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Northeastern University's hybrid budget model

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Fall 2010



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Executive Summary

A Hybrid Budget Model is being fully implemented at NU effective with the 2011-2012 fiscal year. The model incorporates the basic features of Responsibility or Revenue Center Management (RCM) as they pertain to revenue attribution and cost allocation.

Responsibility Centers (RCs) are the key decision making units in the new budget model. A total of 18 RCs are planned, with eleven of them being academic units and seven being auxiliary or other RCs. Revenue is to be credited to the RCs as follows:

- Undergraduate tuition (except International Study Programs) would be divided 50% - 50% between the RC offering the instruction and the RC of enrollment. Financial aid provided by the Office of Financial Aid should be calculated as an average discount on the tuition of all undergraduate day students.
- Graduate / professional tuition would flow to the instructing unit; graduate financial aid is assessed based on the average prior year discount of the enrolling college with adjustment for cross college enrollment.
- Revenue from grants and contracts, gifts, endowment and non-credit activities that currently flows directly to individual RCs would continue to do so.
- Revenue recovered from externally funded grants and contracts for the reimbursement of indirect costs should be assigned to the RC(s) in which the grant or contract is located.
- Revenue from fees (e.g., parking, conferences) and the sale of services (e.g., housing, food) goes to the unit.

With regard to the allocation of central costs, they are grouped in six major categories, with four of these allocated to RCs based on the Center's proportionate share of related University operating expenses. With regard to research infrastructure costs, they are to be allocated to RCs on the basis of their research revenues from external sources. Space costs are allocated based on occupancy / utilization.

The proposed model includes a "University Contribution" in the form of a percentage of all revenues except direct grant funding and gift / endowment income. It also includes a "Current Fund Allocation" which for the academic RCs will reflect the Provost's judgment about the appropriate balance between their revenues and the cost of its activities. In the case of non-academic RCs, the supervising Senior Vice President will be instrumental in determining the Current Fund Allocation.

The hybrid budget model constitutes a good starting point for a new approach to budgeting / planning at Northeastern University. It will encourage entrepreneurial activities and will achieve a better alignment of resource generation and allocation and provide resources for strategic investment. The expectation is that the plan will evolve and be improved as senior administrators become more knowledgeable about the model.

Goals of the NU Budget Model

The implementation of a decentralized management and budgeting system is intended to:

- Encourage units to set priorities and develop new activities in support of the Long Range Plan;
- Create incentives at the unit level to make efficient use of resources;
- Provide mechanisms to encourage cross-unit collaborations;
- Provide central administrative units sufficient resources to carry out their missions; and
- Focus on a comprehensive “all funds” approach to resource allocation.

How the Hybrid Budget Model Is Structured at Northeastern Key Elements of the Budget Model

1. Responsibility Centers

Responsibility Centers are the foundation of the hybrid budget model. These are the units of the University that bring in significant activity-based revenues which cover an appreciable portion of the unit’s operating costs. RCs may be schools/colleges or major programs (i.e., academic RCs) or auxiliary/other operating units (i.e., auxiliary support RCs).

Academic and non-academic RCs need to be coherent units for purposes of strategic decision making and budget/resource planning and management. Consistent with the experience of other universities that have hybrid budget models, departments and units within the schools and colleges at Northeastern are not to be designated as RCs.

The following list identifies the RCs being established at Northeastern:

Academic Responsibility Centers

Bouve College of Health Sciences
College of Arts, Media & Design
College of Business Administration
College of Computer & Information Science
College of Engineering
College of Professional Studies
College of Science
College of Social Sciences & Humanities

Other Responsibility Centers

Summer Conferences (EMSA)
Intercollegiate Athletics

School of Law
International Study Programs
University Programs (General Studies, Undeclared, UJIMA)

Auxiliary Responsibility Centers

Campus Dining Services
Conference Centers (Warren Conference Center, Henderson House and Broad Street Conference Center)
Parking
Renaissance Park
Residence Halls

2. Attribution of Revenue

An activity-based hybrid budget is developed using a set of rules for the attribution of revenue and costs. This section details the methodology that will be used to allocate revenues to the responsibility centers.

Attribution of Revenue: Tuition

- 1) Undergraduate Day Tuition
 - Attribute to each enrolling college
 - Net of University discount rate, e.g., financial aid
 - Rationale / Assumptions
 - *Centralized management of admissions/aid awarding*
 - Limited ability for RCs to influence Discount Rate
 - *Athletics and merit scholarship enrollments*
 - Student driven, limited control
- 2) Undergraduate Day Tuition
 - Cross-College Tuition Revenue Attribution (including CPS Language and Education Courses)
 - *Net of discount*
 - *Distribution*
 - 50% Instructing College, 50% Enrolling College (for each academic credit hour taken in another college, the enrolling college will receive 50% of 1/16th of FT ug tuition)
 - *Rationale/Assumptions*
 - Should incent limited duplication of courses
 - Closest to covering cost
 - Finance Office does revenue distribution *from Enrolling College to Instructing College* each term using the end of term census provided by Institutional Research/Registrar
- 3) Undergraduate Day Tuition and Associated Academic Fees
 - Other Considerations
 - Double and combined majors
 - *“Enrolling College” revenue(50%) split between colleges that “own” the programs*
 - *At point (term) of enrollment in second major*

- *Reports on these enrollments to be provided to Deans who will work out financial issues/transfers*
 - Team taught courses
 - *Pro rata split of “Instructing College” Revenue*
 - Transfer to new major
 - *At point (start of term) of enrollment in new major*
- 4) Graduate, Law and CPS Tuition and Associated Academic Fees
- Attribute to each Instructing College
 - Net of actual discount rate for the prior year in the enrolling college
 - *Tuition Waiver: charged to Instructing College (per course)*
 - *Stipend: charged to Awarding College/Grant*
 - Rationale/ Assumptions
 - *Capacity/ flexibility*
 - *De-centralized (RC) admissions/aid awarding decisions*
- 5) Graduate, Law & CPS Tuition and Associated Academic Fees
- Other Considerations
 - Double, multiple or dual program enrollment
 - *Revenue follows College of Instruction*
 - Team taught courses
 - *Pro rata split of “Instructing College” Revenue*
- 6) International Study Programs (tuition only; travel / housing 100% to ISP)
- 75% ISP, 25% Enrolling college
 - After discount
 - Regular Study Abroad
 - Faculty Led Programs
 - Rationale/Assumptions
 - Incremental cost is location/site dependant and highly variable
 - Faculty Led Program: Fixed and variable costs tend to be high
 - Want to incent International Study Programs
- 7) Online Revenues and Expenses in Partnership with EMBANET
- All tuition revenues will flow through the University
 - Any financial aid offered to online students will be treated as a discount on gross tuition revenue
 - EMBANET reimbursements for expenses of online programs will be considered as part of the college’s expense base used to calculate Allocated Central Costs
 - For at least the first two years, EMBANET reimbursements will not be treated as revenue – i.e., they will not be taxed at 20%
 - The college’s “profit” on online programs (after EMBANET receives its share) will be taxed at 20%
- 8) Adjustment for Credit Card Fees
- A ½ % reduction for credit card fees will be taken off the top of all tuition / room / board payments

Attribution of Revenue: Research & ICR

Research Revenue

- Grant & Contract Related
 - Grants and contracts
 - *100% to Responsibility Center(s) associated with the grant*
 - Indirect Cost Recovery (ICR)
 - *100% to the unit, split when necessary*
- Patent / Licensing Fees
 - Keep current policy (30% PI: 30% Unit: 40% Central net of expenses) for initial implementation but revisit thereafter

Attribution of Revenue: Gift & Endowment Funds

- Annual Giving
 - Designated to the RC
 - Undesignated to the Central Fund
- Endowment earnings
 - Unrestricted endowment earnings to the Central Fund
 - Designated endowment earnings to the RC
- Short term investment earnings
 - Central Fund

Attribution of Revenue: Other Fees / Charges

- To Campus Dining Services: Meal Plan Charges
- To Central Fund: Late Fees, Vendor Fees (if not attributable to an RC)
- To Colleges (RCs): Graduate Application Fees
- To Enrollment Management: Undergraduate Application Fees, Parent Orientation Fees, Enrollment Fee, Judicial Fines
- To Health Center: Health Center Fees, Learning Disability Program fees
- To Instructing College: Other Academic Fees such as private music lessons
- To ISSI – International Student Fees
- To Library: Library Fees/Fines
- To Parking (RC): Parking Fees
- To Residence Halls (RC): Housing Charges
- To Residential Student Association (RSA): Residence Activity Fees
- To Student Athletics: Recreation Fees
- To Student Center, Blackman & Fenway Center: Associated fees
- To Student Government Association (SGA): Student Activity Fees

Year End Adjustment of Financial Performance

At the end of each fiscal year, revenue and direct expenses will be trued up to actual. If a RC over-estimated its contribution, it will owe funds back to the University. If it generated more contribution than originally projected, the RC will receive the additional funds from the University (in the case of non-academic RCs, the relevant SVP will decide how revenue over target is used). The University Contribution (discussed later) will be applied to the revenue adjustment.

3. Allocation of Central Costs

The budgets of central cost centers are not activity based but rather are set so they are sufficient to allow the unit to accomplish the activities and tasks that comprise their support of the academic enterprise. The RCs must pay for administrative / support costs through an assessment.

The methodology for distributing central costs to the RCs is intended to:

1. Be reasonably simple
2. Be reasonable proxy for comparative use
3. Be transparent
4. Allow for effective cost containment strategies
5. Allow for differential growth of different cost types

The Central Costs that need to be allocated are grouped in six cost centers as outlined in the table below.

Cost Center	Components
General Administrative Costs	Executive Affairs, Advancement, Institutional Research, Diversity & Affirmative Action, Finance, Investments Management, University Counsel, Business Office, Purchasing, External Affairs, Risk Management, Insurance, Internal Audit, Environmental Health and Safety, Public Safety, Human Resources, Facilities Admin, IS Admin (administrative svcs, general svcs and general management)
Student O/H Expense	Enrollment Management, Financial Aid, Student Affairs, Registrar, Health Center, Student Center, Campus Recreation Programs, etc.
Academic Infrastructure	Academic Affairs, Academic IS Svcs, Faculty Senate, Ed Tech, etc.
Library	All library costs (personnel, operations & acquisitions). Law School library costs are direct expenses of the Law School.
Research Infrastructure	ORAF, Tech Transfer, VPR, Research Accounting
Space	Utilities, lease costs, depreciation, facilities admin, ops & maintenance, custodial, debt; IS non-residential networks; related central costs. Cost of unassigned space is spread to everyone. Classroom costs allocated based on SCH's taught.

Allocation of Central Costs (General Admin, Student, Academic, Library, some IS)

- The budgeted amount of costs attributable to these cost centers is summed.
- These total costs are then divided proportionately among the RCs based on each RC's own operating expenses as a percentage of total University operating expenses, using a prior two year rolling average for the years last closed out.
- The expense base used for Allocated Central Costs excludes student financial aid, and construction / renovation expenses.
- Full implementation: For the first few years of the budget model (e.g., FY12 and 13) it is not necessary to recalculate allocated central costs annually. Initially, there should be a presumptive annual rate of growth (e.g., 2-3%) to facilitate planning. Thereafter the base for central allocated costs would be reset every 3 years and adjusted annually by HEPI.

Allocation of Research Infrastructure Costs (ORAF, Tech Transfer, VPR)

Research infrastructure costs are allocated based on the RC's share of total NU sponsored project grant expenditures, again using a rolling historical average, e.g., last two fully reported years.

Allocation of Costs: Space

Facility-Related Costs (including network costs) are to be allocated at follows:

1. Auxiliary RC space: Cost per square foot = total costs for relevant space / total square feet. Allocate the costs of auxiliary space to the appropriate auxiliary RC.
2. Non-auxiliary space (including classrooms): Cost per square foot = total actual costs / divided by total assignable square feet of this space. These costs will then be allocated as follows:
 - Costs of space assigned to RCs are allocated to the RC.
 - Classroom space assigned by the Registrar is allocated to users based on the Registrar's data (share of SCH's taught in Registrar – controlled classrooms on the Boston campus) from previous complete year. Special formulas apply to Blackman and Curry Student Center Space.
 - Costs of space attributable to central units are included in their total costs and then reallocated to RCs.
 - Common space costs other than classroom space assigned by the Registrar are folded into the assignable square foot charges.

Allocation of Costs: Debt & Large Capital

- Attribute debt service for auxiliary RCs directly to the auxiliary (e.g., ResLife) as part of space charge
- Include present and future debt service on academic projects in the overall sq ft charge to academic and related (non-auxiliary) RCs and cost centers

A summary of how all of these costs are allocated to the various RCs and cost centers is included at Appendix A.

Other Features of Cost Allocation Methodology

- Space costs are allocated to cost centers and then these costs are allocated as part of the cost center's cost to RCs. (The same incentive structure regarding space needs to be universal.)
- An incentive should be developed to encourage units to turn back unneeded space to the University.
- The use of inside vendors is presumed unless an exception is approved. Use of outside vendors which would damage the provision of services to others or reduce the efficiencies that the University achieves through bundled services should not be allowed.
- When an RC has significant duplication (e.g., spends \$100K or more) of a centrally provided service due to the unique nature of the RC, then the RC may request that it not be charged for the central service at the same rate as other RCs.

4. University Contribution

This is a charge assessed to all RCs; it can be thought of as a “membership tax.” University Contribution assessments flow into a central pool that enables the President and the Senior Leadership Team to award funding for “subvention” and/or strategic initiatives that support NU’s priorities. They may also constitute a spending reserve. Rather than following the prevailing convention of assessing a “Participation” Tax, at Northeastern it is called a “University Contribution.”

The University Contribution (UC) is a charge against revenues in all RCs. The benefits of this approach include:

- it makes it clear that all RCs have an obligation to contribute to the support of high priority activities that cannot support themselves;
- it makes it clear that all RCs are members of the larger University community and receive a benefit from the membership; and
- by tying the tax to revenue in all RCs, the resulting pool of fungible resources will keep up with the overall growth of the University.

The University Contribution (UC) is calculated based on an RC’s total adjusted revenues excluding direct sponsored research revenues (do not exclude ICR) and gift and endowment revenue. These exclusions are intended to incentivize seeking revenue from external sources.

The rate for the University Contribution must be informed by discussions by the President with the Senior Leadership Team.

A higher UC is applied to the academic RCs versus other RCs.

5. Current Fund Allocation

The “Current Fund Allocation” (in lieu of “subvention” terminology used in other RCM models) is the funding allocated selectively to RCs to balance their budgets (cover the planned difference between revenue and expense) and to fund strategic initiatives and institutional priorities.

- Revenue sources that would flow to the Current Fund Allocation pool include University Contribution funds from RCs, unrestricted gifts, unrestricted endowment earnings, all short-term interest on University funds and other unassigned revenues.

A key operating principle of the hybrid budget model is that Current Fund Allocations should never be provided to cover deficits incurred by the RCs in excess of plan.

6. Governance

Existing management groups at NU will be responsible for addressing the need for changes in the budget model and its supporting infrastructure and for assessing the model’s effectiveness. The Senior Leadership Team has the primary responsibility in this regard and may, from time to time, appoint special teams to work on specific issues.

The Council of Deans will be the forum in which the following academic issues are discussed and resolved:

- what kind of entrepreneurship in the academic RCs is a matters of concern?
- duplication of courses or restrictions of students to courses in their home units (i.e., “trade barriers”).
- expansion of activities that do not further the University’s mission, or are inconsistent with it.
- restrictions on faculty participation in interdisciplinary programs and research.

Implementation Plan and Schedule

The hybrid budget model should be fully implemented at Northeastern by July 1, 2011 (i.e., become effective for fiscal year 2012).

- An outline of a plan to accomplish this objective is included at Appendix B.
- A budget template for Academic RCs is included at Appendix C.

Business Process Changes

There are several potential changes in business process that may be needed to align with the new budget model. These include but are not limited to:

- Cost savings (e.g., fringe benefits, space) stay with the RC
- Existing “deals” (revenue/expense) will go away
- Incrementing / decrementing of vacant Office Support / Technical staff positions will change; schools / colleges / divisions will set salaries within HR approved ranges
- Schools / Colleges will manage grad tuition waiver budgets (right now University covers any over-expenditures)
- Fringe benefit rate increases will have to be covered within approved operating budget as will merit / promotional increases
- Central allocation of ICR funds to PIs / Departments / Units ends; schools / colleges decide how to handle
- Growth in faculty and staff positions will primarily come from revenue growth or reallocation within school / college budgets

A work group is addressing these issues and will provide recommendations to the SLT later this Fall.

Appendix A

Hybrid Budget Cost Allocation Worksheet

Cost category	Academic RC	Other RC (e.g., athletics)	Auxiliary RC (e.g., parking, res halls, conference ctrs)	Cost Center Allocation
Administration	share of actual calculated total of cost center costs, divided proportionately based on RC's share (%) of operating expenses based on prior two year rolling average	same	same	n/c
Student Overhead Expense	Same	n/c	n/c	n/c
Academic Infrastructure	Same	n/c	n/c	n/c
Library	Same	n/c	n/c	n/c
Research Infrastructure	% of funded research	n/c	n/c	n/c
Space + debt service				
(1) Assignable space - non-classroom (includes adjacent common space such as hallways, bathrooms, etc., using a reasonable approximation)	/sq ft (all space except high cost research space and auxiliary RC space is the denominator for calculating cost; the total distributed costs include all costs associated with facilities; this is the "basic sq ft calculation")	/sq ft	/sq ft (auxiliary space is the basis, and will need to be broken down further)	/sq ft using "basic sq ft calculation"
(2) Classrooms	/sq ft same as above but charged based on usage using registrar's data (% of usage)	n/c	n/c	n/c
(3) Other common spaces (e.g. Raytheon)	roll into basic sq ft calculation	roll into basic calc	n/c	roll into basic calc
(4) Debt service - non academic (previously incurred & future debt)	n/c		assign debt service for sole use space to nonacademic RCs	n/c
(5) Debt service - academic space (previously incurred & future debt)	include in basic /sq ft calculation	/sq ft (same as academic RCs)	n/c	n/c
(6) IS network NUNet	include in basic /sq ft calculation	/sq ft (same as academic RCs)	n/c	n/c
IS: note inclusion of network and admin charges in space & general admin costs				
fee based and usage charges: database housing/consulting; network storage; web hosting for NU orgs; telephone and ACD; security breach incidents; new enterprise application development	direct usage charge	direct usage charge	direct usage charge	direct usage charge
IS network ResNet	n/c	n/c	direct charge to residence halls	n/c

Appendix B

Activity Milestones re: Full Implementation of the Hybrid Budget Model for FY12

By October 30, 2010

- Model FY11 budget under Hybrid rules.
- Revisit all supporting data and documentation.
- Review FY11 budget model with SLT re: what numbers are looking like re: CFAs needed, etc.
- Consider changes in hybrid budget model planning template; prepare final version
- Develop FY12 allocated costs.
- Work on FY12 undergraduate financial aid discount number.
- Discuss / propose how to deal with LRP issues re: hybrid model.
- Set up meetings with all RC heads for early November.

By November 15, 2010

- Complete meetings with all RC heads showing them how they look in the model in FY11.

Between November 15 and December 15, 2010

- Provide planning data to RCs.
- Agree on FY12 fringe benefit rate.
- Get direction from SLT re: FY12 undergraduate tuition increase rate.
- Work with RCs to complete their initial FY12 revenue projections.

Between December 15 and January 15, 2011

- Roll up revenue projections and review with SLT.
- Revisit RC projections as needed.
- Prepare budget materials for February Board meeting.

Appendix C Hybrid Budget Model Template

(in thousands)

	<u>Academic Unit</u>	<u>Auxiliary Unit</u>	<u>Non-Academic Unit</u>
Revenue			
Tuition			
Undergraduate Majors	63,449	-	-
Undergraduate Courses In	639	-	-
Undergraduate Courses Out	<u>(14,852)</u>	-	-
Gross Undergraduate Revenue	49,236	-	-
Undergraduate Financial Aid	<u>(15,263)</u>	-	-
Net Undergraduate Revenue	33,973	-	-
Graduate Revenue	22,900	-	-
Graduate Financial Aid	<u>(2,724)</u>	-	-
Other Tuition Revenue			
Net Tuition Revenue	54,149	-	-
Indirect Cost Recovery	2,037	-	-
Other Revenue	-	7,372	2,516
Designated Revenue	1,190	-	453
Gift & Endowment Revenue	1,007	-	1,009
University Contribution (20%)/(10%)	<u>(11,475)</u>	<u>(737)</u>	<u>(297)</u>
Current Fund Allocation	9,227	3,653	18,775
Total Revenue	56,135	10,288	21,447
Expenses			
Direct Expenses			
Direct Salaries & Benefits	23,978	-	5,000
Direct Other Expenses	<u>4,460</u>	<u>9,499</u>	<u>4,223</u>
Total "Operating" Expenses	28,438	9,499	9,223
Designated Expenses	2,197	-	1,462
Allocated Expenses			
General Administrative Costs	11,352	789	3,857
Student Overhead	3,677	-	-
Academic Infrastructure	2,079	-	-
Library	2,423	-	-
Research Infrastructure	940	-	-
Classrooms	641		
Space	<u>4,388</u>	-	<u>6,905</u>
Total Allocated Costs	25,500	789	10,762
Total Expenses	<u>56,135</u>	<u>10,288</u>	<u>21,447</u>
Difference	-	-	-