiveness - rather than being automatically renewed - and preference should be given to short-term contracts (1-3 years) as re-competing contracts provide more flexibility in long-term cost control.

P5 - Additional base funding needs to be provided for University wide preventative maintenance. Currently, however, more work and study is required to determine an appropriate cost structure to support the additional base funding.

P6 - The base funding provided to Facilities and Plant Operations should be specifically accounted for, and consumed based on an established hierarchy with respect to daily, preventative, and deferred maintenance needs. Additionally, there needs to be a detailed accounting of the application of charge back funds, which, in conjunction with the base funding information will provide a more detailed understanding of the prioritized facilities maintenance and operations funding requirements.

## 8) Auxiliaries and Designated Operations

P1 - Auxiliaries should be categorized into two pools:

1. Cost centers (Aux. Accounting, Aux. Maintenance, Aux. I.T., Facilities and Telecom)
2. Profit centers (Parking, Housing, and Property Management).

Cost center auxiliaries should be managed to minimize expenses while maintaining requisite service levels. Investments in cost center auxiliaries should be based on raising service levels to a required level.

Profit center auxiliaries should be managed to maximize long term income to the *University*, not to the auxiliary. Expenditures should be considered with net income maximization in mind. Investments in profit center auxiliaries should be based on their ability to raise revenues and ultimately provide income to the *University*.

P2 - Auxiliaries should be managed to minimize costs and maximize revenues as a group, not as individual units. Occasionally minimizing costs or maximizing revenues at the unit level is sub-optimal at the *University* level; overall *University* benefit should be the goal, not the benefit to the auxiliary.

P3 - An alternative to “charge back” funding should be found for some Service Departments that provide core services to the campus. Example: Networking (supported through telecom rates) & Facilities.

P4 -The *University* should establish and communicate guidelines for the assignment of academic use to Auxiliary debt financed space.

P5 - The *University* should try to maximize the number of real estate transactions that have the potential to generate short term income, while providing the option for long term ownership. This model has the potential to “subsidize” the overall amount the *University* pays for space. Example: PacifiCorp rental of space in the Fourth Avenue Building.

P6 - The *University* should establish and communicate policies reiterating that Auxiliaries and Service Centers are required to be self-supporting and cannot be expected to “give away” their services. Such requests (unfunded mandates) should be tracked so they can be accounted for by Auxiliary units during budget negotiations and rate setting.

P7 - Proposed changes to Auxiliary expenditures policies should be evaluated to assess the impact on the total cost of enrollment for students. Example: SHAC could replace some of its nurse positions with physicians, but the cost would be passed on to students and increase their total cost of enrollment.

P8 - Use of public/private partnerships to create efficiency and leverage resources should continue to be evaluated and expanded. Example: College Station Housing.

Expenditure Principles that impact Auxiliaries specifically and the University in general:

P9 - The methodology used to determine how space is paid for and how it is allocated on campus should take into account the relative value of different types of space and should be based on a consistent principle so the inequitable and inefficient distribution of space is mitigated and the allocation process is made more transparent.

P10 - PSU should strive to improve coordination and collaboration among units (including service centers and auxiliaries) with a common purpose: to minimize duplication of resource expenditures, by improving both operational efficiency and service quality. For example, units should be encouraged to use concurrent licenses - purchased centrally - rather than purchasing individual copies of commonly used software packages. A systematic approach to providing these licenses would save units money and increase the University's purchasing power in this area.

#### APPENDIX FOUR: FINANCIAL FUTURES COMMITTEE CHARGE

The Ad Hoc Financial Futures Advisory Committee is established by the President of the University as an administrative committee and is co-chaired by the Vice President for Finance and Administration and the Vice President Academic Affairs and Provost. The Committee will be composed of a broad cross section of the University community including faculty, administrators and students. The Committee will serve through academic year 2010-11. The purpose of the Committee is twofold: first, to work with the Vice Presidents on the PSU Financial Futures Framework Project which is described below, and second, to advise the President and Vice Presidents on the long term operating principles for the PSU budget allocation model.

First: The Financial Futures Framework Project, which was launched this Fall under the direction of the Vice President for Finance and Administration, is an in-depth analysis of the historic, current and projected financial circumstances of the Portland State University. Phase one of the project has multiple goals: first to evaluate how historic trends for revenue sources, expenditure categories and overall financial responsibility of the University plays out in future years; second, through interactive modeling to modify and evaluate factors which can alter projected financial futures; and third, to identify the policy choices or levers which emerge from the analysis. The Committee will work with the Vice Presidents in the course of this analysis and aid in assessing various policy choices/levers and attendant strategies, which will inform the University leadership's overall major policy choices for the future.

Second: the Committee is charged with recommending principles to guide future budget allocations in the University's annual budget process. With good background from the Financial Futures work, the Committee will have a basis for understanding the University's current financial environment and likely future trends, including the distribution of funds for both the revenue and expenditure sides of the University budget. Allocation practices within the University have become complex over a number of years because of an increasingly complex set of revenue sources including tuition, various fees, state appropriations, federal appropriations, grant and contract funds to mention just a few. Revenue sources

are often constrained by OUS or University policy; restricted funds policies derived from professional accounting standards and business practices, donor requirements, federal granting agency requirements and so forth. The complexity of revenue sources and their constraints becomes key to understanding the scope of discretion the University has in the allocation process. Allocations have also become more complex as the University has grown and differentiated. University expenditures are driven by multiple factors most especially historical patterns of expenditures adjusted at the margins. Allocations of funds should maximize the most essential goals and objectives of the University, but allocations based on historical trends may not always accomplish that maximization.

The Committee will be asked to review the current budget allocation model and practices and to recommend principles for future budget allocations which encompass recognition of revenue source complexity and mission based factors.

## APPENDIX FIVE: FINANCIAL FUTURES TASKFORCE MEMBERS

### **Co-chairs:**

Lindsay Desrochers – Vice President, Finance & Administration

Roy Koch – Provost and Vice President for Academic Affairs

### **Committee Members:**

Francoise Aylmer – Vice President for University Advancement

Jacqueline Balzer – Vice Provost for Student Affairs

Sharon Blanton – Chief Information Officer, OIT

Darrell Brown – Professor, Assoc Dean - School of Business Administration

Jean Cavanaugh – Chief Accounting and Budgetary Officer, School of Social Work

Jonathan Fink – Vice President, Research & Strategic Partnerships

Robert Fullmer – IT Specialist, College of Liberal Arts and Sciences

Sandra Freels – Chair, Prof Russian, Liberal Arts and Sciences

Michael Fung – Associate Vice President of Budget & Planning, Finance and Administration

Jil Heimensen – Student Representative, Past Student Fee Committee member

Stanley Hillman – Professor, Liberal Arts & Sciences, Chair-Fac. Senate Budget Committee

Brooke Jacobson – Asst. Prof, Liberal Arts & Sciences

David Johnson – Professor, Managing Editor Pacific Historical Review

Ray Johnson - Professor, School of Business

Marvin Kaiser – Dean Emeritus

Kathi Ketcheson – Director, Institutional Research & Planning

Kevin Reynolds – Vice Provost for Academic Fiscal Strategies and Planning, Academic Affairs

Barbara Sestak – Dean, School of Fine & Performing Arts

Renjeng Su – Dean, Maseeh College of Engineering & Computer Science

Jonathan Uto – Equity Retention Coordinator, Student Affairs

Lawrence Wallack – Dean, College of Urban & Public Affairs

Diane Yatchmenoff - Director of Research, Regional Research Institute

**Staff:**

David Burgess - Institutional Research Analyst, Academic Affairs

Deb Janikowski – Associate Director of Budget Development and Planning

Susan Klees – Assistant to the Vice Provost for Academic Fiscal Strategies and Planning, Academic Affairs

Robin Michell – Manager, Budget Planning & Analysis, Univ. Budget Office

Mark Wubbold, Special Assistant to the Vice President -FADM

**Guest members/subcommittee work groups:**

Mark Gregory – AVP of Strategic Partnerships, FADM

Dee Wendler – AVP for Finance & Controller, FADM

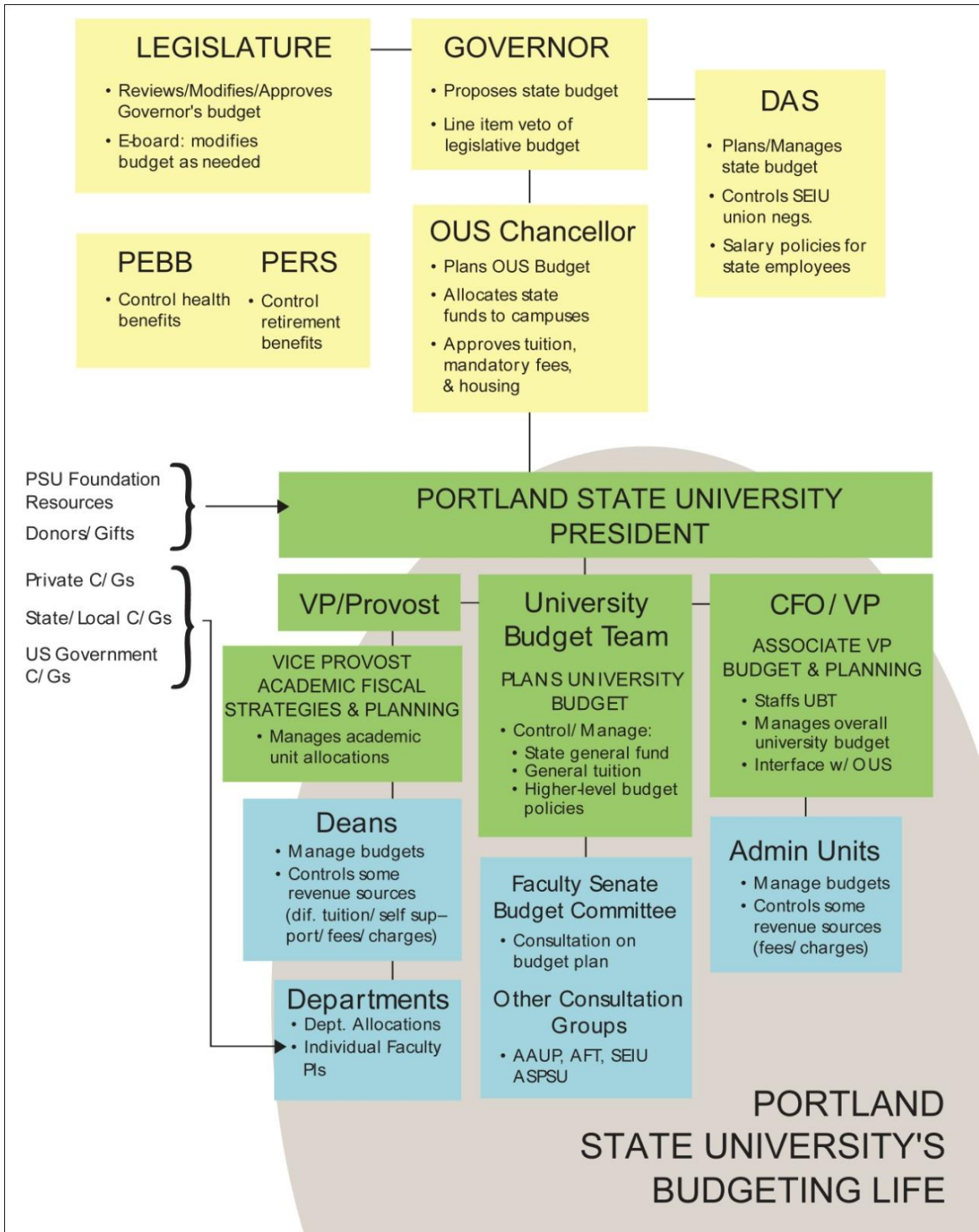
Don Forsythe – Associate Director, Auxiliary Services

Michael Chisholm – Athletics Director, Athletics

Alan Kolibaba – Assistant Vice President for Research

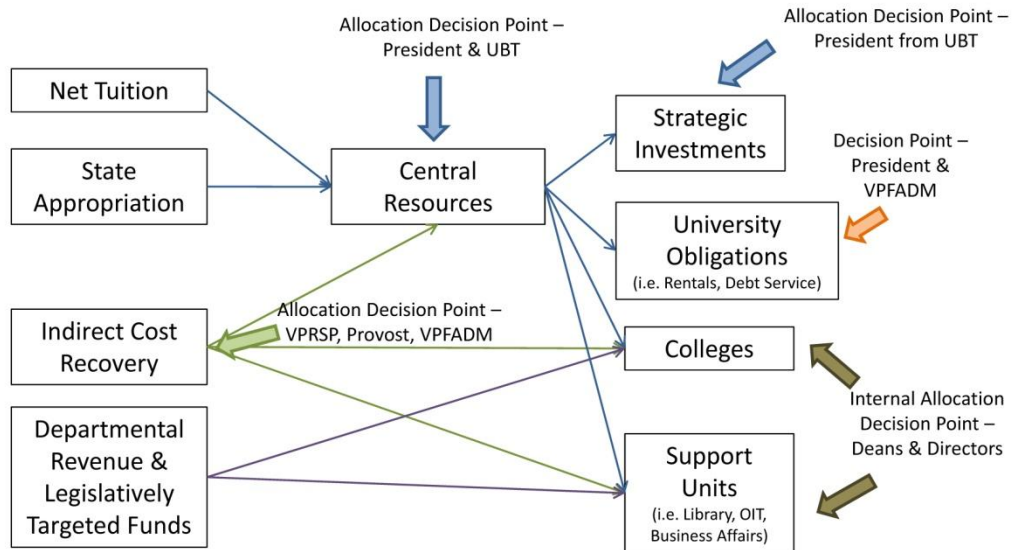
Melody Rose – VP for Academic Programs/Inst.

## APPENDIX SIX: PSU BUDGET LIFE

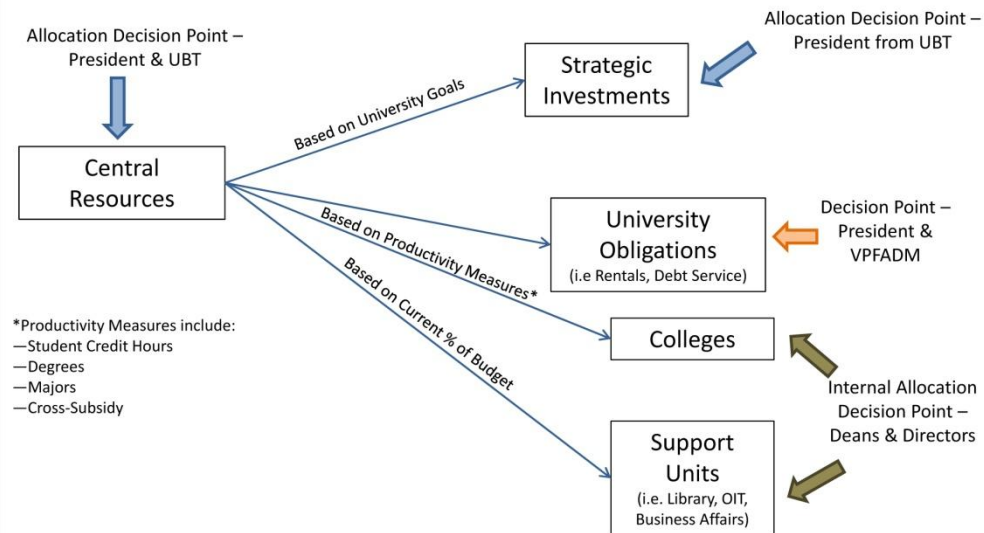


APPENDIX SEVEN: DRAFT BUDGET MODELS

# PSU Budget Allocation Model (PBAM) 1



## PBAM 1 continued



# PBAM 2

