

BUDGET MODEL TASK FORCE

FINAL REPORT
December 24, 2009

Executive Summary

The current budget environment at Cornell is extremely complex, and often leads to suboptimal decisions at both the unit and institutional levels. Accordingly, the Provost convened a task force to recommend a singular approach to budget planning for the Ithaca campus.

The Budget Model Task Force (BMTF) identified a list of objectives to drive our recommendations. After soliciting ideas and comments from campus leaders about the current multiple budget and planning models, reviewing alternative budget models, and considering models from several other institutions, we recommend that Cornell implement a single comprehensive model for the Ithaca campus.

We recommend adopting the foundation of an activity-based budget model, but adapting it to ensure that the new budget model is data informed, transparent, and provides the Provost and unit leaders with the resources and flexibility to meet institutional priorities and ensure academic and programmatic excellence. A pure activity-based budget model attributes revenues and costs to individual responsibility centers based predominantly on data-driven formulas and methodologies. The “hybrid” model we recommend, herein referred to as the “Cornell Budget Model” (CBM), is data-informed rather than data-driven; is based on transparency and accountability throughout the organization; aligns fiscal responsibility with budgetary activity; empowers deans and other campus leaders; and creates a deliberately-sized resource pool for priority investments.

We believe that this model will address many of the issues and frustrations raised by campus leaders. The most significant differences between the current system and the proposed methodology are:

1. There will be one budget model for the entire Ithaca campus.
2. The current general purpose budget will be disaggregated. Resources and expenditures for each major operating unit will be clear.
3. The historically-based general purpose and state appropriation allocations will be eliminated, in favor of allocations clearly informed by activity-based measures and transparent decisions.
4. Space costs will be fully distributed and attributed to each unit in order to ensure that the cost of space is fully weighed when units decide to expand, modify, or retain their space.
5. Recharge operations will be restricted to those activities that are most appropriately rationed through fees or are in excess of a predefined baseline level of service. Recharge rates will not include overhead, but instead will be based on the marginal cost of the service.

The Cornell Budget Model will be based on the following characteristics:

- Operating units will be divided into two types: Direct Mission Units (DMUs) and Service Units (SUs). DMU’s will include the colleges and other core-mission units that add intrinsic value to the institution.
- With the exception of undergraduate tuition (see below), earned revenue will be retained within each DMU. The DMU will be expected to pay its direct and indirect costs.

Individual DMU budgets should be transparent, broadly understood, and tightly monitored.

- Undergraduate tuition will be a revenue stream that will not be retained within each college. Instead, due to the institutional nature of undergraduate education, undergraduate tuition will be gathered centrally, adjusted for NYS appropriations and centrally-administered financial aid for undergraduate students, and distributed back to the colleges. The distribution methodology will be based on quantitative factors such as college of enrollment and college of instruction, as well as other quantitative and qualitative factors. The distribution methodology will be transparent and clear to understand.
- A University Support Pool will be funded by “taxing” various revenue streams. This will be a critically important institutional resource, and will provide the Provost with the resource base to ensure that new initiatives as well as ongoing priorities are funded properly.
- The costs of SUs will be distributed to the DMUs through the Cost Allocation Model (CAM). The committee believes that increased transparency, consistency, and fairness will result from the inclusion of all DMU’s in the distribution model, broad communication of the allocation model methods, appropriate treatment of units whose scale and activities differ significantly from the norm, and a cost allocation based on expense rather than revenue. Service unit budgets should be transparent, well understood, and tightly controlled.
- Transparency and accountability are foundations of this model. Accordingly, we recommend that a broad-based University Operating Budget Advisory Group be established to advise the Provost on budget development, resource allocation, and the model itself. This group will complement the important and continuing responsibility of the Chief Financial Officer for reviewing and approving the reasonableness of the planning assumptions, resource estimates and spending plans put forth in the annual operating plan. In addition, we recommend that standard annual and five year operating and capital budget reports be required for each operating unit. These reports should reflect an accurate accounting and projection of budget plans and actual performance for both operating and capital activity. For the contract colleges, these reports should include an imputed value of state support for employee benefit and capital construction costs that are funded separately by NYS. Including these imputed revenues and expenses will help ensure that there is clear understanding of each units full financial standing on a comparative basis.

Our task force recognizes that there are many details to be worked out by an implementation team should the recommended model framework be accepted. Comprehensive modeling is needed before the appropriate rates and detailed approaches can be finalized. We recommend that an implementation team be established, with at least some carryover membership from our task force to develop the recommended specific distribution rates and method.

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