

**MINUTES**  
**UNIVERSITY ADVISORY COUNCIL ON**  
**STRATEGIC BUDGETING AND PLANNING**  
**October 27, 2016**

**PRESENT:** Tim Hodge, Dee Perkins (substitute for Steve Kleiber), Omchand Mahdu, Herve Marand, Andi Ogier, Alex Parrish, Randy Penson, Thanassis Rikakis, Ken Smith, Jason Soileau, John Tedesco, Benjamin Tracy, and Linbing Wang

**ABSENT:** Mateo Carrasco, Carolyn Copenheaver, Henri de Hahn, Quinton Nottingham, Susan Marmagas, Hans Robinson, and Dwight Shelton.

**1. CALL TO ORDER**

Mr. Tim Hodge, Assistant Vice President for Budget and Financial Planning, called the meeting to order.

**2. APPROVAL OF THE SEPTEMBER 22, 2016 MINUTES**

Mr. Hodge stated that the September 22, 2016 minutes were distributed electronically, having received no comments, the minutes are approved and have been forwarded to the University Council for posting on the web.

**3. UPDATE ON STATE BUDGET**

Mr. Hodge gave the council an update on the State budget. The council was reminded that the State ended the 2015-16 fiscal year with a revenue shortfall and was forecasting slower growth moving forward in 2016-17 and 2017-18. They were also reminded that the state supports 24% of the 208 E&G budget in contrast with 81% of the 229 E&G budget. Overall, the state supports 18% of the university's \$1.5B annual budget. Mr. Hodge reviewed how the state is likely to compute reductions and how that could translate to the university budget. While the state exempted Higher Education from the across-the-board 5% reductions in 2016-17, E&G interest earnings were temporarily suspended and higher education was assessed for VRS rates savings from a state prepayment into the retirement system. This is a \$5.1M impact which the university will work to manage across the university without impacting programs. State actions for 2017-18 are not yet known. Mr. Hodge reviewed 2017-18 scenarios, general strategies, and the budget planning timeline for fiscal year 2017-18. A copy of Mr. Hodge's presentation is attached to these minutes.

**4. UPDATE ON PIBB MODEL**

Mr. Ken Smith, Vice Provost for Resource Management and Institutional Effectiveness, presented an overview of the budgeting approach planned for college educational and general budgets. Mr. Smith reviewed the University's changing environment and expectation, the need for change, how this Partnership Incentive Based Budget (PIBB) is not RCM, benefits of changing, the proposed metrics to be developed between the College and Provost, and the Deans ability to allocate resources within a college. Mr. Smith reminded the council that as detailed components of the model are developed; additional updates will be provided. A copy of Mr. Smith's presentation is attached to these minutes.

**5. No further business was discussed, and the meeting adjourned at 5:03 p.m.**



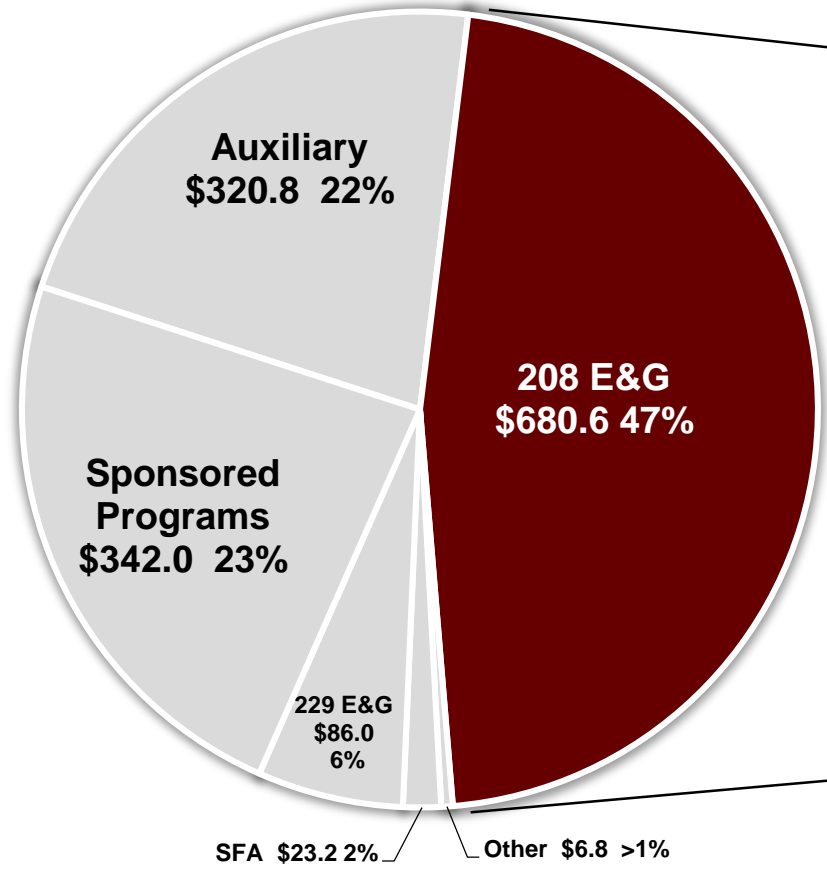
University Advisory Council on Strategic Budgeting and Planning  
**State Budget Update**

October 27, 2016

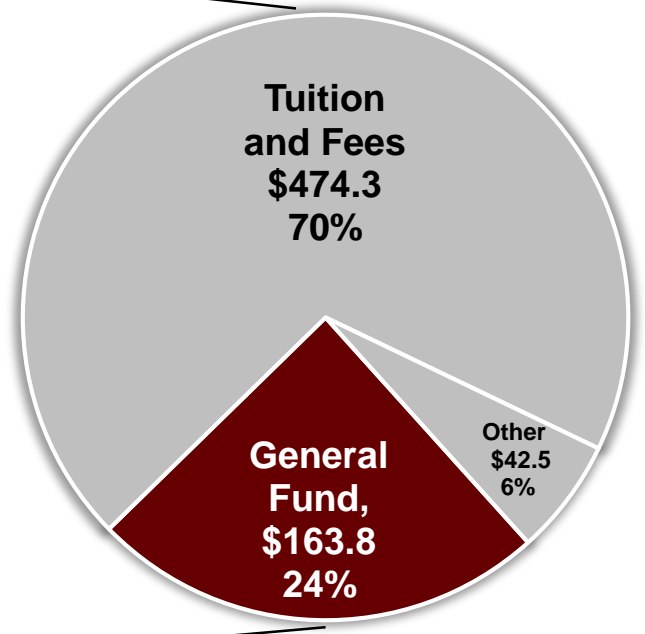
# 2016-17 Budget

\$s in Millions\*

Total University Budget  
\$1,459.4



University Division E&G Budget  
\$680.6

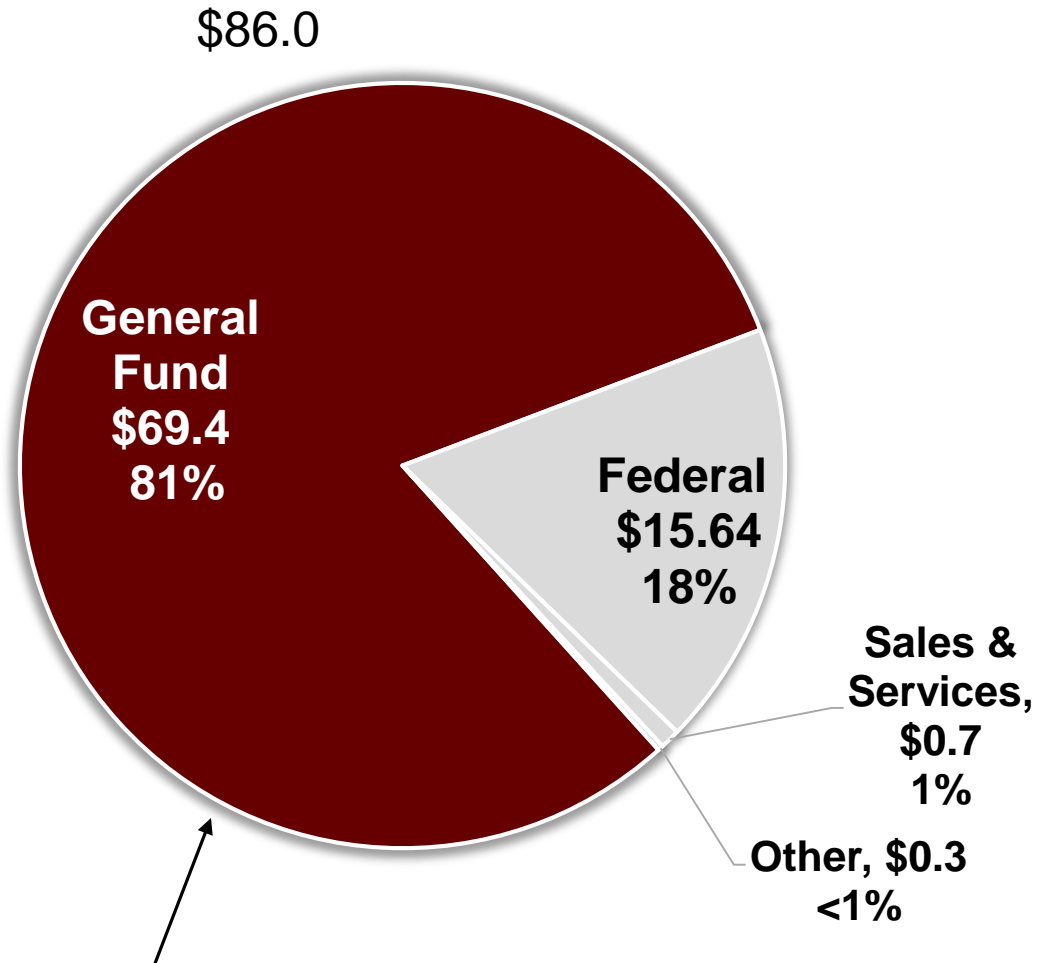


*General Fund Support makes up 24% of the Instructional Division.*

\*As of September 30, 2016

# Agency 229 Budget

\$s in millions



*General Fund Support makes up 81% of the Extension/Agricultural Research Division.*

# 2016-17 University Budget

## General Fund Support %

(\$ in Millions)

	<b>GF</b>	<b>Total</b>	<b>% GF</b>
208 E&G	\$163.8	\$680.6	24.1%
229 E&G	69.4	86.0	80.7%
Auxiliary	-	320.8	0.0%
Sponsored	5.4	342.0	1.6%
SFA	21.2	23.2	91.2%
Other	2.3	6.8	33.6%
<b>Total</b>	<b>\$262.1</b>	<b>\$1,459.4</b>	<b>18.0%</b>

# State Calculation of 1% General Fund Reduction

	General Fund			Computation of GF Reduction	
	Total	(less) Exemption	Discretionary	%	\$
<b>Agency 208</b>					
E&G	\$ 163,775,657		\$ 163,775,657	-1%	\$ (1,637,757)
UMA	2,284,350	-	2,284,350	-1%	(22,844)
SFA	21,272,899	(21,272,899)	-	0%	-
Research	5,388,544	-	5,388,544	-1%	(53,885)
	192,721,450	(21,272,899)	171,448,551	-1%	(1,714,486)
<b>Agency 229</b>					
E&G	69,405,415		69,405,415	-1%	(694,054)
<b>Total Operating</b>	\$ 262,126,865	\$ (21,272,899)	\$ 240,853,966		\$ (2,408,540)

# University Revenue Budget

\$ in Millions

<u>Program</u>	<u>Fund Source</u>	<u>2016-17 Budget</u>	<u>1% Reduction</u>
University Division (208)	GF	163.8	1.64
	NGF	516.8	
		<u>680.6</u>	<u>1.64</u>
CE/AES (229)	GF	69.4	0.69
	NGF	16.6	
		<u>86.0</u>	<u>0.69</u>
Auxiliary Enterprise	NGF	320.8	
Sponsored Programs	GF	5.4	0.05
	NGF	336.6	
Unique Military Activities	GF	2.3	0.02
Student Financial Aid	GF	21.2	0.00
	NGF	2.0	
Other	NGF	4.5	
TOTAL		<u>1,459.4</u>	<u>2.41</u>

# Computation of Reducible 208 E&G Budget

\$ in Millions

## Sources

General Fund	\$163.8
Tuition & E&G Fees	474.3
Continuing Education	18.7
Ancillaries	15.1
Other Revenue	8.7
	<hr/>
	\$680.6

## Uses

Academic Units	\$350.7
Administrative Units	90.6
Fixed & Fringes	197.8
Continuing Education	18.7
Ancillaries	15.1
One-Time Budgets	7.7
	<hr/>
	\$680.6

## Exemptions

\$0.0
-
(197.8)
(18.7)
(15.1)
(7.7)
<hr/>
(239.3)

## Reducible

## Budget

\$350.7
90.6
-
-
-
-
<hr/>
\$441.3

35%

65%



# Computation of 208 E&G Reduction Percentage

\$ in Millions

1% reduction of 208 E&G	\$1.64	
208 E&G Budget	<u>680.6</u>	
GF Reduction as % of 208 E&G	<u><u>0.24%</u></u>	(not feasible)
208 E&G <i>Reducible</i> Budget	<u>441.3</u>	
GF Reduction as % of Reducible	<u><u>0.37%</u></u>	

# 2016-18 State Revenue Shortfall

*\$s in millions*

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Total</b>
Revenue Shortfall	(\$ 279.3)	(\$ 564.4)	(\$ 632.7)	<b>(\$ 1,476)</b>
Elimination of State Salary Program		125.1	221.0	<b>346.1</b>
Revenue Stabilization (Rainy Day) Fund		378.2	210.0	<b>588.2</b>
Net State Shortfall	(\$ 279.3)	(\$ 340.4)	(\$ 201.7)	<b>(\$ 821.4)</b>

*After utilizing central actions to reduce the shortfall, the state is left with an \$821 million shortfall over the 2016-18 biennium.*

# 2016-18 State Revenue Shortfall

## State Strategies for Remaining 2016-17 Shortfall

- Across-the-board 5% budget reductions
  - Education was excluded
- Targeted reductions
  - Higher Education is assessed a one-time reduction of \$28.8 M system-wide. VT impact is \$5.1M comprised of:
    - \$400k for temporary suspension of E&G interest earnings and credit card rebate (tenet of Restructuring)
    - \$4.7M for E&G, Aux, Sponsored, UMA, 229 from VRS rate savings resulting from state prepayment into retirement system

## State Strategies for Remaining 2017-18 Shortfall

- Not yet known. Expected to be communicated in coming weeks.

# 2016-17 State Revenue Shortfall

## Virginia Tech Strategy for 2016-17

- Goal to shelter colleges and units from reductions in current year
- Distribute Auxiliary & UMA share to units, work to mitigate impact (e.g. utilize reserve)
- Distribute 229 share to agency, manage centrally

# 2017-18 State Revenue Shortfall

## Virginia Tech Strategy for 2017-18

- State assigned reduction not yet known
- Scenarios range from higher ed being sheltered to “worst case” scenario of 8% General Fund reduction.  
  
An 8% GF reduction equates to approximately a 3% E&G expenditure budget reduction. 5% GF = 2% E&G
- University is exploring strategies to distribute broadly to minimize impact on any one area and protect academic programs.
- Limited ability to mitigate reductions through tuition increase.
- Facilitate a process that provides maximum flexibility to the campus.
- Targeted reductions should be considered.
- We will provide additional information as it becomes available.

# Planning Timeline

November	Governor may provide update for 2017-18
December 16	Executive Budget
January	General Assembly Session Convened Revenue forecast could be updated 2017-18 appropriations could be modified
Spring	BOV Tuition & Fee Decisions
July	2017-18 begins

**Questions?**



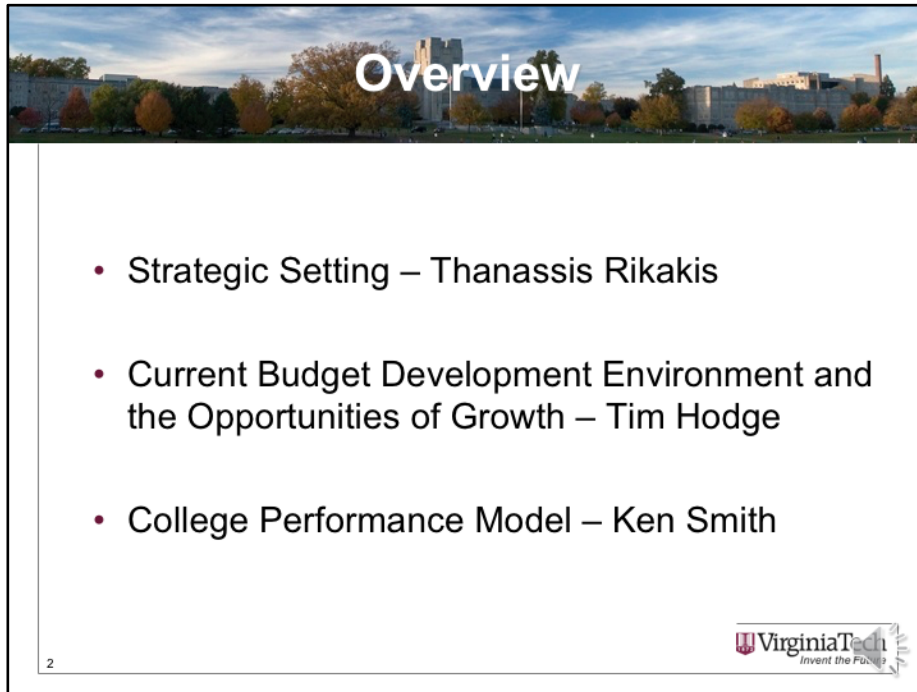
**Partnership for an Incentive Based Budget**

Thanasis Rikakis, Executive Vice President and Provost  
Tim Hodge, Assistant Vice President for Budget and Financial Planning  
Ken Smith, Vice Provost for Resource Management and Institutional Effectiveness



This presentation provides an overview of the partnership for an incentive based budget. This presentation is conducted by Thanasis Rikakis, Executive Vice President and Provost, Tim Hodge, Assistant Vice President for Budget and Financial Planning, and myself, Ken Smith, Vice Provost for Resource Management and Institutional Effectiveness. A version of this presentation was given to the Virginia Tech Board of Visitors on August 29, 2016, and also to the Virginia Tech Faculty Senate on August 23, 2016. In mid-September, the Provost extended the timeline for implementation of the budget model by one-year. The timeline described in slide 23 of this presentation reflects that extension.






# Overview

- Strategic Setting – Thanassis Rikakis
- Current Budget Development Environment and the Opportunities of Growth – Tim Hodge
- College Performance Model – Ken Smith

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Dear colleagues, thanks for spending time to review this presentation on our strategic planning and budgeting for the next few years at Virginia Tech. We will start with a few slides on the strategic setting for our budget planning followed by a few slides on the current budget development environment and the opportunities for growth and a few slides on the proposed partnership for incentive based budgeting model.



# Strategic Setting

**Virginia Tech is well aligned to excel through integrated education and research to promote economic development.**

## *Beyond Boundaries*

A FRAMEWORK FOR THE FUTURE

GOALS

The Beyond Boundaries thematic groups were tasked with creating a future vision for Virginia Tech that would prepare the university for two related goals.

Advance as an internationally recognized, global land-grant university

Strategically address the challenges and opportunities presented by the changing landscape of higher education

- We are Virginia's leading university in research expenditures
- We are a national leading land-grant institution
- We aspire to be recognized as a distinguished global university

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We are in a very good position for continued growth and the realization of our ambitious and highly differentiated Beyond Boundaries framework. We have a strong regional reputation and we are growing a global reputation. We have something that people want. Our number of applications are continuously going up. Our research expenditures are also going up. The number of faculty and the reputation of our faculty is growing. Very few institutions can actually say all this.

## Strategic Setting

**Virginia Tech will integrate and expand its efforts to prepare students to succeed in the jobs of the 21<sup>st</sup> century.**



- Virginia Tech was recently ranked the 9<sup>th</sup> best public college in *Money Magazine*.
- Early career earnings of graduates - \$55,300



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We also have the necessary differentiators that can help us separate from the pack. For example, as the world begins to look beyond the US News and World Report's rankings to more meaningful metrics like the metrics in Money Magazine, in the Purdue Gallop rankings, or the Princeton Report, Virginia Tech leads in terms of return on investment and return on experience for the students.

## Strategic Setting

**The future presents both challenges and opportunities.**

<u>Challenges</u>	<u>Opportunities</u>
• Tuition Tipping Point	• Leveraging Strengths
• Increasing Competition	• Focusing Efforts
• Inter-connected, Rapidly Changing Global Landscape	• Differentiating VT
• Global Competition for Talent	• Attracting and Retaining Talent
• Expanding Expectations	• Being where the Action Is <i>(BB/ROA/NCR)</i>
	• Achieving Scale
	• Continuous Improvement

 VirginiaTech  
*Invent the Future*

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Although we are doing very well we are also facing key challenges that compel us to change our management and budgeting approach. We need to produce a budget model that allows us to maintain and evolve our differentiating strengths in the financial realities of the 21<sup>st</sup> century. A key driving need for changing our budgeting approach has to do with how we dealt the past few years with the gradual disinvestment of the state from state supported education. We were able to deal with this challenge and the increasing complexity of our enterprise by increasing tuition. As we all know, tuition has reached a tipping point and therefore, it cannot be the main tool that we use going forward to address the increasing complexity of our enterprise. Our Beyond Boundaries colleagues have done a great job in proposing a highly differentiated financial portfolio that looks at a combination of state support, tuition, but also large scale partnerships with community, government, and industry as well as increasing our ability to secure funds through advancement and of course, through sponsored research.

## Strategic Setting

**21<sup>st</sup> Century impact for a leading land grant requires integration of the undergraduate and graduate instruction with the research success and engagement of the institution in order to achieve personal development, knowledge creation and economic development.**

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graph TD
    UL[Undergraduate Learning] --- RSE[Research, Scholarship & Engagement]
    GL[Graduate Learning] --- RSE
    RSE --> PDE[Personal Development  
Knowledge Creation  
Economic Development]
        
```

- Leveraging the research of faculty and training of students to create and fill 21<sup>st</sup> century jobs
- Increasing public and private partnerships through sponsored research and philanthropy
- Bringing funds into the Commonwealth to create new jobs, fund student training, and expand the local and state economy.

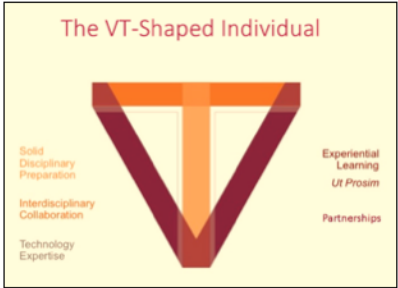
6

We need a budget model that recognizes the integrative nature of 21<sup>st</sup> century land grant education. A budget that supports all key components of our activity in an integrative manner and avoids simplistic solutions. We need a budget model that clearly shows to our internal constituents and external constituents using national benchmarks that if we reduce discretionary spending on faculty scholarship and research then the quality of education for our students will quickly diminish. Therefore, you will see in our budget, significant weight being placed on faculty scholarship and research and those being connected to undergraduate and graduate education. We need a budget model that recognizes that if we reduce spending on Liberal Arts in the 21<sup>st</sup> century we cannot graduate a 21<sup>st</sup> century workforce; we cannot graduate students that need to change 15 jobs between the time they graduate and the time they retire. The ability to reflect and the ability for self-reinvention through communal processes are going to be critical for our students. Without a strong Liberal Arts education, we can't provide those skills to the people we graduate. You will see in our budget that critical areas like Liberal Arts, Architecture and Design, that may not have the ability to bring in as much sponsored research as other units, are actually sponsored through the budget. We need a budget model that recognizes that if you ignore engagement and regional economic development as an institution, then the university will end up being in a region that

the people don't want to live in. You will see that our budget incentivizes outcomes that produce large-scale economic development for the region. Looking at the integrated approach that we are going to take to our budget, we interviewed many of our colleagues in departments and colleges in the past few months to find out which parameters mattered to their own unit – mattered to their own college. We took all this collection of parameters that mattered to all our colleagues and we have created a budget that has many metrics, currently 47 and maybe more after we continue to evolve our budget. The approach that we are going to take to developing this budget, working in partnership with you, will focus not only on trying to optimize each of the metrics but also reveal and optimize the connection between the metrics.

# Strategic Setting


**We will achieve national and global prominence through differentiation. The VT shaped individual is a distinguishing characteristic for Virginia Tech.**



The VT-Shaped Individual

The diagram shows a large 'VT' shape. The vertical bar is orange, and the two slanted bars are purple. Text labels are placed around the shape: 'Solid Disciplinary Preparation' on the left, 'Interdisciplinary Collaboration' and 'Technology Expertise' on the bottom left, 'Experiential Learning' and 'UT Proxim' on the right, and 'Partnerships' on the bottom right.

- Builds on the university's strengths and traditions
- Allows the university to tackle the complexity of 21<sup>st</sup> century research and education in a unique manner
- Facilitates recruitment of talented students and faculty
- Graduates prepared to enter the 21<sup>st</sup> century work force
- Advances the development of partnerships
- Diversifies financial portfolio


 **VirginiaTech**  
Invent the Future

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All major universities looking at a complex and busy education landscape for the 21<sup>st</sup> century are taking a fairly similar approach. They are trying to produce key differentiating strengths at the level of the department, the college, and the university that can help differentiate and keep propelling forward, their institution. We are in the process of doing the same thing. You will see that our budget incentivizes the development of distinctive national and regional strengths at the level of the department, college, institute, and across the university. However, we are in an even better position than other institutions because our Beyond Boundaries process has produced a key differentiator across the university that would allow the university to continue its evolution toward a financially robust internationally recognized university. We have summarized that differentiator coming out of Beyond Boundaries into the statement that we want to be the top university in the nation for attracting and graduating VT shaped individuals. Those would be individuals that have strong disciplinary training, know how to combine the disciplinary expertise in collaboration with other disciplines to solve complex problems, are adept in experiential learning and combining academic knowledge with the real world and focus on societal impact. So we want a budget model that supports the full dimensionality of our aspiration. We want a budget model that incentivizes activity on the vertical, the horizontal, and the on the V and also looks at connecting activity

across those dimensions. Does that mean that under this new management approach that every faculty needs to cover every dimension? The answer is no. The VT shape activity is going to be tracked at the level of programs, at the level of departments. Therefore, our communities need to work together to combine the different activities of the individuals to produce VT shaped frameworks, VT shaped programs. How each member fits into that model of course is up to the different programs to decide by themselves and optimize the interrelation of their activities in order to achieve VT shaped activity at the level of the program and help our students get a VT shaped experience and help our faculty be able to produce VT shaped research. So faculty can specialize in one or two dimensions of the VT shaped model but they need to be aware of the other dimensions so they can collaborate with other individuals, be it students or faculty, working in those other dimensions.






**Implementation of the new budget model will institutionalize the seamless integration of VT shaped dimensions. This Beyond Boundaries approach is needed for the future.**

The budget model will:

- Support and promote VT shaped research and education
- Be outcome-based with national benchmarks
- Be supported by data systems that are transparent
- Be adaptive and integrative
- Informs and incentivizes continuous improvement

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We want to present to you an early draft of what we believe can be a nationally leading model for participatory management in academia and a great model for VT shaped education. As I said, this is an early draft, we are sharing it with our community so we can get feedback and continuously improve both the budget model but also the decision-making process using the data coming from our budget. The goals of the budget model are, first of all, to support and promote the full VT shaped research and education model we have just discussed. We want our budget to be outcome-based – we want to switch from funding inputs to funding outputs. That means that the budget becomes less leveraged since every dollar given to departments or colleges has already come in. We want those outcomes to be nationally benchmarked so that we know that as we are funding initiatives, those initiatives are continuing the evolution of our university towards a nationally leading land grant. We want our decisions to be supported by good, nationally benchmarked data that is also transparent. We are going to create a dashboard that actually shows how our funds flow to the units that are achieving nationally benchmarked outcomes. Of course we want the budget to be adaptive and integrative. Every college can take a different approach to how they use the 47 parameters to create a robust financial model for that particular department or college. And of course we want the budget to be integrative – we don't want anyone focusing on any one metric in the budget

but understanding the interconnectivity of those matrices. And finally, we want to have a budget model that continuously improves through input from our community.



## **CURRENT BUDGET DEVELOPMENT ENVIRONMENT AND OPPORTUNITIES OF GROWTH**

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Thank you Dr. Rikakis. I will briefly share where the university finds itself in terms of the budget model and the opportunities to advance within the environment we just heard about. As you know, the university is a large, complex, and multi-faceted organization. The university has multiple fund sources and a wide range of activities. As a result, the university does not have one budget model.

## Current Environment and the Opportunities of Growth

**The university currently employs four basic approaches to budgeting.**

- **Revenue Centers** – teaching hospitals, enterprise fund programs, and ancillary and auxiliary operations which are primarily volume driven
- **Project Budgets** – sponsored projects and capital projects
- **Marginal/Incremental Budgets** – university division, AES/VCE, and student fee funded auxiliaries
- **Formula Budgets** – enrollment support, equipment trust funds, and Summer Session

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The university has multiple budget models, all operating simultaneously. These budget strategies have been designed to match the nature of an activity with a rational funding model in support of strategic goals. Some are activity based. In contrast, the university allocated budgets had been allocated through an incremental budget model similar to the state budget process. Funding strategies have evolved over time. Colleges currently have a hybrid of models with a core incremental budget model and both activity-based components and formula budgets overlaid. This discussion focuses on reshaping the incremental budget model.

## Current Environment and the Opportunities of Growth

**Colleges and departments need flexibility to take advantage of rapidly developing opportunities.**

- Current budget models have evolved over time to adapt to changing circumstances.
- Marginal/Incremental budgeting has many strengths but does not automatically adapt to rapidly changing environments.
- Complexity requires participatory budgeting/management.
- Marginal budgeting does not automatically empower:
  - Recognition of enrollment opportunities and new curriculum that requires cooperation across departments
  - Emerging synergies in space and research

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The university is large and growing and increasingly complex and interconnected. We clearly see growing complexity in the budget over time. Another pattern observed is departments and colleges increasingly asking for flexibility to capitalize on opportunities. In response, the university has accommodated these requests in various manners over the years. What that tells us is that complexity and interconnectedness in a dynamic environment requires participatory management. Providing colleges with increased flexibility, enhanced ability to plan is the next logical step in the evolution of the institution's financial model. With this, the goal is to empower colleges and departments.

# Current Environment and the Opportunities of Growth

**The university has entered a period of significant growth in resources.**



This growth is aligned with four major activities:

- Instruction – enrollment growth, plus constrained tuition growth, plus estimate state General Funds growth
- Research – sponsored research
- Private Fundraising
- Industry Partnerships/Corporate Relations

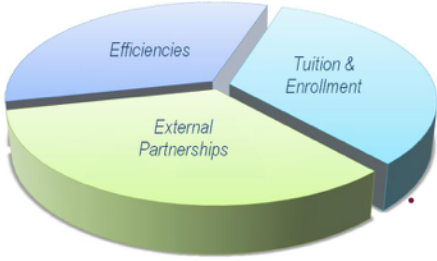
12




The university has entered a period of significant growth in resources. While we understand that tuition rates are constrained, the enrollment growth plans coupled with the state’s support of the university plans provides a strong foundation to leverage sponsored research, growth in philanthropy, and enhanced and deeper and broader industrial partnerships. All of this will help the university thrive moving forward and will help drive the university and the state economy.

## Current Environment and the Opportunities of Growth

**Growth in funding and redirection of existing resources through the achievement of efficiencies contribute to the resources capacity of the institution.**



- As resources grow, the budget strategy is to:
  - Align distribution of actual growth in resources with the units that contribute to the growth
  - Incentivize strategic reallocation of existing resources to achieve shared goals.
  - Continue to ensure and enhance quality
- The changes being piloted with the colleges will be the basis for a broader performance budget approach across the academic enterprise.




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Growth in generated resources will be leveraged by efficiencies and external sources. It is important for resources to be positioned to achieve their highest and best use. The strategy is to align growth and resources with the unit that generated the growth. We desire the campus to have confidence and the ability to plan. It is important to understand that all units have the opportunity to participate and will have options in how they choose to participate. And with that, I will turn it over to Ken Smith.



**COLLEGE PERFORMANCE  
MODEL – PARTNERSHIP FOR  
AN INCENTIVE BASED BUDGET**

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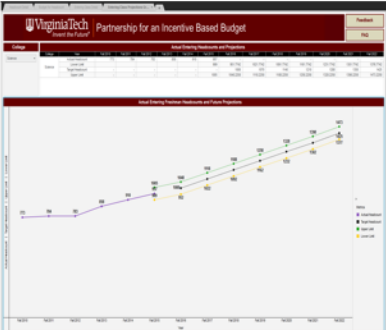


My name is Ken Smith. I serve as Vice Provost for Resource Management and Institutional Effectiveness. My departments have the lead role in creating the model and information systems that will support decision making in the new budget approach.




# Partnership for an Incentive Based Budget

**We have adopted the name Partnership for an Incentive Based Budget and the acronym (PIBB) to describe both the process and the decision support system that will accompany the process.**



- **Partnership** refers to shared goal setting and decision making.
  - Department to College to University Wide
  - Aligned strategic plans at all levels
- **Incentive** refers to the linkage of resources to the achievement of agreed upon goals and outcomes.

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We have adopted the name Partnership for an Incentive Based Budget to describe the process and decision support system that will accompany the process. The term partnership refers to the fact that all goal setting will be done in a collaborative manner with departments, colleges and the provost agreeing upon desired achievements and working toward those achievements within the context of broader campus strategic goals. The word incentive refers to the linkage of existing budgetary resources to the achievement of agreed upon goals and outcomes.

## Partnership for an Incentive Based Budget

**Many large institutions are adopting more decentralized budget models to move decision making closer to where the impacts of activities occur.**

```

graph TD
    Revenues --> ChargeBacks[Charge Backs]
    ChargeBacks --> CostRecoveries[Cost Recoveries]
    CostRecoveries --> InternalTaxes[Internal Taxes]
    InternalTaxes --> RCM[RCM Organization]

```

- Responsibility Center Management (RCM) is one particular method of achieving broad decentralization
- Virginia Tech **is not** adopting RCM as its decentralization approach.
- We are expanding our limited application of **performance budgeting** to achieve greater decentralization.

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Many campus constituents are asking whether Virginia Tech is moving to RCM budgeting. RCM stands for Responsibility Center Management and represents a variety of methods that many large institutions have adopted to achieve greater decentralization of decision making. In a pure RCM environment all revenues flow into the organizational units that generate those revenues and then are distributed throughout the institution through systems of chargebacks, cost recoveries and internal taxes. For example, an academic department that taught a class of 30 students would be credited with the tuition associated with those students but would then may be charged rent for the classroom used to deliver the class, a surcharge to the bursar for collecting the tuition and a tax from the registrar for posting the credits to the student transcript. Virginia Tech is not adopting RCM as its decentralization approach. Rather, we are expanding our limited application of performance budget to a larger portion of the campus budgets to achieve the benefits of greater decentralization.

## Partnership for An Incentive Based Budget

**Virginia Tech is expanding its application of performance budgeting to achieve greater decentralization.**

- A performance model allocates existing budgets based on actual achievement of agreed upon outputs and outcomes.
- Linking allocations to commitments for actual outcomes prevents “overleveraging” of the institution as growth precedes the allocation of new resources.
- Performance budgeting moves the annual resource planning conversation from inputs to the more strategic topic of outcomes.

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Performance budget allocates existing budgets based on the achievement of agreed upon goals and outcomes. In the Virginia Tech model we will create performance budgets in the context of five years of actual historical performance and five years of long-range goals. The budget itself will be focused in one or two years of very focused goal setting within this longer term context. Within the budget goal setting period we will impose upper and lower limits on financial adjustments associated with variances from planned performance to limit the variability of budgets within a given fiscal year. Rather, significant variances will be addressed in the context of goal setting and budgets for the following year. By linking the resources provided in any given fiscal year to the outputs and outcomes expected in that fiscal year we will avoid overleveraging the institution. The most significant benefit of moving to a performance budget approach will be the opportunity to raise the budget development conversation from one that simply addresses inputs to a more strategic conversation about outputs and outcomes.

## Partnership for an Incentive Based Budget

**The model will use integrated, multi-dimensional metrics to promote balanced goal setting and activity.**


- Goal setting will be in the context of historical trends.
- Interconnections between related metrics will promote balanced goal setting and activity.
- The model will promote bottom up strategic planning through:
  - Shared Projections
  - Shared Data and Monitoring of Progress
  - Shared Discussion of Future Goals & Directions

As mentioned, the university has grown in complexity and size and has departments and colleges with varied missions and capabilities. To be effective, the budget model must also be complex and include metrics that cover a broad range of potential activities and capabilities that each department and college may have. The model will use integrated, multi-dimensional metrics to promote balanced growth goal setting and activities. Because the model includes many different metrics, as the Provost noted, some of them are in tension with one another and it is that tension that will need to be balanced to address larger university strategic directions. The diagram to the left shows the types of metrics included: instructional and enrollment, student success and instructional quality, faculty research, scholarship and engagement and compliance and efficiency metrics. The opportunities for emphasis of any particular metric within these categories can vary by department and college and weights and varied targets will be used to reflect this variation. Due to the different instructional approaches and capacities of each college there will also be “sponsorship” components of the model that account for and appropriately funds significant structural differences.

## Partnership for an Incentive Based Budget

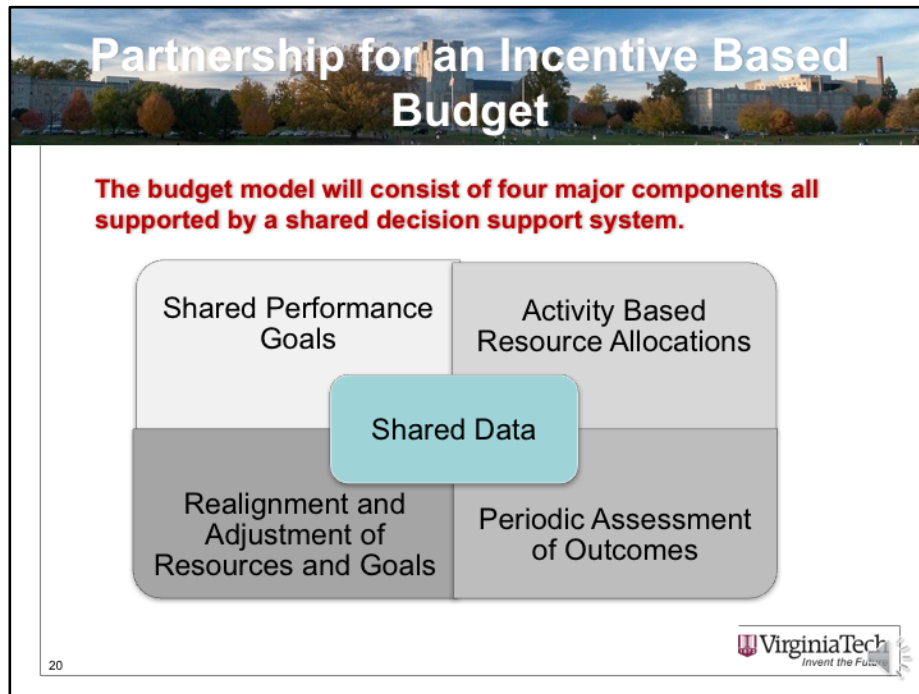
**The Virginia Tech performance model will adapt components seen in other national models of decentralization.**

- Valuing of credit hours and majors to promote all types of Beyond Boundaries activity and to promote quality of disciplinary experience.
- Managed growth to avoid unproductive competition.
- Incentives for cooperation across departments and colleges
  - Emphasis on student credit hours
  - Premiums for VT shaped education and research and large scale collaboration.
- Recognition of variation in college missions and resource capacities to strengthen all rather than undermine some to benefit others.
- Recognition of the importance of scholarship quality
- Qualitative consideration of quantitative outcomes – “The numbers are the beginning of the conversation; not the end.”


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The Partnership for an Incentive Based Budget will adapt component seen in other national models of decentralization. The treatment of credit hours and majors as a primary component for the assignment of resources is a central feature of the model. Premiums applied to certain types of credit hours and majors are intended to promote Beyond Boundaries activity and to promote specific aspects of quality in the instruction. The model will recognize both the department offering the course and the faculty member or members teaching the course as elements in the assignment of value, thereby creating a foundation for inter-departmental collaboration in instruction. The model will also include metrics that point to the broader quality of experience for students and the scholarship of faculty. The numbers generated in the information systems supporting the budget model are the beginning of a conversation, not the end of the conversation. The quantitative information is intended to be the basis for a much more broad ranging, qualitative discussion of outcomes and strategic directions that a department, college or the university may take in improving our performance.




So how will the budget model work. The budget model will consist of four major components all supported by a shared information system. Starting at the upper left, the first step will be the development of shared performance goals, again, set in the context of five years of prior actual performance and 5 years of long-range projected performance. These shared performance goals will be the basis for the calculation of activity based resource allocations that will become the fiscal year budgets for each college. We will periodically assess progress in the achievement of goals and those assessments inform the need to realign and adjust resources within a given fiscal year within the previously mentioned bands or more significantly goal setting for the next fiscal year and beyond. All of these processes will be based on a common information system that provides not only data in each metric but also definitions of the metrics and the information sources used to create each metric.



**Partnership for an Incentive Based Budget**

**Two types of metrics will be employed, unit allocations and performance scorecards.**

<p><b><u>Unit Allocations</u></b></p> <ul style="list-style-type: none"> <li>• One output/outcome results in one unit of value             <ul style="list-style-type: none"> <li>• Credit Hours</li> <li>• Majors</li> <li>• Funded Research</li> <li>• Fundraising</li> </ul> </li> <li>• Premiums Applied for Units Meeting Additional Desired Quality or Strategic Criteria</li> </ul>	<p><b><u>Performance Scorecards</u></b></p> <ul style="list-style-type: none"> <li>• Faculty Profile             <ul style="list-style-type: none"> <li>• Scholarship</li> <li>• Diversity</li> <li>• Teaching Load</li> </ul> </li> <li>• Student Profile             <ul style="list-style-type: none"> <li>• Recruitment</li> <li>• Student Success</li> <li>• Diversity</li> </ul> </li> <li>• Administrative Compliance and Efficiency</li> </ul>
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The budget model will employ two types of metrics. These are unit allocations and performance scorecards. Unit allocations can best be described as metrics where one unit of output or outcome results in one unit of value. This will apply to commonly quantified outputs and outcomes like credit hours, majors and externally generated funding. Performance scorecards will link sets of metrics associated with faculty outcomes, student outcomes and administrative compliance and efficiency outcomes to portions of the budget. Scorecards will be developed at the department level. Department scorecards will roll-up to overall college level scorecards. Faculty scorecard outcomes will include the scholarship activities of faculty, the diversity of the faculty, specific to the department’s context and the effective use of different types of faculty to address the teaching load of the department. Student profile scorecard will look at the life span of the student as they interact with the university including admission and yield metrics, diversity of the entering students (again within the context of the particular discipline), retention and progression metrics, and placement of graduates. Administrative and compliance scorecards will look at a few, very high level metrics central to the accountability and autonomy of the institution.

## Partnership for an Incentive Based Budget

**The budget model includes a component factor that recognizes the different missions and capacities of each college.**

**Sponsorship of Varied Missions and Capacities**

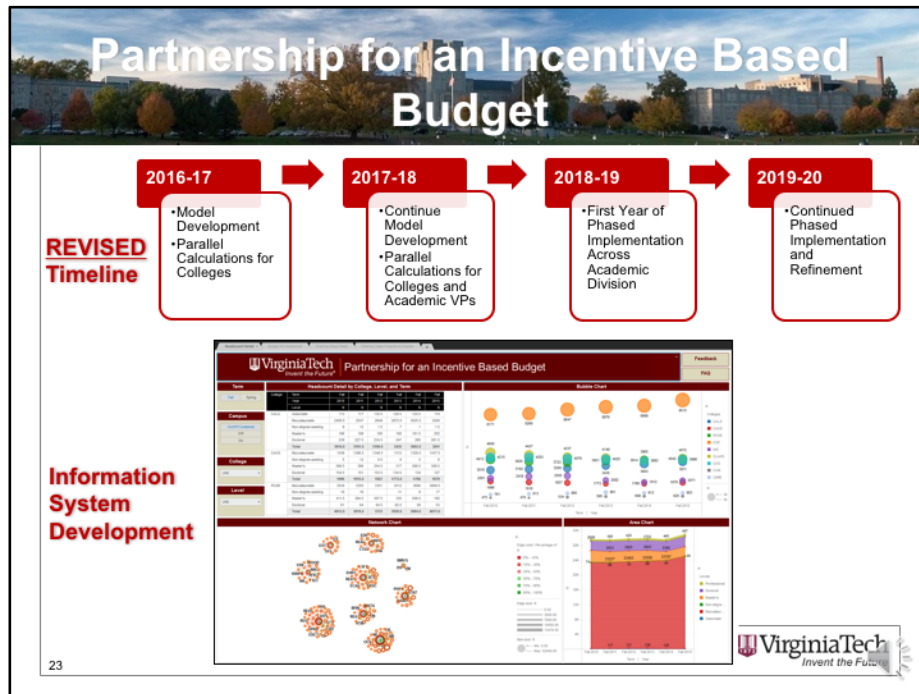
- Not every college has the opportunity to maximize on every metric, particularly unit metrics associated with external funding.
- A “sponsorship factor” will account for these differing capacities and align resource accordingly.
- Calculations performed at the department level but allocations made at the college level.

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In an earlier slide I referred to sponsorship of varied missions and capacities. In addition to unit allocations and performance scorecards, the model will include a component of funding that recognizes the varying ability of different colleges to take advantage of some areas, particularly those associated with external funding. We also have colleges that have an agricultural experiment station and extension component to their mission and while those functions are not being incorporated into the performance budget model, the model will recognize the impact of those differences. It is also important to note that the information system will provide data for analysis at the department level but that allocations through the model will be made at the college level. College deans will still have the ability to allocate resources differentially within the component departments of the college to achieve and overall mix of activities that address the college level goals.

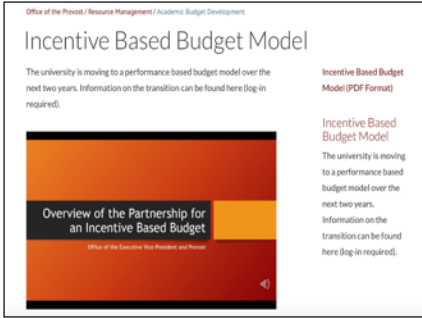




The timeline for implementation has recently been extended by one additional year. The original timeline anticipated colleges moving to the performance model beginning July 1, 2017. Due to the complexity of the model and in response to feedback from campus groups, the provost has extended the implementation date to July 1, 2018. In the current fiscal year we are busy developing basic information systems and data to use in the development and calibration of the model. During fiscal year 2017-18 we will train colleges and departments in the use these information systems to help them align and connect the new approach with current budget levels with the goal of migrating to the performance model in fiscal year 2018-19. Roll out will continue over a series of years, including all academic vice presidents and vice provost budgets. Development of information systems is already underway and will continue to grow and evolve. Shown here is a prototype display of current trends for majors in a particular college. This display demonstrates the type of interactive information systems that will support the budget model.

# Partnership for an Incentive Based Budget

**Communication of the plan has been on-going since the spring and will continue to inform and solicit input through the coming year.**



The screenshot shows a website titled "Incentive Based Budget Model" with a navigation menu and a main content area. The main content area features a slide titled "Overview of the Partnership for an Incentive Based Budget" with a red and orange background. The slide text reads: "The university is moving to a performance based budget model over the next two years. Information on the transition can be found here (log-in required)." There are also links for "Incentive Based Budget Model (PDF Format)" and "Incentive Based Budget Model" with a description: "The university is moving to a performance based budget model over the next two years. Information on the transition can be found here (log-in required)." The website footer includes the Virginia Tech logo and the tagline "Invent the Future".

- Provost website with latest information
- Engagement of users in specification and development of data systems
- Training on how to understand and use the shared data system
- Development of faculty and student scorecard components

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As with any significant change, communication is very important. Communication about the model has been on-going. Early drafts were shared with deans and as the provost shared, the preliminary model reflects their input in terms of important metrics. A presentation that provides more detail on the process and the proposed metrics is available on the Resource Management and Institutional Effectiveness website. As the model develops further over the coming fiscal year we will engage users in helping us spec out particular elements of the information systems and will also set up training in how to understand and apply the information in the system. Another important process will be the detailed development of faculty and student scorecards, the particular metrics and goals for each department, and processes and data for identifying benchmarks. This will be done in collaboration with each college and its departments and developed in a participatory manner.



THANK YOU FOR YOUR INTEREST

FOR MORE INFORMATION PLEASE CONTACT:  
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[KENSMTIH@VT.EDU](mailto:KENSMTIH@VT.EDU) OR 540-231-1807

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This concludes our presentation. On behalf of Provost Rikakis and Tim Hodge, I thank you for your interest in the Partnership for an Incentive Based Budget. Contact information for questions about the model or to provide feedback on the model is shown here. Tim Hodge and I would be happy to come to your college or department to discuss the changes in the budget model and to hear your input as we develop the new budget approach. Thank you again.