

California State University, Los Angeles
University Resource Allocation – Process for Change

CURRENT ALLOCATION MODEL – OVERVIEW

The University Resource Allocation, as defined by Administrative Procedure 212, establishes the policy and procedures for allocating the fiscal resources of the University. Campus budget allocations are based upon predefined Chancellor's Office allocations (formula-based) and the campus strategic initiatives (non-formula). Around January of each year, the President provides the preliminary budget guidelines that outline the campus priorities for the following year. The preliminary budget guidelines initiate the university's Resource Allocation Plan and these are provided to campus stakeholders for input, consultation, discussion and information.

Following the Governor's January Budget, the Chancellor's Office provides preliminary funding allocation information for the next fiscal year. Administration identifies the funding changes and prepares a resource allocation handout for the Resource Allocation Advisory Committee (RAAC). The RAAC's role is to advise the President on budget policy, planning, and resource allocation matters. As outlined in Administrative Procedure 212 Section 5.10, RAAC members include faculty, administration and student representation.

The Chancellor's Office issued the final 2013-14 budget allocation, B 2013-02, on July 24, 2013¹. The University's 2013-14 General Fund base budget is \$221,839,675 consisting of General Fund Appropriation, Tuition Fee Revenue, Non-Resident Tuition Revenue, and Other Fee Revenue and Reimbursements.

General Fund Appropriation	\$ 103,544,039
Tuition Fee Revenue	112,223,870
Non-Resident Tuition Revenue	4,621,000
<u>Other Fee Revenue & Reimbursements</u>	<u>1,450,766</u>
Total Estimated Gross Budget	<u><u>\$ 221,839,675</u></u>

The University has operated under a traditional incremental (or decremental) budget model in which, generally speaking, annual increases (or decreases) are adjusted by a uniform percentage. The University provides annual base-funding to the Executive areas in support of their on-going operations. The 2013-14 budget allocations were as follows: Academic Affairs 65.90%, Student Affairs 7.59%, Administration and Finance 13.37%, Information Technology Services 7.98%, Office of the President 3.58%, and Institutional Advancement 1.57%². Benefits pool, compensation pool and University-wide programs are centrally managed. Included in the Executive allocations are restricted funds dedicated for specific programs or purposes (i.e., Financial Aid programs, utilities, University Reserve, etc.). The restricted funds cannot be used towards operational needs or to fund division deficits.

SUMMARY BY EXECUTIVE OFFICE

	RAP BASE BUDGET	RAP RESTRICTED BUDGET	RAP ADJ. BASE BUDGET		RAP % BASE BUDGET
President's Area	6,760,859	(2,821,114)	3,939,745	a	3.58%
Academic Affairs	72,918,904	(328,500)	72,590,404	b	65.90%
Information Tech. Services	8,791,415	0	8,791,415		7.98%
Student Affairs	53,540,657	(45,174,869)	8,365,788	c	7.59%
Admin. & Finance	22,595,735	(7,863,787)	14,731,948	d	13.37%
Institutional Advancement	1,767,081	(35,880)	1,731,201	e	1.57%
TOTALS	<u>166,374,651</u>	<u>(56,224,150)</u>	<u>110,150,501</u>	f	<u>100.00%</u>

Notes:

- ^a Excludes University Reserves
- ^b Excludes MSN graduate nursing
- ^c Excludes Federal and State Financial Aid Programs
- ^d Excludes Utilities, IRA, Child Care Center and Student Financial System upgrades.
- ^e Excludes Catalog
- ^f Excludes University-wide (i.e., Comp and Benefits Pool, Risk Pool premium) accounts which is about \$11.5 M

Strengths of Current Model:

- Incremental budgeting provides budgetary stability and allows operating units/colleges to plan multiple years into the future due to the predictability of funding.
- Base budget funding is systematic and provides operational continuity.
- Incremental budgeting is simple to understand (transparency) and easy to implement (efficiency). It simplifies the allocation process (formula-based) and facilitates accounting.

Shortcomings of Current Model:

- Since only the incremental portion of the budgets is analyzed, this model may perpetuate inequities in funding that existed and does not encourage redirection of funds.
- Incremental allocation model is limited in its vision. The divisions are accountable for what they spend in the most basic sense. The model does not measure or link performance-based outcomes, relevance, quality and productivity with funding levels. The divisions have sense of base budget ownership (property rights).
- Based budget does not account for cost increases due to inflation or other economic uncertainties.

NEW RESOURCE ALLOCATION MODEL – TIMELINE

	TARGET DATES
1. Preliminary planning, research, and evaluation of requirements for development of new resource allocation model. This includes an assessment of current funding model.	Sep. 2013 – Dec. 2013
2. Establish Budget Allocation Model Task Force to develop campus allocation principles and priorities and explore allocation model options. Recommended committee composition: Resource Allocation Advisory Committee (RAAC); VP for Engagement and Economic Development and Chief of Staff; and one staff appointed by the President.	Jan. 2014
3. Assessment of base expenditure need: After the 2013-14 mid-year assessment, conduct campus wide zero-based assessment to establish fiscal year 2014-15 base expenditure need.	Feb. 2014 – Apr. 2014
4. Design framework of the new allocation model(s) based on items 1 and 3.	May 2014 – Feb. 2015
5. Vetting and feedback from campus constituents on allocation models.	Mar. 2015 – June 2015
6. Selection and communication of the new allocation model.	Jul. 2015 – Sep. 2015
7. Implementation of new allocation model.	Fiscal Year 2016-17
8. Post implementation evaluation and refinement of adopted model.	Jul. 2016 – June 2017

BUDGET MODELS IN HIGHER EDUCATION

There are six budget models or budget-related practices used in higher education. The following overview of the budget models was derived from Hanoverresearch's published study³:

Incremental Budgeting

Definition: Traditional budget model where budget proposals and allocations are based upon the prior year's funding and only new revenue is allocated. Budget reductions are made as a percentage of the institution's historical budget, and are typically across-the-board.

Benefit: Incremental budgeting has been popular in higher education since it is easy to implement, provides funding stability, and allows units and institutions to plan multiple years, due to the predictability of the model.

Drawback: Difficult to determine where costs have been incurred and how these costs contribute to revenue and value creation. Institutions are accountable for what they spend.

Zero-Based Budget

Definition: The previous year's funding level is not considered in developing the following year's budget. Every part of the institution must re-request funding levels, and all spending must be re-justified.

Benefit: Zero-based budgeting is an effective way of controlling for unnecessary costs. Since departments and divisions do not automatically receive a certain sum each year, all money allocated to a unit has a purpose, keeping waste and discretionary spending to a minimum.

Drawback: Zero-based budgets take longer to prepare; hence, implementation is difficult.

Activity-Based Budgeting

Definition: Activity-based budgeting allocates funding to institutional activities with the highest return (in the form of increased revenues) for the institution. This may include developing and designing:

- Activity groupings for budgeting, in coordination with campus leaders and constituents;
- Fund resource grouping;
- Budget processes whereby allocation plans are used to align resources to institutional strategic objectives; and
- Implementing an activity-based campus budget allocation process.

Drawback: Requires substantial time and resource commitment, which may not be feasible for some institutions.

Responsibility Center Management (RCM)

Definition: Responsibility Center Management is more aligned with management philosophy than a budgeting strategy. The model supports the achievement of academic priorities within an institution, and allows for a budget which closely follows those priorities. RCM grants operational authority to divisions, colleges/schools, and other units within an institution, allowing them to prioritize their academic missions. Each unit receives all of its own revenues and incomes, including the tuition for its enrolled students. Each unit is also assigned a portion of government support (where applicable). However, units are also responsible for their own expenses, as well as for a portion of expenses incurred by the university's general operations.

Benefits: RCM has been used as a solution to budgetary constraints. RCM may induce deans to pursue new revenue sources since their division/school/college would receive all of its revenue.

Drawbacks: Competition for students promoted by RCM could cause deans to resort to inefficient measures to prevent students from enrolling in courses in other colleges.

Centralized Budgeting

Definition: All decision-making powers are vested with upper level administration. Typically colleges and universities combine aspects of centralized budgeting with decentralized budgeting.

Benefits: Since central budgeting is typically combined with another process, the rationale for choosing which units are centrally budgeted is adoptable. For example, when combined with performance-based funding, colleges might centrally budget those divisions for which no performance metrics can be reliably identified. Another reason to implement centralized budgeting is that some expenses are necessary to the basic functioning divisions, and are therefore not optional.

Drawback: When budgeting is centralized and the element of competition is removed, departments may be less motivated to generate revenue.

Performance-Based Budgeting (PBB)

Definition: Performance-based budget awards funds based on performance, which is determined by a number of defined outcome standards. The most effective performance budgets will show “how dollars fund day-to-day tasks and activities, how these activities are expected to generate certain outputs, and what outcomes should then be the result.”

Benefit: Performance-based budget should give an institution a good idea of how money is expected to translate into results. Performance-based systems are often imposed on public systems of education as a result of greater accountability demands. Linking the funding of public institutions to the results they deliver lends an increased level of transparency to expenditures among institutions reliant upon public financial support.

Drawback: The budget process must include time for the review of performance measures and time for discussion of performance against expectations, and then allocate dollars against those outcomes.

University Resource Allocation Guiding Principles

The following principles will guide the University’s resource allocation process:

- Aligns budget and resources with the University’s strategic plan, mission, vision and goals.
- Recognizes the differences and varying needs across divisions and programs.
- Provides for differential growth and differential needs within the University.
- Provides certainty of allocation (within the realities of public funding) for long-term efficiency and stability
- Assures transparency in decision making
- Be fair and equitable, based on the chosen plan and policies of the University.
- Promotes collaboration among divisions

The following are the desired characteristics of a funding formula or guideline, according to published study of the Nevada System of Higher Education⁴:

Equitable

The funding formula should provide both horizontal equity (equal treatment of equals) and vertical equity (unequal treatment of equals) based on size, mission and growth characteristics of the institutions.

Adequacy-Driven

The funding formula should determine the funding level needed by each institution to fulfill its approved mission.

Goal-Based

The funding formula should incorporate and reinforce the broad goals of the state for its system of colleges and universities as expressed through approved missions, quality expectations and performance standards.

Mission-Sensitive

The funding formula should be based on the recognition that different institutional missions (including differences in degree levels, program offerings, student readiness for college success and geographic location) require different rates of funding.

Size-Sensitive

The funding formula should reflect the impact that relative levels of student enrollment have on funding requirements, including economies of scale.

Responsive

The funding formula should reflect changes in institutional workloads and missions as well as changing external conditions in measuring the need for resources.

Adaptable to Economic Conditions

The funding formula should have the capacity to apply under a variety of economic situations, such as when the state appropriations for higher education are increasing, stable, or decreasing.

Concerned with Stability

The funding formula should not permit shifts in funding levels to occur more quickly than institutional managers can reasonably be expected to respond.

Simple to Understand

The funding formula should effectively communicate to key participants in the state budget process how changes in institutional characteristics and performance and modifications in budget policies will affect funding levels.

Adaptable to Special Situations

The funding formula should include provisions for supplemental state funding for unique activities that represent significant financial commitments and that are not common across the institutions.

References:

- ¹ CSU 2013/14 Enacted Budget Allocations
<http://www.calstate.edu/budget/fybudget/coded-memos/B13-02-Memo.pdf>
- ² 2013-2014 University Resource Allocation Plan (RAP)
<http://www.calstatela.edu/univ/budget/plan1314.php>
- ³ "6 Alternative Budget Models for Colleges and Universities," April 2, 2012 , Hanoverresearch.com
<http://www.hanoverresearch.com/2012/04/6-alternative-budget-models-for-colleges-and-universities/>
- ⁴ "Nevada System of Higher Education – Evaluation of the NSHE Funding Formula," May 2011 , MGT of America, Inc.
<http://system.nevada.edu/Nshe/index.cfm/initiatives/formula-funding-study/mgtnshe-formula-funding-report/>