

BUDGETING PRINCIPLES AND PRACTICES

OFFICE OF THE PROVOST COMMUNICATION NO. 1

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I. PRINCIPLES

The Urbana campus of the University of Illinois has an operating budget of more than \$2 billion. Approximately half of that budget comes from grants and contracts, gifts, auxiliary operations, and sales and services. Funds for these activities are not allocated by the campus as they are associated with specific projects or efforts and must be accounted for separately. The remaining half of the budget comes from the state appropriation, tuition revenue and the overhead on grants and contracts. These are the funds that are distributed by the campus budget allocation process. It is through the allocation of these funds that the campus directs resources to further the academic mission of this institution. The following chart outlines the process for each of the campus’s primary funds:

Budget Allocation by Source of Funds

Fund Source	Allocation Procedures	FY15 Budget Share
State Appropriations— Funds appropriated by the State of Illinois for operation of the University	Appropriated funds are built into the historic allocation of many units and are especially important to the funding of overhead units and units that require a significant subsidy, such as Extension or Veterinary Medicine. Allocations are judgment based and are part of the annual campus budget process.	\$240 million or 12% of the total campus budget
Tuition Revenue	Tuition revenue is allocated based on unit activity. Undergraduate base rate allocations are made based on majors by college and instructional units (IUs) taught by college. Graduate, professional and self-supporting tuition is allocated to the major college.	\$682 million or 33% of total campus budget.
<i>Institutional Funds: ICR (Tuition Remission+ Facilities & Administration), Allowances & Royalties</i>	<i>Each sub-category has unique allocation rules, as described below.</i>	<i>\$157 million or 8% of total campus budget</i>
ICR or Institutional Cost Recovery Funds— These funds reimburse facilities and administrative-related overhead costs and foregone tuition associated with the conduct of sponsored research.	ICR is comprised of Tuition Remission and F&A (facilities and administration) assessed to sponsored projects.	

<p>Tuition Remission— Reimbursement for the foregone tuition based on a Research Assistant (RA) appointment associated with a sponsored project. As with the F&A rate, the Tuition Remission rate is negotiated on a periodic basis with the federal government.</p>	<p>25% of the funds generated from sponsored projects are held by the Campus to cover central costs. 75% flows to the College of enrollment of the appointed Research Assistant. (Note that under the campus’ ICR policy, implemented in FY15, it is up to each college as to how this 75% is distributed. Generally, a portion is held by the college to cover central costs and a portion goes to the academic department of the student.</p>	
<p>Facilities & Administration (F&A) – Charged to sponsored project to cover costs related to facilities and administration. As with the Tuition Remission, the F&A rate is negotiated on a periodic basis with the federal government.</p>	<p>55% of the funds generated from sponsored projects are directed to the campus to cover central costs, from which a portion flows to University Administration. 45% flows to the home college of the Senior/Key Personnel. (As is the case with Tuition Remission, it is up to each college as to how this 45% is distributed. Generally, a portion is held by the college to cover central costs, a portion goes to the departmental home of the Senior/Key Personnel, and in some cases, a portion flows to the individual Senior/Key Personnel.</p>	
<p>Allowances—funds come from two primary sources: the overhead charges by the campus on auxiliaries and other large self-supporting operations and the sponsors to cover the administrative costs associated with the management of certain programs</p>	<p>Allowance charged to auxiliaries is used by campus to support central administrative costs. Allowances charges to specific programs support activities in the Graduate College or the unit generating the allowance.</p>	
<p>Royalties —Funds come from royalty payments generated by intellectual property created by members of the university community</p>	<p>Funds are distributed between inventor, department, campus and system according to standardized distribution formulas.</p>	
<p>Gift Income —Funds are provided for current use (direct spending of gift) or endowments (principle generates annual income which is distributed as current use)</p>	<p>Funds are assigned specifically for a stated scope of work and distributed directly to the unit(s) for that purpose.</p>	<p>\$130 million or 6% of total campus budget</p>
<p>Grants and Contracts</p>	<p>Funds assigned directly to recipient unit(s) of the grant</p>	<p>\$453 million or 22% of total campus budget</p>

Departmental Activities— funds generated by the sales and services of units. The Vet clinic and campus farms are two examples of these activities	Funds assigned directly to the unit with self- supporting activity	\$134 million or 7% of total campus budget
Auxiliary Operations— funds generated by units such as Housing and the Illini Union	Funds assigned directly to the unit with self- supporting activity	\$243 million or 12% of the campus budget

A. Allocation Procedures for State Funds and Tuition Revenue

A campus budget is far more than a set of formulas and decisions that result in the assignment of funds to units. An institution’s budget is one embodiment of its values. The budget is the means by which an institution furthers its academic mission. It reflects the campus’s balance between central control and unit initiative. In an era of high costs and limited resources, the budget process is the mechanism for a campus to focus resources and to make difficult decisions.

For the Urbana-Champaign campus, the budget process is an ongoing effort, led by the Chancellor and Provost. It starts with the campus strategic plan and detailed, multi-year analysis of revenues and costs. Through conversations with campus and system leadership, deans, faculty advisory groups and others, the campus plan develops and takes form towards the end of the calendar year. Using guidelines developed in this process, colleges develop their budget plans. In spring, the Provost leads a group of faculty and administrators in the annual review of each college. A separate group, representing the interests of colleges, reviews the budget of administrative units. The efforts of these groups results in guidance to the campus and allocations to individual units, which are then made in late spring or early summer.

A significant portion of our budget is activity based—that is, a college receives funds as a result of instruction (tuition) and externally funded research (ICR or the overheads recovered from grants and contracts). In 1998, Illinois adopted a Responsibility Center Management (RCM) approach to budgeting. In its purest form, RCM budgeting assigns all revenue to the academic units generating tuition and research funding. Overhead costs, such as campus administration, computing services and facilities are paid for through use-based assessments on the revenue generating academic units. Over the years, our budgeting procedures have softened the initial RCM practices. The following describes the current budget model used by our campus:

B. Fundamental Principles and Objectives

The campus budgetary practices and guidelines serve the following fundamental principles and objectives:

- **Maintain a balanced approach to allocations, which protects the ability of leadership to act in the strategic interest of the institution.** While a portion of the budget should flow from the “activity” of the unit, formula-based funding should never entirely supplant the judgment-based and strategically-directed guidance of campus leadership. Historically, the state provided a much larger proportion of the university’s budget. Over time, however, the university has had to look to tuition and other sources of revenue to support its educational mission. While acknowledging that funding shift, our budgeting principles and practices must also protect the intellectual diversity and strategic direction of our campus. Budgeting principles and practices must provide a mechanism for appropriate cross-subsidization of programs and activities that are central to our core missions. The budgeting process must facilitate strategic allocation of resources to support our continued excellence through innovation and growth.
- **Ensure the financial stability necessary for units to engage in strategic planning by providing some level of protection for historical budget allocations:** Clarity and predictability of budget allocations are necessary to support responsible fiscal planning and programmatic and unit strategic planning. The stability of campus units requires some protection of historical budget allocation levels.
- **Foster sound fiscal management among units by creating greater alignment between unit expenses and budget allocations.** Historically, instructional costs were not adequately reflected in our system of decentralized control of resources and, hence, changes in a unit’s level of activity (i.e., number of majors and classes) did not adequately impact funding levels. In order to foster fiscal accountability and good stewardship of resources, it is necessary that budget allocations take into account both where costs are incurred and where revenue is generated.
- **Support new initiatives and programs to ensure continued excellence of our educational offerings and research enterprise.** Resources must be available for appropriate investment in new disciplinary areas, research endeavors or educational programs. Accordingly, requests for central campus funding are evaluated to ensure that funding commitments are structured and periodically reviewed to clearly establish the organizational structure, roles, responsibilities, expectations and timelines for financial self-sufficiency. Proponents must show how the funding will serve core institutional missions. Requests for ongoing support will be required to demonstrate a plan for becoming self-supporting within a specific time period that is reasonable, both in terms of the length of the campus subsidy and the realistic and attainable goal for financial sustainability.
- **Make allocation decisions within an information-rich environment.** Budget processes and decisions are informed by much information: instructional unit (IU) activity measures, quality metrics and strategic planning documents. In addition to such data, the process is informed by many voices: central campus leadership, the Council of Deans, and faculty groups such as the Campus Budget Oversight Committee.

- **Maintain appropriate financial reserves to provide the flexibility and security necessary for sound and strategic financial planning.** Good financial stewardship calls for the campus and colleges to maintain some level of central flexibility. Appropriate levels of reserves are critical to facilitate investment in important new areas and to help protect our institution during periods of financial uncertainty.

C. Operational Guidelines

A Tuition/GRF working group, comprised of deans and college budget officers, developed a set of principles to guide changes to budget procedures.

- Understanding the basic workings of the budget model should not require expertise in financial matters. The model should be easy to explain, understand and implement.
- Based on their knowledge of enrollments in their programs, colleges should be able to make reasonable projections regarding their future income.
- The model should recognize the volume of students taught by discipline. The costs of supporting a major should also be recognized.
- Interdisciplinary programs and collaborations are critical to our future. The budget model must provide adequate financial feedback for these undertakings in order to encourage collaboration between disciplines.
- To the extent possible, tuition income should be assigned directly to academic units. In particular, differential tuition should flow directly to the colleges enrolling those students.
- The current model, which bases undergraduate allocations on averages of several years of activity, does not recognize the costs associated with new efforts. Procedures should be developed to recognize and reward innovation in education.
- A portion of a unit's budget is "historic" and cannot be directly explained by allocation metrics. While costs and ability to generate differential income vary by discipline, the effect of the unexplained historic allocation should be minimized over time. These historic allocations should be periodically reviewed in light of appropriate metrics.
- Many colleges contain units that are not directly tied to the instructional mission of the college and that are often tied to a campus-wide good. Examples of these units include Krannert Centers, WILL, and Cooperative Extension. Funds for these units should be separated from the academic budgets in the budget process to make the funding of all units more transparent.
- The budget review process should discourage both administrative and programmatic redundancies.

Additional principles were established for funding of common costs. Although the intention is to minimize costs passed on to departments, these principles are intended to ensure that common costs are shared in an equitable manner.

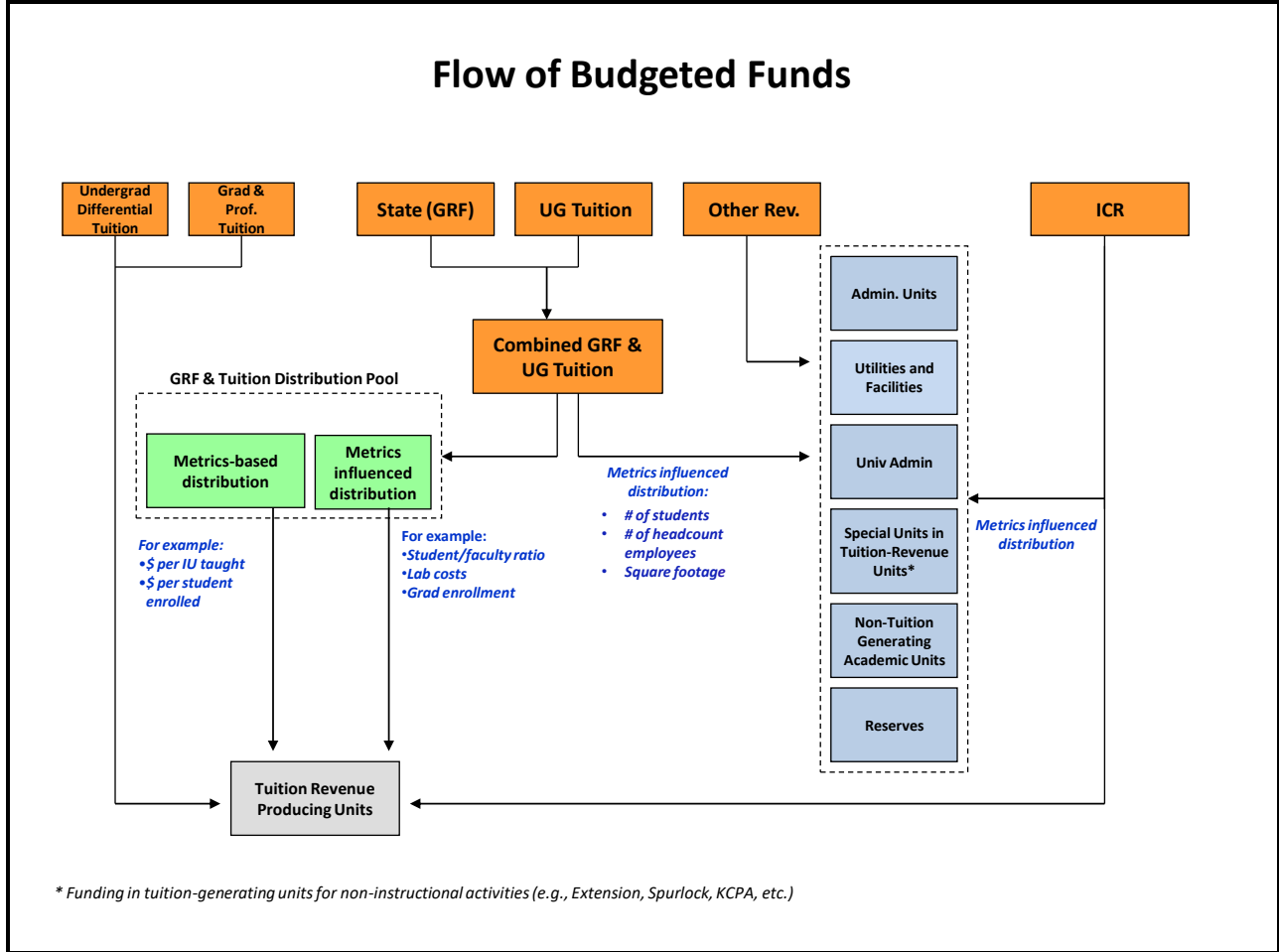
- The current model places disproportionate emphasis on incremental undergraduate tuition income to fund new common costs. The budget model should move to a more balanced approach in how costs are assigned.
- When possible and practical, the assignment of new costs to units should be metric-driven. For example, usage metrics can drive the distribution of utility cost increases.

- Cost allocation procedures should recognize the need to adequately fund public goods while distributing the load fairly among users.
- When new costs benefit a limited number of units, those units should assume the majority of those costs.
- To the degree possible, the distribution of funds to administrative units should be done using a metric-driven or metric-influenced formula, similar to the process by which distributions are made to academic units.
- There should be a regular review of administrative and other common-cost units to ensure that they are efficiently serving the needs of the campus.

D. Overview of Allocation Program

A graphical representation of the allocation model is shown below in a flow diagram. The flow combines all of the GRF and tuition dollars generated (total GRF & tuition) and is allocated into two portions:

- One portion of total GRF & tuition dollars is placed in a pool to be allocated to ***tuition producing units***. A large component of these dollars will be allocated based on metrics (e.g., IUs and number of majors). The allocation of the remaining dollars will be metrics influenced and guided by strategic goals of the campus.
- The second portions of the total GRF and tuition dollars is allocated towards the costs of funding the ***non-revenue producing units***, including infrastructure and support costs and the University Administration. All non-revenue producing units and infrastructure costs will be reviewed consistently to ensure the appropriate level of funding. ICR will also be used to fund these costs.



II. SPECIFIC POLICIES AND PROCEDURES

A. Summary of Activity Based Allocations to Tuition Generating Units

The following summary describes current rules for incremental allocation of tuition to units:

Revenue Type	Basis of Allocation	Timing of Allocation
UG Base Tuition—Spring and Fall	<p>\$2,500 per <i>change</i> in number of majors is assigned to college of enrollment</p> <p>\$110 per <i>change</i> in number of instructional units is assigned to the college paying the course instructor as recorded in the DMI Course Information System.</p>	<p>Allocations are based on previous fiscal year. Average of fall and spring enrollments is used for major allocation. Sum of fall and spring is used for IU allocation.</p> <p>No adjustment made to reflect current fiscal year actual.</p>

UG Base Tuition—Summer and Winter	95% of base tuition is allocated to the college paying the course instructor as recorded in the DMI Course Information System. Remaining 5% supports Summer and Winter session overhead costs.	The Summer Session budget allocation is based on estimated income for current summer allocated using each college’s proportion of IUs in previous year’s summer. Allocation is adjusted in the fall to reflect actual summer income and current summer IUs. Winter term tuition is distributed on a cash basis to the units in the spring and is allocated using the college’s proportion of winter IUs. Program differentials are not assessed in the winter term.
UG Differential Tuition	85% of projected differential increase is assigned to major college. Remaining 15% supports need-based financial aid.	Estimated revenue is assigned in budget. Adjustments based on actual income are made during the spring semester.
Graduate Tuition	Projected fall/spring net tuition (base-rate tuition less waivers and state tuition grant shortfalls) less a campus 10% surcharge is allocated to the college of enrollment. Projected summer tuition less a 5% summer session management charge is allocated to the college of enrollment.	Estimated revenue is assigned in budget. Adjustments based on actual income are made during the spring semester.
Professional and self-supporting	Projected net tuition (base-rate tuition less waivers and state tuition grant shortfalls) less a campus 5% surcharge is allocated to the college of enrollment	Estimated revenue is assigned in budget. Adjustments based on actual income are made during the spring semester.
Non-degree	Tuition from Extramural/Community Credit, NetMath, teacher ed. instruction and other non-degree activities is allocated based on projections formulated by the units (net of Continuing Ed fees). Campus retains 10% surcharge. The budget allocation model for MOOC-based programs is currently under development.	Estimated revenue is assigned in budget. Adjustments based on actual income are made during the spring semester.

B. Undergraduate Tuition—Fall and Spring

Rather than a fixed pot of funds that is prorated based on each unit’s share of the total, allocations are based on a specified dollar per incremental major and paying IU.

- The addition of one major is valued at \$2,500 and an incremental IU is valued at \$110.
- Annual allocations to colleges will be based on prior year enrollments and IU generation.

- Colleges are strongly encouraged to ensure some connection between changes in a college's formula-based revenue and that of the departments. In particular, when a department participates in an interdisciplinary initiative or changes the level of its service teaching, there should be adjustment to that unit's budget based on its deliberate actions.

C. Differential Tuition

A number of programs have a differential tuition rate established to reflect the greater costs of a particular program. The only campus deduction to incremental revenue is to fund need-based financial aid (approximately 15% of incremental tuition revenue). Projected revenue (less a 2% contingency reserve) is assigned to each college in the budget process. At the end of the spring semester, that allocation is reconciled against actual income and adjustments are made as necessary. One complication to a college projecting its revenue based on the number of students in each tuition cohort is that the number of students receiving institutional and statutory waivers might vary from year to year. However, such variance should not affect revenue by more than a few percentage points.

In colleges with a mix of differential and non-differential units, it is expected that the college will track differential income to ensure that the generating departments are the beneficiaries of the funds.

D. Summer Session

Base-rate tuition is allocated to units based on the previous summer's paying IUs. The distributed base-rate is net of waivers and a 5% surcharge for summer session administration. Program differential tuition is distributed to the student's college of enrollment and is net of waivers and 5% summer session surcharge. Summer net tuition (base-rate and program differential) and IUs are trued up in the Fall to reflect actuals.

E. Winter Session

Winter term net tuition is distributed on a cash basis to the units in the spring based on winter term paying IUs. The distributed income is net of tuition waivers, a 5% surcharge for winter session administration, and other session overhead costs. Program differentials are not assessed in the winter term.

F. Non-Degree Activities

Net tuition earnings from non-degree programs are allocated to units at the beginning of each fiscal year through the annual tuition distribution based on earnings projections formulated by the units. At the end of the fiscal year, the allocations are adjusted to reflect actual results.

G. Oversight of Course Offerings

When universities moved to an RCM model in the late 1990s, there was much concern as to whether colleges would initiate new course offerings for financial rather than pedagogical reasons. That is, if there is a money flow associated with classes, a college might begin to offer

classes that have been traditionally offered elsewhere. Even if a college did not replicate the offering of another unit, it might offer general education classes that would pull IUs from other colleges. While there was some flow of students in response to new general education offerings at Illinois, there were no major disruptions. As we move to a model that offers a greater dollar amount per IU, there are again concerns that there might be course decisions that are based on financial rather than pedagogical factors. The Office of the Provost will work with colleges as questions of course duplication and curricular boundaries arise.

H. Online and Other Rapidly Scalable Programs

Online and other scalable course offerings are one of the few ways the campus can significantly increase tuition income, and units should have a clear incentive to pursue such opportunities where they exist. The budget model is designed to ensure funding follows students in a way that encourages academic innovation. The budget policy also seeks to balance that incentive with level of stability for unit budgets. As new programs generate income over and above their delivery cost, that difference should be available to support other valued activities, both within the unit offering the program and more broadly across the campus.

Although the role these new programs play on campus is evolving, the following are the initial rules that will govern their funding:

- Online and other low cost offerings on campus are generally expected to have prior agreement with the Provost's Office regarding their projected rate of growth and ultimate size.
- The intent is that tuition from traditional-style online programs of small to moderate size would be distributed by the rules in §II.A, making the unit's incentive predictable. For programs with very large size and/or innovative structures (e.g., the iMBA) the tuition distribution will be negotiated in advance between the unit and the Provost's Office.
- Units that achieve large increases in revenue due to online or other scalable programs (e.g., >10% of state budget allocation) can expect to have the historical portion of their budget allocation reviewed and potentially adjusted.
- While online offerings will be a growing part of on-campus student experience, it is critical that these programs focus a significant portion of their efforts at generating incremental revenue for the unit by attracting off-campus students and summer enrollments. To do otherwise merely redistributes existing resources.

I. Graduate, Professional and Self-supporting Tuition

The following are guidelines associated with the allocation of graduate, professional and self-supporting tuition.

- Allocations of campus resources must ensure that undergraduate tuition is not subsidizing the costs of graduate, professional and self-supporting programs. A discussion of the funding of the campus salary program as it pertains to these units is provided in section "O" below.

- Although these units will not be subsidized by undergraduate tuition, it is also important they not pay assessments that only benefit undergraduate students. Assessments for common costs are discussed more fully below.
- It is appropriate to hold back a portion of centrally held tuition for common costs that benefit these graduate, professional and self-supporting programs. Currently, 10% of net base-rate graduate tuition is held back for general campus support. Professional and self-supporting programs are charged 5% of net base-rate tuition.

J. Non-tuition Allocation to Colleges

Most colleges receive campus funding beyond that generated by formula-based allocation of tuition. Part of this campus “subsidy” is explained by program cost. Some programs have expensive labs and technology such as Chemistry and Mechanical Engineering. Other programs have high costs due to required low faculty/student ratios such as Veterinary Medicine and Music.

Not all of the level of support outside of formula-based tuition can be explained by the cost structure inherent to that program, however. There are some programs that receive a relatively large subsidy that is not easily understood by considering the nature of the program. Similarly, there are programs where a relatively low subsidy cannot easily be explained. These variances are the result of scores of decisions throughout the history of the campus. The budget model does not, in itself, result in a set of fully rational allocations. It does, however, point to units where adjustments might be called for over time. The following are some ways the budget model will help evaluate the appropriateness of a college’s funding:

- At a gross level, the budget allocation model will highlight the generated revenue versus its total allocation. Some units will generate more than they receive in allocation. Others will receive substantially more than they generate by formula.
- Standard metrics used in the budget reports provide a basis for evaluating a unit’s funding. Here are a few metrics that have some applicability to this analysis (with a more complete list in Attachment A):
 - Student/faculty ratio
 - Dollars per student
 - Students by level
 - Teaching load per faculty member
- Metrics unique to a unit provide additional information. Such items include peer information regarding student/faculty ratios and teaching loads. Accreditation requirements specific to a field also will need to be considered in the evaluation of funding. Examples of college-selected metrics are included in Attachment B.
- Colleges with a variety of disciplines may need to break their metrics down by type of program. The metrics appropriate for History will not be appropriate for Chemistry, for instance.

K. Evaluating a College's Non-tuition Allocation

Some degree of cross subsidy is found in most, if not all, comprehensive universities. Across our campus, costs vary by discipline for a number of reasons, including technology needs, laboratory equipment required, class size, cost of faculty salaries, and numerous other factors. It is difficult to imagine that a laboratory science unit with little service teaching can exist with the same level of support per IU as a unit in which a significant portion of the teaching is in large survey courses. That being said, there is a need to understand the degree of self-reliance and subsidy in units across campus. A basic question is this: How much of a unit's activity is funded through tuition generated by the unit and how much of it is funded through allocations from the campus? Addressing this type of question will help provide a more complete funding profile of campus units and will help ensure adequate support across units. It will also assist us in evaluating funding in a time of declining state resources.

While the campus budget allocation model was developed to clearly and predictably allocate tuition on the basis of unit activity, it provides only an approximation of a unit's degree of subsidy. The allocation model reflects the intentional decision to (a) almost fully allocate graduate, professional, self-supporting and UG summer programs to the generating unit (to incentivize revenue growth and a fuller recovery of waived funds) and (b) allocate a portion of base-rate undergraduate tuition (to provide sufficient support for changes in enrollments and instructional activity). To overcome this differing treatment of funds, the campus has developed a "normalized" allocation analysis, which puts all programs on an identical footing in terms of how it characterizes earned versus allocated funds and overhead costs.

The normalized allocation analysis is a model that looks at unit earnings as though we were using a full RCM allocation model. The model takes all tuition revenue and assigns it to colleges using our allocation rules. For example, if we assign 50% of a portion of base rate UG tuition to a unit's share of IUs and 50% to a unit's share of majors in our budget allocation, this analysis will assume that units receive all UG base-rate tuition on that basis. Similarly, rather than assign graduate tuition at the current 90%, the analysis assumes that 100% will be assigned to the college of enrollment.

The next step of the analysis is to assign overhead charges to each college's tuition using a common basis. For example, the cost of operating the Office of the Vice Chancellor for Student Affairs is assigned entirely to colleges based on their share of UG students. The cost of the Graduate College is assigned entirely to colleges based on their share of graduate students. Some overheads are not assigned to college tuition (the Office of the Vice Chancellor for Research, for example). Some overhead units are split between college tuition and GRF (Facilities and Services and Advancement are two examples). The split funding is based on a judgment concerning the portion of an overhead unit's activities directed to support of students as well as an understanding of the amount of overall overhead budgets supported by tuition. The tuition assigned to a unit minus the unit's share of overheads represents the unit's *net tuition*. The total recurring budget of a unit less net tuition is a unit's *GRF subsidy*.

It is important to emphasize that the normalized allocation analysis is not used directly to make budget allocations. It does serve, however, to identify the nature and amount of a unit's campus subsidy. Identifying a unit's subsidy is not a critique of that unit's budget. Some activities cannot

be undertaken without a subsidy. The outcome of this annual study can, however, provide important information regarding areas of underinvestment by the campus and also help identify a unit's share of GRF at times of declining state funding.

L. Special Units within Colleges

A number of the colleges house special units that serve a campus-wide good or a state-wide service that is not fully required as a part of the teaching and research mission of the college. Currently identified special units are the following:

Campus-wide Good

- Krannert Center for the Performing Arts (FAA)
- Krannert Art Museum (FAA)
- Spurlock Museum (LAS)
- Division of Rehabilitation and Educational Services (AHS)
- Council on Teacher Education (Education)

State-wide Service

- ACES Extension
- ACES Experiment Station (approximately 2/3 of the experiment station serves a research function similar to that in other colleges and is excluded from special unit status)

Because these units have a unique function and purpose, their budget review will be separate from that of the hosting college. These units will have metrics and strategic goals appropriate for their activities.

All of these programs are unrelated to the tuition-funded instructional program of a college and are all considered GRF funded. Units classified as a campus-wide good will be eligible for incremental funding even in years with no state increment. However, units considered a state-wide service will only receive incremental funding only in years when state-funded support increases.

M. Allocations to Non-tuition Generating Academic Units

The following is an incomplete list of academic units that do not generate tuition revenue:

University Library	Beckman Institute
Illinois International Programs	Institute for Genomic Biology
Graduate College	NCSA
Prairie Research Institute	

These units' budgets are allocated, rather than earned by formula. Each unit has metrics and strategic goals appropriate for its activities. These units' budgets will be reviewed in the same budget process as the tuition-generating academic units.

N. Allocations to Overhead Units

Overhead units support the instruction, research and service functions of the campus indirectly, but they are not directly involved in the execution of those academic activities. The following units fit into this category:

Chancellor's Units	Public Affairs
Chief Information Officer	Provost's Units
VC for Research	Facilities and Services
VC for Institutional Advancement	
VC for Student Affairs	

These units all contribute to the success of our collective enterprise. That said, it is imperative that all overhead costs be kept to a minimum and that overhead units continually attempt to improve their effectiveness and efficiency. The annual review of these units is guided by appropriate metrics of activity and focuses on the unit's contribution to the achievement of campus strategic goals. Additionally, there are periodic in-depth reviews to assess the unit's performance.

Because these units often perform business-like functions, they are expected to draw on business practices such as process improvement to enhance their effectiveness and efficiency. Organizational actions, such as the development of shared service centers, should also be explored.

O. Allocations for Campus Salary Program

There are three possible sources of funding for a general salary program: State funds, tuition revenue, and reallocated funds. At present, the State's financial challenges suggest that we are in an extended period with low likelihood of regular state funding of a salary program. Thus, we will be reliant to a great extent on incremental tuition and existing resources for a number of years. When our salary program was funded primarily by the state, we could use the funds across campus without concern regarding the alignment of funds with activity. Beginning around 2003, however, our salary program increasingly has been funded by undergraduate tuition. Initially, we continued the practice of a general assignment of salary funds regardless of a unit's activity. In recent years, it has become clear that we have been using undergraduate tuition to fund salary increases in areas unrelated to the needs and interests of undergraduates. Today, we are working hard to ensure proper alignment between the source and use of funds.

We consider the following points in developing a general funding plan for a salary program:

- Only a portion of UG tuition is assigned to the units offering UG instruction. A significant portion of these funds are pooled centrally and used for central cost increases and programmatic initiative benefiting students.
- Almost all of graduate, self-supporting and professional tuition is assigned to the generating unit.
- Some overhead units are critical to the success of undergraduate education and their salary programs are appropriately funded through UG tuition. Other units are unrelated to

UG education and their salary program should not be funded from incremental UG tuition revenue.

To the extent that a salary program is funded by incremental tuition, no action is required for units who primarily receive graduate or professional tuition. Because the model passes through the incremental changes directly, those units have already received their growth in tuition funds. A mechanism is required for funding the salary program for units with UG students. Beginning in FY12, the campus used the “normalized allocation analysis,” discussed in section J., to determine the total UG tuition attributable to a college. The UG base-rate earnings from that analysis was multiplied by the general salary program percentage (3% in FY12) to determine a unit’s increment.

For overhead units, the portion of the salary increment provided by campus is determined on a case-by-case basis by the Chancellor and Provost. In the case of the Vice Chancellor for Research, a portion of the salary increment may be funded by growth in ICR revenue.

The campus regularly will provide funds for faculty salary compression, merit, equity and retention (CMER). These funds are provided to academic units without regard to the makeup of their student population. The CMER funds come from institutionally retained tuition and reallocated funds.

P. Assessments for Common Costs and Strategic Investments

Many of our costs will increase from year to year, whether or not we receive incremental funding. Energy costs, library materials, Medicare, and new facilities costs are all unrelated to our external funding. In addition, the campus must make significant investments in a number of areas to ensure the smooth functioning of the campus. Recent investments include debt service for deferred maintenance and a multi-year program to upgrade the campus IT network. Finally, the campus must make continuing strategic investments to ensure that we are responding programmatically to changing needs for research and training. Recent examples of these investments include the Institute for Sustainability, Energy and Environment (iSEE) and the Interdisciplinary Health Sciences Initiative (IHSI).

Historically, cost increases and investments were funded “off the top” of new GRF funding or from a combination of new tuition revenue and campus reserves. Since FY 2002, we have not received any significant GRF increment and the campus reserves were depleted as we returned funds to the state. Tuition increases alone are inadequate to fund annual new costs. In recent years we have relied on aggressive reallocations of funds from units to meet our incremental costs.

With the introduction of Budget Reform in FY 1999, came a methodology for allocating incremental overhead costs. While the model, which used simultaneous equations, was elegant and efficient, it lacked transparency about each college’s overhead bill. The model was scrapped in FY 2003.

Since FY 2003, common costs and strategic investments have been funded by both incremental undergraduate tuition and by assessments based on each unit's recurring budget. The assessments are now much larger than they were historically given the lack of new GRF. They are also no more transparent than they were when using complex mathematical formulas. Although there is no desire to return to a complex system of full attribution of costs based on metrics, there is much that can be done to create a more transparent and palatable system of budget assessments. The following are changes to help achieve that goal:

Assignment of Costs Based on Use. A model is under development to allocate new facility costs. The unit occupying the new facility will have responsibility for the cost of maintaining the facility. The unit can negotiate for a reduced cost based on the abandonment of previously held space.

Exclusion of Units from Assignment of Some Costs. Historically, all units paid an assessment based on their share of budget, whether or not they could potentially benefit from that assessment. Although it is not possible or practical to distribute every assessment item based on a unit's ability to potentially benefit from that item, when an assessment benefits a limited number of units, only those benefiting should pay the assessment.

Clarity Regarding Assessments. It is impractical to base all assessments on usage metrics, but it is possible to more fully enumerate the various costs behind the assessment. The allocation document each college receives will describe major cost drivers behind the assessments. Where possible, the college's specific share of major items will be provided.

Limit to the Size of General Assessment and the Need for Targeted Actions. In recent years, the campus has seen a rapid rise in costs and declining state support. Although large tuition increases covered a portion of new costs, the remainder was derived from assessments. These assessments have generally been in the ranges of 2.5% to 4%. With the forecasted flat tuition increases for the next several years, it will be necessary to continue these assessments.

Q. Allocation of Institutional Cost Recovery Funds (ICR) (See Attachment D)

A new ICR policy was adopted by the campus in FY15. The full committee report can be found at: http://publish.illinois.edu/office-of-the-provost/files/2016/05/ICR_Allocation_Policy_Committee_Final-Report-2012.pdf.

Following are its major points:

1. Tuition remission is completely taken out of the ICR stream, and after a component (25% for FY15) is held at the campus level to fund central costs, the remainder (75% for FY15) is distributed to the home academic unit of enrollment of the graduate student in order to address instructional and graduate research costs and needs in the academic unit.
2. With tuition remission removed, the ICR stream now contains only funds from facilities and administration (F&A) recovered from grants and contracts. 55% of the F&A assessed is held at the campus level, a portion of which is directed to University Administration (UA), the Office of the Vice Chancellor for Research (OVCR), with the remaining amounts used to fund energy and other central costs, including

administrative costs. The remaining 45% is returned to the home college of the senior/key personnel (PI) on the grant, regardless of where the research is done. Each college can then set its own distribution model, which will likely include a distribution to the academic department of the PI, and may also include a distribution to the PI.

3. Special ICR distribution policies have been set for some units that require special distribution rules, such as the Applied Research Institute, Beckman Institute, etc. These policies can be found in Attachment E and also at: http://publish.illinois.edu/office-of-the-provost/files/2016/08/Communication_1_Attachment_E_FY15_Indirect_Cost_Recovery_Distribution_Policy_and_Special_Policy.pdf.

III. BUDGET REVIEW PROCESS

Section III of Provost's Communication No. 1 was revised in July 2017.

The annual evaluation of a unit's performance and the appropriateness of its budget are critical features in the effective deployment of resources, particularly in a period of declining State support. The budget review process has two major components: one that is led by the Provost and his/her leadership team, and one that is led by the Administrative Budget Committee. The information gathered in each of these processes is used to develop a draft financial plan for the upcoming fiscal year. The plan is presented to the Council of Deans, Campus Budget Oversight Committee, Senate Executive Committee, and Senate Budget Committee for review and feedback.

A. Reviews Led by Provost and Leadership Team

The reviews of the budgets of the units included in the table below are conducted by the Provost and his/her leadership team.

<i>Primary Units</i>	<i>Directly Reviewed Subsidiaries</i>
College of Agricultural, Consumer, and Environmental Sciences	University of Illinois Extension
College of Applied Health Sciences	Division of Rehabilitation Education and Services
College of Business	
College of Media	Illinois Public Media
College of Education	Council on Teacher Education
College of Engineering	
College of Fine and Applied Arts	Krannert Art Museum Krannert Center for the Performing Arts
College of Law	Law Library
College of Liberal Arts and Sciences	Spurlock Museum
College of Veterinary Medicine	
Carle Illinois College of Medicine	
School of Information Sciences	Illinois Informatics Institute
School of Labor and Employment Relations	
School of Social Work	
University Library	
OTHER UNITS	
Vice Chancellor for Research (including Institutes) Graduate College Facilities and Services Chief Information Officer/Technology Services	

Annual Reports. A unit’s annual report is a concise document that presents a unit’s financial plan for the coming fiscal year with a specific emphasis on strategic initiatives. This report serves as the basis for the budget reviews that take place in the spring and also provides a framework for the unit’s budget actions for the coming year. The Provost’s Office provides written guidance for development of the reports. Sections in the report include the following:

- Goals, Opportunities, and Threats
- Strategies and Actions
- Changes in Demand for Programs
- Revenue Growth, Cost Savings, and Restructuring Opportunities
- Diversity Initiatives
- Strategic Plans for Cash
- Staffing Plans and Hiring Needs
- Investment for Growth Proposals
- Budget Plan

B. Reviews Led by Administrative Budget Committee

The Administrative Budget Committee (ABC) is a six-member committee charged by the Provost and selected primarily from the membership of the Budget Officers Council. Members serve a three-year term with staggered expiration dates. Following is a list of units that are reviewed by the ABC:

<i>Primary Officer</i>	<i>Major Portfolio Units</i>
Chancellor	<u>Allerton Park and Recreation Center</u> <u>Division of Intercollegiate Athletics</u> Diversity Committee & Advocacy Division of Public Safety* Office of Diversity, Equity & Access* Public Affairs* Title IX and Disability Coordinator Office Willard Airport
Provost and Vice Chancellor for Academic Affairs	<u>Illini Center</u> <u>Osher Lifelong Learning Institute</u> Campus Honors Program Division of Management Information Enrollment Management Human Resources I-STEM Education Initiative University Laboratory High School
Vice Chancellor for Student Affairs	<u>Career Center</u> <u>Conference Center</u> <u>Counseling Center</u> <u>Division of Campus Recreation</u> <u>Housing Division</u> <u>Illini Union</u> <u>Illinois Leadership Center</u> <u>Inclusion & Intercultural Relations</u> <u>McKinley Health Center</u> <u>Parking</u> <u>Student Health Insurance</u> Campus Mail Minority Student Affairs Office of the Dean of Students Office for Student Conflict Resolution
Vice Chancellor for Institutional Advancement Illinois International Programs Center for Innovation in Teaching and Learning Division of General Studies Armed Forces	
<p><i>Note:</i> Italicized, underlined units are auxiliaries that are largely funded from self-supporting revenue. Their participation in the annual campus budget review is limited to (a) their funding from sources other than their generated revenue, and (b) the impact of their practices for generating revenue on the campus community as a whole.</p> <p>*Portfolio units with an asterisk will have a review that is separate from that of the principal officer.</p>	

Units will submit a self-assessment report each year, and will have meetings with the ABC on a three-year rotational basis.

Self-Assessment Reports. A unit's annual report is a concise document that presents the unit's financial plan for the coming fiscal year with a specific emphasis on strategic initiatives. This report serves as the basis for the budget reviews that take place in the spring and also provides a framework for the unit's budget actions for the coming year. Because these units often perform business-like functions, they are expected to draw on business practices such as process improvement to improve their effectiveness and efficiency. Organizational actions, such as the development of shared-service centers, should also be explored. The reports, for which written guidance is provided by the Provost's Office, should review the unit's adoption of appropriate business practices as well as the following:

- Unit Introduction
- Actions Taken
- Financial Scenarios and Actions Planned (including staffing plans)

Upon completion of the reviews, the committee will prepare a report for presentation to the Provost and his/her leadership team.

C. Campus Budget Oversight Committee

The Campus Budget Oversight Committee (CBOC) is charged by the Provost and the responsibilities include:

- Gaining an understanding of the campus budget situation
- Review and provide feedback on:
 - annual budget guidance;
 - upcoming fiscal year budget plan;
 - investment for growth proposals; and
 - Budget Reform Steering Committee and Working Group Reports.

The CBOC has 12 faculty members drawn from a broad array of general disciplinary areas:

- One faculty member of the Senate Budget Committee will serve as *ex officio* on this committee. The choice of that selection is at the discretion of the chair of the Senate Budget Committee.
- Nominees from disciplines should be tenured senior faculty, generally full professors.
- Every effort should be made to ensure that members represent the gender, racial and ethnic diversity of the faculty.

IV. ATTACHMENTS

- A. Standard Metrics
- B. Example College Specific Metrics
- C. Sample Budget Template
- D. ICR Distribution Model
- E. ICR Distribution Policy and Special Policies