

Rutgers University Senate
Budget and Finance Committee
Report and Recommendations on
All Funds Budgeting
October 2007

1. The Charge

Charge S-0504: Review and evaluate the processes and policies related to All Funds Budgeting. Report to Senate Executive Committee by May 2007

2. Acknowledgement

This charge was dealt with extensively in several meetings of the Senate Budget and Finance Committee and in many other occasions by a designated subcommittee during the 2006/2007 academic year. Members of the Budget and Finance committee met with many members of the Rutgers community for formal and informal discussions regarding this charge. The subcommittee met with Executive Vice President Philip Furmanski and Vice President Nancy Winterbauer for lengthy discussions, as well as with Provosts, Deans, department chairs and other faculty members and administrators. The help, the information and the support received from each and every one of our colleagues is gratefully acknowledged. Unless explicitly quoted, we cannot separate the committee's opinion and suggestions from those brought to our attention by others and we assume the responsibility as if they were originated by us.

3. Summary

The Senate Budget and Finance committee and the University administration consider the implementation of All-Funds Budgeting (AFB for short) as a good move in the right direction for the university community. The AFB is expected to increase the transparency and efficiency of shared governance by creating budgetary incentives and by shifting fiscal responsibility from central administration down to the functioning units. However, as is often the case, the details are of major importance for the success of the initiative.

The detailed report below reviews the AFB issues raised in the long discussions. The implementation of the AFB is a long process and one of the recommendations of this report is to keep an open discussion with the administration regarding some issues that are important to all members of the Rutgers community.

At the current rates, the scope of AFB and the automatic payment received from the tuition is somewhat limited. As total tuition income is less than the cost of education the "net tuition" received by the units is usually smaller than their operating expenses. Additional funds (sometimes referred to as "Basic Subsidies") are allocated. The lack of transparency that is

associated with the allocation of these funds might undermine some of the main goals of AFB as discussed below.

4. The current state of AFB

- 1) All-Funds Budgeting has so far been presented and understood primarily as a new method of allocating revenues and expenses, emphasizing local responsibility for generating revenues.

However, the leaders of the effort – Executive Vice President For Academic Affairs Philip Furmanski and Vice President for University Budgeting Nancy Winterbauer – are seeking to fundamentally reframe this characterization: they emphasize that budgeting is only a part of a larger effort which centers on *planning*. Their goal is to “create a process where people lay out their visions and plans, with a sense of the budget for accomplishing them.”

- 2) For the planning system, according to Executive Vice-President Furmanski, *the single priority is academic excellence*; budgeting goals are subordinate.

- a) The fundamental planning process is a regular planning dialogue between units and administration. Deans are expected to present their priorities and to justify them as ways of improving academic excellence. Each academic unit is responsible for defining its own mission and criteria of academic excellence.

In these meetings AVP Furmanski seeks a conversation about progress to date, planning for future, and needed investments. He asks deans what investments they have made to advance their missions, what programs they propose for the future, and how they propose to provide the needed resources.

- b) Units ordinarily must generate the resources to fund their academic plans. At times, however, the criterion of academic excellence may mean that certain initiatives will be funded by the administration even when money is not available to the unit. Conversely some activities of units may not be allowed even if these units have the money.
- c) To the extent that the central administration provides funds for new initiatives, it does so as an investment – it acts as a “bank” rather than as a “foundation,” and expects a plan for repayment or at least self-sufficiency over time.
- d) There is no specific required planning process beyond the decanal level. The administration urges all units to conduct internal planning discussions, but believes that the format should be left flexible to accommodate differences of history, size, etc.

- 3) As a budgeting mechanism, the All-Funds Budgeting institutive has two main purposes:
 - a) To create a transparent, consistent process for allocation of resources across the University. In the past budgets were heavily influenced by tradition and special deals. The AFB effort aims to move beyond this to a consistent set of principles and processes. This is a complicated problem in itself, requiring new databases, reporting processes, etc., and is still incomplete.

- b) To make all levels of the University “budget-aware” – especially faculty, staff, and others who have rarely paid attention to the financial consequences of their decisions.

- i) Goals as stated by Vice President for University Budgeting Nancy Winterbauer include:

- “more attention to increasing revenue sources that units have greater control over.”

- “greater incentives to increase certain revenues by equitable and more aggressive allocation to generating units.”

- “clearer understanding of effects of actions on revenues, e.g. enrollment/tuition link and effects of tuition discounting.”

Thus the budgeting system seeks to increase decentralization and local responsibility for revenues. For example, it has become easier to move dollars between salary and non-salary categories; and the indirect cost return to units for grants has been increased from 10.5% to 42% this year (FY08), with an eventual goal of as much as 50%.

The budgeting system provides strong incentives to maintain or increase unit enrollments: enrollment declines or increases can have immediate and very visible impact on departmental budgets.

Vice-President Winterbauer: “When you’re making choices about enrollments and class sizes you want to think about what you want to accomplish and also about revenue consequences.”

- 4) These changes involve deep cultural reorientations which are expected to take some years to percolate through the University. In EVP Furmanski’s words, the goal is “a culture of self-determination” in which units take active responsibility for academic excellence within a realistic budgetary framework, with less dependence on central administration.
- 5) AFB implementation at Rutgers

- a) There are two basic rules for budget allocations between central administration and the decanal units:

- i) 55% of tuition dollars are returned to the deans; 45% is held by the central administration for shared services and administrative overhead.

- The returned dollars are then further divided: 70% to the dean of the teaching unit, and 30% to the enrolling unit.

- Exception: Off-campus tuition dollars are returned 85% to the originating unit.

- ii) 42% of research Indirect Cost Return (ICR) dollars are currently (FY08) returned to the dean of the originating units (with plans to continue increasing this share); the remainder is held by the central administration to support administrative costs.

- b) The 45% share for central administration covers *actual expenses* for shared services such as power, maintenance, etc. It does not include any “reserve” funds

for investment or special allocations. As a result, it could vary in the future depending on expenses: sharp shifts in energy costs, for instance, could lead to changes in the 45% share.

- c) Deans have discretion on how they distribute the returned dollars within their units.
 - d) Funds for investments in new initiatives, etc., come from other sources: primarily donations, summer school tuition, and indirect cost return (ICR) from research grants. These are allocated and disbursed campus-by-campus: New Brunswick initiatives, for instance, are funded by New Brunswick donations, summer school, and ICR.
- 6) The implementation is still in a relatively early phase with many incomplete elements:
- a) Administrative units are not yet covered by AFB. The budget crisis has delayed implementation in this area; also, many of these units do not generate revenues.
 - b) In the academic units, decision processes vary widely in structure and effectiveness. Some provosts and deans discuss allocations with their subordinates, others apparently do not.
 - i) AFB has apparently not been rolled out in Newark as far as it has been in New Brunswick.
 - c) Because of the state budget crisis, budgets were not adjusted as planned during the 2006-2007 budget year. Units were informed what the impact of enrollment changes would have been, but the dollars were not deducted.
 - d) When AFB was started, each decanal unit was given a "basic subsidy" to maintain its budget at historic levels. Subsequent budget adjustments were made from that base. Unit budgets still contain a "basic subsidy" line which is relatively constant but may vary with changes in the state budget.

5. Current views of faculty, other stakeholders, and the administration:

We have found that understanding of the AFB initiative among faculty and staff is still poor. There is very little knowledge of the *planning* process in most units; the *budgeting* process has gotten somewhat more attention and is often viewed with concern.

The administration acknowledges need for better communication and education, but it also argues that many of the concerns are unfounded.

Widely-expressed concerns, along with the administration's current view:

- 1) The allocation of expenses:
 - a) Units are now required to cover salary and FASIP increases for their faculty and staff. This raises the possibility that some units might not be able to cover negotiated contractual increases, or that units might have incentives to deny merit increases (APS) to staff members. Some see this as a kind of "unfunded mandate." Similar concerns may apply to recruiting and to the salaries of new faculty.

The administration notes that the key change, and in their view a necessary one, is that units are now more responsible for balancing salary increases with other

spending priorities. In unusual cases, where units have real problems covering commitments, central funds may be used to help – ordinarily on a “loan” basis.

- b) Some units that have received ICR increases say that they have been asked to take on other expenses that previously were borne by the central administration, such as electricity or building renovations.

The administration says that despite these perceptions, all basic shared services, including electricity and building maintenance, continue to be paid from the central funds. Renovations and expansions of plant may be paid for in a number of ways: from local All-Funds Budgets, from special investments by the central administration, or by state bond issues.

2) Uncertainty and difficulty in planning unit budgets

- a) AFB is resulting in a considerable increase in variation of unit budgets from year to year: the normal quasi-random fluctuation of enrollment and grants will have deep impacts on operating budget and make it difficult for the units to plan for the future.

The administration’s view is that units must begin to engage in contingency planning with a recognition of the likely range of variation. For particularly onerous or unexpected changes, the administration has enough discretion to help.

The administration has rejected notions such as rolling averages or “insurance” against sudden changes because they have found that these allow units to let problems go too long; they believe it is better to have a hard rule with some flexibility in the system. They acknowledge, however, that this is an issue worth watching.

3) Excessive focus on grants and enrollment increases, potentially at the expense of other priorities. Various parties we have spoken have expressed concerns:

- a) that support for PhD programs and others with low tuition returns will be reduced
- b) that faculty will avoid independent study, mentoring, special research experiences, and other low-enrollment teaching
- c) that inter-unit collaboration will be discouraged
- d) that service to the state and outside constituencies will be diminished
- e) that excellence in teaching and research will take a back seat to entrepreneurial success with enrollment and grants
- f) that student research and laboratory experience will be discouraged because it does not contribute to enrollments

The administration recognizes a tension that must be continually managed. The problem in the past, in their view, has been that unit decisions have been completely disconnected from budget considerations; but they also see it as important to avoid going to other extreme “where enrollment drives everything.”

The administration also believes, however, that the planning process will enable the University to avoid the danger of overemphasis on budgeting incentives. For example, even though PhD programs and laboratory experiences are often not the best ways to

maximize revenues, they are central to the core mission of academic excellence; therefore units will not be allowed to drop them for purely financial reasons. The central administration will place a high priority on working out mechanisms of sustainable funding. Similarly, there is nothing in the current system that discourages collaborative efforts, and the administration will continue to encourage them.

4) Lack of transparency:

- a) There does not appear to be consistent handling of allocation below the decanal level; there is even considerable variation at the Provost level.
- b) There is considerable variation in the implementation of planning across the campuses. Newark has adopted a more centralized approach, and Camden a more decentralized one, than New Brunswick. There also seems to be considerable variation in approach among deans. Again, this makes planning inconsistent and opaque.
- c) The “basic subsidy,” and variations in it, have not been clearly explained.

The administration’s view is that there should be considerable local discretion, but that there will be a gradual clarification of the overall processes and guidelines.

6. Assessment

We agree that many existing concerns are either results of a lack of information and understanding of the AFB effort, or artifacts of its incomplete development; many aspects are just starting and have not been worked through. We also believe that the overall goals of transparency and budget awareness, as stated by the administration, are positive and indeed vital to the future of the University.

However, there remain two major concerns which we believe could fundamentally undermine the goals expressed by the administration:

1. Inadequate planning mechanisms

The administration properly stresses that AFB should work within and be guided by a larger planning framework, but it does not have in place a widely understood or credible planning process. Planning seems to be ad-hoc and weak compared to the clear incentives provided by AFB for maximization of tuition and research dollars.

In New Brunswick, priorities are set by annual discussion between Dr. Furmanski and the deans. However, there is little transparency to this process, little awareness of it among other stakeholders, and little opportunity for debate. The planning criteria may be clear to the administration but are not widely understood or accepted among the constituencies.

Given the fact that, at the unit level, the planning process is opaque and the AFB rules are clear, the latter are likely to dominate decision-making within the units – with a resulting overwhelming stress on maximization of tuition and research dollars. Discussions between the deans and EVP Furmanski may be able to prevent large distortions of the incentive system, but they are too blunt and infrequent to guide daily decision-making that may respond overly heavily to the tuition and research incentives.

2. Lack of stakeholder involvement

AFB has strong potential effects on academic programs. Though the original plan was developed by a task force which included faculty, there has been little sense of involvement in this vital process from the bulk of the faculty or other stakeholders. The New Brunswick Faculty Council has protested the lack of faculty involvement in the budgeting process.¹ Staff have for the most part been even less involved.

One result of these two weaknesses is that stakeholders, including many administrators, are far more focused on the budgeting than the planning aspect of All-Funds Budgeting. They do not feel a part of a comprehensive planning process. Some are focused on how to maximize revenues within the AFB framework, others are concerned about the impacts that these strong and simple incentives will have; few understand or feel connected to the more complex goals sought by the administration.

7. Recommendations:

1. The university should develop a more consistent process for transparent and participative planning. There should be clarification of strategic priorities other than tuition maximization, with processes for deciding the balance of priorities and appropriate rewards.

The University Strategic Plan highlights several key priorities, including academic excellence, service to the state, and inter-unit collaboration. The Strategic Plan has not been cited by the administration as a reference-point for planning. If it is to play this role, it needs to be elaborated and discussed more widely in the University.

2. The administration should establish regular discussions about the budget and planning process with a credible stakeholder group. This could be an existing group, such as a committee of the University Senate; or a combination of representatives from the Senate, Faculty Councils, and other key groups; or an entirely new body. This group should:
 - a. consider the general issues discussed above – such as how to better integrate planning with budgeting and to better involve the University community;
 - b. propose ways to increase the transparency of the process;
 - c. continue to review AFB as it develops to avoid unintended consequences and distortions;
 - d. help to publicize and generate understanding and debate around the AFB system among the various University constituencies.
 - e. consider and make recommendations about particular matters including:
 - * Ways of mitigating the effects of enrollment fluctuations on units. A moving average basis for allocating funds or some type of “insurance against sharp changes” should be considered.
 - * Principles for the allocation of funds among central administration, decanal units, departments, and other units.
 - * The extension of AFB to non-academic units.
 - * The handling of salary increases and merit awards in units.
 - * The encouragement of collaborative activities between departments

- * The handling of split lines, shared teaching, and other collaborative issues between departments.

The direction of change charted by AFB and the associated planning initiatives is vital to the health of the University. Our hope is to strengthen the process by building wider understanding and commitment, and by better including the key priorities of the University. The Senate, representing all the major University constituencies, is prepared to help actively in promoting that understanding and commitment.

¹ Interim Report of the NBFC Budget and Planning Committee on the Proposed All-Funds Budgeting Process, February 27, 2004