Portland State University

Performance Based Budget (PBB)

May 28, 2013

Preamble

Portland State University currently manages its resources using an incremental budgeting process, which during the recent years of declining state support has become more decremental in nature. Once nearly a universal method of higher education finance, incremental budgeting involves academic and non-academic units presenting funding proposals to the university’s administration that is incrementally either larger than the previously approved budget, or smaller when overall resources decline. This model involves individual negotiation, with rewards not clearly related to the units’ performance.

Over the last two decades, there has been a growing trend in higher education administration to move to Performance Based Budgeting (PBB), which connects the budget process with the performance of each unit. “Performance” is defined in highly individualized ways depending in large part upon the institution’s culture and strategic priorities. Rather than being centrally managed, resources flow to units based on various performance metrics that often include generation of student credit hours, the number of students with declared majors in the unit, or degrees granted, and for support units, formulas representing the volume of students or faculty served. Similarly, expenditures associated with each unit are attributed with varying degrees of specificity and complexity ranging from a uniform overhead charge to direct application of each expenditure incurred. While the terminology and the specific operation of PBB varies, the underlying philosophy holds that each college or unit is rewarded for its generation of resources, net of the expenditures required for their generation. Two key principles for PBB are a) that the process supports the academic mission and does not drive it and b) expenditures are aligned with the achievement of institutional strategic priorities.
At Portland State today, in an environment of declining state support, continued pressure to improve efficiency, and the need to improve student outcomes, the development and implementation of PBB presents an opportunity to allocate resources in a logical, transparent, and efficient manner that rewards achievement of specific strategic initiatives. In June, 2011 the Financial Futures Task Force, which had been tasked with evaluating the opportunities and challenges associated with the various resource allocation methods, recommended that the university adopt a new budget model incorporating the general principles of PBB. The President accepted this report and has created for the 2011-2012 academic year a working group and a steering committee tasked with development and implementation of PBB for PSU. The working group is charged with assembling the data and developing the tools and options for the PBB and is co-chaired by Monica Rimai (Vice President Finance and Administration) and Kevin Reynolds (Vice Provost for Academic Fiscal Strategies and Planning). The steering committee is co-chaired by Monica Rimai and Roy Koch (Provost and Vice President Academic Affairs) and is charged with directing the Working Group, and for making final decisions on the components of the PBB.
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Key Definitions

Performance-Based Budget (PBB): A budgeting tool that requires academic and non-academic units to meet financial performance thresholds, and incentivizes them to exceed thresholds by allowing them to retain part of the additional revenue or savings.

Revenue Generators: Units that generate revenue, typically through the generation of Student Credit Hours (SCH).

- College of Liberal Arts and Sciences (CLAS)
- College of Urban and Public Affairs (CUPA)
- School of Business Administration (SBA)
- Maseeh College of Engineering and Computer Science (MCECS)
- School of Social Work (SSW)
- Graduate School of Education (GSE)
- School of Fine and Performing Arts (FPA)
- Undergraduate Studies (UGE)
- School of Extended Studies (SES)
- Office of Graduate Studies Systems Science Program (OGS-SYS)

Revenue Supporters: Units that support Revenue Generators, but typically do not have independent source of revenue.

- Office of the President, including: General Counsel, Office of Global Diversity and Inclusion
- Library (LIB)
- University Advancement (UNA)
- Enrollment Management and Student Affairs (EMSA)
• Office of Academic Affairs (OAA), including: Center for Online Learning, Center for Academic Excellence, Office of International Affairs (OIA), Office of Institutional Research and Planning (OIRP)
• Office of Graduate Studies, not including the Systems Science Program (OGS)
• Finance and Administration (FADM), including: Human Resources, Facilities and Planning, Public Safety, Office of Information Technology (OIT), Business Affairs (BAO)
• Research and Strategic Partnerships (RSP)

**NACUBO Cost Categories:** A functional expenditure classification method of grouping expenditures according to the purpose for which the costs are incurred as defined by the National Association of College and University Business Officers (NACUBO) in its Financial Accounting and Reporting Model (FARM). They include:

- *Instruction*
- *Research*
- *Public Service*
- *Academic Support*
- *Student Services*
- *Institutional Support*
- *Operation and Maintenance of Plant*

**General Fund:** The main university fund used to record state appropriations, tuition, and expenditures related to the university’s core mission.

**Education and General (E & G) Funds:** Includes the funds appropriated by the state, tuition and fees, indirect cost recovery on sponsored research, and miscellaneous other income (e.g., self support tuition and course fees).

**Non Education and General (Non E & G) Funds:** Includes designated operations (e.g., not for credit continuing education), service departments, and auxiliary activities (e.g., housing, food service, bookstore, parking, athletics, incidental fees). Expenditure of these funds is not limited by the legislature.
Auxiliaries: Entities that provide services to students, faculty, or staff acting in a personal capacity, and charge a fee for goods or services. Auxiliary enterprises already operate on a performance based system as they are self-supporting, providing goods and services upon payment of a specific user charge or fee that is at least equal to the full direct and indirect cost of providing them. Auxiliaries include food service, housing, parking, athletics, incidental fees, and the bookstore, and are separate from E&G funds.

State Appropriation: State General Fund allocations distributed by the State legislature to OUS, which is in turn allocated to institutions based on enrollment and targeted funding.

Enrollment Funding: The number of eligible full-time, Oregon resident students by discipline drives enrollment funding. Funding values are identified in 19 cells, 12 for undergraduate and graduate students, and 7 for professional degree students.

Targeted Programs: Targeted Programs are primarily mission-based rather than enrollment-driven and make up approximately 28% of state funding for Education and General programs. Targeted programs are grouped according to function: Regional University Support, Engineering, Research, Institutes/Programs, and Central Services and Other.

Gross Revenue: In PBB, all revenue generated from tuition, fees, and state appropriations.

Tuition Remissions: Scholarships, financial aid, and other institutional discounts to tuition.

Net Revenue: Gross Revenue less Tuition Remissions. Net revenue is the amount available to allocate to units.

Direct Expenditures: All expenditures directly related to the unit’s operations, e.g., personnel costs, services and supplies. For Revenue Generators, direct expenses include the Dean’s office and associated costs.

Indirect Expenditures: Expenditures of the revenue supporters that will be attributed to units based on various metrics of use, such as assigned square footage, student, staff, and faculty FTE, etc. Indirectly allocated expenditures include: 1) Academic Support; 2)
Institutional Support; 3) Instructional Support; 4) Operations and Maintenance; 5) Public Service; 6) Research; 7) Student Services.

**Total Expenditures:** Direct plus indirect expenditures.

**Tax:** Each revenue generating unit will be charged a tax to support institutional initiatives, strategic investments, and subventions to high-cost programs.

**Subvention:** Some programs are inherently more costly to operate and yet are critical to the institution’s mission. Subvention provides a mechanism to recognize this cost differential in the PBB model.

**Cost Drivers:** The University’s operating costs generally vary according to different driving factors. Operations and maintenance expenditures, for example, vary by the number of square feet assigned to a unit, while student services vary by the number of students served.

**Revenue and Cost Template:** This document will be developed in consultation with the Performance Based Budget Working Group to define the specific parameters for allocation of all revenue and cost categories.

**PBB Implementation Timeline**

2012-2012: Model Development

- Cost Accounting, Methodology
- Cross Subsidy Analysis
- Merge, Various Models (Extended Studies, Summer Session)
- Establish Revenue and SCH targets
- Development of Revenue Sharing Plan (i.e. What we incentivize)

2012-2013: Run Parallel/Shadow model

- Refine model based on results
2013-2014: Implementation

PBB Process Timeline

Steering Committee Decisions

Review key Financial Futures Task Force (FFTF) decisions  March, 2012

1. Set approach for PBB  March, 2012
2. Revenue and Cost Allocation: Part 1  April, 2012
4. Additional Incentives to Revenue  June, 2012
5. Subvention  June, 2012

Working Group Recommendations

1. Approach for PBB  March, 2012
2. Revenue and Cost Allocation: Part 1  April, 2012
4. Additional Incentives to Revenue  June, 2012
5. Subvention  June, 2012
Steering Committee Decisions

Decision 1: Budget Allocation for revenue Supporters

Decision 2+: Revenue & Cost Allocation

Options to Consider:

Available Drivers:
Student: Credit Hours (Resident, Non-Resident, Undergraduate, Graduate), Headcount or Full-Time Equivalent (FTE)
Faculty and Staff: Headcount or FTE
Assigned Space
Sponsored Research Productivity
Degrees Granted
RAM Cell Values
Any combination of the above

Other Suggestions?

Revenue Categories

Revenue Category: Tuition

Types of Revenue Included: Resident and non-resident, undergraduate and graduate in-load and differential tuition, self-support tuition.

Decision 4/20/2012:

Driver: SCH

Rationale for Driver:

Revenue Category: Education and General Fines and Fees (potentially restricted)

Types of Revenue Included: Course fees, fines, online learning fee

Driver:
**Rationale for Driver:**

**Revenue Category:** State Appropriation

**Types of Revenue Included:** Enrollment funding, targeted programs (restricted)

**Driver:**

**Rationale for Driver:**

**Revenue Category:** Indirect Cost Recovery (currently subject to a distribution formula)

**Types of Revenue Included:** Reimbursements for costs incurred by the University that cannot be attributed to an individual grant

**Driver:**

**Rationale for Driver:**

**Indirect Cost Categories for Revenue Supporters**

**Cost Category:** Academic Support

**Types of Costs Included:** Graduate Studies - Dean’s Office, International Affairs - Office and various Institutes, Center for Academic Excellence, Adjunct Health Benefits, OIT User Support Services, OIT Academic Research/Computing, the Library, A portion of Research & Strategic Partnerships

**Driver:**

**Rationale for Cost Driver:**

**Cost Category:** Institutional Support

**Types of Costs Included:** President’s Office, Global Diversity & Inclusion, University Advancement, Academic Affairs, Commencement, Finance & Administration, Business Affairs, Human Resources, OIT - Computing Infrastructure, OIT- Business Intelligence, OIT -
Enterprise Info Tech, Box Office, University Assessments

Driver:

Rationale for Cost Driver:

Cost Category: Instruction
Types of Costs Included: Center for Online Learning, OIT- student lab support, a portion of Enrollment Management & Student Affairs

Driver:

Rationale for Cost Driver:

Cost Category: Operations & Maintenance
Types of Costs Included: FAP- Maintenance, Alterations & Remodeling, Utilities, Custodial Services, Waste Disposal, Rentals

Driver:

Rationale for Cost Driver:

Cost Category: Public Service
Types of Costs Included: CAS Community/University Partnership

Driver:
Rationale for Cost Driver:

Cost Category: Research
Types of Costs Included: Faculty Enhancement, Travel, Peer Review Awards, Professional Development Grant

Driver:
Rationale for Cost Driver:

Cost Category: Student Services

Types of Costs Included: Int'l Student/Faculty Services, Int'l Exch Prog Office, Orientation, New Student Advising, Admissions, Financial Aid, Registration & Records, Athletics

Driver:

Rationale for Cost Driver:
Steering Committee Meeting Minutes

Minutes March 9, 2012

1. Introductions

Please refer to the new budget model website for a list of Steering Committee and Working Group members: http://www.pdx.edu/fadm/new-performance-based-budget-model

Working Group members are available to address any technical questions or comments you have.

If you have scheduling or procedural questions related to the Steering Committee, please contact Susan Klees (x5-5993, susank@pdx.edu) or Debbie Kirkland (x5-5878, kirkladd@pdx.edu).

2. Role of the Steering Committee

The transition to a new budget model arose out of first the LTIFS committee and then the Financial Futures Task Force (FFTF), which recommended the university adopt a new budget model to better connect our activities to revenue generation.

The role of the Steering Committee is to make key decisions for the model with the assistance of the Working Group, who will provide technical guidance and options to the Steering Committee.

3. Definitions

Some of the resources available to you include the new budget model website which can be accessed through FADM’s main page at the link provided above. You will be able to access there a document we are developing to guide and record the committee’s progress in developing the new model. This will be a living document that grows to incorporate key definitions, decisions made, and minutes from the meetings. Today you have received a hard copy, but it will be provided electronically in the future.

4. Summary of Decisions made by Financial Futures

There should be one E&G budget allocation methodology to replace in load, self support, and summer session.

5. Possible choices from FFTF for developing a Performance Based Budget:

PBAM1 – an incremental change from existing budgeting practices at PSU in which only revenue generators operate under PBB. Revenue supporters are funded based on existing % of E&G budget with a potential for institutional adjustment. Model does not readily permit cost allocation to revenue generators lacks transparency, does not lead to logical budgetary changes in response to revenue growth or reduction.

PBAM2 – a significant departure from existing budgetary practices in that it attributes revenue to revenue generators who in turn pay for the indirect costs of the revenue supporters by a cost allocation methodology. This model is more transparent,
predictable, leads to logical budgetary changes in response to revenue growth and reduction, and is more consistent with PBB at other institutions. The Council of Academic Deans have previously supported PBAM3 as the starting point for development of PBB.

6. 1st Key Decision: Budget Allocation for Revenue Supporters

Questions and comments:

Comment: PBAM2 is more transparent.

Comment: The two models may mathematically produce the same result, but PBAM2 provides more information.

Comment: There is potential for concern among the revenue supporters that revenue generators may be disinterested in supporting their operations.

Question: We know our funding levels are lower than our peers: will peer comparisons be factored into the model?

- It is important to remember the necessity of keeping the model simple. This may be interesting information to have, but incorporating it into the budget model may be unmanageable.

Question: Is there any difference between the two models in how declining funds will be managed?

- Budget reductions are not automatic in either version.

**ACTION ITEM:** Consensus developed around a preference for a model that looks like PBAM2, but the final discussion will remain open until the close of business on **Tuesday, March 13th** to allow for any additional questions or comments.

7. Allocation Drivers Discussion

The next step for the Steering Committee is to make decisions on the drivers for each revenue and expenditure category that will be used. The living document includes all the revenue and expenditure categories for which decisions need to be made, as well as a list of potential drivers (e.g., SCH, headcount, square feet).

The committee is not restricted to the drivers identified, but these are the most commonly used at other institutions.

The committee is asked to provide input, either individually or in consultation with department chairs and budget officers, on the preferred drivers.

Remember to keep in mind institutional priorities and how these might be supported through the allocation of resources.

**ACTION ITEM:** Please provide feedback to the Working Group by **March 20th** so they can begin to develop a model using the committee’s preferred drivers.

8. Next Meeting Agenda

Next meeting: April 20th, 1:00-3:00pm, SMSU 236
This meeting will focus on discussing the various drivers and reaching consensus around which to use for each category. To that end, the Working Group will develop models based on its best thinking and on comments received by 3/20.

March 13, 2012

As no comments were received by this date, the Steering Committee has accepted the Financial Futures Task Force recommendation to adopt a Performance Based Budget that looks like the PBAM2 model discussed in the minutes from the 3/9/2012 meeting.

Minutes April 20, 2012

1. Recap
   During the last meeting we provided a summary of the process leading up to formation of the Steering Committee, and introduced the general concepts of the Performance Based Budget model. Today we are moving from these general ideas to more specifics and will focus the bulk of the meeting on how we will attribute revenue in the model.

2. Definitions
   Attribution: defines where the revenue comes from and how much it costs to generate.
   Allocation: the method by which funds are actually provided to units.
   Driver: A driver should be the most direct connection to the function of the revenue or cost generation. Drivers are not meant to be a value statement. Drivers are used as a calculation basis to attribute revenue and indirect costs.

3. Reminders
   There are three important principles to keep in mind as we discuss development of a budget model: 1) the process should be data driven; 2) it should be transparent; 3) keep it simple.

4. Revenue Drivers
   Two possible revenue driver methodologies were presented for tuition revenue, the first attributed revenue of fictitious College X and College Y based on the student credit hours each generated. Using this driver, revenue attribution considered the resident/non-resident status of each student and College Y’s differential tuition. As an alternative, all tuition revenue could be averaged with each college attributed the same amount per student.

   Question: Do we have the capacity to calculate revenue on the basis of actual SCH?
   Answer: Yes.

   Question: Can we determine how much each student is paying net of remission?
   Answer: Yes, but there are good reasons not to do so as it would disincent colleges to accept students receiving discounted tuition.
DECISION: After small groups considered the alternatives, each of the five groups reported back that they preferred a non-blended attribution based on actual tuition generation (determined by tuition cost and SCH generation).

Next, the committee considered the attribution of state allocations. The state targets some funds to specific programs and those are attributed directly to those programs. The remainder of state allocation is considered enrollment funding and is based on cell values that reflect some measure of program cost (RAM cell values). As with tuition attribution, state allocation could also be blended and attributed equally to each resident student.

DECISION: Each of the five groups again preferred an allocation based on resident students only and on RAM cell values, though a consensus developed around the idea that the funding allocation should reflect current OUS funding practices and legislative intent. The committee also expressed some interest in determining if the current cell values are reflective of actual current costs.

The committee next considered attribution of indirect cost recovery funds (F&A), and were presented with the option of continuing the practice of using a formula developed by RSP, or fully attributing the revenue to the college of the PI who obtained the grant. Four of five groups preferred to fully attribute the revenue, though they also suggested there be a mechanism for allocating it to more than one unit for interdisciplinary research.

DECISION: The consensus favored fully attributing F&A funds.

5. Cost Attribution

Recall that direct costs are directly attributable to the unit that generated the revenue, e.g., instructor costs, and there are no drivers for these. Indirect costs are associated with operating the university that are not directly attributable to units, but are associated with their operation, e.g., President’s Office, FADM, etc. The steering committee’s task is to decide on appropriate drivers for each category of expenses, with the categories defined by NACUBO standards. NACUBO categories are simple and standard cost classifications and include: Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Operation of Maintenance and Plant.

For example, Institutional Support includes: President’s Office, Global Diversity & Inclusion, University Advancement, Academic Affairs, Commencement, Finance and Administration, Business Affairs, Human Resources, OIT Computing Infrastructure, OIT Business Intelligence, OIT Enterprise Information Technology, Box Office, University Assessments.

Possible drivers include: Revenue, Expenditures, SCH, Intensity of Use (e.g., student, faculty and staff FTE or headcount).

6. Next Meeting Agenda

Next meeting: May 21st, 1:00-3:00pm, SMSU 338
This meeting will focus on discussing cost drivers and reaching consensus around which to use for each NACUBO category.

Minutes May 21, 2012

1. Recap

During the previous meeting the committee discussed and decided on the appropriate drivers for attribution of revenue in the Performance Based Budget model.

The important distinction between attribution and allocation was reinforced. Attribution involves associating streams of revenue and expense with the activities that generate both. It does not imply that resources are allocated according to the results. Allocation of the institutions resources will necessarily take place after the many issues related to attribution take place.

The committee's task today is to determine the appropriate drivers for several of the expenditure categories as defined by NACUBO.

2. The first NACUBO category discussed was Public Service, which at PSU includes a total of $369,000 that largely includes community engagement activities conducted in the Center for Academic Excellence.

The Working Group recommended the use of faculty and staff FTE as it is primarily faculty and staff who participate in public service activities.

A spirited discussion took place in small groups and then in the larger group. Many felt that this category is in fact unrelated to faculty at all. In the end, no consensus was reached.

3. Considering the extended debate on Public Service, the committee did not address any other categories at this meeting. The next meeting will take place on June 25th at which point the committee will be asked to move toward decisions on the remaining NACUBO categories.

Minutes June 25, 2012

1. Review of the final report of the Financial Futures Task Force (FFTF). In order to reinforce that the current process of developing a new budget model emerged from this previous work, the four major recommendations FFTF developed were reviewed.

a. Recommendation 1: PSU should develop a new budget model designed to encourage revenue generation developed by a task force of experts with oversight by a special advisory council. Status: on track at the end of Year 1 with two committees having been formed and decisions made.
b. The new budget model should return revenues earned to the units that generated them, and it should incorporate elements of performance as metrics for resource allocations. Status: the steering committee has decided on a model that looks more like PBAM2 rather than PBAM1 (see the FFTF final report for additional details on these two models), and it has decided on the method of revenue attribution. Allocation however, can only occur after we have an understanding of revenue and cost attributions (funds flow).

c. A Strategic Investment Pool should be created to allow the university to address its overall goals. At this point in time, we are challenged to create this pool considering the structural budget deficit. Developing the model to include revenue and cost attribution may help in the resolution of that budget deficit and allow for the eventual ability to create a strategic investment pool.

d. The new budget model should include a cost-based administrative overhead charge that will be applied to all revenue generators and serve to attribute all elements of central administrative support. Status: the steering committee is now engaged in determining the best ways to attribute these costs organized into NACUBO categories. The actual allocation of costs will be tabled until the attribution exercise is complete.

2. Reminder of Working Group's role: The working group has assembled data in a model that will allow any methodology to be used. The group has reached consensus, though are not always in agreement, about which drivers to use for each category. The working group has reached no decisions but rather is waiting for guidance from the steering committee. The working group does, however, strongly favor driving out expenses using a measure of intensity of use rather than a flat tax.

3. Decisions for NACUBO categories:

**Student Services:**

Working group recommendation: Student Headcount

Steering Committee first impression:

3% -- Revenue/Expenditure Tax  
75% -- Student Headcount  
22% -- Student FTE  
0% -- Student, Faculty, and (possibly) Staff FTE  
0% -- Don’t Know

Steering Committee recommendation:

3% -- Revenue/Expenditure Tax  
94% -- Student Headcount  
3% -- Student FTE  
0% -- Student, Faculty, and (possibly) Staff FTE  
0% -- Don’t Know

Given the strong preference in the second vote for Student Headcount, the initial model will be built using this driver.
**Academic Support:**

Working group recommendation: Student and Faculty FTE  
Steering Committee first impression:
- 0% -- Revenue/Expenditure Tax
- 3% -- Student Headcount
- 3% -- Student FTE
- 90% -- Student, Faculty, and (possibly) Staff FTE
- 3% -- Don’t Know

Given the strong preference for Student, Faculty, and (possibly) Staff FTE during this first impression check, the discussion was limited and the initial model will be built using this driver.

**Institutional Support:**

Working group recommendation: Student, Faculty and Staff Headcount or FTE  
Steering committee first impression:
- 3% -- Revenue/Expenditure Tax
- 6% -- Student Headcount or FTE
- 38% -- Student, Faculty, and (possibly) Staff FTE
- 47% -- Student, Faculty, and Staff Headcount
- 6% -- Don’t Know

Steering Committee Recommendation:
- 0% -- Revenue/Expenditure Tax
- 0% -- Student Headcount or FTE
- 19% -- Student, Faculty, and (possibly) Staff FTE
- 56% -- Student, Faculty, and Staff Headcount
- 25% -- Don’t know

With no consensus, the working group will examine the impact of the two predominant selections and report back to the steering committee in the fall.

**Instruction:**

Working group recommendation: SCH  
Steering committee first impression:
- 0% -- Revenue/Expenditure Tax
- 3% -- Student Headcount
- 88% -- Student Credit Hours (or possibly FTE)
- 9% -- Student, Faculty, and (possibly Staff FTE)

With a fairly strong consensus around using Student Credit Hours as a driver, the discussion was limited and this driver will be used to build the initial
model. However, it was noted that when the committee reconvenes in the fall and reviews the initial model, this decision could be readdressed.

**Research:**

Working group recommendation: Sponsored research expenditures. This is a change from the original recommendation that was Faculty FTE.

**Steering committee first impression:**

- 3% -- Revenue/Expenditure Tax
- 50% -- Sponsored Research Expenditures
- 40% -- Faculty FTE
- 3% -- Student, Faculty, and (possibly) Staff FTE
- 3% -- Don't Know

The committee decided there needed to be more clarity on the types of expenses that can be included in this category, and that this would impact the choice of a driver for the category. If the category is to include primarily Faculty Enhancement Awards, then use faculty FTE. If it primarily includes RSP core operations then sponsored research would be the best choice. In order to build the model over the summer, the working group will address the Steering Committee’s questions and determine how much difference the two predominantly preferred drivers produce.

**O&M – Direct Expenses**

Working group recommendation: Assigned SF

**Steering committee first impression:**

- 3% -- Revenue/Expenditure Tax
- 3% -- Student Headcount or FTE
- 88% -- Assigned Square Feet
- 0% -- Student, Faculty, and Staff FTE
- 6% -- Don’t Know

There was a fairly strong consensus to use Assigned Square Feet as the driver for direct O&M expenses, and discussion was limited. The initial model used this driver.

**O&M Indirect Expenses**

Working group recommendation: Student, Faculty, and Staff Headcount

Due to a technical problem, the steering committee’s initial impression was obtained by a hand vote in which 30% selected Student, Faculty, and Staff Headcount and 70% preferred Student, Faculty, and Staff FTE.

**Steering Committee Recommendation:**

- 0% -- Revenue/Expenditure Tax
- 3% -- Student Headcount or FTE
3% -- Assigned SF  
37% -- Student, Faculty, and Staff Headcount  
57% -- Student, Faculty, and Staff FTE

Considering the lack of a strong consensus, the amount of difference between the two methods will be considered and discussed further at the next meeting.

**Public Service**

Working group recommendation: Faculty and Staff FTE

Steering committee first impression: 
- 14% -- Revenue/Expenditure Tax 
- 0% -- Student Headcount or FTE 
- 7% -- Student, faculty, and (possibly) staff FTE 
- 79% -- Faculty and staff FTE 
- 0% -- Don’t Know

Steering committee recommendation: 
- 48% -- Revenue/Expenditure Tax 
- 0% -- Student headcount or FTE 
- 7% -- Student, faculty, and (possibly) staff FTE 
- 45% -- Faculty and staff FTE 
- 0% -- Don’t know

With no consensus, the working group will examine the impact of the two predominant selections and report back to the steering committee in the fall.

**Issues Raised**

In order to allow the committee to progress through all the decisions that would be necessary to allow for construction of the initial model, the issues listed here were not addressed:

- Interdepartmental majors
- Unintended consequences
- Options for headcount/FTE
- Institutional Support – break down the category? Does it make a difference?
- Quality of space

**Notes**

The first fall meeting will take place in October, details to follow.
Minutes January 28, 2013

1. Introductions

2. Where we left off

   a. In 2011-2012, the PBB Steering Committee and Working Group began developing a Revenue and Cost Attribution Tool (RCAT) to more accurately determine how costs and revenue are related. The RCAT is not by itself a new budget model, but will inform the budget model and decision making.

   b. The distribution of revenue and cost is essential understanding to have in the current budgetary environment, and the RCAT allows us to see the revenue and expenditures linked to one another.

   c. It is important to remember that the tool is not an SCH model. At present, SCH is the useful measure of the source of our revenue, but revenue attribution can change as necessary to reflect changes in our operations or how the State allocates resources.

   d. It is also important to recognize that every institution will have some academic units that cost more than the revenue generated resulting in cross-subsidization. This is not a value judgment; it is simply a representation of the data.

3. PBB Working Group report

   a. The tool will henceforth be referred to as the Revenue and Cost Attribution Tool (RCAT).

   b. Two handouts were provided for the committee’s review: 1) a draft copy of the tool itself; and 2) a key to the terminology used in the tool.

   c. Summary of revenue and expenditures, as outlined in the RCAT Key distributed at the meeting, with the following clarifications:

      i. The SCH for University Studies and Honors, as well as the associated costs, are attributed to University Studies and Honors and not colleges and schools. Courses with a "U" suffix belong to the unit where they are taught. There are no SCH redistributions in the model.

      ii. There are adjustments for Summer Session and Salem Center, but this is a one-year fix. In the future, both SCH and expenditures related to these programs will be reflected in the revenue-generating units where they occur.
iii. Indirect expenditures are allocated based on the drivers decided on at the June 25, 2012 Steering Committee meeting (notes above). Drivers are meant to best reflect the relationship between revenue and cost and not to create incentives for specific behaviors. Incentives will enter the picture as the budget model is developed.

d. There were two “close calls” at the last Steering Committee meeting related to how to drive out cost for Institutional Support and Indirect Operations and Maintenance categories. The Working Group committed to bringing additional information on these two categories, shown below.

e. For Institutional Support, the difference between the two drivers under consideration is as follows:

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>UGE</th>
<th>CLAS</th>
<th>SSW</th>
<th>SBA</th>
<th>GSE</th>
<th>MCECS</th>
<th>FPA</th>
<th>CUPA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student, Faculty &amp; Staff Headcount</td>
<td>$50,544</td>
<td>$111,124,858</td>
<td>$1,031,982</td>
<td>$3,115,147</td>
<td>$2,645,555</td>
<td>$2,451,158</td>
<td>$2,896,750</td>
<td>24,765,570</td>
<td></td>
</tr>
<tr>
<td>Student, Faculty &amp; Staff FTE</td>
<td>$1,674,998</td>
<td>$12,529,519</td>
<td>$782,350</td>
<td>$2,389,343</td>
<td>$1,773,164</td>
<td>$1,457,563</td>
<td>$2,371,572</td>
<td>24,765,570</td>
<td></td>
</tr>
<tr>
<td>Net Effect of Change in Driver</td>
<td>$(1,624,454)</td>
<td>$(1,404,661)</td>
<td>$249,633</td>
<td>$775,804</td>
<td>$(323,589)</td>
<td>$1,188,191</td>
<td>$613,897</td>
<td>$525,178</td>
<td>$ -</td>
</tr>
</tbody>
</table>

The Steering Committee favored Headcount 56% to 19% for FTE. Students comprise a much larger proportion of both drivers and thus have a greater impact. Student Headcount is a measure of declared majors, while Student FTE is based on SCH. As a result, units with no declared majors (UGE) are significantly impacted by the choice of one driver over another.

e. For the indirect portion of O&M, 57% of the Steering Committee favored FTE to 37% for Headcount, and the difference is:

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>UGE</th>
<th>CLAS</th>
<th>SSW</th>
<th>SBA</th>
<th>GSE</th>
<th>MCECS</th>
<th>FPA</th>
<th>CUPA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student, Faculty &amp; Staff FTE</td>
<td>$1,442,630</td>
<td>$13,119,151</td>
<td>$1,126,328</td>
<td>$2,098,800</td>
<td>$1,675,063</td>
<td>$3,225,190</td>
<td>$3,304,710</td>
<td>$2,952,702</td>
<td>$28,944,574</td>
</tr>
<tr>
<td>Student, Faculty &amp; Staff Headcount</td>
<td>$310,474</td>
<td>$12,140,179</td>
<td>$1,300,308</td>
<td>$2,639,483</td>
<td>$1,449,539</td>
<td>$4,053,295</td>
<td>$3,732,563</td>
<td>$3,318,723</td>
<td>$28,944,574</td>
</tr>
<tr>
<td>Net Effect of Change in Driver</td>
<td>$1,132,156</td>
<td>$978,972</td>
<td>$(173,980)</td>
<td>$(540,693)</td>
<td>$(225,524)</td>
<td>$(828,105)</td>
<td>$(427,853)</td>
<td>$(186,021)</td>
<td>$ -</td>
</tr>
</tbody>
</table>

The choice of driver in this case was the opposite of Institutional Support with a correspondingly significant impact if the other driver is used.

g. The purpose of asking for input on drivers before showing the committee the impact was to allow for discussion and decision-making without person bias. Today, there was no significant indication that the committee wished to
change the drivers, a vote was not retaken on the drivers for the two categories discussed, and the decision was made to retain the drivers favored by the majority during the previous meeting. Committee members were asked to relay their comments or concerns by e-mail to Monica Rimai or Sona Andrews.

4. Strengths and Weaknesses of using RCAT to inform the budget model.
   a. Every member was asked for input on these questions:
      1. What is in the RCAT that might make it an effective tool to inform a budget model?
      2. What is missing from the RCAT that prevents it from being an effective tool to inform a budget model?
         a) Which ones could be incorporated into the RCAT?
         b) Which ones cannot be incorporated into the RCAT?
   b. Teams of the Steering Committee categorized these responses into themes.
   c. The Steering Committee will receive separately a summary of the themes that emerged from this exercise.

5. Next Steps.
   a. The Working Group will refine the tool based on conversations with the deans and fiscal officers and the input above from The Steering Committee.
   b. The Steering Committee will reconvene to discuss the next steps in developing a budget model from the RCAT.

Minutes May 28, 2013

1. Review of exercise from last meeting where Steering Committee members were asked to respond to two questions (see January 28, 2013 minutes, item 4). Notes from that exercise were sent to committee members in advance.

2. Solving the dilemma of SCH attribution for University Studies courses. Recall that revenue and the expense required to generate it should be recorded in the same place. In some cases, in particular with UNST shared faculty, this does not occur consistently in the current RCAT. Using an example from the College of Happy Students (CHS), the problem of SCH attribution was described as follows:
   a. Professor Plum, whose salary is on the CHS budget, teaches 8 credits of CHS classes and his 80 SCH are correctly attributed to CHS. He also teaches 4 credits of UNST courses, but those 40 SCH are incorrectly attributed to UNST.
b. Colonel Mustard, who is shared faculty paid by UNST, teaches 9 credits of UNST course with 90 SCH correctly attributed to UNST. He also teaches 3 credits of a CHS class which are incorrectly attributed to CHS.

c. For CHS, the 40 SCH incorrectly attributed to UNST, less the 30 SCH incorrectly attributed to CHS, leaves it short 10 SCH in the current RCAT model.

d. Based on the working assumption that in most cases the SCH between UNST and other units would offset each other, the first version of the RCAT parked the issue with a plan to revisit it as the tool was refined.

e. At this time, OIRP has provided an analysis of the prior year comparing department courses taught by University Studies faculty and department faculty teaching University Studies courses.

f. OIRP data can be updated quarterly to present current data.

g. How this information is used in the RCAT depending upon the extent to which it is used for decision-making.

3. OIRP Data

a. \[X - Y = 8,720\] SCH in FRINQ and SINQ only

<table>
<thead>
<tr>
<th>BUDGET:</th>
<th>UNST SCH</th>
<th>SCHOOL/ COLLEGE SCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Studies Faculty on UNST Budget (27)</td>
<td>8,860</td>
<td>9,943 (Y)</td>
</tr>
<tr>
<td>School/College Faculty on School/College Budget (70)</td>
<td>18,663* (X)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*13,976 of this SCH is generated by SINQ sections with the support of a GA funded by University Studies.

b. At the School/College level there would be a positive or negative UNST adjustment depending on:

   i. (Positive) School/College provides more UNST SCH.
   
   ii. (Negative) UNST provides more School/College SCH

   c. Net effect of the UNST SCH adjustment:
4. A suggestion for how to make a UNST adjustment in the RCAT

   a. Using the current structure of the RCAT (no SCH redistribution), we first determine the net undergraduate revenue per SCH for University Studies.

   i. Based on the version presented at the last steering committee, that amounts to $166.44 per SCH.

   b. Apply that amount to the SCH balance and display as an adjustment line item in the undergraduate revenue section.

   c. Net financial effect of UNST adjustment:

5. Developing PBB informed by the RCAT

   In small groups, please answer the following questions:

   a. If we were to use the performance rations generated by the RCAT in a new budget model, how might we use them?
b. How would we go about establishing the performance ratio requirement?

c. How would revenue supporters participate in a model that involved performance ratios?

6. Summary of group notes

Question A

• At the college level the ratios may be useful for feedback or for the Deans as a planning tool (for units within a school/college).
• Incremental dollar increase may not be very close to the ratio, but the tool could allow for modeling efficiency gains to consider what the financial impact is of one more SCH.
• Could lead to productivity measures.
• The ratio may not mean anything.
• To help school/college develop differential tuition
• How do we add a value component?
• To inform differential budget cuts
• Internal decision tool
• Entrepreneurial funding distribution tool
• Inform our strategy for growth or cuts
• Used to set the goal for cost structure
• Dean – implementation of goal
• PSU – vision, what PSU expects
• Set target, set timeframe
• Need rules of engagement, balance, address impact of decisions

Question B

• Could define the “right” ceiling ratio and reward units for staying under that ceiling
• Ratio needs to consider values (e.g., STEM)
• Need guarantees that units will be rewarded for positive net revenue
• Need to determine what level of local control is embedded in the model as part of designing PBB to make managing toward incentives work
• Value? Align us with who we are and what we want to be?
• Degrees granted, retention, quality(?), accreditation
• Prioritize, say no

Question C

• It allows Revenue Generators to see how much they are paying for revenue supporters. Could evaluate how much revenue supporters cost compared to norms (difficulty of finding reliable and accurate comparables).
• Use national benchmarks – IPEDS – peers
• Look at impact on units.
• How is service judged?
• Customer satisfaction?
• How can revenue generators relate with revenue supporters?
• UNST costs are unrepresented
• Benchmark to infrastructure needs
• Benchmark with peers
• Set goals for performance
• Fund strategic investments

7. Summer homework assignment
   a. Updated RCAT with year-end data and changes made
   b. Additional information from the RCAT
   c. Honors courses in Schools/Colleges
   d. Interdisciplinary scenarios