

**Understanding Incentive-Based Budgeting at UVM:
A faculty perspective based on a consideration of how IBB works at other institutions**

Incentive-Based Budgeting (IBB) was instituted at UVM in FY 2016; FY 2017 will be its first fully operational year because FY 2016 was considered a “held harmless” year: unit-budgets (which mostly means the budgets of the various degree-granting colleges) were provided with subsidies from the Provost (“subvention funds”) so that, while newly working under the IBB model, they had the same financial resources they would have had under the old budget model (for that first year only).¹ While one year is too short a time to be able to assess the impact of IBB at UVM, as part of an effort to forecast its likely impact we can at least consider its impact at other colleges and universities, ones that have used IBB or similar models for a longer period of time. Although a single report cannot provide all the information that one might want or need to make such a forecast, it can be used as a starting point.

Among the key documents employed in creating this report (mostly available through the websites of other colleges or universities) are the following:

1. IBB manuals

* Not all schools have publicly available manuals; in the case of Indiana University, for example, staff within its own Office of Budgetary Administration and Planning don’t seem to know of any documentation detailing the various policies and procedures (or if they do they refuse to acknowledge its existence). Of course, there must be clear policies and procedures because IBB depends on them. But for whatever reason, these are not always immediately available even to staff and faculty at those schools.

2. Reports / presentations prepared by college / university administrations about plans to shift to an IBB model (these always come before the manuals); these reports and presentations are typically provided to faculty through the Faculty Senate, though they may also be made available more broadly (e.g. through faculty list-servs or on the Provost’s or VP for Budget / Finance’s homepage).

3. Reports prepared by college / university committees (sometimes ad hoc Senate Committees, sometimes standing Senate Committees, sometimes joint administration-faculty / Faculty Senate committees or task forces) that aim both to review IBB (its implementation, management, successes and failures) and to offer recommendations for adjustments to the model; such reports typically begin to show up after a school has had IBB for about 5 years; schools that have used IBB for a while may have multiple reports, typically at 5-year intervals). Three examples: U Delaware, which established its RBB model in 2009, conducted a review in 2013 (<http://facsen.udel.edu/Sites/reports/10-20132013RBBCommitteeFinalReport10-13.pdf>); Indiana University, which established its RCM in 1991, has reports from 1996, 2000, 2005, and 2011

¹ “In the first year of IBB at UVM (FY16), subvention will be allocated such that each responsibility center’s net revenues and net expenses are equal – allowing for a budget neutral implementation of IBB Model 1.0” (UVM IBB Manual, p. 18).

(see “RCM at Indiana University”: <http://www.indiana.edu/~obap/rcm-iub.php>); and U New Hampshire, which established its RCM model in 2000, has reports from 2006, 2010, and 2015 (see “RCM Reviews” at <http://www.unh.edu/vpfa/responsibility-center-management>).

4. Minutes or transcripts from Faculty Senate meetings or from meetings of Senate standing committees charged with oversight of IBB; sometimes these record a request that reviews be conducted, sometimes they are discussing the reports or the recommendations based on the reports; some of these are the result of “Town Meeting” sorts of gatherings—these are typically led by an administrator (e.g. the Provost or VP for Budget / Finance) whose major aim is to keep faculty from mutinying.

5. other

a) faculty surveys

b) some material (very anecdotal) prepared by UVM’s FPPC (Senate Financial and Physical Planning Committee) based on a questionnaire sent out to faculty at other universities²

c) phone conversations with faculty at IBB schools (usually faculty who have had at least some administrative experience, e.g. as department chairs)

* Not surprisingly, given how many colleges and universities employ a version of IBB, the amount of available information is almost unlimited. It should be noted not only that there are different IBB models at different universities but also that similar models have variations (often major, often slight) that create both different starting points and different endpoints. This report cannot document all the variations. It does, however, try to provide a representative if distilled sample of the landscape with an eye both toward common factors and particularized modes of implementation as those might be relevant, by way either of comparison or contrast, to the situation at UVM.

² FPPC Questionnaire:

1. General: Have things changed under IBB? If so: good, bad, or indifferent?
2. Interdisciplinarity: Has this been inhibited, enhanced or no difference?
3. Transparency: Is it easier or harder to understand the budget process? Do faculty have more or less of a role in budget planning (or unchanged)?
4. Unexpected: Anything unexpected happen? For example, did the colleges need to hire more staff to handle the budget change? Was enough training provided?
5. Program changes: Have any programs/majors/minors been eliminated as a result of this budget shift? Any new and successful ones?
6. Faculty involvement: Are faculty generally aware or unaware of the budget model?
7. Have there been instances of ‘bad behavior’ in which a dean or unit appeared to be more motivated by increasing income than supporting academic quality?
8. Other comments about challenges or opportunities as a result of IBB?

I. Some basic definitions, descriptions, initial observations

A. “IBB”?

1. UVM refers to this budgeting model as Incentive-Based Budgeting (IBB). But the model goes by a variety of names, most commonly some variant of RCM, which can stand for any of the following:

- Responsibility Center Management
- Responsibility-Centered Management
- Resource Center Management

But there are other terms / abbreviations:

- ABB: Activity-Based Budgeting
- RBB:
 - Revenue-Based Budgeting
 - Responsibility-Based Budgeting
- RBM: Revenue-Based Management
- Strategic Budgeting
- University Budget Model

2. Who else uses it?

By some estimates, almost 50% of private colleges and universities employ some version of IBB. It seems less commonly employed at public colleges and universities (less than 20% probably), but it is common enough and perhaps becoming more common. At various times in its own documents concerning the shift to IBB, UVM has cited the following examples:

American University	U Alaska
Auburn University	U California-Davis
Brandeis University	U Connecticut
Cal Tech	U Delaware
Clemson University	U Florida*
Duke University	U Illinois
Florida International U	U Iowa*
Harvard	U Michigan*
Indiana U*	U Minnesota
Iowa State U*	U New Hampshire*
Kent State U*	U Oregon
Northeastern U	U Pennsylvania*
Ohio State U*	U Rochester
Purdue U	U Southern California
Syracuse U*	U Virginia
Temple U	U Washington
Texas A & M U	Vanderbilt U
Texas Tech U	Washington U

* Cited among list of “Peer Institutions” in UVM’s IBB documentation.

B. But what is it?

1. IBB is typically referred to as a budgeting model, but that phrasing may not be completely accurate in the sense that IBB doesn't by itself create any particular budget and isn't even a prototype of a budget. Nor is it an accounting system. It is perhaps best described as an institutional system both for distributing revenue that comes into the university and for allocating the various costs incurred by the university. In the most basic terms, revenues come into the university through net tuition (that is, full tuition minus financial aid)—undergraduate, graduate, non-degree, summer—research funds (especially the F&A [facilities and administration revenue or Indirect Cost Recovery] associated with research grants), fees for services, state appropriation, gifts and endowments. Under IBB, there is typically some split between what monies go directly to central administration and what monies go directly to revenue-generating parts of the university (the degree-granting colleges typically, most often referred to as “responsibility centers”). In older budget models, all revenue goes to central administration where it becomes the General Fund; money from that fund is then distributed, through a managed budget process strictly controlled by central administration, to the various schools / colleges and to the various administrative units. Under IBB, by contrast, a portion of incoming revenue (especially as gathered from the single largest revenue source: undergraduate net tuition) is directed to the colleges or responsibility centers (though some of this revenue is kept by central administration), which are then also obligated to cover all their own core expenses: salary / wages / benefits of all associated faculty and staff, budgets for departments and programs, costs of new hires, new programs, etc. And the responsibility centers are then, typically, assessed a “tax” of some kind to cover the costs associated with a variety of things, most notably their share of common expenses—central administration, admissions, libraries, student services, Sponsored Programs Administration, Continuing Education, university fundraising, alumnae affairs, etc.—but also other costs associated more directly with each responsibility center, e.g. a space charge for the use of their own facilities (office space, labs, art studios, etc.).³

I could go into the revenue / expense system in much more detail, but since UVM's manual already provides a full explanation of its own procedures, I will simply refer the reader to pages 3-18 of that manual:

https://www.uvm.edu/~ofabweb/Budget_Building_Materials/IBB/IBB%201.0%20Manual.pdf

I will revisit some key elements of how revenue and expense work under IBB in section II / subsection C.

³ Ohio State University, “Budgeting Restructuring Basics” (January, 2002): “The central tax pays for ... central commitments not covered by [other] specific allocations. Obvious examples of such commitments are the Offices of the President and of Academic Affairs. Perhaps less obvious examples are physical plant services such as landscaping and waste disposal, which benefit the entire campus.... The central tax is calculated [at OSU at least; UVM has a different tax-assessment model] as a percentage of the marginal resources colleges earn from instructional fees and state subsidy....The tax rate in the ... budget model is currently estimated at 24%.”

2. some key points shared by all IBB models, at least as presented by university administration

* Most documents produced by colleges and universities with regard to IBB take the perspective of central administration. It is not surprising, then, that the “official” understanding of IBB reflects the biases of college- and university-administrations that have already implemented it, are in the process of implementing it, or are contemplating its implementation (perhaps even laying the rhetorical seeds for what is already in the works, the target audience typically being faculty and / or members of the Board of Trustees; neither group is likely to know much about IBB apart from what it is provided in administrative-created documents or other presentations).

For a list of guiding principles as offered at a variety of IBB schools (including UVM), see Appendix.

** To offer a fairly standard version of how university administrations present the advantages or even the necessity of moving to IBB, I will quote the “Overview” provided by the RCM manual from Kent State University. I do so for two reasons: 1) this manual was the most straightforward of the many I read, certainly the least given to hyperbole; as with all such manuals, there is some key information left out (that’s true with UVM’s as well), but the basics are clear enough (at least if you’re starting with a foundational understanding of how IBB works); 2) in a fairly simple form, it calls attention to several major areas of concern that I will address subsequently. After I quote from this Overview, I will offer some brief comments before addressing some of the major issues in more detail (section II).

a) from “Overview of RCM” in Kent State U manual

You can access the full Kent State manual at: <http://www.kent.edu/budget/rcm-manual>

RCM [IBB] is a decentralized approach to budget allocation that assigns greater control over resource decisions to deans. Under this budget approach, revenue-generating areas are referred to as “responsibility centers” with all or most of the institution’s revenues and support costs assigned to them. RCM’s underlying premise is that the decentralized nature of the model entrusts academic leaders with more control of financial resources, leading to more informed decision-making and better results or outcomes for the University as a whole. In centralized budgeting models, academic program decision-making is largely decoupled from financial responsibility. By allowing responsibility centers to control the revenues they generate, decision makers are better able to understand both the academic and financial impacts of their decisions. Academic planning and resource decisions are more transparent within the unit and throughout the institution. Armed with improved information and the potential to retain increased financial resources, decision makers at the college / campus level may leverage even limited resources more effectively, improving university accomplishments and outcomes.

b) comments; I will expand on some of these later in the report

(i) “... a decentralized approach to budget allocation ...”

This statement is *generally* true, and true in important ways. IBB (RCM, etc.) is decentralized in the sense that the university’s central administration (usually the Provost’s Office in conjunction with the university’s Office of Budget / Finance) gives over *some* of the authority / responsibility for creating annual budgets (and for the planning of future budgets). The precise nature of the “some” is important, and it varies from institution to institution. Also, this manual is correct to say that IBB is an “approach to budget allocation”; that is, it is not a budget model as many similar documents state. As I noted above, IBB is really a system both for distributing revenue that comes into the university and for allocating the various costs incurred by the university.

(ii) “... that assigns greater control over resource decisions to the deans.”

Again, generally true (though later I’ll address what is misleading in this statement). To the extent decentralization is key to the approach, control over resources (but also responsibility for costs) is assigned to the academic units (“responsibility centers”), and thus the decision-making authority (at least for the part of the budget now shifted away from central administration) is relocated or “recentralized” in the dean of a particular academic unit or degree-granting college.

(iii) “... *greater* control ... with all *or* most of the institution’s revenues and support costs assigned to them” (that is, assigned to the responsibility centers and thus, in practical terms, to the deans of the various responsibility centers)

Note the wavering here. “Greater control” is certainly not complete control. And the “or” in “*all or most* of the institution’s revenues and support costs” suggests some confusion if not deliberate obfuscation: is it all or is it most? One of the documents produced by UVM’s central administration more correctly states the following: “*some* portion of tuition and research revenue are allocated to the colleges and schools ... that generate them.” And a PowerPoint presentation made by Indiana University’s Provost in 2013 to IU’s Faculty Senate includes this statement: “RCM refers to only one over-arching aspect: decentralized decision-making about *some aspects* of budget.” There is a big difference between some, most, or all revenues and support costs.⁴

(iv) Much of the rest of the Kent State overview (as quoted above) offers an idealized vision of what IBB does or what it can do. The overview refers to the approach’s “underlying premise” and then goes on to specify such improvements (in comparison with a more centralized budget-approach) as “more informed decision-making,” “better results or outcomes for the University as a whole,” greater clarity and transparency in resource-collection / allocation (because both the actual revenue streams and the actual costs of running an academic unit are much easier to *account* for [literally and figuratively]; hence, it becomes easier to budget for a particular year and to plan for future years), and greater effectiveness (later, the manual refers to “RCM’s

⁴ Ohio State U, 2001 presentation of Provost to deans and department chairs: “It is important to emphasize that ... units are neither entitled to ‘keep’ all they earn nor required to earn all they receive. What is important is to identify anomalies in base budgets where the difference between earnings and expenses is inconsistent with the goals of the Academic Plan.” To identify and then correct these anomalies then become the paired goals of what OSU calls its “budget rebasing process” (something akin to but not quite the same as IBB).

effectiveness and efficiency ... [as] demonstrated in university environments similar to Kent State”).

The manual strongly suggests that there is clear (“demonstrated”) evidence of IBB’s superiority to older budget approaches, but I don’t see that this claim is borne out by the evidence. In the first place, as noted, the manual is offering an idealized version of IBB (were IBB implemented in a perfect IBB world, then we could expect all these positive outcomes). But ideals are not realities: for example, a system that enables “more informed decision-making” cannot guarantee that the people in charge will actually make better decisions. The discrepancy between ideal and reality is amply demonstrated by the fact that faculty at schools that have employed IBB for some time often have very negative responses to it.⁵ Even more telling is that administrators at schools that have had IBB for a long time tend to stop cheerleading for it in the same way. Especially where faculty complaints are high, many administrators defend IBB with some version of “well, it’s what we have and all budget approaches have their pros and cons”—in short, many of the most-hyped aspects of IBB often (though not always) disappear even from administration-speak under the light of actual experience with it.

(v) three key concepts / claims from the Kent State overview that I will take up in greater detail in what follows:

- IBB is more effective and / or more efficient (in some demonstrable way)
- IBB is more transparent
- IBB “entrusts academic leaders [of responsibility centers] with more control of financial resources”; that is, it *empowers* (a favorite word among administrators) the academic units to define their own educational missions (within some basic shared concept of the institution’s overarching goals and aspirations typically as defined by strategic plans with catchy titles like “Pathway to Prominence” [U Delaware] or the “Academic Plan” [Ohio State U]).

II. Analyses of three core concepts often cited in support of IBB

A. Effectiveness and Efficiency

* With these terms, effectiveness and efficiency, we face two problems: 1) definition—what do we mean by them? and 2) assessment—how do we measure them? Taken together in the context of university budgeting, efficiency and effectiveness can only mean that, within the limits of

⁵ For an example of negative responses, see the AAUP’s 2013 survey of faculty at the University of Delaware: <http://www1.udel.edu/aaup/2013survey.pdf>. See pp. 11ff. for the questions about RBB, and pp. 16ff. for a very long litany of complaints by faculty about various issues, especially the effects of RBB. That said, some faculty, a minority certainly but not an insignificant number, see meaningful institutional improvements from the approach. Just as important, on some issues about which faculty are particularly unhappy, it’s not clear that IBB is to blame: given such things as the 2008 recession and the associated decline in state appropriations, any budget approach might have led to what is often referred to as the lowered faculty morale in the IBB universe.

available (financial) resources, the university fulfills the obligation of its educational mission: to students, to the various disciplines of knowledge and related professional associations, and to the wider community university-generated knowledge aims to serve. And as the educational mission evolves over time, any university must reassess its use of available resources with an eye towards managing them in a cost-effective way. Universities are expensive to run, so squandering limited resources is not an option.

For the champions of IBB to say that this budget approach is *more* effective and efficient than traditional centralized budget models must mean, then, that they believe it enables better resource management so as to increase the likelihood that the university can fulfill (or at least can come closer to fulfilling) its key (preferably stated) educational goals. But how would we know if IBB meets this promise?

It is worth observing here that the IBB documentation available from the first American university to adopt the approach, the University of Pennsylvania (RCM, 1974), states that it went to it because the institution was in “financial distress.” The document then adds that, though “designed to control expense, ... [RCM] has proven to be an even stronger driver of revenue.” It is worth thinking about the links between financial-distress, control of expenses, and revenue-drivers because, while university administrators don’t deny the links and even sometimes highlight them, those links (as key to the justification for implementing IBB) are often lost on faculty, who then claim not to understand the new approach. But it’s also important to understand the links as a way of trying to answer the question at hand: is IBB *more* effective and efficient at controlling expenses and / or increasing revenue (assuming that effective management of resources is critical to a university’s ability to fulfill its educational mission)?

Different universities might measure financial distress in different ways. Certainly the recent recession and the associated reductions in state appropriations have put many state colleges and universities in some distress (at certain schools it’s an out-and-out crisis). Still, while IBB predates the recession at many institutions, it’s a good bet that most moved to this budget approach because of actual or projected financial difficulties.⁶ UVM’s own state appropriation has been so low for such a long time that, rather perversely, we were not put in distress because of a declining state appropriation post recession. But key administrators, most notably our VP for Finance (Richard Cate), have sounded the alarm in terms of the risk of declining enrollments due to a number of factors (declining number of high-school graduates especially in New England, high cost of attendance at UVM, etc.). Since undergraduate net tuition is our main source of revenue, this is a real problem (UVM is not alone in facing it, of course).

The VP for Finance has also said on numerous occasions that “UVM cannot cut its way out of the problem.” What he means is that, while budget cuts are often necessary to balance the university budget, at a certain point more cuts mean a measurable decline in what we can offer our students (in terms of academic opportunities, student services, etc.). As he has also pointed

⁶ One might consider David Kirp’s brief analysis of trends in IBB / RCM budget models, an analysis that begins with “Ever since the flow of federal funds into higher education began to slow in the 1970s ...”: http://www.rutgersaap.org/sites/default/files/images/David-Kirp_Outourcing-the-Soul_Educause_ffp0212s.pdf

out, the problem of UVM finances is partly a result of the fact that, because costs for our students (even in-state students) are already very high, we cannot simply raise tuition to increase revenue (we do do this, obviously, but at a certain point excessive tuition increases would price UVM out of the market). If faculty and staff were never to receive another raise or increase in benefits (e.g. with rising health-care costs) a modest annual increase in tuition would keep us afloat (other costs would go up, but not salary and benefits; so the increased tuition revenue would keep the budget balanced). But the VP's point—he has been very clear on it—is that the cost of salaries and benefits will also go up (he understands the implications of working at a unionized institution), and so at a certain point increasing tuition will not match increasing costs (that is already happening). Right now, we're balancing the budget through cuts (e.g. not filling open faculty lines), one-time funding opportunities, increased debt-load, etc. But at a certain point these options will no longer do the trick (that is, as ways of balancing the budget; and if more cuts are needed, the educational mission will begin to erode in more obvious ways).

So the only real option is to increase revenue, or at least to balance selective cuts or budget adjustments (moving funds from one area to another) with increased revenues. As previously noted, U Pennsylvania's RCM manual claims that this is one of the chief advantages of RCM (it "has proven to be an even stronger driver of revenue" even than a method of controlling costs). Kent State's manual is admirably candid about linking the IBB-model to the "need for public universities to proactively identify and generate new revenue sources." And to the extent that, "by definition, responsibility centers must generate revenue," when the Kent State manual goes on to say that "the major emphasis should be on how to increase future resources" the implication is that responsibility centers (the academic units) must take the lead in this endeavor.⁷

There are several points of tension in this recognition, however. In the first place, while those supporting IBB often stress the point in a general way, administrators often appear reluctant to say precisely what they expect by way of increasing revenue (by what mechanism is this supposed to happen?). This reluctance might stem, in part at least, from an optics problem: to shift the burden of financing the institution to the academic side might appear to be an abdication of the administrative role; and if the academic units are raising the revenue, why do they need an expensive central administration at all or why so much of it (with so many high-priced VPs who are university versions of Mitt Romney's 47%)? In short, what conceptual aspect of IBB justifies central administration taking so much of the revenue generated by the responsibility centers? (We'll revisit this last point subsequently.) We might also observe a sort of conceptual conflict between the recognized need to raise more revenue and the oft-repeated statement that moving to an IBB-model does not in itself raise any extra revenue. Administrators often talk around the issue; thus, in IBB-speak responsibility centers are "empowered" or they become, to use another

⁷ A 2001 document presented by Ohio State U's Provost to deans and department chairs notes about the financing of the OSU strategic plan ("Academic Plan") that "in order to meet the goals of the Academic Plan, the University needs to generate more resources. To do so we must move ... to [a budget structure] that more directly aligns financial incentives for the colleges to the academic goals of the University." Of course, to recognize how much responsibility falls on the academic units for increasing revenue is not to diminish the role of central administration in increasing the endowment through capital campaigns and other forms of fundraising.

favorite administrative word, “entrepreneurs.”⁸ But faculty don’t think of themselves as entrepreneurs, and they don’t think of students as customers. Not surprisingly, then, a key selling point of IBB runs into faculty resistance: faculty see themselves as educators, and they see administrators, by definition, as stewards assigned the task of effectively managing the financial side of the university. Why should faculty now be asked to perform a function reserved for administrators, especially when they don’t get paid like administrators?

I might say much more about this topic, but, in as brief a way as possible, I would like to explain how IBB actually envisions the process by which revenue increases (sidestepping buzzwords like “empowerment” and “entrepreneurship”). A university has many sources of revenue, but, as previously noted, the main source for most schools is undergraduate net tuition (UVM is certainly not alone in having very little state support). IBB schools and indeed all schools that are tuition dependent recognize that there is a limit to revenue growth via tuition increases (especially as student debt explodes and the bad publicity regarding the cost of university attendance increasingly captures the attention of journalists and politicians). And IBB schools don’t typically assume that the way to more tuition is simply to enroll more students (especially if that means increasing the admission-rate, which tends to reflect badly in national rankings, and, more to the point, requires the admission of academically-weaker students). So how does an IBB school increase undergraduate net tuition without simply raising tuition to cover higher costs or collecting more tuition by admitting more students? The answer to this question is not typically found in official IBB documentation, but it does often come up in reports, minutes of faculty meetings, etc. And I would say that if UVM faculty listen carefully (very carefully) to what our administrators (especially deans of the academic units) are saying, then we can see that UVM’s approach is not very different from that pursued by other IBB schools.

In an ideal IBB world, the terms *effective* and *efficient* clearly mean that academic units (and thus the university as a whole) will

- 1) admit the same number of students while offering less incentive to attend through financial aid (the expense of which is staggering but necessary to offset the increasing cost of attendance)—that is, schools would have more money if they gave less of it back to students in the form of tuition-discounts
- 2) retain a higher percentage of the students who come in the first year; that is, find ways not to lose so many students (ones who either drop out of school or who transfer to other schools after their first or second years)⁹

⁸ U Pennsylvania’s RCM manual refers to “entrepreneurial activity” as one of the benefits of IBB; UVM’s President Sullivan has suggested that one of the key reasons to move to IBB is that it “encourages innovation and *entrepreneurship*” (February 2015 presentation). This statement from a presentation of the U Florida Provost to UF Faculty Senate is typical of IBB-speak: “The University cannot cut its way into the President’s Strategic Work Plan, but rather must grow its way out through an aggressive management of non-traditional, entrepreneurial growth and growth processes.”

⁹ UVM’s VP for Finance has stated that for each percentage increase in retention UVM makes (or retains) approximately \$500,000. We are currently in the mid- to high-80% range for retention and would like to move into the low-90% range. Higher retention means more total students, of course, but it doesn’t require admitting academically-weaker students.

And how does IBB envision the realization of these two goals? IBB imagines succeeding to the extent, first, that academic units offer not just high-quality education but, more importantly, nationally recognized high-quality education (which in theory means that students would want to attend even if offered less financial aid) and second, that the educational options available to students are responsive to what students want (or claim they want) to study—students are excited about enrolling in the available programs and so stay for their full undergraduate careers because of perceived educational value.

That said, even if this all works in terms of revenue enhancement, there is very real potential for collateral damage to the school's broader (traditional) educational mission. This damage is almost always recognized by faculty; it is sometimes acknowledged by administrators (sometimes openly with an eye toward mitigating the negative effects, and sometimes begrudgingly as though one should simply expect "problems" and should "just deal with it"). Among the problems frequently cited are:

1. Because the academic units retain most of the revenue they directly generate in terms of undergraduate enrollment (typically measured in terms of two factors: a) the student credit hours [SCH] associated with the unit of the course instructor—usually the bulk of the funds, sometimes all of the funds, are allocated on this basis—and the SCH associated with the college of the student's major), there is incentive for academic units to poach the students from the other units by offering programs or even just individual courses that aim to draw off a certain number of students who would normally take courses in or major/minor in degree programs offered by another college.¹⁰
2. Because the academic units function as independent financial units (the "silo"-effect), there is often an associated decrease in the willingness of deans to support inter-college collaborative teaching. Intra-college collaborative teaching, by contrast, is often promoted.¹¹

¹⁰ Subsequently, I will say more about how UVM's method of tuition-allocation compares with that employed by other IBB schools. I do need to point out here that IBB schools often recognize the risk of program duplication or "poaching." UVM has a joint administration-Faculty Senate committee, the Educational Stewardship Committee, that is tasked with monitoring academic offerings with an eye toward preventing abuses of the system. Ohio State U has a section of its 2002 "Budget Restructuring" document devoted to "Monitoring Course Poaching and Course and Program Quality." OSU's Council on Academic Affairs is given a variety of responsibilities in these areas, including "ensur[ing] course duplication does not occur," because a variety of "issues ... have surfaced with respect to course and program quality[,] ... class size, course grade point averages, and form of instruction."

¹¹ Counteracting the negative impact of the silo-effect is among the justifications for the revenue allocated to central administration. More on this in the subsection on "Empowerment." I should note that over the course of this past spring UVM's FPPC committee interviewed the deans of the responsibility centers and asked them about whether inter-college collaboration might be put at risk under IBB. My sense is that the deans were very aware of the potential problem and were themselves mostly open to keeping collaborative possibilities alive. That said, inter-college collaboration is very noticeably at the discretion of the deans; it's not clear that faculty who are

3. In the first phases of IBB implementation especially, there is often a rush to establish new courses or programs (new majors / minors / grad programs / certificate programs, etc.) to create a buzz in the minds of students (and also of course to poach students from other colleges). Faculty often express a concern that the creation of these new courses and programs—the workload of UVM’s Faculty Senate Curricular Affairs Committee has probably more than doubled in the last year¹²—typically comes at the expense of properly valuing what the university already does and often does well. Faculty often express the concern that sexiness trumps substance or that career preparation (a real area of student concern in today’s economy) will so overshadow education as more traditionally understood that universities begin to look more like trade schools (of course, many politicians already understand the function of state universities as the training of young people to enter the workforce). Faculty in colleges of Arts and Sciences or the Liberal Arts tend to have the highest levels of anxiety around these issues; and faculty in the humanities often express their horror at what they take to be the deliberate devaluing of their work, especially as new and expensive programs in STEM disciplines draw off resources (buildings, faculty lines, research support, etc.).¹³

4. Since graduate programs are especially expensive to run, traditional graduate programs are often slighted, underfunded, or even eliminated in order to promote professional certificate programs of one kind or another whose primary aim is simply to increase a unit’s revenue stream.

5. Deans maximize available resources by hiring more lecturers and fewer tenure-track faculty; but even with the increase in available teaching (since lecturers typically teach more classes than T/T faculty), class size often increases to make up for lost teaching (more T/T faculty teaching less so as to produce more scholarship with its attendant “value” to the university or T/T faculty

not part of prioritized academic specialties would themselves have much opportunity to pursue inter-college projects.

¹² “Over the past eighteen months, we’ve experienced a period of unprecedented curricular innovation, in part due to the good and creative thinking of our faculty members, in part as a result of the budget model’s incentives, and all for the benefit of our students who deserve the most compelling array of academic programs we can provide” (from UVM Provost’s “Campus Update,” 6/6/16:

<https://www.uvm.edu/provost/IBB/IBB%20Update%205%20June%202016.pdf>)

¹³ An institutional self-study referred to in a 2001 budget restructuring document presented by the Provost of Ohio State U to the deans and department chairs notes that “the College of Humanities ... received substantially fewer resources than it [had] earn[ed] in every formula calculation since 1997.” Indeed, that College was the only academic unit at OSU to regularly be transferring more than 10% of the revenue it generated (10.8% precisely) to other units; in other words, OSU humanities departments were consistently subsidizing work in other academic areas (e.g. Nursing gained an extra 16.3% from revenue-transfers from the other units, and some units saw net-positive revenue-transfers in excess of 20%), a problem that the Provost sought to ameliorate somewhat by a restructuring of the budget.

teaching in other areas with smaller enrollments—e.g. those aforementioned certificate programs aimed at small cohorts of graduate students or non-traditional students).¹⁴

I would like to point out two other ways that under IBB academic units typically aim to increase revenue. First, they get more active in the fundraising game. This is not a bad idea, but it isn't easy for academic units to succeed in this pursuit of endowment dollars for two reasons: 1) college administrators and staff are not trained in this activity; and 2) fundraising priorities are typically established by central administration, and so individual academic units often must take a backseat in the effort to develop donor networks. The second way academic units aim to increase revenue is by generating more outside grants in support of research. (A certain amount of money is usually drawn off by central administration or by the university office of the VP for Research, which then uses the funds to assist in grant-acquisition and grant-management.) The money comes into the university both directly in support of the research projects (which might, for example, keep certain graduate programs alive and flourishing through the funds available to attract graduate students) and indirectly through F & A (or Indirect Cost Recovery). While it seems obvious that increasing grant-funding is a positive for any university, it is not clear that, when subjected to the cost-benefit analysis of IBB, it is a net positive—in short, does the pursuit of grant money actually benefit the university in its efforts to become more “effective and efficient”? A recent study by the National Science Foundation states that for every \$1 that comes to a university in the form of grant-funding, that university must spend \$1.25. Cheaper to run programs may thus be subsidizing more expensive ones (e.g. programs with labs), which, if true, contradicts the push of administrators to support research (especially in STEM disciplines) while underfunding other non-research activities or disciplines in which faculty do not typically pursue grants. Some IBB schools are recognizing this dilemma; others are not.

In the long term, the effectiveness and efficiency of IBB should be measured by an improved budgetary environment that permits the university to sustain its core educational mission and, in some areas at least, to expand that mission and thus offer more opportunities to students.¹⁵ Having looked at the situation at many IBB schools, I conclude that not all IBB schools are monitoring the situation with the attention the matter deserves. So we need to ask how UVM intends to monitor the success (for failure) of its IBB model. While a more stable budget environment is a necessary start, if that environment's corollary is a weaker academic environment then we might have a situation in which greater efficiency produces less effectiveness.¹⁶

¹⁴ There is some evidence that UVM is increasing the number of full-time lecturers even as the number of T/T AND part-time lecturers is decreasing. The decrease in the number of PT faculty might seem counterintuitive, but one of the costs imposed under IBB on the responsibility centers is for “faculty headcount,” an assessment that charges as much for a faculty member with a 1.0 FTE as for a faculty member with a .2 FTE. Not all IBB schools employ such a headcount, but many do.

¹⁵ A 2001 document presented by Ohio State U's Provost to deans and department chairs puts this idea very simply: “The budget process is not an end in itself but rather a tool whose effectiveness is best measured by its contribution to our academic goals.”

¹⁶ One area in which IBB might actually be less efficient than a centralized budget model is administrative staffing. As budget responsibilities are shifted to academic units, those units may

B. Transparency¹⁷

* Under an IBB model, the concept of transparency is simple enough, though limited in its application. Because they are responsible for balancing their own budgets, academic units have direct incentive to calculate their own revenues and expenses – in short, to understand in meticulous detail the true cost of the education they provide. In any particular unit, the pairing of increased attentiveness and accountability ideally leads to “more informed decision-making” concerning both the budget design for a single fiscal year and long-range planning (how to increase revenue to pay for expensive programs or to subsidize programs that do not attract enough students to pay for themselves, the costs of adding new programs, how to balance the ratio of T/T faculty to lecturers, what costs can be passed on to departments, etc.). That said, even within the limited context of the academic units, real transparency is not so easy to achieve in practice. And if one expands from the academic units to the institution as a whole, one might reasonably conclude, especially from the experience of schools that have employed the approach for many years, that transparency is one of IBB’s false promises.

We might start with a pair of observations. First, nothing says that a centrally-administered budget approach cannot be transparent. The Provost and VP for Budget / Finance could opt to be very forthcoming about how a particular budget was made, and a school could have any number of institutionalized ways of making budget information available to faculty and staff. Minimally, through their Faculty Senates schools could establish review structures so that at least a body elected to represent faculty would have access to the key budgetary information and perhaps even to the reasoning behind the decisions to build the budget in a certain way: why is more money going here or there, why are enrollments going up in one college but down in another, why are certain cuts being made, which elements of the strategic plan are being implemented or put off, what is the current state of university finances and what are the long-term prospects, what about deferred maintenance at a time when new buildings are in construction? Conversely, nothing guarantees that an IBB approach to budget-making will truly be transparent to the bulk of faculty and staff who are subject to it. So much depends on whether the deans of the responsibility centers set up the budget-making process to be transparent. We might ask, for example, whether a particular dean has established faculty oversight of the process in any meaningful way – is there a review process, is there an advisory committee, do departments have any say in the shaping of the budget for a particular year or in long-range planning? Even under IBB deans not inclined to make the process transparent could produce a system that is even less transparent than the old central-planning approach.

need to increase the number of staff to cover the increased workload (e.g. managing summer instruction, which used to be covered by Continuing Education). It could happen that under IBB we will lose some important economies of scale that have kept certain administrative costs under tighter management. Moreover, because the academic units now operate more independently than they used to, it is difficult to track staffing increases that effectively duplicate services that could be better handled in a more centralized system. I can’t see that any IBB school has been consistently monitoring the staffing-levels of the various units.

¹⁷ “Why move to IBB? ... Increases transparency.” / “IBB ... provides transparency, clarity, and predictability ... can be easily understood ...” (statements from UVM IBB documents).

With all that in mind, it is worth considering the following problems as these have been registered at some or all of the IBB schools whose documents I've looked at:

1. Many faculty, even at schools that have used an IBB approach for a long time, complain that they really don't understand it (it's too complicated, opaque, labyrinthine, inconsistent, changeable, too much at the whim of administrators). In conversations with some faculty now serving or who have recently served as department chairs, I have often found that even many of these current or former administrators have no idea how IBB actually works. Review committees often recommend that the entire system be simplified; and some schools have been forced to acknowledge that the method for distributing revenue and allocating costs conceals as much as it reveals. (U Delaware has recently moved away from employing algorithms for distribution / allocation for precisely this reason.¹⁸) If an IBB model is going to be truly transparent, it must pass the test of public intelligibility. Administrators often complain that they are trying to explain IBB in an easy-to-understand way, and no doubt faculty need to take more responsibility for educating themselves (even though such an administrative task is not part of faculty workload). But at a certain point administrators need to be effective leaders, and if large numbers of faculty don't know how IBB works, that is a leadership problem that falls on the administration side of the ledger.¹⁹

¹⁸ Kathy Detloff, Chief Budget Office, U Delaware, during a Faculty Senate meeting, November 2015: "As we look at algorithms, the current RBB model has complex algorithms with data points that underlie each one. So we did away with these."

More generally, compare the following:

"There is a high degree of frustration with perceived RCM disincentives and decision opacity ... The University's current budgeting system, the Responsibility Management Center (RCM), as implemented has fallen short ... Lack of understanding and transparency ... There is misunderstanding of RCM decisions, incentives, & impact" (from a review of RCM at Syracuse U, 2014)

"RBB was advertised to be superior to our previous accounting system because RBB was touted as being more transparent, but surveys indicate that most faculty and even many chairs find the system opaque, arcane, and impenetrable" (from a review of RBB at U Delaware, 2013)

"A plan should be developed and implemented to ensure wide community understanding of the University's finances and its budget model, including the process and rationale for any model changes that may occur, on an annual basis. In addition, the Deans should be charged to ensure that their department heads understand how the model is managed ... Finally, wherever possible, changes to the model should aim in the direction of simplification" (from a review of RCM at U New Hampshire, 2015)

¹⁹ Here is a small but telling instance of lack of transparency in UVM's IBB model. I previously referred to the calculation of student credit hours (SCH) as a central element in determining the revenue each academic unit receives from undergraduate net tuition. UVM's manual refers to "weighted" SCH "to account for the differential cost of instruction"—the assumption being that it is more expensive to offer courses in some disciplines and that these disciplines tend to predominate in certain colleges (that is, on average it is more expensive to offer a course in the College of Medicine or on in the CNHS or CEMS than in CAS or CALS [there are problems with this assumption, but it would take too long to explain]). The manual then lists the "weighting" number for each of the Responsibility Centers, ranging from 1.0 (CAS) to 1.3 (CoM

2. IBB cannot be transparent when deans do not set up review / advisory mechanisms that engage faculty in a meaningful way. It will never be enough to for deans to communicate through department chairs exclusively. In larger academic units, budget advisory committees with at least some elected representation seem to work reasonably well. For smaller units, college meetings might do the trick as long as faculty know in advance what is going to be discussed and have received appropriate documentation prior to the meetings. Once again, some responsibility falls on faculty; they do have an obligation to educate themselves. But this will only happen if faculty feel that their input matters and that their concerns are taken into account.

3. By far the major problems with lack of transparency are traceable to central administration. The main issue might be put as follows: despite their claim that it decentralizes budget-making responsibility, under IBB central administrators retain much of their authority especially as that authority resides in the power to disburse at their discretion the monies they allocate to themselves. I will go into the specifics of central administration funding in the next subsection. For now, I will simply point out that many IBB schools have no meaningful institutional oversight over how central administration spends its revenue even if the mechanism by which it accumulates revenue is clear (while the mechanism is usually documented in some form, that doesn't automatically mean that the actual process of accumulation is clear). Some schools do have standing committees that review funding requests made to central administration from across the university and make recommendations to whoever the "decider" is (usually the president or the provost); other schools do not have such committees. Some have recommended that such a committee be established after having worked without one for a period of time.²⁰ Any IBB school that lacks such a committee or that has one in name only (that is, a committee exists but it has no actual authority in the process) will lack real transparency. It is clear that many faculty members at IBB schools feel that they really have no idea how their central administrators go about their business, how much money they have at their disposal, how they decide to spend it, who gets access to the decision-making process (deans? faculty from disciplines / units given priority by central administrators? Faculty Senate committees?).²¹

and CNHS). This "weighting" is effectively a multiplier, and from the perspective of a budget person (or a computer), that multiplier is necessary for doing a calculation (e.g. for every \$100 CAS gets for a SCH CNHS gets \$130). But a faculty or staff member or even an administrator who isn't doing a calculation won't find the multipliers particularly helpful in clarifying the allocation of undergraduate net tuition to the various Responsibility Centers; indeed, the multipliers might actually give the wrong impression that CAS gets "100%" of what it is entitled to in terms of the SCHs it teachers, but that is not correct. The manual could and should be clearer (simpler, more transparent). Is it in the interest of central administration to be something less than clear?

²⁰ From an April, 2014 RBB Task Force Report, U Delaware: "Form a budget advisory committee comprised of stakeholders who could review and advise on the primary planning parameters." And earlier in that same report, on the issue of the Provost's Subvention Fund, we find a similar, if more narrowly tailored, recommendation: "Create an advisory committee to advise the provost on strategic initiatives."

²¹ In a report issued in 2011, an RCM review committee at Indiana University considered a question that had been posed in an earlier RCM review: whether "a larger portion of campus funds" should be allocated "to the Provost." The 2011 review committee's response to the

The need for greater transparency in the IBB model is effectively captured in these three related recommendations made by the Faculty Senate Budget and Finance Committee at Rutgers University as part of its report on the implementation of an RCM model (March, 2014):

The foundation of efficient operation of the RCM model and the successful decentralization of decision-making *must be transparency of information*. People cannot make good decisions without good data. While total openness is neither feasible nor desirable, the availability of budget information at Rutgers is considerably less than at peer universities. The Senate therefore further recommends that:

Recommendation 7: Department heads, like heads of RCM units, should have access to real-time information and short-term projections of their budgetary standing.

Recommendation 8: Accessibility to budget information for other internal users should generally be higher than at present. Heads of stakeholders groups and heads of the University Senate should have access to detailed budgetary information at the RCM unit level and administrative units level for prior years.

Recommendation 9: Budget transparency to public (outside users) should be increased in line with the policies of peer RCM universities.

More simply, the 2002 “Budgeting Restructuring” document from Ohio State U notes that “any budget system, but particularly one that is decentralized, depends on the creation and maintenance of a timely and user-friendly information system.”

C. Empowerment

* Despite its title, this final subsection is really about money: under IBB, who has it and who has the authority to spend it and under what circumstances? Or, to put this another way, to the extent that, under IBB, authority over financial resources is power, what part of the institution is actually empowered by such authority?

In a February, 2015 document previously referred to, UVM’s President Sullivan asks (this is really a rhetorical question), “Why move to IBB?” And the first of his five-point response is: “Links resources with strategy, *empowers* academic leadership.” As we’ve already seen, under IBB the interconnections between university (financial) resources, strategy, and academic leadership are understood to exist primarily at the level of the academic units and to function particularly through the decision-making of the deans of those units (that is what “empowers academic leadership” really means). There is certainly a truth to this claim, and recent interviews of UVM responsibility-center deans conducted by the Faculty Senate’s FPPC confirm that the current deans understand their central role in the process (and that they, finally, are the responsible ones in the responsibility centers).²² While I don’t know that the deans feel

question began with the following sentence: “The committee does not believe it is well enough informed about the uses of the Provost’s Fund to make a recommendation.” If a review committee is not “well enough informed,” then surely the faculty as a whole is not either. Whose responsibility is it to do the informing?

²² In the course of those interviews, almost all the deans spoke in some detail about their plans for meeting the particular challenges of their new responsibilities. Not surprisingly, they were more interested in explaining their plans for increasing revenue (attracting new students,

especially empowered by the new budget approach, they appear to be generally optimistic about the likelihood of success for their particular units. At least that is their collective public position whatever they may think in private.

That said, from the very start of the budget process (the collection / distribution of incoming revenue and in particular of the main driver of revenue, undergraduate net tuition), the responsibility centers are at least partially disempowered while central administration, contrary to the logic of IBB, empowers itself. This statement requires a detour through how revenue is disbursed under the typical IBB arrangement (though, as I'll point out, there is great variety in how different schools set things up).²³

In what follows I will “follow the money” with regard to undergraduate net tuition because, as noted, it is the main source of revenue at most, perhaps all, IBB institutions.²⁴ The way it is initially disbursed, moreover, is often the focus of controversy if and when faculty come to a clear sense of how the system is set up (which, apparently, does not always happen).

At least at those schools that have a similar structure to UVM's, the basic IBB model works like this. Undergraduate net tuition is calculated in terms of student enrollment patterns and then the associated revenue (measured primarily as “student credit hours”) is allocated to a particular college based on either one or two factors: 1) what is the college of the course's instructor (where the instructor has a primary appointment) and 2) what is the college of the student's major? There is typically some splitting of the available revenue with part of it (usually the much larger amount) assigned to the college of the course instructor and the rest assigned to the college in which the student is a major.²⁵

retaining enrolled students at higher rates, increasing grant-funding among the faculty in their units) than in explaining planned budget cuts (since no one wants to hear about cuts—though, to be fair, a few of the deans did discuss cuts—e.g. open T/T lines that would remain unfulfilled for the foreseeable future; even eliminating some programs within their units).

²³ It is important to realize just how different IBB models can be; sometimes the various ways that revenue is allocated as described in the manuals are laughably unintelligible, and one wonders if this lack of intelligibility is by accident or by design.

²⁴ As noted above, undergraduate *net* tuition takes into account the expense of financial aid to students. I should add that there are often issues related to the disbursement of other sources of revenue (e.g. F & A, state appropriation, etc.). But it would take too long to consider all the sources of revenue. Since undergraduate net tuition is by far the most important one, I'll focus on it exclusively.

²⁵ In some models, all the undergraduate net tuition that goes to the academic units is distributed based on the course instructor's home college while none is calculated based on the college of the student's major (Indiana University / Allocation of Academic Year Undergraduate Tuition: “Allocated 100% to school of instruction”). That particular model is not common. Even less common is the opposite arrangement, one that U Michigan originally employed before seeking a balanced model in FY 2009: “In the earliest years of the budget model, undergraduate tuition was distributed entirely to the unit of enrollment. . . . [B]eginning with fiscal year 2008-09 [there will be] an even split [50% - 50%] between the unit of enrollment and the unit of instruction.” The precise formula appears to be something that schools often adjust in response to

In theory, all the revenue calculated as undergraduate net tuition could be distributed to the appropriate colleges based on some variation of this model. But in practice, a fairly sizable amount of money (both in terms of real dollars and in terms of the percentage of available revenue) is taken off the top by central administration. Sometimes this amount is designated by a percentage of the available undergraduate net tuition and sometimes it is designated as a hard dollar amount. For example, at U Pennsylvania, 20% of the available revenue is taken over into a fund or “pool” that is “allocated by the Provost and the President”²⁶; of the remaining revenue, 75% is allocated to the “teaching school” and 25% is allocated to the “home school.” U New Hampshire’s RCM manual, which is one of the most detailed and complicated, is much less clear about the numbers and percentages involved, but in section 3.12 we find this statement regarding “revenue streams ... allocated to Responsibility Center units and Central Administration under RCM: Undergraduate net tuition – allocation and *off-the-top % to Central Administration.*” U Delaware, which has recently revised its IBB manual, makes a series of calculations under what it calls “Algorithm 1” (an extreme version of UVM’s Algorithm 1):

Step 1: Set aside \$51,168,961 for Subvention, which is allocated to Colleges at the discretion of the Provost

Step 2: Strategic Initiatives Funding / Set aside a maximum of 10% of Total Alg 1 revenue to support Strategic Initiatives, University Reserves, and Capital Projects / Other
* Determine growth in University-wide revenue (State Appropriation, Endowment & TII, Other Misc) over prior year budget and allocate to cover subvention increase over \$50.0 million. Any additional funding is used to support additional Strategic Investment at the discretion of the Provost.

Step 3: Set aside funding for the Sponsored Activity Incentive (capped at FY15 level of \$95,792,837) and distribute based on:

Alg 1c – Sponsored Activity Incentive; Distribution is calculated based on % of Total Sponsored Activity Expenses by College excluding sub-contracts (3-year 3-1-1 for Research, Instruction, and Service)

Step 4: Balance of available revenue is distributed based on:

Alg 1a – 75% of it is distributed based on ICOR Credits & UG Students Taking Grad Credits

Alg 1b – 25% of it is distributed based on the student’s Home College

UVM’s Algorithm 1 is explained on pp. 4-6 of the IBB manual, but the three keys to the distribution of undergraduate net tuition are so described:

a) The first \$40 million ... will be allocated to Subvention and the President and Provost’s Strategic Investment Fund (SIF). The remainder will be allocated ... as follows:

recommendations from internal review committees (e.g. U Delaware has recently changed its allocation; now “undergraduate tuition will be distributed to colleges, with 75 percent based on the percentage of student credit hours taught and 25 percent based on student headcount [major].”) There are some potential sticking points with any method of revenue distribution of undergraduate tuition, e.g. what if the faculty member teaching a course has an appointment in more than one college? But these factors typically do not involve large sums of money.

²⁶ In U Penn’s model, that pool is also funded through a percentage (10.5%) of F & A (or Indirect Cost Recovery for research grants).

- b) 85% based on an RC's percentage of the two-year trailing average of weighted Student Credit Hours taught [so corresponding to the 75% that U Penn's manual says goes to the "teaching school"]
- c) 15% based on an RC's percentage of the two-year trailing average of majors [so corresponding to the 25% that U Penn's manual says goes to the "home school"]

This is not the place to hash out the relative merits of the different disbursement models (should there be an 85%-15% split or a 75%-25% split of undergrad net tuition revenue? should the central administration's off-the-top reservation of undergraduate net tuition be designated by a percentage or by a hard dollar amount?). What is crucial is that even as central administrators claim to be empowering the academic units by letting them create their own budgets (taking in their generated revenue and, within certain limits, spending it as they see fit), the units are often immediately disempowered to the extent they are forced to surrender a major portion of their own revenue.²⁷ For FY 2017, UVM undergraduate net tuition is expected to be around \$200 million. So when \$40 million are immediately "allocated to Subvention and the President and Provost's Strategic Investment Fund," that means the academic units are already down 20% of their funding from their number one revenue source.

Champions of IBB would immediately respond that I have misrepresented what actually happens under this approach because I have seriously understated how much revenue is available to the academic units. And that is because most models have some version of what U Penn's RCM refers to as the "subvention pool," monies taken out from the original disbursement of revenue (not always just from undergraduate net tuition, though that is usually the chief source for the "pool") by central administration but then given (or returned) to the academic units in the form of subsidies. Since UVM's description of subvention is among the clearest I have seen, I will quote part of it (from the section called "What is Subvention?"):

Subvention is a budgetary tool available to the Provost that allows for the rebalancing of revenues to guide the direction of the University in accordance with the strategic priorities established by the President. The mechanics of subvention include taking a portion of the overall undergraduate net tuition revenue, designating that funding as the subvention pool, and then allocating that revenue to responsibility centers ... Subvention is determined and adjusted based on university goals and objectives and the unique roles and characteristics of particular academic units. It can also be used to ameliorate sudden budgetary shifts, thereby providing responsibility centers time to adjust accordingly. The use of subvention for these purposes is common to incentive-based budgeting models. Some responsibility centers will always require subvention. Subvention is a common feature of nearly all IBB models as there are core academic offerings at any research university that simply do not generate enough revenue to meet expenses. The need for subvention should not be viewed as a value judgment on a unit's worth or productivity.

²⁷ At U Delaware, Steps 1-3 of Algorithm 1 represent a truly staggering amount of revenue taken away from the academic units. What is more amazing is that, while a 2013 review of RBB at U Delaware noted in particular that the "Sponsored Activity Incentive," which even then drew off more than \$90 million, should be seriously scaled back if not eliminated entirely (see pp. 5-6 of report: <http://facsen.udel.edu/Sites/reports/10-20132013RBBCommitteeFinalReport10-13.pdf>), the revised RBB model of 2016 actually increases this "incentive" to more than \$95 million.

The University, as a whole, benefits from its broad portfolio of academic programs. Some programs will require strategic, differential investment and support.²⁸

We might think of the subvention fund as a much reduced version of the older budget model's General Fund: the academic units now directly manage approximately 80% of their budgets (based on undergraduate net tuition; there are other revenue sources, of course), and about 20% of the available revenue is retained by central administration which then makes targeted (re)investments in the academic units, especially to support "core academic offerings ... [that] do not generate enough revenue to meet expenses." UVM's "About Subvention" document essentially acknowledges this partial return to the older model in observing that "IBB creates a decentralized system *integrated by subvention*"; in other words, there are centralizing forces balancing or at least partially reducing (or mitigating the potentially negative effects of) decentralizing ones.²⁹ But now the General Fund is reduced to a portion of the budget (roughly 20%), and it is used selectively – as UVM's "About Subvention" puts it, "to guide ... the University in accordance with the strategic priorities established by the President."³⁰

Why then say that the IBB approach disempowers the very responsibility centers it claims to empower? In practical terms, under the IBB / subvention model, during the implementation phase deans essentially inherit the responsibility of managing the budgets already in place (the costs "on the ground" we might say) but with only 80% of the funds they previously had available to cover those costs. This is why IBB almost always begins with a "held harmless" year in which the academic units start with the same basic budget (along with the revenue) they had had under the old budget model; only now, 80% of the available funding is effectively designated base-budget and 20% is designated subvention-supported. And, at UVM and elsewhere, that 20% is controlled by central administration which distributes the money based on its priorities. So the academic units are disempowered in the sense that, even if they have the same financial resources they would have had under the older model (and there's no guarantee of that) they lose at least some of the decision-making authority over those resources. More to the point, the 80% of the budgets the deans do control has to cover the unit-costs that are almost a given of their budgets, core costs that can only be tinkered with so much.³¹ So effective control

²⁸ The full document ("About Subvention?") is available on the Provost's website at: <https://www.uvm.edu/.../About%20Subvention.Oct%202015.%20.pdf>

²⁹ As part of a survey of faculty and administration incorporated into a 2011 RCM review at Indiana U, the review committee's report quotes a dean as responding, "IU seems to be moving in the direction of greater centralization, which threatens to erode RCM as a budgetary system."

³⁰ Compare the following from U Michigan's "Budgeting with the U[niversity]B[udget] Model": "The General Fund Supplement (GFS) represents the additional support provided to a unit beyond the net of the revenues and costs mentioned above. The UB model was designed so that most units would still need supplementation rather than function as 'a tub on its own bottom.' It is this element that *gives the Provost leverage in determining the budget and, therefore, the sets of activities undertaken by units.*"

³¹ The 2002 "Budget Restructuring" document from Ohio State U puts it this way: "Under budget restructuring, ... most of the tuition revenue that Ohio State receives has already been committed to the colleges as part of the base budgets. The base budgets are intended to fund teaching of the current levels of credit hours."

of much of the discretionary power over their budgets is taken away under this approach.³² Or, it is the older budget-approach in new packaging, where the packaging aims to provide the philosophical justification (itself disguised by such words as entrepreneurial and empowerment) for the siphoning off of operational funds from the academic units for use by central administration.

Moreover, the model is designed so that the subvention pool will shrink over time. Because it is not easy to get exact figures from other IBB schools, I will have to explain this design using UVM's model (though the basic mechanism is not unique to UVM). As noted, the budgets of the academic units become dependent to one degree or another on the subvention or subsidy provided by central administration.³³ But the total amount of funding available for this subsidy will be (slightly) reduced every year. At UVM in FY 2016, of the \$40 million taken out of undergraduate net tuition by central administration, all \$40 million went back to the academic units (more or less). But in FY 2017, that \$40 million will be reduced by approximately 1.75% (it's not an across-the-board reduction; some units will see more reduction in subvention while some units will see less³⁴). The roughly \$700,000 to be recuperated by central administration (for FY 17) by decreasing subvention funding will then be shifted from subvention to what UVM calls the Strategic Investment Fund or SIF.

UVM's plan is to reduce subvention at a rate of 1-4% per year (different in each year depending on subvention requests and needs) with a corresponding increase in money available as SIF. By definition, SIF represents money taken away from the annual operating budgets of the academic units and reassigned to central administration, empowering it with resources in support of what we might call its own "entrepreneurial activity."³⁵ Different schools have different designated

³² Perhaps counterintuitively, several IBB schools have recently recommend or enacted *increases* in the funds available to central administration. Indiana U did so in response to reviews conducted in 2000 and 2005, and a U New Hampshire committee just last year recommended an "increase [in] the annual allocation to the Strategic Funding Pool from 3.5% of salary to 4.0% in FY16."

³³ At some schools, the process is controlled by the provost; at other schools, by the president. UVM is an example of the former arrangement.

³⁴ "For example, the College of Arts and Sciences received a 1% reduction in subvention for next year, this represented a \$123K reduction" (from Provost's "Campus Update," 6/6/16: <https://www.uvm.edu/provost/IBB/IBB%20Update%205%20June%202016.pdf>). Other colleges saw higher % reductions in their FY 17 subventions.

³⁵ "Part of the planned and phased subvention reduction will be used to create a Strategic Investment Fund (SIF) to enable the president and provost to invest strategically in new initiatives, respond to opportunities, and continue to invest in the University's physical and intellectual infrastructure. Such a fund is critical to the success of these types of decentralized budget models, according to every university that has made such a transition over the last two decades" (from Provost's "Campus Update," 5/11/15). Some schools have almost no subvention fund and simply have some version of SIF. Some schools have both, but fund them from different sources (with those different sources described in their manuals). UVM has both a subvention fund and a SIF, but there is a single source of money: the \$40

amounts for their SIF: at U New Hampshire it is both listed as \$10 million and in the \$5-15 million range; at Indiana University, it is listed as \$3.5-4 million, but it did have a one-time infusion of \$10 million; U Delaware's is described under its Algorithm 1 in percentage terms, but it appears to be in the \$5 million range. By means of "the savings from modest subvention reductions that will take place over the next several years," UVM's aim is to "grow the Strategic Investment Fund from its current \$4M[illion] to \$8M[illion]." ³⁶ \$4 million would represent 10% of the subvention fund; \$8 million would represent 20% of the fund. So over time, collectively the academic units would see reductions in their real operating budgets of 3-4%. While that might not seem like a lot of money, that % represents a significant amount of the units' resources for discretionary spending. So the reductions do matter.

This situation leads us back to the question at the heart of this subsection: does IBB *empower* the academic units in some meaningful (demonstrable, effective, efficient, transparent) way? The approach quite intentionally draws off operational funds from these units (perhaps a small amount given their overall budgets, but the part of the budgets that might have been used to promote the units' own defined needs or areas of growth). And those funds are then reassigned to central administration to pursue its own priorities. ³⁷ It must be recognized here that budget shortfalls in the academic units are not only anticipated but precisely built into the system. As UVM's Provost has recently written, "Subventions are being reduced at a ... rate of 1-4% per

million taken from undergraduate net tuition prior to disbursement of these funds to their originating academic units

³⁶ From Provost "Campus Update," 6/6/16. The increase in available SIF \$\$ is anticipated to require four to five years of subvention reductions. It should be added that the Provost's claim that UVM's SIF is "lower than comparable funds at other institutions" does not appear to be in line with available evidence especially when UVM's comparably smaller size is taken into account.

³⁷ It matters a great deal, of course, whether any particular IBB arrangement establishes a mechanism for meaningful faculty input into the defining of the school's strategic priorities and / or a clear institutionalized structure for maintaining some oversight of—at least for offering recommendations on if not directly supervising—central administration's actual decisions regarding the use of "strategic" funds. To offer just one example of such an institutionalized structure, the Academic Planning and Budget Committee at U Pennsylvania consists of the provost, nine faculty members (five selected by the Faculty Senate), two administrative members named by the provost, and four students (both graduate and undergraduate). In its report on the implementation of an RCM model in March, 2014, the Faculty Senate Budget and Finance Committee at Rutgers University made this recommendation:

A permanent budget committee with elected representation from major stakeholders should consider major budgeting issues:

1. Appropriate algorithms for the sharing of the state and federal appropriations among the RCM units as well as other (reoccurring or one-time) non-tuition revenues
2. Needs for, and the amounts of, overhead expenses, and the appropriate sharing algorithm of these costs between the RCM units
3. Needs and justifications for any unit subventions should be made public to the University community.

year ... *to incent change*.”³⁸ In other words, planned budget shortfalls are intended to compel—“incent”—the academic units to find new sources of revenue and / or ways to be more efficient with the same amount of money. It’s either that or face more painful cuts, cuts that might significantly erode their educational missions. It seems a bit Orwellian to refer to this situation as “empowering.” (That said, the model does provide [negative] incentive to the academic units to clarify what their core educational missions are and how these can be paid for.) Moreover, under these compelled circumstances some of the questions raised in the previous subsections (on “Efficiency and Effectiveness” and “Transparency”) stand out even more. For example, within any particular academic unit, is the decision-making process regarding both the budget for a specific fiscal year and long-range planning really open to faculty input? Does the need to replace lost revenue lead deans to promote new revenue-streams at the cost of traditional educational values?³⁹

These final two questions actually shift the tension-point concerning “empowerment” and “incentive” away from the central-administration – academic-unit divide to the divide between deans on one side and departments and individual faculty on the other. So I close this section with a passage from U Delaware’s 2013 “Faculty Senate Ad hoc Committee on Responsibility Based Budgeting (RBB) / Report on the Impact of RBB on the Academic Mission and Faculty Governance” because, in calling attention to this particular problem (relocating the problem we might say), the faculty at U Delaware make a key point about the IBB approach I didn’t encounter elsewhere in my research. And this point merits special attention from faculty:

Conceptually, the UD[elaware] RBB model was designed to incentivize entrepreneurial activities within the Colleges in order for the Colleges to then develop new revenue streams. The philosophy is that those who generate the revenue will get to keep the revenue, and so revenue-generating activities will increase. However, from an implementation standpoint, this system is flawed because at UD the ownership of revenue stops at the College level. There is no ownership of revenue at the level at which revenue is generated, i.e., the Departments and faculty. Therefore our current system fails to achieve the desired alignment of authority and responsibility such that there is no

³⁸ From Provost “Campus Update,” 6/6/16.

³⁹ Note the following from the report on the implementation of an RCM model (March, 2014) made by the Faculty Senate Budget and Finance Committee at Rutgers University:

The primary concern at Rutgers and elsewhere has been that budgeting pressures would overwhelm the true mission and purpose of the University – for example, that the incentives for increased class size and grant funding may distort priorities in both teaching and research. The problem is how to manage the inevitable tensions between academic and budgetary criteria. The Senate therefore recommends:

1. The core strategic mission of the University – especially the central criterion of academic excellence – should be explicitly included in the RCM mechanisms at all levels.
2. All RCM units’ plans should include detailed discussion of their contribution to the strategic plan and to the academic mission of the unit.
3. The administration should be explicit about the priorities that justify allocation of funds to any RCM units and to new initiatives.

incentive for entrepreneurship at the individual level. . . . At the very least, the fact that the ownership of revenue does not extend to the agents who are being asked to generate new revenue is counterintuitive.

Final thoughts

I want to conclude this report with a few simple observations. First, despite what administrators sometimes claim, an IBB budgetary approach is never instituted by faculty—of course, most faculty have no idea what it is or how it works so would never be in a position to institute it or even request that it be instituted. Second, because it is instituted by administrators, it is invariably described, pushed, and, when necessary, defended on their terms; and administrators often use buzzwords that offer more heat than light. All that said, nothing in this report definitively shows that an IBB approach cannot work or that it is inherently worse (for faculty or students or for the institution as a whole) than a more traditional centralized-budget approach. But administrators have to be much more forthcoming (transparent and accountable) than they usually are. And faculty need to educate themselves at the individual level and then to organize themselves at the collective level (at least to take advantage of the organizational forms already in place) if they are to be meaningful contributors to whatever budget approach is in use. IBB likes to use the word “responsibility,” but it focuses responsibility in administrators and administrative centers (the offices of deans, the provost, the VP for Budget and Finance, the president) because administrators far too often only imagine the university in terms of what they and other administrators do. Administrators will continue to ignore faculty or get away with misrepresenting faculty as long as faculty do not take responsibility for what happens at their institutions. But within the increasingly bureaucratic and hierarchical institutions at which we find ourselves, figuring out how to take on this responsibility—how to be engaged, productive contributors in a system of “shared governance”—is no easy task.

Appendix: Guiding Principles of IBB

UVM (the list provided by President Tom Sullivan in a presentation to faculty and staff on 2/26/2015)

IBB

- (i) Creates incentives that promote academic quality and excellence
- (ii) Creates incentives at all levels of the University that promote financial sustainability
- (iii) Encourages innovation and entrepreneurship throughout the University
- (iv) Provides transparency, clarity, predictability
- (v) Can be easily understood, is easy to implement, and is flexible
- (vi) Can operate in all cycles of the economy, whether robust or downturn
- (vii) Fosters interdisciplinarity scholarly and teaching activity

Kent State (from RCM manual)

Advance the university's mission through a greater alignment between financial resource allocation decisions and university priorities;

1. Place a premium on program quality and long-term accomplishments rather than short-term financial gains;
2. Promote fiscal responsibility and accountability;
3. Promote innovative and entrepreneurial activities that are financially viable;
4. Preserve high quality programs central to the university mission that may not be financially self-sufficient;
5. Achieve greater transparency in departmental, school, college, campus, and university fiscal decision making;
6. Maintain and promote shared governance as established by university policy and the collective bargaining agreement with faculty;
7. Provide deans and other academic decision makers with more control and influence over financial resource decisions; and
8. Improve the understanding of fiscal matters among faculty and staff.

U New Hampshire (from RCM manual)

Vision of RCM

- Guided by clear strategic plans and priorities and strong academic governance mechanisms, the University community will remain inter-connected and unified, and all units will operate in furtherance of University goals.
- Each budgetary unit at UNH will have its own designated revenue stream.
- Each unit will be responsible for managing its full costs within the limits of its total resources.
- Each unit will benefit directly from its initiatives that increase revenue and/or operating efficiencies.
- The focus of financial management will be on all funds: education and general, internally designated, auxiliary, restricted, endowment, loan and plant funds.
- The University will maintain central strategic funds to support the University, reward excellence and uphold the Institution's mission.

Goals of RCM

- To enhance resource generation and management effectiveness by placing financial authority and accountability, and risk and rewards at the appropriate local level.
- To simplify budgetary procedures and decisions by reducing layers of institutional involvement.
- To improve the quality of budget forecasting and financial planning by requiring unit-level plans and monitoring performance against those plans.
- To free the time of institutional leaders from relatively immaterial financial decisions in order that they can focus on strategic financial issues.
- To clarify the financial condition of the University and its units by presenting financial data in clear, consistent, and transparent formats to a wide audience.

Principles of RCM

- Strong governance and planning mechanisms must be in place to ensure that the budget model is wisely used as a tool, and does not become an end in itself.
- The budget model should be as simple as possible to promote easy comprehension and efficient administration.
- The budget model should produce results that are widely perceived as fair and in keeping with the core values of the institution.
- The budget model should encourage behaviors on the part of faculty and staff that support the institution's mission and priorities.
- The budget model should centralize only those activities where institutional consistency is imperative or where there are material economies of scale.
- The budget model should provide for formal input from users into the service levels and costs of central services.

University of Pennsylvania (from RCM manual)

RCM promotes

- Disciplined financial decision making (schools are responsible for their own bottom line)
- Entrepreneurial activity (schools retain the majority of the revenue they generate, and reinvest it in the highest priorities)
- A culture of accountability (tuition is distributed in large measure based on course units taught; space charges are directly tied to occupancy and costs; administrative units are funded through transparent algorithms; schools recognize the full cost of their programs)

U Delaware (from 2015 Budget report)

Responsibility Centered Management (or Responsibility Based Budgeting) is a decentralized model of financial management that attempts to couple academic authority to financial responsibility. Financial management philosophy of RCM:

1. Decentralize decision-making to the college level
2. Align authority, responsibility, and accountability for revenues and expenditures
3. Incent units to maximize revenues and operate efficiently

* Budget model support priorities, does not drive them

Benefits of RCM:

1. Rewards sound management
2. Empowers decision-makers in ways traditional expense-oriented, centralized budgeting cannot
3. Contributes to a higher quality, more competitive and more prominent university environment

U Florida (from 2008 Provost presentation to Faculty Senate: “Why change budget models?”)

- The University cannot cut its way into the President’s Strategic Work Plan, but rather must grow its way out through an aggressive management of non-traditional, entrepreneurial growth and growth processes.
 - Decreasing state support
 - Increase self-reliance
 - Promote innovative and entrepreneurial activities that are financially viable
 - Generates new revenue sources
- Success through decentralization of decision making
- Transparency
 - An information-rich discourse on the budget must be fostered
 - Academic Administrators need to understand financial impacts when making decisions
 - The current maze of cross-subsidies must be clarified
- Support units must be subjected to constant scrutiny for efficiency, effectiveness, and proper incentives

RCM is a financial management philosophy

- Focuses on operational decentralization
- Designed to support achievement of primary academic priorities
 - Budget follows priorities
 - Aligns authority with responsibility
 - Creates full cost view of academic operations