Financial Challenges

• Sharply reduced state support
• Increased risk from tuition dependency
  • At Auburn, dependency rose from 44% to 63% between 2008 and 2013
  • Represents a 43% increase in 5 years
• Increased student price sensitivity
• Increased competition for students and faculty
• Changing demographics
Financial Consequences

- Increased salary compression
- Limited funding for strategic initiatives
- Limited support for increased facilities footprint
- Pressures for improved affordability
Initiative Background

• In 2011, provost and deans identified key limitations of Auburn’s current budget model:
  • Inequities among colleges, including unequal access to revenues from student fees
  • Few resources allocated to Provost for strategic academic initiatives
  • Challenges in funding the Core and other high enrollment areas
  • Salary equity and market competitiveness for faculty
Need For Initiative

• Resource allocation should match strategy, not history

• Approach must enhance decision-making
  • Assist with prioritization of activities
  • Provide methodical basis for funding levels

• Need for increased stakeholder authority, responsibility, and accountability

• Focus on long-term planning rather than short-term allocations
Activities to Date

• Provost and CFO convened Steering Committee to oversee a 16-week assessment effort
  • Provost
  • CFO
  • Deans (AG, BU, ED, RBD)
  • Faculty representative
  • Institutional research
  • Business and finance

• Initially met with over 45 individuals
• Developed a set of guiding principles
• Analyzed alignment of four budget components
• Built an initial funds flow model
Shift in Budgeting Focus

### Traditional Perceptions
- **Inventory** of anticipated expenditures
- Mechanism to **control** expenditures
- **Independent activity** performed by department managers
- **Backroom operation** performed by accountants
- **Spreadsheet** indicating resource availability
- Performance measures that reset annually

### Strategic Resource Allocation
- **Plan** for developing resources
- **Prioritization** of allocations for strategic initiatives
- **Explanation** of internal economy
- Mechanism to create institutional incentives
- Tool to **empower** departments to engage in **entrepreneurial** activities
- **Predictor** of annual financial statements
- Baseline measure of accountability
# Common Budget Alternatives

<table>
<thead>
<tr>
<th>Incremental</th>
<th>Formula</th>
<th>Performance</th>
<th>Incentive-Based</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Centrally driven</td>
<td>• Unit-based model focused on providing equitable funding</td>
<td>• Unit-based model focused on rewarding mission delivery</td>
<td>• Focus on academic units</td>
</tr>
<tr>
<td>• Current budget acts as “base”</td>
<td>• Unit rates are input-based and commonly agreed upon</td>
<td>• Unit rates are output based and commonly agree upon</td>
<td>• Incorporates a devolution of revenue ownership to local units, as generated</td>
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<tr>
<td>• Each year’s budget increments (decrements) adjust the base</td>
<td>• Annual fluctuations are driven primarily by the quantity of production and not from changes to rates</td>
<td>• Annual fluctuations are driven primarily by changing production and not from changes to rates</td>
<td>• Allocates costs to revenue generating units</td>
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<tr>
<td>• Focus is typically placed on expenses</td>
<td>• Uses a centrally managed “subvention pool” to address strategic priorities</td>
<td></td>
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</table>
Guiding Principles

• Prioritize funding of strategic initiatives aligned with Auburn’s mission

• Deliver consistent, accurate, and realistic financial projections, while allowing flexibility to respond to future opportunities and unknowns

• Promote authority, responsibility, and accountability, both locally and university-wide

• Provide incentives for effective management of both revenues and expenses and reward creativity and innovation

• Be simple, transparent, and logical
Model Design Considerations

- A new model would be designed to:
  - Align resource allocation with principles
  - Expand the University leadership team
  - Facilitate data-informed decision making

- A new model would **not** be designed to
  - Reorient accountability away from academic outcomes to financial outcomes
  - Create autonomous actors
  - Facilitate a new cost reduction initiative
Preliminary Model Structure

1. Provide all-funds transparency*
   • Includes restricted and unrestricted
   • Includes all divisions

2. Develop incentives through allocation of selected revenues
   • Instruction, research, etc.

*Although “all-funds” may be included for transparency purposes, not all funds will be considered in the creation of a central pool of resources.
Preliminary Model Structure (Continued)

3. Balance local and university-wide authority and responsibility
   • Central retention of selected funds

4. Allocate indirect costs of university-wide operations
   • Enhance ownership for revenue-generating units
Next Steps (6-9 months)

**Improve Understanding of Schools and Colleges**
- Conduct dean and business officer meetings and collect feedback on model structure

**Support Steering Committee**
- Assist in model analysis and building consensus for resource allocation algorithms

**Develop Support Tools and Governance Structure**
- Prepare stakeholders for successful management of the developed model
Questions?

Upcoming Key Dates (subject to change)

- November 19th, Provost Open Forum at 3:30PM
- January 15th, Provost Open Forum at 3:30PM