Office of the Provost
University of Illinois at Urbana-Champaign

BUDGET REPORT GUIDANCE FOR FY17:

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3 February 2016

The campus finds itself in a very unusual situation as we embark on the annual budgeting cycle, with no Fiscal Year (FY) 2016 state allocation of General Revenue Funding (GRF, approximately $236 million in FY15) as of this writing, the prospects of significant permanent decreases in GRF going forward, the possible transfer of some portion of annual normal pension and benefit costs to the university in the near future (estimated at $252 million in FY15), and the uncertain status of the state's Monetary Award Program. The latter committed approximately $26 million in financial aid to our students in AY15-16 and has been critical in meeting our recruitment and diversity goals.

In previous years' budget report cycle we had knowledge of the current fiscal year (FY) state appropriation and some indication of the next FY state appropriation. We also operated under the assumption that our budgeting system, including (but not limited to) the state/tuition distribution model, serves to direct resources in ways that serve our core missions effectively. In that context, it made sense to ask units to prepare plans to adjust to the appropriation as we saw it unfolding in Springfield, building their plans around the various ways money is allocated across the campus (undergraduate tuition, graduate tuition, online tuition, indirect cost recovery funds, GRF). That approach was fundamentally incremental and presumed stability in appropriations and budgeting approach.

This year, we have no knowledge of the current FY appropriation and little basis to judge the upcoming FY appropriation. Moreover, we have a broad consensus on the Council of Deans that our approach to budgeting overall has become less effective over time. That view is shared by the Campus Budget Advisory Task Force (CBATF) and many stakeholders across campus.

In this context, it makes little sense to adhere tightly to an incremental budget planning and review process when the challenges we face—both in terms of the state fiscal situation and our budgeting approach—are fundamentally structural in nature.

Under these unique circumstances, we are implementing the following changes to the FY17 budget reporting and review process:

- We are asking all campus units—both academic and administrative—to begin the process of developing plans that will help the campus achieve a significant reduction in our dependence on financial support from the State of Illinois over an eight to ten year time horizon, perhaps by as much as 50 percent.

- We are asking all activity-based units (academic colleges, schools, and research institutes—those units which generate a significant share of their revenues through their direct activities) to anticipate eventual changes to the campus budgeting approach, including the GRF/tuition allocation model, and to recommend changes to both the approach and model that would help them advance their strategic goals while also maintaining the capacity of the campus to fund shared services and public goods. This semester, the Office of the Provost will formally initiate an effort to reform the campus's budget system and model, a process that is complex and may take more than one year to fully complete. The effort will be informed by the ongoing work of CBATF and consultation with the Council of Deans and Faculty Senate.

- Given the unusual circumstances, and the fact that CBATF has been studying budget matters closely over the last 5-6 months, we are modifying the budget review process for this year. Rather than constituting the Campus Budget Operating Committee (CBOC), CBATF and Deans' Budget Committee (DBC) will serve as the faculty and staff advisory bodies to the Office of the Provost on FY17 budget planning.

- CBATF—a group comprised of both faculty and staff, including several members nominated by the Faculty Senate—has acquired deep knowledge of our budget system, costs, and revenues. Tapping CBATF's expertise in the budget review and development process will strengthen shared governance around budgeting matters. By not constituting CBOC in addition to CBATF, we will also streamline our budgeting processes and preserve faculty and staff time and effort for the challenging task of improving our budget system and model.

- All activity-based and centrally-funded units will prepare a budget report and plan. The leaders and the senior budget officer of all activity-based units and certain centrally-funded units, including the Council on Teacher Education, Disability Resources & Educational Services, Illinois Informatics Institute, Krannert Art Museum, Krannert Center for the Performing Arts, Spurlock Museum, University Library, Law Library, and the OVCR Administrative Units will meet and discuss their reports and plans with the Provost and the Provost's staff. The leaders and senior budget officer of selected remaining centrally-funded administrative units will discuss their report and plans with the Deans' Budget Committee (DBC).

- Findings from the reports and discussions will inform the development of a preliminary campus FY17 budget plan by the Office of the Provost. The plan will be reviewed and revised with active consultation of CBATF and the Council of Deans. The final plan will be shared with the Faculty Senate.

- All unit budget reports will be made available to CBATF and the Council of Deans.

- The budget guidance for both activity-based and centrally-funded units has been revised substantially to prioritize aggressive and strategic efforts to reduce administrative overhead and costs.

The remainder of this document provides additional detail on the plan outlined above and specific guidance for the preparation of activity-based unit reports.

General Planning Scenario

An analysis of the State of Illinois' fiscal situation and trends in state support of our Big Ten peers suggests that the University of Illinois at Urbana-Champaign will need to find, over an aggressive time horizon, cost savings and revenue enhancements that will reduce its dependence on state funding substantially, perhaps by as much as 50 percent. Reducing the campus's reliance on annual funding from the State of Illinois by roughly one-half over an eight to ten year period beginning with FY16, and accounting for the likely continued reduction in state support among our Big Ten peers over that horizon, would bring Illinois' relative support from the state into alignment with the Big Ten average.

Clearly, making a forecast of this sort is an inexact science. It is difficult to predict what other states may do in support of public higher education. Alternatively, the State of Illinois may elect to continue to invest in its flagship university to a greater degree than other states. However, it is the judgment of the campus leadership that prudence warrants concerted action to address potential substantial declines in state funding, given the political stalemate in Illinois, the dire condition of the state budget, the underfunded public pension system, and the negative effects of significant uncertainty associated with dependence on the state.

The report guidance below asks each unit to [HAL1]prepare a concise annual report that focuses on past actions and future plans to address predicted cuts of a large magnitude. The plans must be viewed as *a starting point only* and an *initial basis* for collective decisions about where spending will be reduced differentially and new investments undertaken. There is absolutely no presumption that cost reductions will be mandated "across the board." Yet all units will be called upon to contribute solutions. This year's budget review cycle and those going forward will be focused specifically on formulating recommendations for a highly strategic approach to the fiscal future we face as a campus. That approach will mean eliminating activities, consolidating activities, aggressively pursuing administrative efficiencies, and spending less in some areas and more in others.

Campus Budgeting System and Model

This semester, the Office of the Provost will initiate a project to reform the ways the campus makes budgetary decisions (the "budgeting system") and the metrics and algorithms it uses to allocate tuition (undergraduate, graduate, and online—the tuition allocation "model") and GRF. The ICR distribution model was reformed recently and will not be a focus of the effort. Budget reform is a complex endeavor and may take 18-24 months to complete.

We are aware that uncertainty around the tuition/GRF allocation model will make planning challenging. However, the alternative of basing strategies and plans on a budgeting system and model that nearly all campus constituencies agree is no longer working effectively is unwise given the financial challenges we face. In the interim period between now and the implementation of reforms, we will work with our existing system as a baseline but introduce flexibility as necessary to support promising investments and effective means of adjusting to the budget crisis.

Budget Report: Metrics

Please include reference to the following information in preparing your report. The metrics are obtained from common data sources, including the Campus Profile and the Budget Summary for Operations. You may wish to supplement these standard measures. Note that these metrics will be reviewed in conjunction with your report.

Financial Metrics (available early February)

This table provides five years of data for the following items:

- Budget (state, tuition, and ICR)
- Non-state funds (grants, gifts, self-supporting)
- Carryover balances
- Deficit balances
- Staffing trends

Report Components

Opportunities and Threats. Identify specific opportunities that you believe, if captured, would enhance the excellence of your programs and build your strength relative to external competitors. Discuss threats to the excellence of your programs and activities that you believe must be addressed. You may wish to discuss the overall state of your unit to set the stage for your discussion of opportunities and threats.

Strategies and Actions. Articulate the specific strategies and associated actions your unit is implementing (or will implement) to capture the opportunities and counter the threats you've identified. In thinking about your strategies and actions, consider both new activities that will both improve your competitive position amongst your peers as well as existing activities that you will stop or reduce in order to free resources for investment in other areas.

Cost Savings. Propose significant cost savings solutions that would contribute to addressing the campus-wide financial challenge outlined above.

Financial Scenarios

Please address the following scenarios directly in your report. Identify actions that would be taken by your unit to address the cuts. Avoid ideas that simply shift costs or would involve charging other units for services that they currently receive at no charge.

You are encouraged to think creatively about how you would restructure your operations. As relevant, the committee is interested in efforts to: increase efficiencies or collaborations aimed at reducing costs; centralization, decentralization, merging programs, and/or establishing shared services; and outsourcing. Please be prepared to discuss the feasibility of any proposed ideas in your report and budget meeting.

The following planning parameters should also be the basis for completing the financial template for FY16 and FY17.

1) Please address how your unit would address a reduction in its permanent state allocation of 3, 5, and 7 percent in FY17. This would represent the first phase in the campus's effort to adjust to substantial reductions in state support over the next 8-10 years. As noted

above, there is no presumption that cost reductions will be mandated "across the board," but for planning purposes, we ask that each unit use the three percentages as targets. Be as specific as possible about the actions you would undertake.

2) There is a distinct possibility the campus will receive an even larger reduction in GRF for the current fiscal year than anticipated last July. Some reduction scenarios are simply too large to absorb with central funds. Using the FY16 budget figures provided in your draft allocation sheet, explain how you would address a 12.5 percent CASH and as well as a 25.0 percent CASH rescission this year.

3) In addition, please address the following as relevant:

    a. Specific activities which will be stopped or reduced and the effect this would have on stakeholders. Are there activities or programs that don't offer enough value to justify their cost?

    b. The time period it would take to implement those measures.

    c. Whether you have consulted with stakeholders about your plans. If not, do you plan on doing so and how?

    d. The assumptions you used to come up with your projections.

    e. The process or mechanism you use to evaluate and prioritize programs within your unit and the rank order you have used to prioritize your measures.

    f. Programs (and associated expenses) you deem as critical, unavoidable, and must be protected from cuts. Explain your rationales.

    g. Any plans to use cash reserves to wind down programs and/or activities (e.g., employee notice periods, contractual obligations, etc.).

<u>Staffing Plans</u>
Staff salaries comprise the vast majority of most centrally-funded academic units' operational costs. Include projections of your staff FTE as part of your action plan. In your report please address the following as necessary:

- What assumptions did you use in projecting your staff FTE?

- Are there vacancies in your unit and, if so, what are your plans for filling them?

- What are your policies and practices for dealing with positions that become vacant due to resignations or retirements? Can they be strategically reallocated to other units or are they automatically replaced?

- Are there any personnel policies, requirements, market forces, etc. that impact the flexibility of your unit's workforce?

Submission Deadline

Please submit your report to provostbudget@illinois.edu by no later than March 28, 2016.

Page Limit

Your narrative should be ***no more than ten pages long.***