Budget Priorities Committee

Background

UM seems poised to surge ahead...
Opportunities: reputation, faculty, students

Challenges of excellence

1. Picking up the pace a bit...
   Refusing to settle for anything less than the best!
   Tolerating essential singularities

2. Focusing resources
   Should not try to be all things to all people...
   Quality must dominate breadth and capacity

3. Highest priority: academic excellence...
   Intellectual core of activities.
   UM reputation and quality will be based on its activities in instruction and scholarship

Operating Philosophy

Academic institutions are profoundly people-dependent
Hence, the key to excellence is attracting and retaining the outstanding students, faculty, and staff, and providing them with the environment and encouragement to push to the limits of their abilities, and then getting out of their way!
An entrepreneurial culture, a no-holds-barred, go-for-it environment in which achievement and the quest for excellence dominate!

Concerns about UM Budget Philosophy

1. Incremental budgeting philosophy
   which ties one to the status quo
2. General-Funds dominated process
   without proper attention to all-funds or capital
   outlay considerations...not to mention human
   resources or space resources
3. Slow progress toward decentralized cost (and
   eventually revenue) management
4. "Used car dealer" style of resource management
   --rather than having a transparent, visible, and
   accepted process, UM operates on more of a
   "let's cut a deal in the back room" style of
   resource management
5. "Chinese fire drill" style of resource management
   in which, in Allen Spivey's terms,
   "the urgent takes precedence over the important"
   (and to hell with long range planning)

**Resource Management**

Old philosophy: $400 M --> $2 M discretionary
   capacity???
JJD philosophy: discretionary capacity > $400 M
Probably cannot move to a zero-base model (although
   it is possible in some units such as Engineering)
But lots of other options
   Incremental budget (status quo)
   Selective program reduction
   Decremental budgeting
   Initiative budgeting (Priority Fund)
   Zero-base budgeting (extreme)

**All-Funds Resource Management**

Need to encompass all resources in strategy
General Fund (only the tip of the iceberg)
Sponsored Research
Private Support
Auxiliary Funds (MSPs, Housing, Athletics, UMHs...)

NOTE: This will require a far more accurate decision management information support system

**Decentralized Management**

Have been frustrated by the slow pace of decentralization of cost (and, hopefully, eventually revenue control)

Doubt if we can ever reach an "every tub on its own bottom" strategy; but this "we all sink or swim together" philosophy has got to end

Simple theoretical model: Put all units on a revenue-cost balance. Then use State appropriation to support central facilities (libraries, computers, etc.), undergraduate programs, and certain "high-need" schools (Music, Art)

Some questions:
1. Can we track expenditures closely enough?
2. Can small units handle the management load?

**Resource Allocation Styles**

Must move away from the "smoke-filled back room" style of resource allocation

Allocate resources according to publically visible, credible, and defensible criteria such as priority, productivity, and need.

Index some component of base budget allocation to productivity (e.g., flexible instructional staffing indexed to enrollment, department research administraton
indexed to indirect cost recovery)
If the Provost were "all knowing", then total control
might make sense -- but he ain't -- and it don't!...

**More General Resource Management**

Financial Resources
Focus of BPC

Space Resources
Very ad hoc (and opportunistic) process

Human Resources
Do units have "intellectual blueprints" which determine staffing decisions?
How do we monitor this?
Role of "position control" in a public university

**Strategic Planning**

Role of Strategic Planning
Define range of alternative futures to allow present decisions
Must recognize that accurate estimates of future are difficult -- if not impossible
But accurate knowledge of present status and past trends are possible -- indeed, mandatory for wise decisions
Critical to develop models to allow "sensitivity" analysis (e.g., "what if" analysis) as a key component of decision process

Concerns:
Remarkable absence of long range planning in Provost office...and University ... not to mention the units!
Seem to respond to crisis of the moment...
"crisis management"

Not since Allen Spivey was on board has adequate attention been given to this.

Planning Horizons

Immediate (FY86-87)
Near Term: next "Five-Year Plan"
Long Term: Five years and beyond

**Decision Support Information System**

Need for accurate information system support

To allow us to cope with a world of constant -- or perhaps declining -- resource levels and changing priorities

To allow shift from incremental budgeting toward "zero-base" or "decremental" budgeting models

Importance of monitoring resource utilization as we shift more toward decentralized resource control ("management incentive program")

To dramatically accelerate the decision process for major resource allocation -- which not frequently gets paralyzed because of inadequate information (or lack of confidence in available information)

Concerns with present information support

Unreliable

General Fund financial information probably OK

...but inadequate knowledge of how General Fund resources are being utilized at the unit level (indeed, even at the Vice-President level)

Staffing information almost useless

Obvious errors in data
Apples and oranges problems
e.g., permanent vs. flexible staff
FTE measures need some rethinking
Unit productivity data looks weak
Enrollment data shaky -- and out of date
Very limited ability to estimate, much less control, enrollments
Incomplete
All-funds information packaged wrong
Unit activity data very incomplete
No information on non-S&C units
  E.g., centers and institutes
  Administrative units
  Auxiliary fund units
Summary: Present database inadequate for decisions support
  No confidence in data
  Presentation is awkward
  Should make extensive use of graphs, cross-comparison of units, historical trends
  Projections and estimates are really weak
  E.g., enrollment (tuition revenue) projections
What do we need for decision support?
Accurate information characterizing Resource allocation
  All Funds
  General Fund
  Other University Fund support
  Sponsored research
Gifts
Service Income
Special Tuition Income
Unit activity
Instructional Activity
   Enrollments
   Student credit hour production
   Degree production
Staffing
   Faculty HC and FTE
   Flexible instructional staff (FTE and $$)
   Support staff (FTE and $$)
   Administrative staff (FTE and $$)
Unit quality
"Shells" to reduce information to useful form
   Various levels of "summarization" for decisions
   "Macroview" of present status of University
      (stressing "big ticket" items)
Ways to compare trends among units over time
   E.g., "Spivey" plot of GF$/FYES
Planning models for sensitivity analysis which allow "what if" analysis...
Presentation methods
   Graphical displays
   On-line analysis capability
      NOTE: At level of President and Provost!!!
Ability to electronically extract information from central databases for local analysis
   via spreadsheet packages (e.g., Excel or Lotus)
Idea: "EADF"
"Evaluated Academic Data File"

Key Questions:

- How far can (should) UM move toward "private" style?
- Discretionary capacity (flexibility) as key priority
  - How much flexibility do (and should) we have?
    - Centrally
    - At unit level
- How do we achieve it?
- How do we deploy flexible resources?
  - Decision point
  - Decision process
    - Use of "peer review" system?
    - Responsive
    - Decentralize authority

Balance between decentralization of authority...
  and centralization of information
Must recognize that both trends are present...and necessary. No single motif will work.

Examples of decentralization:
  - Management incentive plan
Examples of "recentralization:
  - Information Technologies Division
  - Central Development
  - Database development

NOTE: The more we decentralize responsibility and authority for resource allocation, the more we must centralize information sources necessary to monitor decisions.
Balance between support of disciplines vs. multi/cross/interdisciplinary activities
Center and Institute study
National Science Board Task Force

**HTS Observations on Financial Matters**

Three Rules:
1. Never enough resources to meet needs of outstanding programs.
2. Optimal strategies depend on priorities, status, and institutional history.
3. Costs of quality education and research will continue to rise faster than resources of a single institution.

Considerations
1. Initial conditions of institutions (strength of infrastructure)
2. Level of uncertainty (capital to labor ratio)
3. Principles vs. practice -- e.g., selective cuts require very high information level (not to mention a very high tolerance for pain...)

Responses:
1. Increased tuition (not much capacity left)
2. Increased state, foundation, private support
3. Increased productivity, efficiency
4. New arrangements -- divestment of some activities to other institutions

**Supporting Materials**

Apples and Oranges List
Centers and Institutes List