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To: Provost Kent Fuchs

From: Budget Model Task Force

Cathy Dove	Kent Kleinman	Jane Pedersen
Steve Golding	Mike Kotlikoff	Paul Streeter
Kevin Hallock	Kellie Page	Bob Swieringa

Subject: Summary of Interim Report

The Budget Model Task Force (BMTF) is pleased to submit this brief summary of our interim report. We have made considerable progress in our deliberations to date, but we do have a great deal more work to do prior to completion of a final report in December.

After soliciting ideas and comments from campus leaders about the current budget and planning model, developing principles and objectives, reviewing alternative budget models, and benchmarking several other institutions, most of the task force believes that hybrid model incorporating many aspects of activity based budgeting will best serve Cornell's objectives. Under activity based budgeting, revenues are distributed directly to the units responsible for revenue generation and common or shared costs are distributed based on activity metrics or fair distribution methods. Pure activity based budget models are largely formulaic in nature, but the task force believes that Cornell should adopt a hybrid model that is data-informed, but also provides Provost discretion in the allocation of resources and costs as necessary to meet institutional priorities. Specific taxes would be levied at predefined rates to provide financial support to specific units, or to invest in institutional priorities. In addition, the cost of institutional support activities would be distributed to all major revenue producing units based on simple direct metrics where feasible, or through a distribution method. Although still a preliminary recommendation, we believe that this model, which emphasizes transparency, accountability throughout the organization, and the empowerment of deans and other campus leaders, will meet desired objectives. The most positive characteristics of this model are the following:

- Responsibility to advance academic excellence is clearly assigned to individual colleges.
- Resources and expenses are aligned with financial incentives and decision-making responsibility at the operating unit level
- The distribution of revenues and expenses and provision of resources to the Provost for central institutional investments is based on a transparent model and clear metrics
- The basic model framework is simple
- Financial consequences of decisions made are predictable
- The Provost has the ability to "tax" units to provide appropriate levels of institutional support for new activities or those activities that do not have the ability to be fully self-sustaining
- The governance structure that effectively advises the Provost provides an appropriate level of accountability for transparency, equity, and sense of priority over institutional investments

- The structure results in the least amount of change to current financial management structures to achieve a budget model common across all units and to ensure stewardship responsibilities to New York State are met. Currently the resources initially flow primarily to the unit producing the revenue in 7 of the 10 schools and colleges (excluding the Graduate School)

This model framework relies on strong unit leadership, but we believe that an effective implementation also will provide a strongly positioned Provost with the responsibility, authority, and adequate resources to drive the university forward as a single entity achieving excellence at both the institutional and unit level.

An important consideration in the development of a new budget model is New York State funding in support of Cornell University. The contract colleges at Cornell have a unique fiscal relationship with New York State and the State University of New York (SUNY), restricting state funding to these colleges and to the land grant mission. While greater flexibility for management of contract college funds could be pursued with New York State, any budget model must provide direct accountability for the allocation of state funds.

There are other important considerations that the task force has identified, but a strong majority of our members believe that potential areas of concern can be addressed with effective management and governance. The most significant of these risks and concerns include:

- Financial incentives could drive behaviors to a greater extent than considerations of quality and excellence
- Internal competition for instructional resources could result in suboptimal distribution of resources and inappropriate barriers to students
- Financial considerations could foster a climate of unit-level optimization with the potential loss of Cornell's effectiveness in fostering inter-disciplinary collaborations
- The Provost could end up with inadequate resources to fund priority initiatives and investments necessary to advance the university forward in the most competitive position possible
- Recommendations from Bain for greater standardization, regionalization, or centralization of certain activities may be more challenging to implement and support under this budget model than under a more centralized budget model where units have less discretion
- A decentralized budget model might be more costly to administer than a more centralized budget model given the data-intensive nature of this budget model, which typically entails complex distribution algorithms and processes
- This budget model will require strong academic and financial leadership at many levels of the organization as units would no longer just need to manage expenses; many would be responsible for revenue generation and complex financial management activities.

Prior to submitting a final recommendation in December, we will discuss our preliminary ideas with campus leaders. In addition, detailed recommendations and/or alternatives will be modeled and tested. We expect that some aspects of a preferred model could be incorporated into FY11 budget planning, but that the majority of the recommendations would not be implemented until FY12.