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, 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 nor incents units 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 Task Force 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 incent 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 Task Force (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 principal output of the Task Force. Beginning with revenues, the Task Force created budget development principles in six sub-categories: 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 Task Force then created similar principles for: Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Plant Operation and Management, and Auxiliaries. The principles the Task Force 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 task force 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 Task Force 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 that 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 examine 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 Task Force is to be completed.