Frequently Asked Questions (FAQs) about NKU's New Budget Model

Philosophy and guiding principles	**Why did NKU need a new budget model?** Internal and external factors pointed to the need for a more flexible, participatory, and transparent model for the future that could: • Increase transparency and improve communications across the University • Focus on the academic enterprise by allocating resources directly to colleges based on performance • Increase autonomy in the colleges • Create resources for strategic initiatives and funding to support plant operations • Set clear expectations for all units **What is the overriding philosophy behind the new budget model?** The new budget model will ***promote student success***, stimulate strategic growth, encourage innovation and entrepreneurship, and support transdisciplinarity and institutional excellence. **What are the guiding principles of the new budget model?** • Accountability • Transparency • Reasonable predictability • Simplicity • Performance based • Data driven **How can the new budget model affect the culture of decision making at NKU over time?** • The President can keep NKU's focus on its mission and prevent NKU from trying to provide "all things to all people." • The Provost can use incentives to address priorities and support initiatives within the colleges. • The Deans can understand the full cost of activities to better prioritize them and generate revenue. • The administrative/service units can improve services in the presence of clearer expectations. • The academic departments can innovate with better insight into how activities drive funding.

Framework and structure	**What is the basic framework for the new budget model?** • All cost centers were reviewed and organized into one of three groups: colleges, auxiliary units, and administrative units. • Incentives are created through the use of revenue allocation formulas to the colleges. • Administrative/support unit costs are allocated out to the colleges using select variables. • Central funds are created for support of the colleges (subvention) and strategic investments. • A planning mechanism for deferred maintenance and reserve requirements is included. **How is the new budget model structured?** In the new budget model, cost centers are organized into three groups: • ***Colleges (academic units) (6)*** Arts & Sciences (A&S), Business, Education and Human Services, Health Professions, Informatics, Law • ***Administrative/support unit pools (9) -*** *Each of these pools includes one or more administrative/support units* Academic Services, Administrative Units, Facilities Management, Information Technology, Intercollegiate Athletics, Sponsored Activities, Libraries, Student Services, University Advancement • ***Auxiliary units (4) -*** *These units are managed as self-supporting operations and—in addition to their direct expenses—include expenses for operation and maintenance of plant, deferred maintenance, and administration.* Bookstore, Dining and Vending, Parking Services, University Housing
Revenue allocation	**How are revenues designated?** Some revenues are designated directly to the units generating them, while others are allocated: • ***Direct revenues*** include student fees, grants and contracts, sales and services revenue, other operating revenue, and nonoperating revenue. • ***Allocated revenues*** include all tuition, online fees, state appropriations, and indirect cost recovery (IDC) provided by grants and contracts. **How is tuition revenue allocated?** Tuition revenue is allocated as follows: • ***Instruction pool (70%)*** – Allocated to college of instructor using percentage of total credit hours instructed. ○ *For example, if 50% of total instructed credit hours are taught by Arts & Sciences (A&S) faculty, 50% x 70% of allocable tuition revenue would go to A&S.* • ***Academic support pool (30%)*** – Allocated to college of student's major using percentage of total credit hours enrolled.

	◦ *For example, if 50% of total enrolled credit hours are taken by A&S majors, 50% x 30% of allocable tuition revenue would go to A&S.* • Special programs and college differentials (additional tuition charged to law, business, and Executive Leadership and Organizational Change (ELOC) students) are allocated directly to the generating colleges. • Institutional financial aid is offset against tuition prior to allocation. College-specific scholarships are expensed directly to the college. **How are state appropriations allocated?** State appropriation revenues are allocated to incentivize three major areas: • Successfully completed credit hours (55%) • Degrees awarded (40%) • Sponsored program activity (excluding indirect cost recovery (IDC) (5%)
Expense allocation	**How are expenses designated?** • ***Direct expenses*** include salaries & wages, fringe benefits, contract services, supplies, rentals, and travel. • ***Allocated expenses*** include administrative/support unit <u>net</u> expenses. **How are the expenses of administrative/support units allocated to colleges?** Because the new budget model allocates the majority of revenues directly to colleges, the administrative/support units are left unfunded. Therefore, the <u>net</u> expenses (expenses reduced by any revenues generated) of these units are assigned to nine pools. These pools are then allocated to the colleges using the following allocation variables. • Academic Services: *Credit Hours Instructed* • Administrative Units: *Direct Expenses* • Facilities Management: *Square Footage (excluding classrooms)* • Information Technology: *Total Headcount (students/staff/faculty)* • Intercollegiate Athletics: *Allocated Undergraduate Tuition* • Sponsored Activities: *Sponsored Revenues (excluding IDC)* • Libraries: *Student Headcount Based on College of Major* • Student Services: *Student Headcount Based on College of Major* • University Advancement: *Direct Expenses*
Faculty not in colleges	**How are faculty not in colleges treated for revenue/expense allocation purposes?** Faculty not in colleges will be left where they currently are and any instruction hours will not be assigned to a particular college for the budget model. For reporting purposes, the associated expenses will be assigned to Instruction Costs.
Central Revenues Pool	**What is the Central Revenues Pool (CRP)?** The Central Revenues Pool is created through a participation rate on college revenues. It is to be used for the following purposes:

	• ***Subvention:*** Ensure that resources are available to address college subsidies (deficits) • ***Strategic Initiatives:*** Enable university leadership to provide resources to address university priorities and revenue growth strategies that will help the university fulfill its mission and accomplish its goals **What principles will be followed in funding and distributing the Central Revenues Pool (CRP)?** • Distributions from the CRP should not be viewed as an annual entitlement. • To promote stability, a diverse set of revenues should be used to fund the CRP. • CRP pool will promote "neutral starting points" for the colleges at implementation of the new model, making resources available to fund deficits. **How is the amount of the Central Revenues Pool determined in the new budget model?** The decision was made by the Steering Committee (all Deans and select administrators) that 15% of college revenues (excluding grants and indirect costs (IDC)) would go into the Central Revenues Pool. This participation rate ("tax") should stay intact for the first 3 years and then can be reviewed.
Subvention Fund	**How will the Subvention Fund be funded?** The Central Revenues Pool will be broken into two portions: Subvention Fund and Strategic Initiatives Fund. **How are revenue shortfalls and surpluses handled?** Best practice is to have colleges establish a reserve of 2–3% of revenues in their expense accounts. That reserve can be carried forward to future years. **How are college surpluses or deficits treated?** Any college surplus or deficit from prior year would be added to the revised budget just like current carryforward. If a college overspends, it first would draw from any carryforward dollars to cover the shortfall. **How will the Subvention Fund be administered?** The amount of subvention to apply to each college will be determined by the President, Provost, and SVP Admin/Finance. Colleges in deficit will work with the Provost on plans to use reserves, carryforward, or budget reductions to cover the deficit. The Provost will work with the Deans for long-term planning on what subvention might be available in the future. **Will there be a Hold Harmless/Hold Gain policy?** The Steering Committee (all Deans and select administrators) decided that FY18 would **<u>not</u>** be Hold Harmless/Hold Gain. That means that subvention is not guaranteed for any of the colleges. Any deficits would need to be covered through reserves, carryforward, or budget reductions and any surpluses would carryforward.

Strategic Initiatives Fund	**How will the Strategic Initiatives Fund be funded?** The Central Revenues Pool will be broken into two portions: Subvention Fund and Strategic Initiatives Fund. For FY18, it was decided by the President, in consultation with the Provost and SVP Admin/Finance, to set the amount at $1 Million. The amount of strategic initiative funds will be reviewed each year to determine the amount. **What is the process for requesting strategic initiative funds?** The following process will be used for requesting strategic initiative funds: • The budget development document (issued around the end of October) will include a request to the Vice Presidents and Deans to identify requests for strategic initiative funds for their areas. It will also identify parameters for the availability of strategic initiative funds. • Vice Presidents and Deans will have until early February to complete the strategic initiative funds request. • Strategic initiative funds should be used for non-recurring items. • For administrative units, strategic initiative funds can be used for one-time (bridge) funding in tandem with the administrative unit budget proposals for recurring expenses to help keep the administrative support unit request from being higher than would be feasible. For example, the strategic initiative fund could infuse some one-time dollars to purchase desktops/laptops, and the budget proposal for IT could also request funds for ongoing replacements. • For Deans, bridge funds for programs that have start-up expenses (e.g., new faculty lines) but will not generate revenues until a future period would one of the uses of the strategic initiative funds. • A template has been developed for the Vice Presidents and Deans to complete for the strategic initiative fund requests. This template requires that requests (a) be tied to the strategic plan and (b) indicate whether the funding is for a non-recurring item or bridge funding. **How will recipients of strategic initiative funds be determined?** Strategic initiative fund requests will be approved by the President (in consultation with the Executive Team).
Budget governance committee structure and activities	**What are the budget governance committees?** There are three new budget governance committees: • Budget Executive Committee • Central Unit Allocations Committee • Space Management and Deferred Maintenance There is one existing committee relevant to budget governance: • University Curriculum Committee Detailed information about each of these committees can be found here: http://newbudgetmodel.nku.edu/content/dam/academic-affairs/docs/Governance%20Structure%20Recommendations%20final.pdf **What is the membership of the new budget governance committees?**

Each new budget governance committees include representatives from various campus constituencies:

- Selected members of the Executive Team
- Two Deans
- One member of the Faculty Senate Executive Committee
- One member of the Staff Congress Executive Committee
- One academic department chair
- Selected leaders from administrative/support units

What are the responsibilities of the governance committees?

Budget Executive Committee

- Advises the President on the use of the Central Revenues Pool to help determine how to allocate these central resources most strategically
- Evaluates any central unit budget requests not resolved by the Central Unit Allocations Committee, deciding whether to recommend an increase in central unit budgets or propose a change to existing service offerings or costs
- Recommends a final budget for submission to the President
- At periodic intervals, proposes a task force to conduct a thorough review of the NKU Budget Model, including all allocation methodologies and the participation rate.

Central Unit Allocations Committee

- Promotes collaboration between academic and central units, clarifies expected service levels by the central units, and evaluates the funding levels required to deliver those services at desired and realistic levels
- Evaluates selected central units' financial plans, which should outline the proposed unit budget and justify additions or changes to service levels or fee structures
- Provides oversight of Central Unit costs by evaluating on a rotating basis each unit’s cost of operations and level of service
- Recommends a comprehensive budget for central units to the Executive Committee for final review and inclusion in the University-wide budget recommended for submission to the President
- If the Central Unit Allocations Committee is not able to approve a central unit’s financial plan, the Committee may refer the case to the Executive Committee.

Space Management and Deferred Maintenance Committee

- Advises on the deferred maintenance fund and the allocation of its resources to support improvements across the University.
- Recommends priorities for the list of deferred maintenance items for periodic and as-needed improvements.
- Serves as a broker for units wishing to give up or acquire space wishing to give up or acquire space and ensures a standard process takes place to audit space types.

University Curriculum Committee (UCC)

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In discharging its assigned responsibilities under a new resource allocation model, this pre-existing committee will need to serve as a hedge against unnecessary duplication of courses.
In addition, the UCC should be encouraged to promote interdisciplinary curriculum development, where appropriate, for the benefit of students and the University as a whole.

What will the budget governance committees do in FY17?

Each committee will continue to educate its members and solidify its roles.
The Budget Executive Committee will review budget policies, practices, and processes.
The Central Unit Allocations Committee hosted administrative unit educational presentations (Sept. 2016).
The Space Management and Deferred Maintenance Committee will prioritize maintenance and renovation policies.

How will deferred maintenance be addressed?

Facilities Management (FM) will make a case for deferred maintenance funding to the Space Management and Deferred Maintenance committee. A list will be prepared by FM and presented to the committee for vetting and comments that will prioritize deferred maintenance needs in order of priority.
The Space Management and Deferred Maintenance committee will review and recommend that the list of proposed projects be forwarded to the Budget Executive Committee.
The level of funding determined by the Budget Executive Committee will depend on NKU's budget position and appetite for reserving funds for deferred maintenance in face of challenges.
FM will develop a guidance memo (which will probably be issued by the Budget Executive Committee) that will outline what the deferred maintenance funds could be used for. As an example: 70% for building systems, envelope and building structure; 10% for infrastructure (e.g., utility lines); 5% for carpet and signage; 5% for furniture; and 10% for campus beautification

How will the budget governance committee membership be rotated?
In order to achieve broad and diverse representation on the various budget committees, implementing a rotation of members will take place. The rotation will be as follows:

Original membership – 3 years (FY18, FY19, & FY20) – The original membership will review the model during FY20 for possible revisions.
Rotation – July 1, 2020
Subsequent rotations will occur every 3 years thereafter

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<tr><td>Budget model implementation</td><td>
What is the status of the new budget model for fiscal year 2017 (FY17)?

Fiscal year 17 (FY17) is a parallel year during which NKU is beginning to transition to the new budget model.

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<td>for fiscal years 2017 and 2018</td>
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Expense/revenue budgets will be developed as in prior years, with a focus on budget reductions.
Allocable revenues (tuition and state appropriations) for FY17 will be tracked to show how revenue would be allocated using the model.
FY 17 will be used to educate the budget governance committees and solidify their roles and responsibilities.

How will the new budget model be implemented for fiscal year 2018 (FY18)?

The model will be used to allocate revenues and expenses.
Budget governance committees will make recommendations on the budget proposals from the administrative/support units.
College budget proposals will be developed by the Deans and reviewed by the Provost. The college budget proposals will be approved by the President (in consultation with the Executive Team).
Budget policies will be refined as needed.
Training on the new budget model will be given to college business coordinators and administrative unit budget coordinators in Spring 2017.
There will be ongoing communications with and education of the campus community, including the Faculty Senate Budget Committee and Staff Congress.

What is the timeline for developing the fiscal year 2018 (FY18) budget?

Throughout the entire process, regular updates will be provided, and campus leaders will seek advice from the NKU community through various communication strategies.
The budget development document will be issued by the CFO in early November 2016.
The tuition and fee request will be developed for approval in the April 2017 Board of Regents meeting.
The administrative/support unit budget proposals will be developed and approved in November 2016 – January 2017.

The Vice Presidents will develop proposals.
The Vice Presidents will present proposals to the Central Unit Allocations Committee (CUA).
The CUA will recommend funding levels to the Budget Executive Committee (BEC).
The BEC will recommend funding levels to the President.
The President, in consultation with the Executive Team, will approve funding levels.

The college budget proposals will be developed and approved in February – mid-April 2017

The Deans will develop their college budget proposals.
The Deans will review their college budget proposals with the Provost.
The President will review the college budget proposals.
The President, in consultation with the Executive Team, will approve the college budget proposals.

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<tr><td></td><td>The FY 18 budget proposal will be finalized in mid to late April 2017.
The approval of the FY 18 budget will take place in the April 2017 Board of Regents meeting.</td></tr>
<tr><td>Budget development document</td><td>What is the budget development document?
The budget development document, which should be issued by the CFO to the Vice President and Deans by approximately the end of October, should include the following:
all the budget assumptions and budget environment to be used by the Vice Presidents in preparing the administrative/support unit budget proposals and the Deans in preparing the college budget proposals
assumptions on tuition rate, enrollment, financial aid, and fixed costs (e.g., KERS)
a request to the Vice Presidents and Deans to identify strategic initiative funds for their areas and to indicate how the funds tie to the strategic plan
parameters for the availability of strategic initiative funds (e.g., $1-3 million)
list of university-wide initiatives such as across-the-board pay increases</td></tr>
<tr><td>Administrative/ support unit budget proposal process</td><td>What is the timeline and process for approval for administrative/support unit budgets?
For FY18, the budget office will provide each administrative unit with a prepopulated budget proposal template in early January 2017.
The Vice Presidents will need to identify any changes to the funding levels on the template and submit to the Central Unit Allocations committee (CUA) by early December 2016.
The CUA will review the proposals during December and will decide which administrative units to invite to present in early January 2017.
In mid-January, the CUA will provide recommended funding levels to the Budget Executive Committee (BEC).
The BEC will review the recommended funding levels and will provide recommendations to the President in late January.
The President, in consultation with the Executive Team, will approve the administrative unit funding levels</td></tr>
<tr><td>College budget proposal process</td><td>What is the timeline and process for approval?
For FY18, the budget office will provide Deans with estimates of the administrative unit allocations in early January 2017 to allow them to start the budget proposal process.
In early February 2017, the Deans will receive the actual administrative unit allocations.
Deans will have until mid-March to complete the first draft of the proposal and will then meet with the Provost to discuss the proposal.
The recommended proposals will be provided to the President in early April 2017.</td></tr>
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	• The President, in consultation with the Executive Team, will approve the college budget proposals by mid-April 2017. • The college budget proposal should be for recurring funds only. **What is the goal-setting process for the college Deans?** • Each college should focus its goal on the "Margin after Indirect Exp Allocation." • A Dean's initial proposal to the Provost does not have to balance (i.e., meet the goal). It is an iterative process. Enrollment discussions should be taking place throughout the year. • The Provost will have discussions in February with the Deans on the goals for their college.
Indirect Cost (IDC) allocations	**What is the implementation timeline for indirect cost (IDC) allocations?** • Indirect costs (IDC) are funds received from grants to cover overhead costs (e.g., facility maintenance, depreciation, utility costs, library expenses, sponsored programs administration, and general department administration). • IDC for FY17 will be no different than in the past with Research, Grants, & Contracts (RG&C), department, and college getting a percentage. • For FY18, RG&C will have its positions base funded and IDC will go immediately to the college or administrative unit. • If a grant is received by an administrative unit, 100% of the IDC will go to the administrative unit to reduce its net expenses.