

A New Budget Model: the Illinois Resource Allocation Program

An institution's budget is one embodiment of its values. The budget is the means by which an institution furthers its academic mission. It reflects the campus's balance between central control and unit initiative. In an era of high costs and limited resources, the budget process is the mechanism for a campus to focus resources and make difficult decisions.

The Urbana campus of the University of Illinois has an operating budget of more than \$1.6 billion. Half of that budget comes from grants and contracts, gifts, auxiliary operations and sales and services. These activities are the result of individual or unit efforts and, as such, are not allocated by the campus. The remaining half of the budget comes from the state appropriation, tuition revenue and the overhead on grants and contracts. These are the funds that are distributed by the campus budget allocation process. It is through the allocation of these funds that the campus directs resources to further the academic mission of this institution.

While Illinois has a long history of decentralized control of resources, the process by which those resources were allocated to units was a centralized incremental process. While the level of a unit's budget might be somewhat related to the cost of course delivery, changes in the level of activity (number of majors and classes, for example) had little impact on the funding received. The budget was completely the result of historic decisions and, as such, it was difficult to fully rationalize the appropriateness of the allocation to any one unit.

In the late 1990s, the campus began a study of its budget practices. At this time, many institutions were exploring what is called Responsibility Centered Management (RCM) budgeting practices. Stated most simply, universities using RCM budgeting assign all revenue to the academic units generating tuition and research funding. Overhead costs, such as campus administration, computing services and facilities are paid for through use-based assessments on the revenue generating academic units. In principle, the overhead units will more clearly recognize academic units as customers and therefore provide better service. Academic units will collectively have some voice in the level of service provided by overhead units.

RCM at Illinois

The Urbana campus adopted an RCM budget model beginning in FY 1999. It was assumed that the budget model would be implemented on a "hold harmless" basis. No funds would be taken from or assigned to a unit as a result of the implementation of the new budget system. Funds would simply be recast in terms of the RCM allocation rules. A "plug" number, positive or negative, would then be assigned to tie the budget to its non-RCM budget. Moving forward from that initial year, budgets would move up or down based on the level of measured activity of the unit. The following are some of the characteristics of the initial RCM model:

- Half of undergraduate tuition was assigned based on the college's share of majors and half of undergraduate tuition was assigned based on a college's share of instructional units (IUs). Summer session tuition was assigned to the college based on IUs.
- Undergraduate tuition was allocated based on a two-year average of IUs and enrollment to smooth out sudden changes in enrollment.
- Differential, graduate, professional and self-supporting tuition was assigned to the college offering the program.
- Since undergraduate waivers were controlled by the campus, waivers were taken off the top prior to the allocation of funds. In other words, their cost was borne by units in proportion to their number of students, not the number of waivers in that college.
- Since graduate tuition waivers were in the control of academic units, the cost of waivers is the responsibility of the college.
- An allocation of \$40 million was assigned to colleges based on their share of three factors: externally funded research, graduate enrollment, and faculty FTE.
- All overhead costs were assigned to units based on metrics related to their use of that activity. For example, a college's share of total graduate students determined its responsibility for the Graduate College budget. A college's assignable square feet determined its share of Operation and Maintenance costs. The overhead costs were allocated using simultaneous equations.
- Units historically received 30% of the overheads on grants and contracts. Under the new budget model, the college received 62% of the growth in earning over the prior year.
- A Campus Budget Oversight Committee (CBOC) composed of faculty representing disciplines across the campus conducted an annual budget review of each college. A Dean's Budget Committee, comprised of representatives assigned by each dean, led an annual budget review of each administrative unit.

Review and Modification of the RCM Model

In many ways, the budget model proved a success. Funding flowed with changing enrollment patterns. If a college had new majors or course offerings, they would receive funding in support of those activities. Since undergraduate funds were assigned based on a two-year average, there was not a rush of new courses that damaged units losing students. The clear tie of a unit's finances to student majors and class attendees provided a major incentive to support the student's experience. At the graduate level, units understood for the first time that there was a cost to waiving tuition; waivers in many programs decreased. The assignment of all growth in ICR funding to colleges came at a time of rapid growth in federal funding. The millions of dollars of ICR that colleges received allowed units to meet the growth in start-up and other costs.

There was, however, a fair amount of dissatisfaction with certain aspects of the budget model. A major source of confusion was the means of assigning overhead costs. The assignment of these costs used a multi-stage procedure employing differential equations that were difficult to understand. Its lack of predictability was seen as more than offsetting its effectiveness at distributing costs. The model for distributing undergraduate tuition also lacked some predictability—colleges received a share of allocated funds rather than a fixed dollar amount per student or IU. In some cases a college increased its student majors, but received less money since its share of total students declined. The distribution of General Revenue Funds (GRF) based on externally funded research, graduate enrollment, and faculty FTE was also unpopular. Not only was this allocation unpredictable, but there was no sense that it effectively incentivized any particular behavior.

The Vice Chancellor for Research brought forward concerns about the distribution of ICR funds under budget reform. While research compliance and support costs skyrocketed in the early years of the decade, all ICR growth was directed to colleges. It was increasingly difficult for the VCR to find the necessary resources to support the activities that were expected of that organization.

To address these and other concerns, a 2003 committee led by Dean Avijit Ghosh, of the College of Business, explored possible adjustments to the budget model. They recommended that the formula assignment of overhead costs be discontinued, that the formula allocation of GRF funds be discontinued, and that the VCR receive 10% of all future growth of ICR. The committee's recommendations were implemented beginning in FY 2005.

The Budget Model in a Period of Financial Constraint

The economic downturn early in this decade had a dramatic impact on the budget of the campus. The state funded budget hit a peak in FY 2002. Also beginning that year, the campus was subject to a series of mid-year rescissions and year-over-year budget reductions. Approximately \$70 million in GRF appropriation was removed from the campus by FY 2004. The campus began an aggressive program of tuition increases. While nominally offsetting the states reductions, the increases were needed to fund escalating utility costs, salary competitiveness, facility costs and numerous other common costs necessary simply to keep the institution operating. To insure that funds were available for these common costs, the amount of money allocated for distribution based on undergraduate majors and IUs was held constant over the past five fiscal years. Units received a separate income stream for salary increases and other centrally-funded costs. However, the dollars per major and IU were no longer significantly responsive to changing enrollment patterns.

The approximately \$60 per IU had become a meaninglessly low number. Some units have questioned whether it was in their economic interest to continue offering general studies classes. A unit's focus often became more directed towards majors to the exclusion of others. At the same time, the importance of interdisciplinary instruction was

growing nationwide. Traditional subject matter boundaries are often seen as less responsive to the needs of our times. The current campus budget model is unable to meet this challenge.

Another way in which the budget model was seen as unresponsive was in the way that the faculty-led Campus Budget Oversight committee interacted with the full budget process. The CBOC would have budget hearings with each college and make recommendations to the Provost. Separately, the Provost would have budget hearings. It was difficult to integrate the CBOC's recommendations with the Provost's budget review. Beginning in FY 2007, the CBOC process was modified. Rather than separate CBOC and Provost-led budget hearings, two to four members of the CBOC participate with the Provost in each of the college reviews. CBOC members self-select for participation in college meetings based on interest and availability.

A New Review

Provost Katehi called for a series of dean led reviews of our budgeting procedures. Three committees were formed to develop guidelines for the following areas: the allocation of tuition and GRF, the allocation of ICR funds, and the reallocation of funds. These groups worked through FY 2007, completing their reports in spring. Working groups were then formed to implement the recommendations of the tuition/GRF and ICR groups. While this work was still under way, a number of recommendations were reviewed and accepted by the Council of Deans and other campus groups:

- Increase the dollars per IU from \$64 to \$110 per lower division IU and \$170 per upper division IU.
- Assign a fixed dollar per major and IU to improve clarity and predictability of the allocation. To further enhance predictability, we will also eliminate the two-year averaging of enrollment and IUs. While this change does add slightly to a college's financial risk from enrollment fluctuation, funds will now move more rapidly to new initiatives.
- Separate the budget review of special units contained within a college. For example, the campus radio stations are housed within the College of Media; the performing arts center and art museum are housed within the College of Fine and Applied Arts. While these special units are clearly related to the colleges that house them, they are not a central component of the college's instructional mission. Separating these units, in terms of budget review, helps clarify the resources available to the college for its core mission and highlights the resource requirement of the special program.
- Develop some measures for the differential assignment of new overhead costs. While we will not return to a full attribution of overheads, there are certain cases, such as utilities, where it might be beneficial to assign incremental costs based on use.

Guiding Principals for the Illinois Resource Allocation Program

The Tuition/GRF working group developed a set of principles to guide their work. In general, they were a reaction to the shortcomings of the current budget model. All proposals were evaluated in light of these guidelines:

- Understanding the basic workings of the budget model should not require expertise in financial matters. The model should be easy to explain, understand and implement.
- Based on their knowledge of enrollments in their programs, colleges should be able to make reasonable projections regarding their future income.
- The model should recognize the volume of students taught by discipline. The costs of supporting a major should also be recognized.
- While no simple model can fully acknowledge the varying costs of courses, the model should more fully recognize that upper division courses generally cost more than lower division courses.
- Interdisciplinary programs and collaborations are critical to our future. The budget model must provide adequate financial feedback for these undertakings in order to encourage collaboration between disciplines.
- To the extent possible, tuition income should be assigned directly to academic units. In particular, differential tuition should flow directly to the colleges enrolling those students.
- The current model, which bases undergraduate allocations on averages of several years of activity, does not recognize the costs associated with new efforts. Procedures should be developed to recognize and reward innovation in education.
- A portion of a unit's budget is "historic" and can not be directly explained by allocation metrics. While costs and ability to generate differential income vary by discipline, the effect of the unexplained historic allocation should be minimized over time. These historic allocations should be periodically reviewed in light of appropriate metrics.
- Many colleges contain units that are not directly tied to the instructional mission of the college and that are often tied to a campus-wide good. Examples of these units include Krannert Centers, WILL, and Cooperative Extension. These funds should be separated from the academic budgets in the budget process to make the funding of units more transparent.
- The model should encourage a holistic general funds (tuition & GRF) perspective rather than encourage a focus on a unit's share of a particular fund type.
- The budget review process should discourage both administrative and programmatic redundancies.

Funding Common Costs (While the intention is to minimize costs passed on to departments, these principles are intended to insure that these costs are shared in an equitable manner.)

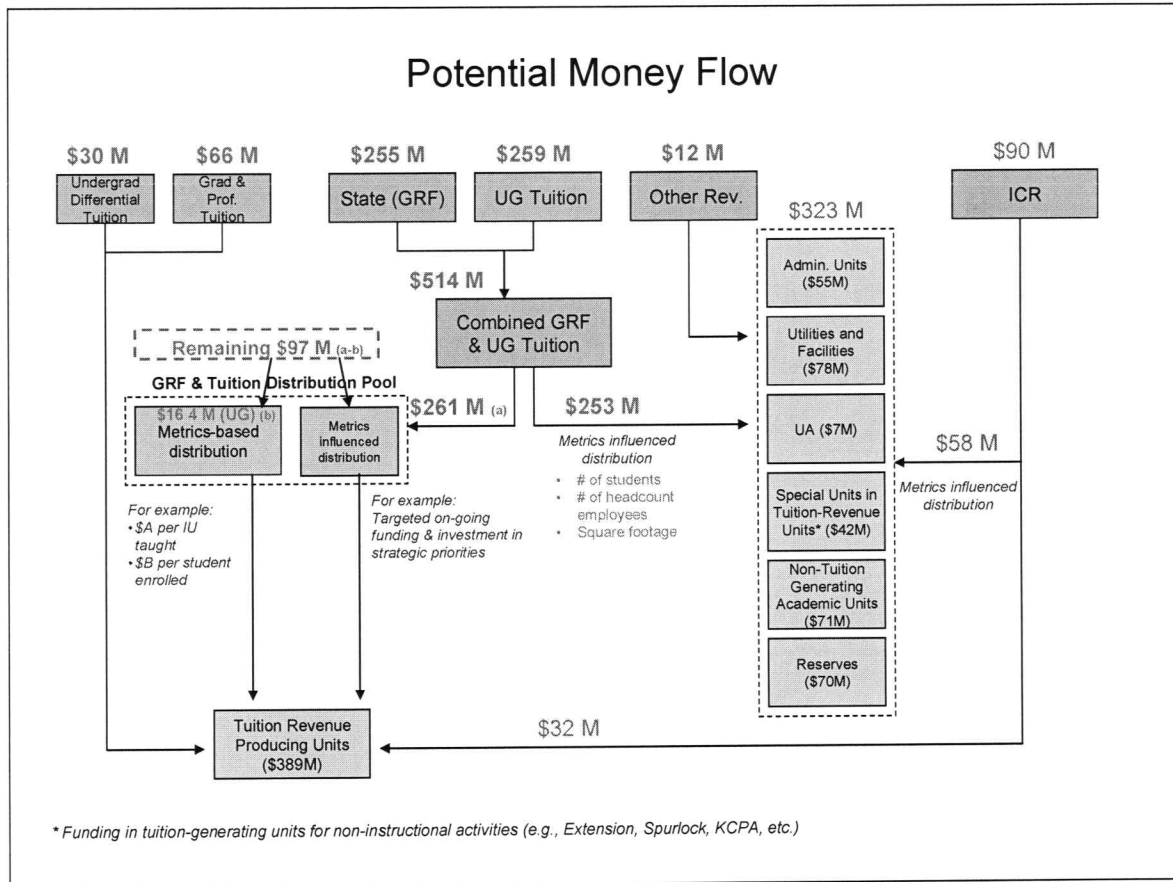
- The current model places disproportionate emphasis on incremental undergraduate tuition income to fund new costs. The new model should be more balanced in how costs are assigned.
- When possible and practical, the assignment of new costs to units should be metric driven. For example, usage metrics can drive the distribution of utility cost increases.
- Cost allocation procedures should recognize the need to adequately fund public goods while distributing the load fairly among users.
- When new costs benefit a limited number of units, those units should assume the majority of those costs.
- To the degree possible, the distribution of funds to administrative units should be done using a metric-driven or metric-influenced formula, similar to the process which distributions are made to academic units.
- There should be a regular review of administrative and other common cost units to insure that they are efficiently serving the needs of the campus.

Overview of Allocation Program

A graphical representation of the allocation model is shown below in a flow diagram. The flow combines all of the GRF and tuition dollars generated (total GRF & Tuition) and is allocated into two portions:

- One portion of total GRF & Tuition dollars are placed in a pool to be allocated to ***tuition producing units*** (e.g., academic colleges). A large component of these dollars will be allocated based on metrics (e.g., IUs generated and number of majors). The number of IUs generated will be more heavily weighted and the amount per IU will be differentiated based on upper versus lower division classes. The number of majors will also contribute to the allocation of funds based on enrollments. The allocation of the remaining dollars will be metrics influenced, strategic decisions to augment the metrics based funding (e.g., strategic investments, targeted on-going funding, etc.).
- The second portion of the total GRF & Tuition dollars are allocated towards the costs of funding the ***non-revenue producing units***, including infrastructure and support costs and the University Administration. All non-revenue producing units and infrastructure costs will be reviewed consistently to ensure the appropriate level of funding. ICR will also be used to fund these.

Finally, all differential tuition will flow directly to the unit that generates it.



Allocations to Tuition Generating Units

Undergraduate Tuition—Fall and Spring

The “Budget Reform” model distributes a fixed pool of tuition revenue to colleges based on the college of enrollment and IU generation. College of enrollment and IU generation each receive 50% of this fixed pool of funds. The college of enrollment is weighted to account for residency and enrollment range.

A number of issues have been raised with regard to the current undergraduate allocation model:

Fixed Allocation Pool. The fixed pool means that a declining portion of a unit’s revenue is based on its involvement with UG education. Currently, units receive only \$64 per UG IU. At such a low level of reimbursement, there is little incentive to teach non-majors.

Major/IU Split. The current model was designed to discourage the development of courses that might draw student from one college to another. By placing only 50% of allocated tuition in the pool assigned to IUs, the model discourages non-major instruction and interdisciplinary efforts.

Lag between activity and funding. The original model allocates funds based on a two-year average. While this feature is intended to avoid significant negative shocks to the units, it has resulted in delays in the funding of new initiatives. Additionally, the predictability of the allocation is further compromised by the use of these rolling averages.

The new model addresses these issues in the following way:

- Rather than a fixed pot of funds that is prorated based on each unit's share of the total, there is a fixed dollar per major and IU. A unit will know exactly how many dollars are earned based on a certain level of activity.
- The funds available for distribution are increased by reducing the historic allocation and increasing the metric based allocation. Approximately \$39 million would be moved from the historic allocation to the metric allocation.
- To provide support more clearly tied to instructional activity, the pool of available funds is split of approximately 25% based on college of enrollment and 75% based on IU generation.
- Within the enrollment pool, non-residents are weighted at 1.5 times the enrolment of residents. Enrollments of part-time students are weighted by tuition range.
- Within the IU pool, IUs of upper division classes are weighted at approximately 1.5 times the value of a lower division major. Lower-division is defined as 100-200 level courses. Upper-division is defined as 300 and higher level courses.
- For the year of implementation, a resident major is valued at \$X,XXX, a lower division IU at \$110 and an upper division IU at \$170.
- Annual allocations to colleges will be based on prior year enrollments and IU generation. The allocation will be trued up each spring to insure that colleges receive appropriate funding based on their activity.
- Colleges are encouraged to insure some connection between changes in a college's formula-based revenue and that of the departments. In particular, when a department develops an interdisciplinary initiative or changes the level of its service teaching, there should be adjustment to that unit's budget based on its deliberate actions.

Differential Tuition

A number of programs have a differential tuition rate. That income will continue to flow to the student's college of enrolment. The only campus deduction to incremental

revenue is to fund formula based financial aid (approximately 10% of incremental tuition revenue). Projected revenue (less a 2% contingency) is assigned to each college in the budget process. In the middle of the spring semester, that allocation will be reconciled against actual income. One complication to a college projecting its revenue based on the number of students in each tuition cohort is that number of students receiving institutional and statutory waivers might vary from year to year. However, such variance should not affect revenue by more than a few percent.

In colleges with a mix of differential and non-differential units, it is expected that they will track differential income to insure that the generating departments are the beneficiaries of the funds.

Summer Session

Undergraduate summer session revenue is currently allocated to units based on their share of IUs for the previous two summers. In the new model, funds will be allocated based on previous summer's IUs. The distributed income is net of waivers and a five percent charge for summer session administration. No distinction is made between base rate and differential tuition. There is no reduction for the campus surcharge.

Colleges are expected to insure that these funds flow to the departments providing instruction.

Continuing Education

Net tuition earnings from extramural programs is currently allocated in one of two manners: 1. As a permanent allocation through the annual tuition distribution (based on a two-year average of earnings), or 2. As a non-recurring cash distribution at the end of the fiscal year. The method of allocation for a program is related to the timing of the program's introduction with earlier programs following the former mode (permanent allocation) and more recent programs the latter mode (cash distribution). In the new model, tuition from extramural programs will be distributed uniformly and the amount distributed will be the program's net tuition earnings for the current year. Expected program earnings for the upcoming year will be estimated (based on past earnings/discussion with program leadership) and provided as a permanent allocation at the beginning of the fiscal year. Toward year-end, adjustments will be recorded based on variance between projected and actual earnings.

Oversight of Course Offerings

When institutions moved to RCM systems in the late 1990s, there was much conversation regarding "low hanging fruit." That is, if there is a money flow associated with classes, a college might begin to offer classes that have traditionally been offered elsewhere. Even if a college would not replicate the offering of another unit, it might offer general education classes that would pull IUs from other colleges. While there was

some flow of students in response to new general education offerings, there were no major disruptions.

With the new model, there are again concerns that there might be course decisions that are based on financial rather than pedagogical factors. This risk comes not only as a result of the greater value assigned to IUs, but also from the differential between lower and upper division courses. It is possible that there might be some redefinition of course content so that the course becomes an upper level class. Colleges and the Senate's Educational Policy Committee will be expected to maintain oversight to insure that a creep to more upper level classes does not occur.

On-line and Other Rapidly Scalable Programs

On-line and other rapidly scalable class offerings are related to the previous discussion of low-hanging fruit. Given the potential they present for financial disruption, special attention is called for. The budget model is designed to encourage funding to follow students in a way that encourages academic innovation and interdisciplinary studies. However, many of our costs are fixed in our departments. We have a high proportion of faculty that are part of the tenure system. Those units cannot easily reduce their cost structure in response to a decline in enrollments. On the other hand, on-line and other programs that rely on lower cost adjunct instructors can easily scale the size of their offerings to demand. Unchecked, the potential exists for a rapid and disruptive flow of resources from units with high fixed costs to those offering programs which are lower cost and scalable.

In order to prevent a disruptive flow of resources, it is critical that these programs be orderly and predictable in their growth. While the role these new programs play on campus is evolving, the following are the initial rules that will govern their funding:

- On-line and other low cost offerings on campus are generally expected to have prior agreement with the Provost's Office regarding their rate of growth and ultimate size.
- Without an agreement stating otherwise, these programs will not be entitled to receive more than \$100 thousand in incremental revenue in any year.
- On-line programs have a fixed cost base for technology and support. After that, there are modest incremental costs as sections are added. For larger programmatic offerings, the reimbursement per IU will be at the campus rate to a certain point and will then scale down to a percentage of that rate. The point at which programs are reimbursed at a lower rate will need to be determined and may vary by program.
- While on-line offerings will be a growing part of on-campus student experience, it is critical that these programs focus a significant portion of their efforts at generating incremental revenue for the unit through off-campus students and summer enrollments. To do otherwise merely redistributes existing resources.

Graduate, Professional and Self-supporting Tuition

Even prior to the Budget Reform efforts of the late 1990s, arrangements were made with certain programs that they retain the majority of their incremental tuition revenue. With Budget Reform, all graduate, professional and self-supporting programs received their incremental tuition revenue. This new allocation procedure was intended to promote the view that tuition waivers are not a free resource.

Beginning in FY 2002, the campus implemented the tuition “surcharge” of \$1,000 per student. Each year that surcharge is incremented by the general tuition increase. The funds generated by this additional tuition were intended to support new programmatic initiatives. That intended use was never fully realized. As the campus received major budget reductions in FY 2003 and FY 2004, the surcharge funds were partially used to fill the void resulting from the loss of GRF funding. During the same period, much of incremental undergraduate tuition has gone towards campus-wide common costs; it is appropriate that these units also contributed to general campus overheads.

The following are some guidelines that will guide the allocation of graduate, professional and self-supporting tuition.

- Allocations of campus resources must insure that undergraduate tuition is not subsidizing the salary programs of professional programs and self-supporting units.
- While these units will not be subsidized by undergraduate tuition, it is also important they not pay assessments that only benefit undergraduate students. Assessments for common costs are discussed more fully below.
- It is appropriate to hold back a portion of centrally held tuition for common costs that benefit the program. For example, five percent of incremental graduate tuition will be held back for fellowships for units whose students are eligible for fellowships. An additional 5% of incremental tuition will be held back for general campus support. The surcharge will be discontinued.

Non-tuition Allocation to Colleges

To varying degrees, most colleges receive allocations of tuition/GRF funds beyond what is generated by formula. The variance in allocation is attributable to the variance in program costs and historic allocation decisions. Certain programs cost more to deliver. Some programs have expensive labs and technology such as Chemistry and Mechanical Engineering. Other programs have high costs due to required low faculty/student ratios such as Veterinary Medicine. Other programs, such as large programs in the Humanities, have a lower cost structure and require a smaller subsidy.

Not all of the level of support outside of formula based tuition can be explained by the cost structure inherent to that program. There are some programs which receive a subsidy that is not easily understood by the nature of the program. Similarly, there are programs where a greater subsidy would be expected. These variances are the result scores of decisions throughout the history of the campus. The budget model will not, in itself, result in a set of fully rational allocations. It will, however, point to units where adjustments might be called for over time. The following are some ways the budget model will help evaluate the appropriateness of a college's funding:

- At a gross level, the budget allocation model will highlight the generated revenue versus its total allocation. Some units will generate more than they receive in allocation. Others will receive substantially more than they generate by formula.
- Standard metrics used in the budget reports will provide a basis for evaluating a units funding. Here are a few that have some applicability to this analysis (with a more complete list in appendix A):
 - Student/faculty ratio
 - Dollars per student
 - Students by level
 - Teaching load per faculty member
- Metrics unique to a unit will provide additional information. Possible items will include peer information regarding student/faculty ratios and teaching loads. Accreditation requirements specific to a field will also help the evaluation of funding. Examples of college-selected metrics are included in appendix B.
- Colleges with a variety of disciplines will need to break their metrics down by type of program. The metrics appropriate for History will not be appropriate for Chemistry.

Evaluating the Appropriateness of a College's Non-tuition Allocation

Over the longer term, it is might be possible to more fully evaluate the appropriateness of a college's non-tuition allocation. We know, for example, that low-tech, lower division lectures in the humanities are at one extreme, in terms of cost. At the other extreme are science-based doctoral programs. If it is possible to quantify, based on national norms, the faculty salaries, expected teaching loads, class sizes and so on by program, it might be possible to develop a matrix that shows expected ratios of funding by discipline. Such a model could be used to compare expected versus actual funding and could serve as a guide to long-term adjustments to allocations.

Beginning in FY 2011, a faculty led team will be charged with a metric based evaluation of each college's level of non-tuition budget allocation. This group will be expected to make recommendations for a multi-year adjustment of non-tuition support for college's to bring those allocations in line with program needs.

Special Units within Colleges

A number of the colleges house special units that serve a campus-wide good or a state-wide service that is not fully required as a part of the teaching and research mission of the college. Currently identified special units are the following:

Campus-wide Good

- WILL Radio and Television (Media)
- Krannert Center for the Performing Arts (FAA)
- Krannert Art Museum (FAA)
- Spurlock Museum (LAS)
- Division of Rehabilitation and Educational Services (AHS)
- Council on Teacher Education (Education)

State-wide Service

- Veterinary Diagnostic Laboratory (approximately 50% of the lab serves a teaching function and is excluded from special unit status)
- ACES Extension
- ACES Experiment Station (approximately 2/3 of the experiment station serves a research function similar to that in other colleges and is excluded from special unit status)
- Labor Education (LER). This unit serves an extension-like function to state labor organizations.

Since these units have a unique function and reason for existence, their budget review will separate from that of the hosting college. These units will have metrics and strategic goals appropriate for their activities.

All of these programs are unrelated to the tuition-funded instructional program of a college and are all considered GRF funded. While those units classified as a campus-wide good will be eligible for incremental funding even in years with no state increment, the units considered a state-wide service will only receive incremental funding in years when state-funded support increases.

Allocations to Non-tuition Generating Academic Units

The following is an incomplete list of academic units which do not generate tuition revenue:

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| Library | Beckman Institute |
| International Programs and Studies | Institute for Genomic Biology |
| Graduate College | NCSA |
| Police Training Institute | Ctr for Democracy in a Multiracial Society |
| Inst. for Natural Resource Sustainability | Fire Service Institute |

These unit's budgets are allocated, rather than earned by formula. Each unit will have metrics and strategic goals appropriate for its activities. These units' budgets will

be reviewed in the same budget process as the tuition-generating academic units. While the Fire Service Institute is included in this group and review, its budget is determined by the state and is a specified percentage of insurance licensing fees.

Allocations to Overhead Units

While overhead units support the instruction, research and service functions of the campus, they are not directly involved in their execution. The following units fit into this category:

| | |
|---------------------------|-------------------------|
| Chancellor's Units | Public Affairs |
| VC for Public Engagement | Provost's Units |
| Chief Information Officer | Facilities and Services |
| VC for Research | VC for Student Affairs |
| VC for Advancement | |

These units all contribute to the success of our collective enterprise. That said, it is imperative that all overhead costs be kept to a minimum and that overhead units continually attempt to improve their effectiveness and efficiency. The annual review of these units will be guided by appropriate metrics of activity and will review the unit's contribution to the achievement of campus strategic goals. Additionally, there will be periodic in-depth reviews to assess the unit's performance.

Since these units often perform business-like functions, they are expected to draw on business practices such as process improvement to improve their effectiveness and efficiency. Organizational actions, such as the development of shared-service centers, should also be explored.

Assessments for Common Costs and Strategic Investments

Many of our costs will rise from year to year, whether or not we receive incremental funding. Energy costs, library materials, Medicare, and new facilities costs are all unrelated to our external funding. In addition, the campus must make significant investments in a number of areas to insure the smooth functioning of the campus. Recent investments included debt service for deferred maintenance and a multi-year program to upgrade the campus IT network. Finally, the campus must make continuing strategic investments to insure that we are responding programmatically to changing needs for training and research. Recent examples of these investments include IGB operational costs, the Informatics Initiative, the Health and Wellness Initiative and the Biomedical Initiative.

Historically, unfunded cost increases and investments were funded "off the top" of new GRF funding or from a combination of new tuition revenue and campus reserves. Since FY 2002, we have not received any significant GRF increment, the reserve was

depleted and is currently in deficit as we returned funds to the state, and tuition increases alone are inadequate to fund annual new costs. In recent years we have relied on very aggressive reallocations of funds from units to meet our incremental costs.

With the introduction of Budget Reform came a methodology of allocating incremental costs. Unit's budgets were adjusted based on the relation of their unit to the overhead, using a measure related to that overhead. For example, an increase in the number of graduate students in a unit resulted in that unit paying an increased share of the Graduate College's budget. Each overhead unit had one or more metrics associated with its activities and budget. When there were new investments in an overhead activity, those costs were allocated to units based on the relevant metric. Given the continuing investment of the state in the campus, the distribution of new costs was minimal—most were funded off the top. Still, the overhead model was very unpopular. To prevent an unallocated “residual” the model used simultaneous equations. While elegant and efficient, this model resulted in a total lack of transparency about each college's overhead bill. The model was scrapped in FY 2003.

Since FY 2003, common costs and strategic investments have been funded by both incremental undergraduate tuition and by assessments based on each unit's recurring budget. The assessments are now much larger than they were, given the lack of new state funding. They are also no more transparent than they were when using complex mathematical formulas. While there is no desire to return to a complex system of full attribution of costs based on metrics, there is much that can be done to create a more transparent and palatable system of budget assessments. The following are changes to help achieve that goal:

Assignment of Costs Based on Use. Some costs can be allocated based on measurable use. Initially the metric-based assessment will be limited to a few selected areas:

- **Utilities.** Utilities costs have risen dramatically in recent years. The current budget model provides no incentive for conservation and simply assesses costs based on each unit's share of the total budget. Beginning in FY10, the utilities budget will be assigned to each college based on their two-year average of utilities use. Colleges will be responsible for their share of cost increases and will benefit from conservation and rate reductions. Savings will not result in funds being allocated away from the utilities budget. Instead, those savings will be available for conservation and other facilities projects. Recommendations of a utilities cost sub-committee are included in appendix C.
- **O&M Costs.** Maintenance and other facilities costs are currently assigned to units based on their share of total budget. These costs will now be assigned based on each unit's share of total campus square footage. Farms and other self-supporting facilities will be excluded from this calculation since those facilities are currently billed for their O&M costs.
- **New Facility Costs.** Currently, new facilities costs are assessed based on each unit's share of the total campus budget. The unit moving into the new facility is not responsible for any more of these costs than any other campus unit. The

starting assumption will now be that the unit occupying the new facility will be responsible for the cost of maintaining that facility. The unit can negotiate for a reduced cost based on factors such as the abandonment of previously held space and positive impact the space might have on the campus as a whole. Additionally, while utility and janitorial costs will have to be covered as soon as the facility is opened, funding of maintenance costs can be phased in over several years.

Exclusion of Units from Assignment of Some Costs. Currently, all units pay an assessment based on their share of budget, whether or not they can potentially benefit from that assessment. For example, professional programs pay for undergraduate financial aid costs even though they have no undergraduate students. While it is not possible or practical to distribute every assessment item based on a unit's ability to potentially benefit from that item, when an assessment benefits a limited number of units, only those benefiting should pay the assessment.

Clarity Regarding Assessments. While it is impractical to base all assessments on usage metrics, it is possible to more fully enumerate the various costs behind the assessment. The allocation document each college receives will describe major cost drivers behind the assessments. Where possible, the college's specific share of major items will be provided.

Limit to the Size of General Assessment and the Need for Targeted Actions. In recent years, the campus has seen a rapid rise in costs and declining state support. While large tuition increases covered a portion of new costs, the remainder was derived from assessments. These assessments have generally been in the 2.5% to 4% range. In the long term, assessments at this level are not tenable. The campus is adopting a goal of reducing general assessments to the 1-1.5% range. It is expected to take several years before this target is reached. The gap between funding needs and an acceptable assessment level must be reached through targeted programmatic actions, rather than across the board assessments. While some targeted actions can be identified at the campus level, colleges are in the best position to thoroughly review their activities to evaluate which continue to make an essential contribution to the unit's success.

Budget Review Process

The assignment of funds to a unit is, in large part, a matter of judgment. While metrics determine the allocation of tuition revenue, they only guide the allocation of remaining funds. Since the assignment of funds is still largely judgment based, the annual evaluation of a unit's performance and the appropriateness of its budget is a critical component in the effective deployment of resources. The budget review process has two major components: the review of academic units and the review of overhead units.

Review of Academic Units

The review of the budgets of academic units is led by the Provost and involves members of her staff and faculty representatives. Faculty involved in this process are a part of the Campus Budget Oversight Committee (CBOC). The following material describes selection of the CBOC, the development of a unit's annual report, and the review process.

Campus Budget Oversight Committee. As originally envisioned, the CBOC was a freestanding committee that conducted budget reviews of academic colleges and other units with academic appointments. While the Provost often attended meetings, the committee functioned somewhat independently. Over time, an independent budget review led by the Provost evolved and the input of the CBOC became less critical. To strengthen the role of faculty in the review of college budgets, the separate CBOC and Provost's budget reviews are now merged. The committee no longer functions as a discrete entity. Instead, two to four members of the CBOC take part in each of the Provost-led budget reviews.

The following criteria guide the nominations and selection of committee membership:

- The Campus Budget Oversight Committee will have up to 15 members, 12 of whom are faculty members drawn from six general disciplinary areas, each having two places on the Committee. The disciplinary areas are as follows:
 - Basic and Applied Life Sciences
 - Behavioral and Social Sciences
 - Engineering
 - Humanities and Creative Arts
 - Physical and Mathematical Sciences
 - Professional programs and the University Library
- One faculty member of the Senate Budget Committee will serve on this committee. The choice of that selection is at the discretion of the Chair of the Senate Budget Committee.
- The CBOC may also have two members appointed from the campus administration. The Vice Chancellor for Student Affairs and Vice Chancellor for Research (or their designees) may serve on this committee.
- Nominees from disciplines should be tenured senior faculty, generally full professors.
- Every effort should be made to insure that they represent the gender, racial and ethnic diversity of the faculty.
- To insure that they represent the intellectual diversity of the campus, nominations are called in the following proportions by discipline area:

Nominations for Membership from Faculty on the CBOC

| <i>Disciplinary Area</i> | <i>Eligible Nominators</i> | <i>Nominations</i> |
|---|--|--------------------|
| <i>Basic and Applied Life Sciences</i> | Dean, College of ACES | 2 |
| | Dean, College of Applied Health Sciences | 1 |
| | Dean, College of Liberal Arts and Sciences | 2 |
| | Dean, College of Liberal Arts and Sciences | 2 |
| | Dean, College of Veterinary Medicine | 1 |
| <i>Behavioral and Social Sciences</i> | Dean, College of ACES | 1 |
| | Dean, College of Applied Health Sciences | 1 |
| | Dean, College of Business | 2 |
| | Dean, College of Education | 2 |
| | Dean, College of Liberal Arts and Sciences | 2 |
| | Dean, College of Liberal Arts and Sciences | 1 |
| <i>Engineering</i> | Dean, College of ACES | 1 |
| | Dean, College of Engineering | 2 |
| <i>Humanities and Creative Arts</i> | Dean, College of Media | 1 |
| | Dean, College of Fine and Applied Arts | 2 |
| | Dean, College of Liberal Arts and Sciences | 2 |
| | Dean, College of Liberal Arts and Sciences | 1 |
| <i>Physical and Mathematical Sciences</i> | Dean, College of Engineering | 2 |
| | Dean, College of Liberal Arts and Sciences | 2 |
| | Dean, College of Liberal Arts and Sciences | 1 |
| <i>Professional Programs and the University Library</i> | Dean, College of Business | 1 |
| | Dean, College of Education | 1 |
| | Dean, College of Law | 1 |
| | Dean, GSLIS | 1 |
| | Director, ILER | 1 |
| | Dean, School of Social Work | 1 |
| | University Librarian | 1 |

- Once nominations have been received, the Provost's Office will review the nominations with the Chair of the Senate Executive committee. The Provost will then select new committee members.

- The term of membership for faculty members is three years. Membership can be extended for up to three years beyond that initial appointment.

Annual Reports. A unit's annual report is a concise annual report that presents a unit's financial plan for the coming fiscal year with a specific emphasis on strategic initiatives. This report serve as the basis for the budget reviews that take place in spring and also provides a framework for the unit's budget actions for the coming year. In November, the Provost's Office will provide a template for development of the reports (see appendix D). Sections in the report include the following:

- Unit metrics including standard financial metrics (provided by the Office of Budgets and Financial Analysis in January), common and unit-specific strategic progress indicators, and a departmental salary analysis prepared by the Division of Management Information.
- Overall state of the unit focusing on issues unit leadership believes to be salient.
- Status of Strategic Goals including metrics-based assessment of success to date and planned actions for the coming year.
- Status of deficit resolution including achievement of deficit targets and future actions.
- Financial plans for the coming year based on planning parameters.

Unit review. In spring, the Provost will schedule a series of budget reviews of the academic colleges. Generally, there will be one meeting per college. The dean and one or two other college representatives will attend for the college. The Provost, Vice Provosts, Associate Provost for Budgets and Resource Planning, and two to four representatives of the CBOC will represent the campus. These meetings will result in an individual evaluation of the unit's budget and its achievement of its strategic goals. Additionally, these meetings will allow campus leadership to prioritize needs with regard to financial resources.

Units Participating in Campus Level Review. The following are units currently reviewed by the Provost Office and CBOC:

| UNITS WITH FACULTY APPOINTMENTS | |
|---|---|
| <i>Primary Units</i> | <i>Directly Reviewed Subsidiaries</i> |
| College of Agricultural, Consumer, and Environmental Sciences | Agricultural Experiment Station University of Illinois Extension |
| College of Applied Health Sciences | Division of Rehabilitation Education and Services |
| College of Business | |
| College of Media | Division of Broadcasting |
| College of Education | Council on Teacher Education |
| College of Engineering | |
| College of Fine and Applied Arts | Krannert Art Museum Krannert Center for the Performing Arts |

| | |
|--|----------------------------------|
| College of Law | |
| College of Liberal Arts and Sciences | |
| College of Veterinary Medicine | Veterinary Diagnostic Laboratory |
| Graduate School of Library and Information Science | |
| Institute of Aviation | |
| Institute of Labor and Employee Relations | |
| School of Social Work | |
| University Library | |
| OTHER ACADEMIC UNITS | |
| Institute for Natural Resource Sustainability | |
| NCSA | |
| Institute for Genomic Biology | |
| International Programs and Studies | |
| Beckman Institute | |
| Graduate College | |

Review of Support Units

The review of the budgets of administrative units is led by the Dean's Budget Committee (DBC). The following material describes selection of the DBC, the development of a unit's annual report, and the review process.

Deans Budget Committee. The DBC is the campus community's principal advisory body on planning and budgeting for administration and services. It is a subsidiary of the Council of Deans having the following duties:

- To monitor the system of campus-level planning and budgeting for administration and services and to advise the COD and the Provost on improvements in that system
- To advise the COD, the Provost, and the Chancellor on the aspects of the *Statement of Strategic Priorities*, and the *Planning Guidelines* bearing on administration and services
- To review annual reports and proposals from the administrative units in the annual planning and budgeting cycle
- To recommend annually a schedule of budgets for administrative and service units to the COD and the Provost
- To undertake *ad hoc* projects as requested by the Provost, e.g., budgetary reviews of administrative units beyond the scope of the annual process or investigations of specific issues of policy or practice concerning administrative and service units
- To report to the Council of Deans, the Senate Council, or the Senate upon request

The DBC may form task forces as needed to deal with specific issues. Task forces shall include at least two DBC members and may include any other persons, including

persons external to the campus, having specific needed expertise. Each member of the DBC has a continuing, individual charge to serve as a representative of the campus community as a whole rather than as a partisan advocate for his or her unit.

The DBC has 20 members; including one from each of the 16 academic units hosting faculty appointments and one from each vice chancellor's portfolio. The representative from the portfolio of the Provost and Vice Chancellor for Academic Affairs also serves as staff to the committee. All members of DBC have voting privileges and are appointed to three-year terms.

Members are nominated for the DBC by the deans and directors of the academic units and by the vice chancellors. As the chair of the Council of Deans the Provost has the annual duty to organize the DBC by soliciting one nomination from each eligible officer whose designee is either ending a term or vacating a place on the committee. The nominating officer may designate himself or herself or choose any faculty, academic professional, or staff appointee in the unit. Ordinarily these nominations will be accepted, but the Provost has the right to ask the nominating officer to consider alternatives in the interest of an improved balance of skills and knowledge among the DBC.

The Provost selects the Chair of the DBC from among the members from the academic units. The term of appointment is one year, but a Chair is eligible for reappointment for one additional term.

Annual Reports. A unit's annual report is a concise annual report that presents a unit's financial plan for the coming fiscal year with a specific emphasis on strategic initiatives. This report serve as the basis for the budget reviews that take place in spring and also provides a framework for the unit's budget actions for the coming year. The format and details of this report are similar to those provided for academic units above and in appendix D. Some items, such as a peer salary review, are less critical for these units. However, since these units often perform business-like functions, they are expected to draw on business practices such as process improvement to improve their effectiveness and efficiency. Organizational actions, such as the development of shared-service centers, should also be explored. There reports should review the unit's adoption of appropriate business practices.

Unit review. In spring, the Provost's office will work with the chair of the DBC to schedule a series of meetings for the committee and the units they review. The DBC is responsible for the organization of unit reviews. Historically, the committee has assigned subcommittees to conduct each unit review. The committee has great latitude in how they organize to conduct their reviews.

Upon completion of the reviews, the committee will prepare a report for presentation to the Council of Deans which highlights budget recommendations and can also make recommendations for a more in depth review of a unit or administrative function. Prior to the release of the report, DBC members are expected to discuss the recommendations with their unit head.

Units Participating in Campus-Level Review. The following are units currently reviewed by the DBC:

| <i>Primary Officer</i> | <i>Major Portfolio Units</i> |
|--|---|
| Chancellor | <u><i>Division of Intercollegiate Athletics</i></u> Division of Public Safety* Facilities & Services* Office of Equal Opportunity & Access* |
| Provost and Vice Chancellor for Academic Affairs | Human Resources Campus Honors Program Campus Information Technologies and Educational Services & Chief Information Officer* Division of Management Information Facility Management and Scheduling Office of Admissions Registrar Office of Continuing Education* Office of Instructional Resources Principal's Scholars Program University Laboratory High School Office of Training for Business Professionals Fac/Staff Assistance Program Office of Student Financial Aid |
| Vice Chancellor for Research | Biotechnology Center Campus Research Board Office of Laboratory Animal Resources Research and Technology Management Office |
| Vice Chancellor for Student Affairs | <u><i>Assembly Hall</i></u> <u><i>Career Services Center</i></u> <u><i>Counseling Center</i></u> <u><i>Division of Campus Recreation</i></u> <u><i>Housing Division</i></u> <u><i>Illini Union</i></u> <u><i>McKinley Health Center</i></u> Minority Student Affairs Office of the Dean of Students Office for Student Conflict Resolution |
| Vice Chancellor for Public Engagement | Office of Sustainability Corporate Relations |
| Vice Chancellor for Institutional Advancement | |
| <p>¹Italicized, underlined units are auxiliaries that are funded largely from their own revenue. Their participation in the annual campus budget review is limited to (a) their funding from sources other than their own revenue and (b) the impact of their practices for generating revenue on the balance of campus interests.</p> <p>*Portfolio units with an asterisk will have a review that is separate from that of the principal officer.</p> | |

Appendix A—Standard Metrics

| | |
|-------------------------------|--------------------------------|
| Students | Diversity |
| Total Enrollment | Ten Sys Faculty % Undrrp |
| Total Enrolled Students | Ten Sys Faculty- % Women |
| Enrolled undergrads | Productivity |
| Enrolled grad students | Paid IUs/Faculty FTE |
| Enrolled professional | PI G&C exp/fac FTE |
| Additional Thesis Students | National Academy memberships |
| Diversity | Sponsored Project \$ (000) |
| % Minority students | Sponsored \$/FTE Fac (000) |
| % Women students | Companies in Research Park |
| Total Financial Aid \$000 | % Extension/Public Svc FTE |
| % UGrads with any aid | Employees in Research Park |
| % UGrads w need-based aid | Programs |
| % UGrads with need | Energy usage |
| Undergrad Financial Aid \$000 | Energy Utilization (BTU) |
| Grad & Profl Fin Aid \$000 | Utilities Expenses (000) |
| Undergrad Quality | Operational Ratios |
| Ugrad ACT Composite Score | All Advisees /Faculty FTE |
| Ugrad High School Rank | St Budget - Constant \$000 |
| Degrees | State Instr Exp \$/IU paid |
| Bachelor Degrees | Deflated State Instr \$/IU |
| Master Degrees | State Instr Exp \$/advisee |
| Professional Degrees | Deflated St Instr\$/advisee |
| Doctoral Degrees | Deflated State Instr Exp |
| Retention/Placement | % Fall Main Sections < 20 |
| Freshman Retention Rate (%) | Civil Svc & AcProfl |
| Six-year graduation rate | FTE Staff on All Funds |
| 6 yr Grad rate: same coll | FTE Academic Prof -All\$\$ |
| % w a job or grad school | FTE CivilServStaff -All\$\$ |
| Faculty | % FTE Acad Prof -All\$\$ |
| Tenure Sys Fac FTE | % FTE Civil Svc -All\$\$ |
| FTE Professors- All\$\$ | Diversity of CS/AP |
| FTE Assoc Prof- All\$\$ | Acad Profl % Undrrp |
| FTE Asst Prof - All\$\$ | Civil SvcStaff % Undrrp |
| | Acad Professnl - % Women |
| | Civil ServStaff- % Women |

Appendix B—Example College Specific Metrics

The following example shows the metrics selected by ACES:

| |
|---|
| 1. Develop a sound program base for preeminence in a global context |
| Global academy participants |
| Undergrads abroad |
| % Ugrads abroad over 4 yrs |
| % Intl graduate students |
| # Intl Ext page views/day, 000 |
| 2. Educate and prepare students and stakeholders to be leaders, innovators, and entrepreneurs |
| External incoming transfers |
| Internal incoming transfers |
| Total Advisees - UGrad |
| Total Advisees - Grad |
| % Graduates employed |
| % Going to Grad/Prof School |
| Average salary, BS graduates |
| Ext teaching contacts, 000 |
| Youth reached by 4-H, 000 |
| Extension volunteers |
| Extension web views/day, 000 |
| Extramural IUs |
| 3. Align incentives and build capacity to undertake larger, more innovative collaborative initiatives both internally and externally |
| Counties with UIE levies |
| UIE County/local funding, \$000 |
| UIE grant & contract exp, \$000 |
| Extension professional FTE |
| 4. Raise Illinois position in competitive first-class science that creates knowledge, informs sound decisions, and transforms people and society |
| % Non-USDA of total federal |
| AES Exp/scientist yr, \$000 |
| AES Exp from industry (000) |
| Gifts & Endwmnt Exp (000) |
| ICR Generated (000) |
| 5. Build interdisciplinary leadership in Bioscience innovation: processes, products, environment and energy; Progressive food and agricultural systems with sustainable landscapes; Complementary advances in food, nutrition and health; Resilient families and communities |
| State \$ - Total, \$000 |
| State \$ - UIE, \$000 |
| State \$ - Net Excl UIE, \$000 |
| State \$ - AES, \$000 |
| State \$ Net excl UIE/AES \$000 |

| |
|-----------------------------------|
| Faculty FTE - Total |
| Faculty FTE - UIE |
| Faculty FTE - Net Excl. UIE |
| Faculty FTE - AES |
| Fac FTE - Net Excl UIE/AES |
| Std/Fac Ratio - Excl UIE Fac |
| UG/Faculty FTE |
| Grad & Prof/Faculty FTE |
| All Students/Faculty FTE |
| Std/Fac Ratio - Excl UIE/AES |
| UG/Faculty FTE |
| Grad & Prof/Faculty FTE |
| All Students/Faculty FTE |
| State \$/Student (Excl UIE) |
| State \$/Student (Excl UIE/AES) |
| State \$/IU (Excl UIE) |
| State \$/IU (Excl UIE/AES) |
| 6. Overall college metrics |
| Freshman Retention Rate (%) |
| 6 yr Grad rate: same coll |
| Six-year graduation rate |
| Ugrad ACT Composite Score |
| Ugrad High School Rank |
| Ten Sys Faculty % Undrrp |
| Ten Sys Faculty- % Women |
| % Minority students |
| % Women students |
| Paid IUs/Faculty FTE |
| Sponsored \$/FTE Fac (000) |
| State Instr Exp \$/IU paid |
| State Instr Exp \$/advisee |
| % Fall Main Sections < 20 |
| Acad Profnl % Undrrp |
| Civil SvcStaff % Undrrp |
| Acad Professnl - % Women |
| Civil ServStaff- % Women |
| % Did undergrad research |
| Total IUs offered online |

**REPORT OF THE UTILITY
SUBCOMMITTEE FOR THE
TUITION/GRF ALLOCATION WORKING
GROUP-JUNE 2008**

**Prepared by: Alison Schmulbach, Carol Wakefield,
Terry Ruprecht, and Bill Goodman**

REPORT OF THE UTILITY SUBCOMMITTEE FOR THE TUITION/GRF ALLOCATION WORKING GROUP

UTILITIES ARE NOT A FREE RESOURCE

Faculty and staff at the Urbana Campus of the University of Illinois have recently received a “wake up call” of the danger that currently faces much of higher education. A somewhat public discussion of the fact that the University of Illinois has what many will feel is an unbelievable deficit in its utility budget of some \$125M may be the catalyst to bring appropriate attention to the issue of utility cost control. Preliminary budget information recently shared with the Council of Deans will reinforce the seriousness of this situation as academic units will be asked to pay their fair share of the utility overage for FY 08. Nationally, the exponential increase in the cost of utilities over the past 2-4 years, has the potential for serious negative consequences impacting the future funding for all of higher education. The rapid increase in the purchase price for basic utility costs will continue to influence the fiscal management of universities and colleges for years to come. These rising costs will be met by increasing tuition and fees charged to our students, increases to institutional indirect cost rates (ICR) or potentially the most difficult course of action will call for major changes in standard operating practices of our universities. As critical as the utility cost issue is to the health of an institution, it is unlikely that many major R1 universities, such as the University of Illinois, will ever publicly announce a planned slow down in program development or an unwillingness to engage in new exciting ventures that their faculties are challenged to create. The question considered by the committee is “what incentives can motivate our campus to address this growing energy consumption and financial problem”?

ADMINISTRATIVE RESPONSE

When informed of the seriousness of the growing problem, the University of Illinois Board of Trustees responded by appointing a University Energy Task Force in the fall of 2006. Early in 2007, Provost Linda Katehi commissioned the Campus Energy Policy Committee and charged the group to develop guidelines designed to aggressively reduce energy consumption, improve energy efficiency, and promote the use of renewable energy sources on the Urbana campus. It is clear from these actions, that University and Campus administrations are well aware of the seriousness of this pending fiscal crisis. However, most faculty and staff, may not be aware of nor appreciate the impact to their units of the rising cost of campus utilities. The utility cost crisis is now also magnified by the funding crisis experienced by the State of Illinois. Any flexibility that might have been realized by new state resources has been lost. Annually for the past several years, the campus has been faced with the requirement to meet increased utility costs through an internal reallocation of state funding. To academic units and major administrative units, this reallocation process has become known as contribution to the “Unavoidable Costs”

of campus operations, and utility costs have become an increasingly large component of this annual reallocation of recurring funds.

The campus initiative described above, recently resulted in an *Energy Use Policy for the University of Illinois at Urbana-Champaign*. This comprehensive policy provides goals for our campus energy consumption, including a shift to renewable energy sources. This document also lays the foundation for incorporating these goals into our campus day-to-day operations. Included in this policy are critical recommendations for metering campus facilities, policies for the use of computer and IT equipment; standards for heating, air conditioning, and ventilation, campus transportation, programs that provide for educating the campus community, and identifying our personal responsibility in meeting these goals.

RECURRING UTILITY BUDGET

The complexity and potential impact of the utility deficit is being addressed by the Provost Office and University administration. It is essential that efforts to prevent the growth of this deficit be based upon a full funding model. A recurring campus utility budget should be established for the Urbana campus that is fully funded at a level that reflects true annual costs and is consistent with our campus' share of University-wide utility costs. We have been told that the Chancellor has asked that these state utility funds be transferred to the campus on three different occasions. What policies or politics are preventing the transfer of state utility funds? In order to properly manage our utility costs, the campus needs control of these utility funds.

Careful management of this resource should prevent a recurrence of deficit financed operations and the crippling financial condition it creates. This will require the participation and support of the entire campus community, including faculty, students, and staff. The *Energy Use Policy* cited above notes one very critical element which needs to be discussed in more detail. The implementation of an "incentive based system" will assist the more technical efforts of the engineers and utility managers as they attempt to maximize energy savings by eliminating waste and increasing efficiencies. The Campus Energy Policy Committee recognized that without the personal involvement of all members of the campus community, the goal of becoming more energy responsible will never be met. "We have the technology, and we have the know-how", but do we have the will to be successful? Campus administration has made a significant investment in addressing the long list of deferred maintenance projects on the Urbana-Champaign campus. A recently approved student fee of \$250/semester has demonstrated the willingness of our students to support this very significant deferred maintenance problem. This student influenced process will help to correct the most obvious "energy wasteful buildings" that have an immediate payback. Other efforts include upgrading the metering in many campus buildings that will allow for more accurate monitoring of energy usage by individual campus units.

UNIT BASED INCENTIVE PROGRAM

The recent challenge to the campus, by Chancellor Herman, to reduce its energy consumption by 10% over the next three years is achievable and provides creditability to the issue. However, this goal will not be met unless all members of the campus community trust the information that is provided and accept personal responsibility for energy conservation. The committee believes that the foundation for any unit-based incentive program is the development of accurate facilities usage information. The campus for years has utilized a monitoring system installed in several campus facilities. This program has been expanded so that that nearly 80% of all campus buildings are now, or soon will be monitored. Academic colleges have begun receiving “utility statements” for their facilities included in the campus list of the 60 highest energy consuming buildings. These reports are essential for accountability and may serve as a good basis for developing effective incentives for campus units. There has been some discussion of moving to a utility costing system whereby colleges/units would receive a budget allocation for their current utility usage with the expectation that they would have to bear the costs of any increases due to usage. In fact, it was even suggested that some units might try to “run up” their utility costs this year in order to justify a higher utility budget at a later date. This is one of several reasons the committee does not favor moving to this type of a charge system. Another obstacle is the difficulty of proportioning expenses for shared facilities. We believe that “control” of the utility budget needs to reside in one local(campus) office (F&S, Provost Office, etc) as there are many aspects to utility pricing such as negotiating contracts for natural gas and electricity that are beyond the capacity of most academic units. We do not believe it is in the best interest of the campus to create a situation where every unit might feel compelled to hire a “utility manager” with responsibility for controlling usage and costs. We recognize that the utility experts are within F&S and that is where the responsibility for utility management should be assigned. It is extremely inefficient for each unit to develop and fund such a resource, particularly when only some aspects of overall utility costs can be affected at the individual and unit level.

The utility statement program has the potential to be a major contributing force in how units approach conservation and increased usage. **We believe that the Energy Use Statements developed by Terry Ruprecht, Director of Energy Conservation should become part of the Annual Report to the Provost for administrative portfolios and academic colleges.** The annual college review by the CBOC and the Provost should include a comparison of usage data for the previous years with the expectation that increases will be discussed as a part of the unit’s review. The ability to generate this information at the departmental level will greatly improve the Dean’s ability to discuss energy use with Department Heads and faculty. It is anticipated that usage will increase for many units due to program changes, but the unit should be able to explain these increases as they related to strategic planning goals and metrics. **We recommend that F&S continue the program of monitoring utility usage in all buildings and strive to install meters where possible in those buildings not metered.**

The campus has established a formal policy; we currently have a method of monitoring utility usage in most buildings on campus, and we have funding that is addressing the most critical deferred maintenance projects. In order to effect the change that our energy policy demands, we must win over the “hearts and minds” of faculty, staff, and students. **We feel strongly that there should be a concerted campus effort to focus on a behavioral/cultural change in how we view our access to and use of utilities. A passive program will not achieve the goals we have set for the campus.** In some respects, we need to elevate the awareness of the problem and instill a focus so each individual views his/her daily utility decisions in meaningful terms. Faculty should be made aware of the cost of allowing a fume hood to run day and night and should participate in a discussion of whether or not such costs can be justified. The campus community needs to understand that the cost of utilities has increased from \$22M in FY02 to over \$70M in FY07. These cost increases may have limited the hiring of new faculty, delayed needed remodeling projects, or resulted in the loss of student scholarships and fellowships, along with other lost programmatic opportunities. Faculty and students need to know that the cost of electricity per student or per GSF at the University of Illinois is higher than at most other Big Ten institutions. **The campus needs to commit to a regular and highly visible public awareness strategy that would daily keep energy conservation before faculty, staff and students .** Such a public awareness program might include the following:

- Weekly articles in the paper or on the web that highlight the results of our efforts.
- PSA type communication from faculty/staff colleagues that encourages responsible utility usage as well as reporting on our usage pattern.
- Data that explains the cost of using certain items of equipment such as space heaters in an office during the winter or the cost of leaving lights on while not in the office.
- Opportunities for faculty to receive grants to incorporate energy conservation concepts in their courses, especially non-technical curricula
- A marketing plan that would weekly/monthly remind occupants to shut off lights and computers and other unnecessary energy consuming equipment
- Having the MTD buses carry the message of energy conservation on all buses traveling through the campus.
- An annual awards program that recognizes efforts by individuals or units in their efforts to conserve energy.
- Faculty need to know they have a responsibility to consider the impact their work has on utility usage and that Department Heads and Deans will annually review their usage.
- A clear message to the academic colleges and departments that they have the primary responsibility for the success of this energy conservation initiative

Another important aspect of a campus incentive program is a financial “reward” to units who effectively reduce energy costs and demonstrate positive efforts in energy conservation. In order to make this a viable option, the campus must receive the full funding needed to cover estimated annual utility costs at the beginning of the fiscal year. A commitment of up to \$1M annually should be earmarked for supporting the incentive program. As a unit reports on its annual utility usage, if it has been successful in reducing its usage, it should be eligible for a “public” financial reward. Such a reward might include one or more of the following:

- *Non-recurring funding that could be used for a unit deferred maintenance project.* This would present an opportunity to further support a guiding principle for reducing energy costs, many of which are associated with deferred maintenance issues in many campus buildings. To the extent that the true energy cost savings can be reinvested to further resolve outstanding deferred maintenance issues, the campus may be able to slow and eventually reverse the spiraling trends we have seen in the last several years.
- *For example a unit could benefit from a reduction of 0.25% to 0.50% from the annual “resource reallocation” fee if the unit meets a utility reduction goal established by the college and Provost Office.* The unit could use funds freed to fund any variety of needs. And if the funding program does not permit recurring allocations, funds could be provided on a cash basis.
- *Non-recurring equipment or other operating funds*
- *Scholarship funds to be assigned to the unit*

The financial incentive program will help confirm the significance of this issue to the campus. Faculty and staff understand the difficulty experienced with the state budget and the subsequent impact on salaries and reduced operating flexibility. Having a pool of funds made available to reward those working to reduce our utility burden may help to convince their colleagues around campus that the campus is serious about controlling utility usage and costs. Any resources identified for an incentive program should be fully funded and recurring in nature so that they may remain available each year. The credibility of any incentive program will depend on the ability to sustain it from year to year.

The notion that utilities are a “free” resource has needed to be changed for some time. The current fiscal crisis facing the university is an opportune time to start changing this impression and making all of the campus community more responsible in our use of utilities. There are a number of efforts underway which will help to correct some of the inefficiencies in our buildings and utility infrastructure. The committee supports these efforts and encourages the development of a Unit Based Incentive Plan that has as its primary goal the education of our faculty and staff and forcing consideration of utility usage into unit level program planning.

SUMMARY RECOMMENDATIONS OF THE UTILITY SUBCOMMITTEE

1. Formalization of a process that provides for an annual review of the unit based Energy Use Statements developed by Terry Ruprecht.
2. The funding of an intensive and long term public awareness campaign that keeps energy conservation issues before the campus.
3. Establish a “user based” committee with the responsibility for oversight of communication between UA and the campus on utility budget issues.
4. Provide a clear message to colleges and administrative units of their responsibility for the controlling energy use for those programs within their unit.
5. Development of a Financial Reward program that benefits those units (and individuals) that are demonstrating positive efforts in energy conservation.
6. Embracing and Supporting the Energy use Policy use Policy.
7. Support the effort to allow ESCO organizations to address opportunities for energy conservation and deferred maintenance projects on the Urbana Campus.
8. Commitment to presenting an annual report to the campus of the successes realized in this campaign and the continuing efforts of the administration to address this crippling issue.
9. Financial incentives for the acquisition of research equipment; guidelines and oversight by a representative faculty committee.
10. Develop agreements/policies that guarantee that utility savings, when realized, will be returned to campus.

Appendix D—Example Budget Template

Budget Template for FY10

Again this budget cycle, we are looking for a concise annual report that presents your unit's financial plan for the coming fiscal year with a specific emphasis on strategic initiatives. This report will serve as the basis for the budget reviews that will take place in spring and should also provide a framework for your unit's budget actions for the coming year.

Standard Metrics

Please use the following sets of data and append them to your annual report. These metrics are generally obtained from common data sources, in particular, the *Campus Profile* and the *Budget Summary for Operations*. In some cases, a college may wish to supplement these standard measures to provide a fuller understanding of their activity. Where possible, supplemental data should come from common data sources. The following are metrics that will be provided for inclusion in your report:

Financial Metrics. (Provided in early January) This table will provide five years of data for the following items:

- Budget (state and tuition)
- Non-state funds (grants, gifts, self-supporting)
- Carryover balances
- Deficit balances
- Staffing trends

Common Strategic Progress Indicators. While each college will have metrics that are unique to that unit, there is also a set of campus-wide indicators. These common progress indicators include measures of student quality, retention and graduation rates; and diversity of student and faculty populations. This material is available in the "Strategic Profile" section of the DMI website.

Departmental Salary Analysis. We will use the salary analysis provided by the Division of Management Information. These data provide a salary comparison with a unit's self-selected peers. Discussion of salary needs should be made in reference to this data.

Review of Status of Unit (generally five to ten pages)

1. Overall State of Unit. Provides a summary of the overall state of your unit.

2. Status of Strategic Goals. Describe specific progress made against each of the top 5 goals within your College/Unit strategic plan. Use the metric data collected for each goal as a basis for illustrating your level of progress. Highlight actions underway that will enable your unit to achieve these goals.
 - Goal: Description (*list name of the goal*)
 - Metrics-Based Assessment of Progress toward Goal (*use the metrics aligned to each goal to 1) assess the potential of realizing the three and five-year targets defined for each metric 2) describe the level of progress made towards achieving each goal*)
 - Actions Undertaken/Planned (*describe actions already undertaken or planned to continue to make progress on each goal*)
3. Critical items not addressed in the Strategic Plan. Include any items you wish to be part of your unit's budget discussions. A unit may wish to address issues raised by the common set of metrics provided for your report. This section should also include information on significant deficit issues.
4. Salary Requirements. Using the DMI salary data, discuss significant salary needs. In addition, you may wish to discuss significant start-up and retention issues, if applicable.
5. Status of Unit Deficits. Describe progress made in the resolution of any college deficits. Has your unit met deficit reduction targets? If not, what actions are being taken to insure a timely resolution of the deficits?
6. Financial Planning Parameters For FY10, we are using the following financial planning assumptions:
 - a. State Funds. State Resources continue to deteriorate. We anticipate a potentially significant reduction (between -5% and -10%) in funding from the state.
 - b. Tuition. The Board of Trustees will discuss tuition at its March meeting. We anticipate tuition increases that might be slightly less than the last several years. Given the four year guarantee for undergraduates, total tuition revenue should still grow between 6% and 7%.
 - c. ICR. Based on current trends, we anticipate revenue growth between 1% and 2%.
 - d. Enrollment. The target for entering freshman is 7,000, a slightly lower level than this fall.

Plans for addressing common costs. All units, as a part of the campus community, are expected to share in the funding of certain institutional costs. The following are the estimated costs to be shared by units:

- a. Utilities. We anticipate that utilities costs will remain stable this year. Unit assessments will be based on changes in use.
- b. Unavoidable cost increases. We are facing certain new costs in FY10: the retention of critical faculty and staff (\$4m), financial aid costs (\$3m), new areas building maintenance (\$1m), restoration of the campus reserve (\$5m), restoration of building maintenance funding (\$1m), network build out (\$2m) and unavoidable cost increases (\$4m). Tuition increases will provide some of the funds necessary to meet the costs and we are exploring other options to fund these costs. At this time, units should plan for an assessment of 1.75% of their base.
- c. Permanent Reduction in State Support. The level of assessment will vary unit by unit and will take into account the level of GRF support a unit is receiving. All units will pay a minimum of 1.5% of their budget. Some heavily GRF funded units will face a 5% or larger reduction in total support. Individual reduction targets will be provided to units.

Units are asked to provide specific plans on how these new costs and reduced funding will be addressed. Deficit funding of the reductions should not be considered. These plans will generally involve one or more of the following components:

- a. Specific activities which will be stopped or reduced
 - b. Opportunities for revenue generation
 - c. Opportunities for increased efficiencies or collaborations aimed at reducing costs
7. Interdisciplinary Activities. Address opportunities and challenges to increased interdisciplinary instruction and research efforts between your units and others. Larger, multidisciplinary units might also wish to address these efforts within their unit.
8. Requests for permanent and non-recurring funding. Requests for non-recurring funding come to the Provost's Office for a variety of reasons. Since they come throughout the year, it is difficult to develop a sense of the relative value of one request versus another. While we know that there will be unexpected needs throughout the year, to the extent possible, present your unit's requests at this time. Resources to fund these requests are limited and clear linkage to your unit's strategic plan is required.