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TO: Mark Hamilton, President
CC: Craig Dorman, Wendy Redman, Joe Beedle
FROM: Pat Pitney
DATE: March 28, 2005
RE: Performance-Based Budgeting Status

This provides an update of UA's Performance-Based Budgeting (PBB) implementation progress since August 2004 (The last formal PBB implementation status report was distributed August 4, 2004 and can be found at: <http://www.alaska.edu/swbudget/pm/bg/BudgNext%20Steps>).

Progress August 2004-March 2005

There has been considerable PBB implementation progress at the system and MAU levels. First and foremost, PBB principles are a common part of each MAU's budget process. Almost everyone throughout the system understands PBB is a standard in budget decisions. However, the complexities of the initial five measures, which conceptually are very simple, were clearly underestimated. Below is a brief overview of progress including PBB funding distributions to date, implementation of existing performance measures, and progress on new performance measures.

PBB Funding Distribution:

- In FY05, there was \$1.2 million budgeted for MAU PBB implementation match funding. Of the \$1.2 million budgeted, \$600,000 was distributed to UAA in August 2004 in recognition of UAA's PBB process implementation and \$400,000 was distributed to UAF in March 2005 in recognition of UAF implementation progress. It is anticipated that UAS will request the remaining PBB match funding based on steps being implemented. If the remaining \$200,000 is not utilized for PBB incentives, it will be directed to help cover the FY05 UA Scholars funding shortfall.

Existing Performance Measures:

- The five original performance measures approved with the FY05 distribution plan (student credit hour enrollment, student retention, graduates of high demand degree programs, grant-funded research expenditures, and university generated revenue) have been implemented and monitored at the MAU level over the course of the fiscal year. However, based on the management report review meetings, it is apparent there is not sufficient understanding of the measures, how they are defined, and how activities at the MAUs impact results.

New Performance Measures:

- Last year at this time we anticipated adding five more performance measures, however, only two more measures have been defined. These two measures, currently in the review stage, “number of programs conducting outcomes assessment” and “number of schools and colleges following active enrollment management plans,” will be implemented during FY06.
- Another measure focused on outreach and partnership has been in development but has proved difficult to quantify and will not be ready for use in FY06.
- Additionally, community campus directors engaged in the PBB process expressed concern that the initial five measures do not sufficiently represent the community campus mission. In turn, the directors have forwarded specific measures for consideration. The community campus measures forwarded are reasonable; however, system implementation of additional community campus measures will be delayed until January 2006 to allow time to fully understand the existing five measures. Although not being addressed systemwide, community campus directors will be encouraged to develop and monitor specific measures in their campus planning processes.

Previous PBB documents, the accepted MAU targets and goals established last year, plus detailed templates with full definitions of the existing measures can be found at: <http://www.alaska.edu/swbudget/pm/details.xml>.

Guidelines will be available in April for the MAU analysis of the existing performance measures. Additionally, time will be scheduled in the next BC, SAC, and President’s Cabinet meeting to discuss this topic.



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Discussion Document
Performance-Based Budgeting Next Step
April 2005 to December 2005
March 28, 2005

Over the last year of implementing PBB it has become evident that some concepts are easier to grasp than others. The UA community has accepted that performance-based approaches to budgeting and management are standard operating expectations; however, we are not yet conversant at using the performance-based approaches as a planning tool. The primary goal in implementing performance-based budgeting at UA is a robust tool to help communicate, drive, and measure our progress toward strategic priorities. Therefore, please consider four primary areas of focus for UA's continued PBB implementation.

Engage in thorough analysis

Over the next three months, each MAU should provide a detailed analysis for each of the existing five measures. In parallel, the Statewide Office of Planning and Budget Development will also provide an overview in the form of a whitepaper for each measure. The purpose of the MAU analysis and the system whitepapers is to describe in detail each performance measure, how it is defined, and what impacts the results of the particular measures. This level of analysis from each of the MAUs and the system is a necessary step to fully understand the performance measures. We all agree that the first five performance measures are important from a system perspective and represent a minimum (not inclusive) set of common measures.

Re-establish near-term targets and long-term goals

Currently, there is little ownership at the MAUs relative to the targets and goals. There is also no differentiation at the unit level within the MAU for meeting MAU targets (i.e., every unit must grow 3%, every unit must generate 10% revenue). This across-the-board approach to cascading the targets and goals will not support the concept of a dynamic, planned university. Thus, each MAU must re-examine its current goals and targets, then re-establish the targets from a bottom-up approach. Re-establishing new MAU targets and goals for each of the five measures is a minimum; however, chancellors may choose to add goals on additional measures particularly important to their environment. With the pending FY06 operating budget distribution decisions, it is optimum to have the respective MAU targets and goals updated by May 1, 2005. However, if we push for that date, we'll once again have targets and goals that are uninformed and not embraced at the MAU level. August 1, 2005 is a more acceptable date for chancellors to submit re-established targets and goals. This time frame allows each chancellor to be informed via the in-depth analysis. To be useful from a strategic planning standpoint, the chancellor-proposed MAU targets and goals must be accompanied by stated strategies (or alternative strategies) that inform which areas will be growing, stable, or declining. Because some people were uncomfortable setting a single number for the targets and goals, the chancellors can be given the latitude to set goals and targets within a particular range; for instance, success is between 71%

and 73% retention, rather than 71.4%. It is also appropriate to allow the chancellors to establish targets and goals for specific strategies similar to a contract approach. For instance, chancellors could submit an FY06 target for SCH enrollment as 2% overall increase or 1% overall, with 6% in engineering and 4% in workforce development.

Integrate PBB goals and targets

Integrate the PBB goals and targets into school and college reports for the Fall Operating Review.

Maintain the \$1.2 million PBB funding for distribution on a one-time matching basis

The distribution criteria for PBB funding last year included:

- The degree to which chancellors have implemented performance-based budgeting processes internally.
- The degree to which MAUs, using early indicators, demonstrate meeting the president's accepted FY05 performance targets.
- The degree to which a requested investment in a particular program is necessary to reach FY09 performance goals.

For FY06, provide PBB funding distribution under two categories.

1. To recognize the MAU's accomplishments relative to the MAU's FY05 performance targets. I recommend \$600,000 of the \$1.2 million be distributed to MAUs in this category. Chancellors would prepare a document stating and analyzing their accomplishments relative to expectations on the five measures used in FY05. The president will determine the distribution based on discussions with staff and the chancellors.
2. To recognize MAUs continued PBB implementation as demonstrated by completing the MAU performance measure analysis and submitting MAU established goals and targets. The remaining \$600,000 would be distributed to MAUs as each completes its analysis and establishes respective targets and goals. Distribution will be made when a chancellor submits their agreed upon MAU measures with targets and goals that reflect strategic direction.

The next stage of funding distributions for PBB would be to focus all the funding on achieving planned performance targets. FY07 would be the earliest point for distributing 100% of the funding strictly on performance. At that time, there should be a consideration of applying PBB funding to base and creating a mechanism to replenish an annual PBB funding level.