

Minutes of the Budget Committee of the Academic Senate

Meeting of March 5, 2012

Present: Lou Romano (Chair), Linda Beale, Donald DeGracia, Rita Kumar, Lawrence Lemke, Michael McIntyre, Linda Rydstedt, Heather Sandlin, Senthil Sundaram, Karen Tonso, William Volz, James Woodyard

Absent: Shawna Lee, Richard Needleman*, Charles Parrish, William Slater, Megha Trivedi*

Invited guests: Ronald Brown, Provost; Anthony Laws, Huron Consulting Group; Rick Nork, Vice President for Finance and Business Operations; Angela Wisniewski, Senate Secretary; Budget Advisory Committee Chairs (and designees): Jean Andruski, Communication Disorders and Sciences, Liberal Arts and Sciences; Robert Arking, Biological Sciences, Liberal Arts and Sciences; Boris Baltes, Psychology, Liberal Arts and Sciences; Ellen Barton, English, Liberal Arts and Sciences; Walter Bryzik, Mechanical Engineering, Engineering; Timothy Butler, Marketing and Supply Chain Management, Business Administration; Constance Claybaker, Karmanos Cancer Institute; Daniel Cooper, Business Affairs, Education; Kevin Cotter, Economics, Liberal Arts and Sciences; Victoria Dallas, Communication, Fine, Performing and Communication Arts; Mai Datta, Finance, Business Administration; Heather Dillaway, Sociology, Liberal Arts and Sciences; Amanda Donigian, Classical and Modern Languages, Literatures and Cultures, Liberal Arts and Sciences; Michael Donohue, Theatre and Dance, Fine, Performing and Communication Arts; Robert Erlandson, Electrical and Computer Engineering, Engineering; Michele Grimm, Biomedical Engineering, Engineering; Nancy Hanna-Galster, Honors College; Naeim Henein, Engineering; Stephen Hillman, Theoretical and Behavioral Foundations, Education; Marcis Jansons, Mechanical Engineering, Engineering; Catherine Jen, Nutrition and Food Science, Liberal Arts and Sciences; Loreleigh Keashly, Communication, Fine, Performing and Communication Arts; Yi-Chi Kong, Immunology and Microbiology, Medicine; Janine Lanza, History, Liberal Arts and Sciences; Lawrence Lombard, Philosophy, Liberal Arts and Sciences; Charles Manke, Chemical Engineering and Materials Science, Engineering; Carol Miller, Civil and Environmental Engineering, Engineering; Bharati Mitra, Biochemistry and Molecular Biology, Medicine; Alper Mura, Industrial and Manufacturing Engineering, Engineering; Ratna Naik, Physics, Liberal Arts and Sciences; Thomas Naughton, Management and Information Systems, Business Administration; Daphne Ntiri, Africana Studies, Liberal Arts and Sciences; Donal O'Leary, Physiology, Medicine; Randolph Paschke, Accounting, Business Administration; Debra Patterson, Social Work; Frederic Pearson, Political Science, Liberal Arts and Sciences; Sharon Phillips, Library System; David Rosenberg, Psychiatry, Medicine; Carolyn Shields, Education; Stephanie Schim, Family, Community and Mental Health, Nursing; Loren Schwiebert, Computer Science, Engineering; Assia Shisheva, Physiology, Medicine; Robert Sokol, Clinical and Translational Science, Medicine; Pradeep Sopory, Communication, Fine, Performing and Communication Arts; Donald Spinelli, Classical and Modern Languages, Literatures and Cultures, Liberal Arts and Sciences; Timothy

Stemmler, Biochemistry and Molecular Biology, Medicine; Myles Stern, Accounting, Business Administration; T. C. Sun, Mathematics, Liberal Arts and Sciences; Peiyong Wang, Mathematics, Liberal Arts and Sciences; Mary Wischusen, Music, Fine, Performing and Communication Arts; C.P. Yeh, Engineering Technology, Engineering; Lloyd Young, Pharmacy and Health Sciences

*Liaison

1. Lou Romano, the Chair of the Budget Committee, called the meeting to order at 10:30 a.m. The meeting was held in the Bernath Auditorium in the Undergraduate Library
2. Provost Brown mentioned that he sees a lot of conflict in the University over the budget because the process is not transparent and is not academically driven. Academics and research with some service should drive the budget. The Huron Consulting Group was hired to assist the University in developing a new budget model. It is the Provost's understanding that a new budget model would not be adopted until it is understood by all parties.
3. Mr. Romano presented information about the budget model. In 1999, a group of faculty and administrators known as the Budget Formula Working Group was charged with analyzing the formula-funding budget model that had been followed since 1963 and to propose a change. The Working Group considered the responsibility-centered funding model, which is similar to the model recommended by the Huron Consulting Group (HCG). The third model the Group considered is an historical model (a model based on the prior budget of a unit) with a discretionary adjustment that the Working Group called a dynamic component.

Mr. Romano explained the problems that faculty and Deans experienced with the formula-funding model, how a responsibility-center funded (RCF) model worked, and the pros and cons of such a system. The Working Group unanimously rejected the RCF model, and recommended that the University adopt an historical model with discretionary adjustments. One of the recommendations was the formation of a committee of administrators, faculty, Chairs, and Deans that would decide the percentage of the budget to be included in the dynamic component. The University uses an historical model, but never formed the committee or fully implemented the dynamic component.

The slides from Mr. Romano's presentation and the report of the 1999 Budget Formula Working Group are available at <http://faculty.law.wayne.edu/mcintyre/Budget>.

In response to a question, Mr. Romano said that an RCF model was based on income generated so that the more income a college could generate from credit hours, indirect costs, or development, the more money it would have to hire new faculty or to purchase equipment and supplies. An attendee noted that the model would not work in the Medical School because Medicine could not increase its enrollment.

4. Mr. Kohrman then spoke to the assembly. Whatever changes are made in the budget model, he said, it would be driven more by academics than currently and be more transparent. One reason that a re-allocation of resources is needed is the decrease in the appropriation from the state. Wayne State received about \$250 million in fiscal year 2002 and \$182 million in FY 2012.

Mr. Kohrman reviewed the changes in the standards for admission. Every applicant will be evaluated holistically rather than according to guidelines that required a specific grade point average or ACT score. The state of Michigan will appropriate some of the funds for higher education based on the institution's graduation rate. Mr. Kohrman pointed out that WSU's retention rate has improved. In fall 2005, the retention of freshmen to sophomores was at 69%; now the retention rate of those first year students is 77%. The goal of the initiatives in the Student Success Report is to increase retention by 1% in each of the next five years.

Wayne State must do a better job of screening students for admission so that those who are admitted can succeed. Mr. Kohrman listed the changes being made in the recruiting and admission processes. One change was the revision of the APEX (Academic Pathways for Excellence) program. Students who have academic challenges will be admitted through APEX where they will receive additional support. The summer Bridge Program will help students acclimate to the University by their taking about 10 credit hours of classes. Students who cannot be admitted to APEX will be referred to the TRIO program, a federally-funded program.

Mr. Kohrman explained the changes made in the federal student financial aid program. Students must meet satisfactory academic progress to qualify for Title IV financial aid, i.e., Stafford, Perkins, Pell, SEOG, and work study funds.

Mr. Kohrman reviewed the process, timeline, changes, and assumptions for the FY 2013 Budget. The campus housing rates will be taken to the Board of Governors in March. President Gilmour is forming a budget committee that will meet with every Dean and Vice President. In addition to the Dean or the Vice President, the business officer of the unit and a member of the faculty from the unit's budget committee will meet with the President's Budget Committee. The University budget for FY 2013 will be finalized on June 26.

The FY 2013 Budget book will have 3 years of financial information for each Dean and each Vice President: the budget and actuals for FY 2011, the budget and projected actuals for FY 2012, and the proposed budget for FY 2013.

Governor Snyder has recommended a 3% increase or about \$36 million for higher education for FY 2013 with Wayne State receiving an increase of 0.9% or \$1.7 million. All \$36 million appears to be one-time funding. It looks as if the Governor will return the money to a pool from which it would be re-allocated to the universities the next year. The Governor based the allocation on four metrics. First was a growth calculation comparing the number of people who graduated in 2008 with an average of

the graduates of 2009, 2010, and 2011. WSU got zero for this. The second metric was for the number of degrees granted in the health care area. WSU received about \$485,000 based on this metric. The third metric measured the three-year average of the number of undergraduates who receive Pell Grants. Wayne State received \$1.2 million for this metric. The money for the fourth metric has not been allocated; it is for tuition restraint. The Governor's proposal contains a 4% tuition cap and the institutions that are furthest from the 4% will get the largest percentage of the remaining \$9 million.

Mr. Kohrman's and Mr. Laws's Power Point presentations can be found at <http://faculty.law.wayne.edu/mcintyre/Budget/budget-minutes.htm>.

5. Business Process Improvement: Rick Nork gave an overview of the work that the Huron Consulting Group has done at the University in the past year. HCG focused on the areas where the University could most improve: Budgeting; Facilities Planning and Management; utility reduction; human resources; information technology; purchasing, strategic sourcing, and eProcurement; auxiliary services; travel and expense management system; and enrollment services.

An attendee asked how parking and student financial aid fit into the areas that the HCG was studying. Mr. Nork said that parking was not part of the scope of what was done. But the questioner noted that parking and student financial aid have an impact on student retention.

6. Andrew Laws, Director of Education at the Huron Consulting Group, made his presentation. Mr. Laws has worked with Ohio University, Wright State University, the Medical University of South Carolina, the University of Kentucky, Auburn University, and the University of Wisconsin. Rather than calling the budget model responsibility-centered management, it is now called incentive-based budgeting (IBB). There have been improvements to the budget model over the past decade that address some of the criticisms that had been raised. Twenty percent of public four-year doctoral institutions, including the University of Michigan and Indiana University, have implemented the IBB model.

A member of the Budget Committee asked if administrators at the universities that adopted the IBB model like it and asked if faculty are distracted from teaching and research. Mr. Laws said typically people do not like any type of budget model because budget models do not create wealth; they redistribute wealth. He said that Deans love it; it attempts to do for the whole university what the research enterprise has done. Research funding happens at the local level and is controlled at the local level, and that creates innovation across the research enterprise. The IBB model decentralizes decision-making and responsibility and gives control to the Deans so it is closer to Department Chairs and faculty who better understand their market, the challenges they face with respect to students and research, and the opportunities in the market. People, Mr. Laws said, generally like the model. The model does not change the faculty's day-to-day activities, i.e., how they approach instruction or research.

Ninety-five percent of the faculty, he said, would not know that the budget model had been changed.

An attendee expected that more administrators would have to be hired at the department or college level to handle the IBB model. How is this a better budget model if administrative costs are increased? Mr. Laws did not believe more administrators would be needed. The IBB requires a different administration. The skills needed for a college-level business manager might change becoming an advisor to the Dean who needs to understand revenue growth and the connections between revenues and expenses. Mr. Laws said that he had seen a change in administration at the department level at other universities.

HCG is performing due diligence and working with the steering committee to determine if an incentive-based budget model would be good for Wayne State. Mr. Laws reviewed the aspects of the budget model used in the mid 1980s and 1990s that were of concern and were mentioned in the report of the 1999 Budget Formula Working Group. Mr. Laws did not want to revert to that model. The report did conclude that a reformed budget model would not address the problem of systemic underfunding. The Huron Group wants to create incentives to grow revenues. The IBB is not an attempt to cut programs; it is an attempt to ensure that revenue goes to the programs that are critical to the mission of the University and that Deans have incentives. Now, he said, there is little incentive for a Dean to start a new program because another program may have to be cut to fund the new one and the Dean may not be able to hire faculty for the new program. The IBB connects revenues and resource allocation with activity drivers. The budget model should be a tool to employ strategies, not hold back faculty.

An attendee commented that if revenue incentives drive programs, it is likely the University would have programs that produce revenue even though they may not be the best programs. Mr. Laws often hears the complaint that budget models are financially motivated and driven, not academically motivated and driven. The purpose of the incentive-based budget model is not to make money. The budget model will identify revenues brought into the University for any activity. Then it will identify the costs incurred to generate revenues and deliver programmatic offerings, resulting in a profit or a loss. Mr. Laws does not believe a net loss is necessarily a bad thing. The model does not promote that every activity a university undertakes should cover its costs. There are some activities that will never bring in money, but they are critical to the institution. But the institution should know how much an activity costs when making resource allocations. The institutions that have implemented the IBB model have taken 2.6 years to move to the new model.

The IBB is an academically-driven model; it puts resources in the colleges. The steering committee has three Deans (Engineering, Fine, Performing and Communication Arts, and Business Administration), faculty representatives (Charles Parrish and William Volz), administrative representatives (Research, Finance, and the Provost's Office), and 2 college business managers. Mr. Laws feels the committee is

weighted toward the academic or college perspective. The committee wants to move away from a budget that is focused on control. The budget needs to be forward looking, facilitating planning instead of looking at historical funding levels. There should be connectivity between activities and resources such that if there is growth in research or instruction there are resources to support the activities. The budget should be transparent and easy to explain.

The Steering Committee put together five principles and asked HCG to create a model that would facilitate the principles. The first principle is to encourage planning that supports and aligns with the University's strategic missions of teaching, research, and public service. Second, provide leadership with incentives for effective management of both the revenues and expenditures. Second, reward creativity and innovation. Third, increase accountability and allow for better forecasting and planning. Fourth, be consistent and fair. Fifth, be transparent and easy to explain.

An attendee asked how many of the universities that adopted this method changed their formula for the allocation of the indirect cost to the colleges from year-to-year or during the period when they've had this method. Mr. Laws said that typically a committee reviews this type of formula every five years. There are many models with four common elements of every model. There are many questions and assumptions, etc., that help a university customize the model for its organization. One of the consistent items is revenue devolution; you give out the revenues as they are generated. In this model 100% of indirect cost recoveries (FA dollars) would be allocated to the college. However, in the IBB model the college would pay for space, etc.

Historically at Wayne State, budgeting has referred to the general fund. In the IBB model all unrestricted and restricted funds are included to get a full transparent picture of the resources the University has at its disposal and to align revenues with the costs they generate. Restricted dollars drive costs. When there is a new initiative the University should be able to consider all of the possible funding sources. A culture change is needed with an all-funds budget.

In the current budget model, general fund money flows into the central pool and it is then allocated to the schools, colleges, and administrative units. Mr. Laws believes the current funding model has fatal flaws. First, it is not transparent. No one understands how the money comes in or how decisions are made to spend it. There is no connectivity. There is no connection between activities and resource flow. Revenues need to be connected to expenses so the institution knows the required levels of subsidies, ties them to the mission of the University, and makes informed decisions. In the previous model all of the state appropriation, research dollars (direct and indirect), tuition and fees, other revenues (sales, services, gifts, auxiliaries) went into one pool. Colleges are able to keep some of the fees they charge. Under the IBB model, all four revenue streams would flow directly to the schools and colleges. The schools and colleges would have four types of expenditures. They would have direct expenditures, such as salary, fringe benefits, travel, supplies, etc. They would have a participation

fee or department tax rate that would provide the subsidies for programs that are important to the institution but whose revenues do not cover their expenses. This would also be used for strategic investments, such as new programs or new buildings. There would be a pool for deferred maintenance. The fourth are cost allocations for administrative and support units, such as human resources, facilities, IT, and admissions. This, Mr. Laws said, is a college-centered model.

An attendee viewed the proposed model as a responsibility model for the schools and colleges, but not for the administration. If the administration provides janitorial services but the service is poor, colleges should not pay as much. Mr. Laws agreed. The University wants to enhance incentives for smart revenue growth at the college level and enhance service at the administrative level. Mr. Laws recommended that a committee of associate deans evaluate the budgets of the administrative operations every year to determine if they are getting the services for which they are paying. That connects the service levels with the funding of the unit.

Asked if the responsibility model filtered down from the Deans to departments, Mr. Laws said that typically whether it was done was the Dean's decision. HCG's project did not involve looking beyond the college level. He did not think the Deans should pass it down for the first two years until they understood how to be successful in it. In theory, it should flow to the level that has the ability to influence the revenues. A department chair has that ability.

The process of changing to an IBB model takes about 2.6 years. Huron is at the beginning of the process of due diligence and modeling. They are building a model to understand if it is something in which Wayne State is interested. Mr. Laws laid out the timeline for the process: 8 months of planning (building the models, preparing everyone to be successful) and then a 12-months parallel process. If the model were adopted, on October 1, 2012, with the start of the FY 2013 budget year, resources would be allocated based on the historical model, but units would have the tools and reports that are part of the incentive-based model to see how their activities would impact their resources. Following that, there would be a further hold-harmless period where there would be a cap and a floor so that colleges would not have a million dollar windfall or a million dollar shortfall. At the end of the second year, units would be held accountable for their performance. If during the process of setting up the budget, it was determined that a unit needs \$1 million of funding outside of its revenue, but when the fiscal year ended the unit was found to need \$1.2 million, it would be responsible only for the \$200,000. If, at the end of the year, it were found that the unit needed only \$750,000, it would be able to keep the extra \$250,000 for investment. Being held accountable means that the unit is accountable to the amount negotiated. Typically this is done in three-year periods of time.

An attendee mentioned that under a previous administration there was a transition from tenured and tenure-track faculty to part-time faculty. Even after that funding model ceased to be used, Deans seemed reluctant to hire tenure-track faculty because once that individual was tenured the salary was a permanent part of the budget. For

the past three or four years, the Academic Senate has advocated before the Board of Governors for the hiring of tenured and tenure-track because they enhance student learning. The number of tenured and tenure-track faculty at WSU is below that of its peers. He was concerned that the IBB model would increase the Deans' reluctance to hire tenured and tenure-track faculty for fear that if their enrollment or other measures dropped, they would lose funding. Where this model has been implemented fully, has there been a reduction in tenured and tenure-track faculty compared with part-time faculty?

Mr. Laws noted that there is a trend nationwide to reduce the number of tenured faculty. He did not think there was a correlation between the budget model and the decrease in tenured faculty; they are just happening in the same timeline.

The IBB model encourages Deans to make good financial decisions. It is not the only measure of accountability. An institution needs good Deans that are held accountable for many different measures, including academic quality, fiscal responsibility, and tenure. In the mature institutions that have adopted this model, if a college has money it can hire faculty without seeking approval. Colleges that have a net loss may have to request funding to hire faculty.

An attendee asked about the tax amount for the strategic initiative fund and for deferred maintenance. The University has a considerable amount of deferred maintenance, which varies among colleges and buildings. She asked how the system dealt with that. Mr. Laws said that all of the 26 universities with which he has worked have deferred maintenance. If people pay for their space they do not accept deferred maintenance. The college needs to find a funding mechanism for maintenance to keep it at the state it is in now or it wants it to be in the future.

Another attendee asked how the taxed amount is determined and how much it varied year-to-year. Mr. Laws said the tax rates varied between 6.8% at one institution to 20% at another institution that only taxes selected revenue. The rate depends upon what is taxed. The rate is reviewed every five years; it does not vary from year-to-year. Budget models that failed were due to the fact that the leadership at the universities did not make hard decisions and because the wrong tax rate was set. HCG looks at the historical level of strategic investments and at the size of the pool needed to maintain activities critical to the institution. They look at which colleges need subsidies, i.e., which have expenses greater than their revenues and will need money from the strategic initiatives fund. Those two things set the size of the pool and the percentage is based on which activities the institution wants to tax.

Mr. Laws said that over the next two or three weeks, the steering committee has to reach consensus on the methodology and complete the budget portrayal, which are the revenue, the expenses, and the required subsidies. HCG will document the process of the steering committee and the recommendations, and give them to the University leadership to decide if the due diligence process resulted in a model they like and that will make the University better.

Mr. Woodyard asked what research methodologies were used to evaluate whether student learning had improved, whether student retention had improved, whether students' ability to get jobs had increased, whether donations from alumni increased, whether faculty and employee retention had improved. What literature, he asked, shows that using this approach fosters all of those? He asked for the sites so he could see the strengths and the weaknesses from the view of the entire community, not just from management.

Mr. Laws referred Mr. Woodyard to an article entitled "Incentives for Managed Growth" by James Hearn of Vanderbilt University about implementation of the IBB model at the University of Minnesota. There is no good study that looks at the 34 institutions that adopted the model comparing the institutions prior to the adoption of the model with them after it was adopted. There are, Mr. Laws said, many factors that impact the outcomes Mr. Woodyard mentioned.

Another attendee asked Mr. Laws about HCG's experience with medical schools where a significant amount of revenue is generated from clinical practice plans. The budget of the practice plan at WSU is not transparent now. Mr. Laws mentioned several universities that have practice plans and that have adopted the model. If the clinical funds are transferred into or out of the University's account, they will be incorporated, but the whole practice plan would not be incorporated. If there is a Dean's tax or if a strategic transfer payment to cover salaries each year is made, that would be incorporated. Mr. Laws said that the model is designed for strong deans. For some people it is a recruiting tool.

Mr. Laws talked about building consensus for a change in the budget model. An attendee pointed out that according to the timeline consensus building should take place in the summer when nine-month faculty are not at the University. That timeline gives the impression that the faculty are being cut out of the process. Mr. Laws apologized for that impression; that was not his intention. HCG will try to ensure that everyone is involved. Mr. Kohrman noted that a new budget model would not go in to effect until FY 2014. The plan is to develop a framework or concept. For all of 2013 the new model will run in the background of the current model to see if it works. There will be time for faculty input and administrative input throughout the University during the 18-month process before a new model would be used exclusively. An attendee asked what would happen if the Academic Senate said that the University should not try a new budget model. Provost Brown responded by asking how the lack of transparency in the budget and the fact that the current budget is not academically-driven would be addressed if a new model were not adopted.

Another attendee appreciated the Provost's support for an academically-driven budget, but the question was how to achieve it. She was skeptical that the proposed process would work at WSU based on the budget-reduction process where the faculty committee was told that it could not look at the administrative side and could not see what the Deans were doing and that the reductions would be 50-50 when that was not

at all true in the end. Given that budget process, the lack of transparency that was imposed from the top and the lack of concern for faculty input and for the schools and colleges there is a considerable amount of skepticism how something else working with a tax driven by a formula driven by the same group that made the formula for the budget reduction process could work better for us.

The Provost noted that the faculty are involved in the steering committee. Both Charles Parrish and William Volz serve on the committee. The committee will drive the process; there will be agreement on how to do it. The colleges will be budgeted first and subsequently taxed. Something productive must be done, he said. The University functions on very little money. The purpose of the committee is to make the process transparent. Provost Brown asked that the faculty work with the process and look at the options.

An attendee asked how much the Huron Consulting Group was costing the University, she was told \$1.9 million.

Mr. Romano thanked the participants and asked those who attended to take the information back to their departments and schools/colleges.