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A Chair's and Faculty Guide to the new Campus Budget Model From the Arts and Sciences ASFS Budget Committee: Fiscal Implications of Future Decisions

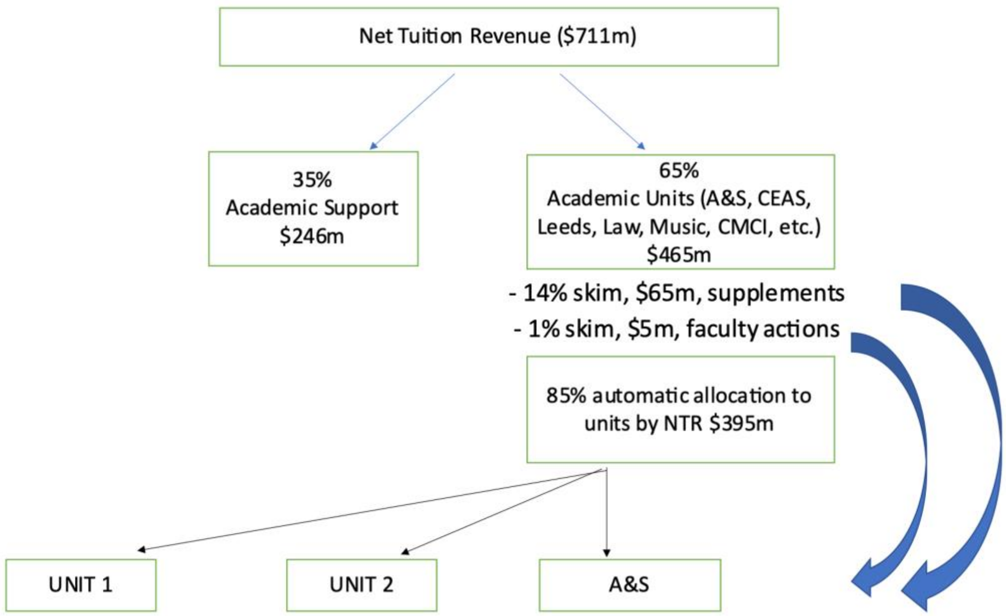

Figure A. Projected Net Tuition Revenue distribution in new budget model, 2022-23

NOTE #1: of the 85% automatic allocation above, 17% is grad tuition, which is distributed 100% based on NTR, while 83% is undergrad tuition. The undergrad portion is distributed 90% based on NTR, 5% based on retentions, and 5% based on graduations.
NOTE #2: ICR is not included in the budget model. Nor is state funding, which goes primarily to scholarships.
NOTE #3: dollar amounts are based on June 2022 projections. Actual current figures may differ very slightly.

SECTION I: How is the new budget model different from the previous model? How does the new budget model work?

The new budget model adopted by UCB will fund both academic and support units through a known as Net Tuition Revenue (NTR). Figure A illustrates the projected distribution of NTR funds to each side of the equation: service units (see left side of diagram) will receive 35% of NTR and academic units will receive 65% of NTR. Under the old, "incremental" model, colleges and schools could plan on receiving the funding they'd had the previous year, and then hope for a little more. Funding did not necessarily increase with increased NTR, whereas it willl now; so, this is an advantage of the new model. BUT since the amount of

funds will vary annually in accordance with NTR generation, if NTR were to decrease in the College, so would funding, automatically.
Before the 65% NTR allocations are made to the various academic units (Colleges and Schools), the Provost skims 15% for:

- **Supplemental Funds** (14%), to support units which have higher costs, and allow the Provost to provide some units more funds than would be received based only on NTR.
- **Faculty Actions** fund (1%), for the annual merit pool, raises related to faculty promotion and tenure, faculty retentions, and allocations for the Faculty Diversity Action Plan (FDAP)

These two accounts combined are limited to 15% of the NTR destined for academic units. This, in turn, guarantees a revenue floor of 85% of funds earmarked for the academic side, distributed based on NTR plus retention and graduation incentives (although the plan has some 'leaks' that would allow some additional money to flow from academic to support, out of the supplemental fund). The faculty actions budget allocation will follow actual expenses related to promotion and tenure raises, faculty retentions and FDAP hires. Thus every unit in principle receives funding from three different sources, as can be seen below for A&S.

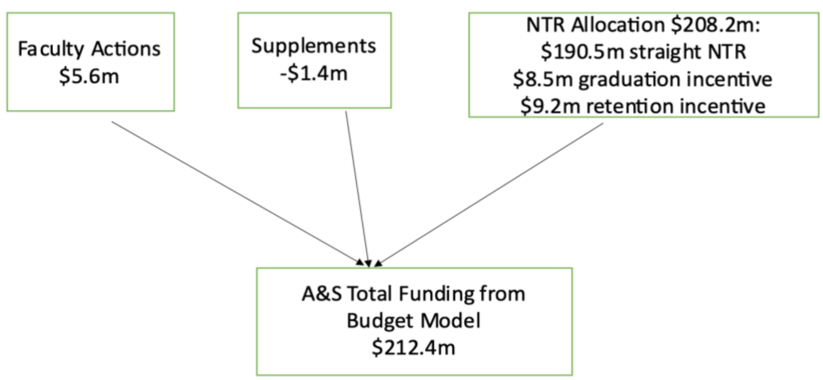

Figure B. Projected Arts and Sciences Budget in 2022-23 based on the New Budget Model

How will the Supplemental Funds be distributed moving forward?

This year (2022-2023), the "hold harmless" year, these funds are used to support colleges and schools at the same funding levels as last year. Generally, this means that the funds are given to units whose 85% NTR generation is not sufficient to allow them to meet the budget demands that would have been met under the old model.

In the future, in principle the Provost will determine the distribution of supplemental funding, making it available to those who can justify their need for the funds or those who propose an initiative in line with the strategic goals of the university. *The Provost's Office has yet to define the basis on which these allocations will be made, or to what extent the current supplements may stay "locked" in place as permanent commitments/supplements.*

SECTION II: How might A&S benefit from this model? Which strategies will increase its funding in the new model? (see Section IV for more details)

The best way for A&S to increase its funding would be to *increase its NTR generation.* Given that tuition rates within the college are increasing, A&S could increase its revenue relative to previous years by simply maintaining its current proportion of SCH generation. On the other hand, if A&S manages to increase its percentage of the total campus NTR by increasing its NTR relative to that of other units, it could substantially increase its coffers. For example, using the current year, if A&S had generated 54% of NTR rather than the actual 53%, it would have had an additional $3.95m ($395m x 01%).

Beyond increased NTR generation, the new budget model also recognizes *higher retention and graduation rates*, which are calculated in relation to majors and minors. The incentives regarding retention and graduation are small compared to NTR generation – 5% each, vs. 90% for pure straight NTR. Double majors across colleges and A&S divisions count twice, while a minor (across colleges only) counts for an additional .25 headcount.

SECTION III: What still needs to be determined in the model?

The 35% (General Campus) /65% (Colleges or Schools) ratio is now fixed and will not be re-examined for at least 3-5 years. The following elements of the model have yet to be finalized.

Note that the supplement allows some funds to flow to "Academic" Support Units, Institutes, the Grad School, Undergrad Ed and Libraries. These units are funded out of the 35% side, whereas the supplement all comes out of the 65% academic side, so this flow is effectively draining the 65% side to supplement the 35% side – despite the overall principles of the Budget Remodel.

Campus still needs to determine the priorities and process by which units can justify current supplemental funding, ask for more funding, or potentially lose funding. This is a crucial discussion. Some units are relative net payers into the fund (e.g. A & S generates 53% of overall campus NTR, but receives none of the 14% supplement; CMCI is in a similar situation) while other units (Music, Law) are relative net recipients.

With the emphasis on NTR generation, it is inevitable that colleges and schools will want to increase their total NTR, perhaps by offering classes traditionally considered the province of other schools and colleges (e.g. by offering course traditionally taught by A&S such as math and writing). **To avoid such an inefficient scenario, campus needs to establish a "curriculum control mechanism," as other universities with similar budgetary models have.**

Under the new model, A & S receives its funding in one chunk, not based on individual lines or speed types. As an autonomous unit, the college is not required to distribute the funds in accordance with NTR generation or any other principle prescribed by the Provost. **The**

college still needs to devise a method to support its mission to provide students with a liberal arts education while rewarding departments that are contributing to that mission and also generating higher tuition revenue.

SECTION IV: 1 percentage point (pp) increase. How much would A&S have had if…?

A&S had 1 pp more of total campus NTR this year (54% vs. 53%):	+$3.95m
Overall campus NTR split was 1pp different, 66/34 rather than 65/35 = $7.1m more for academic side of campus, A&S portion 53%:	+$3.76m
Decrease supplemental funds tax rate from 14% to 13% and retain that money as NTR allocation = $4.65m, A&S portion 53%:	+$2.46m
Increase A&S share of supplemental funds by 1 pp, $65m x 1%:	+$650k
Our share of retentions had been 1 pp higher:	
We had 50.6% of second-year retainees on campus. Having a rate just 1 pp higher would have generated $16.8m x 1% :	+$168k
This would *also* have increased our NTR for the cohort in question by 1 pp.	
Assuming 6 years/cohorts to graduate, we would get 1/6 x 1% x $395m	+$658k
TOTAL	+$826k
Our share of graduations had been 1 pp higher:	
We had 51.2% of six-year graduates on campus. Having a rate just 1 pp higher would again have generated $16.8m x 1%:	+$168k
As in the previous example, this would be additive with NTR. Assuming an 80% graduation rate, this produces $658k x 80%:	+$526k
TOTAL	+$694k
A&S had *10%* more double majors, across divisions or colleges, A&S would have generated a higher portion of graduation head count, and thus gotten more graduation incentive money:	+$400k
A&S had *10%* more minors, from other colleges, A&S would have generated a higher portion of graduation head count, but minors only count for 0.25 additional head count:	+$100k

NOTE: The above examples are presented in this retrospective 'if only' manner to produce maximum simplicity, working with current (2022-23) projected budget figures. This avoids the complexities of changing tuition rates going forward, differential tuition rates changing at different relative or absolute amounts, and similar issues. Other simplifications are used above as well. But these are fairly minor issues: the examples above are good illustrations of the most productive ways to generate additional NTR going forward. And A&S need not generate *proportionally* more NTR in any of the above categories in the future, compared to the rest of the campus – simply generating more SCH, retainees, graduates, majors and minors will generate more revenue (unless tuition is cut).