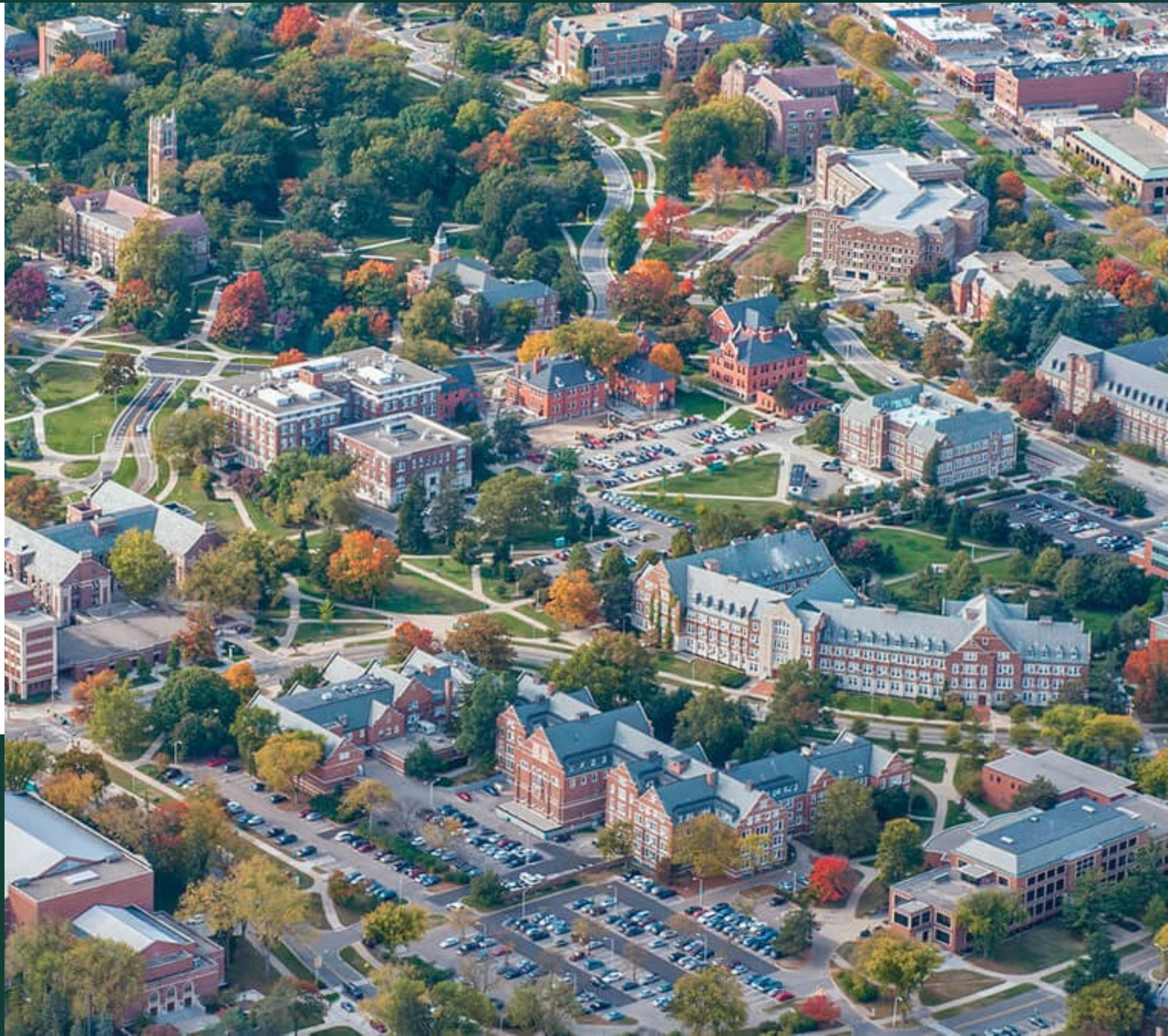
Budget Model Redesign Introduction

Campuswide Town Hall

October 28, 2025



Agenda

- **Budget model overview, goals, and guiding principles**
- **Governance**
- **Communication and engagement**

Financial transformation strategy

Laying the foundation | Modernizing budget & planning | Creating a sustainable model

FY23

- ✓ Hire additional Planning and Budgeting resources
- ✓ Develop and share initial Budget Guidebook
- ✓ Initiate all-funds MAU budgeting (summary level)
- ✓ Introduce aggregate budget vs. actuals variance reporting
- ✓ Complete RFP for new planning tool and implementation partner

FY24

- ✓ Implement a state-of-the-art financial planning tool
- ✓ Budget for FY25 in the new tool, including detailed level all-funds budgeting
- ✓ Implement summary-level long-range planning tool
- ✓ Present inaugural capital plan to the board
- ✓ Review financial policies and assess need for revisions

FY25

- ✓ Implement policy revisions
- ✓ Define and implement training plans for finance roles
- ✓ Introduce new planning processes (e.g., forecasting and commitment tracking)
- ✓ Implement regular review and feedback with MAU leaders – geared toward improving forecasting and fiscal management capability

FY26

- Stand up governance group for new budget model design and set guiding principles.
- Design and model new budget model
- Add new capabilities in the budget tool
- Revise financial planning tool to accommodate new model

FY27

- Operate existing and redesigned budget models in parallel
- Evaluate and refine redesigned budget model based on parallel process.
- Continue Functional Finance sustained improvement efforts
- Develop multi-year financial planning process for the units
- Continue to enhance planning tool and incorporate additional use cases

Ongoing training, change management, and administrative governance

What is a budget model?

A budget model is a framework used to allocate financial resources across various units, programs, and initiatives in a university.

It sets guidelines for how funds are distributed and used, while considering factors like revenue streams, cost containment, and financial performance monitoring.

It is a tool for managing financial resources in a way that aligns with the university's mission, strategic priorities, and values.

What a budget model is *not:*

A budget model does **not** create new resources

A budget model is **not** the system that manages the budget

A budget model does **not** automate all funding decisions

There is a wide spectrum of common budget model archetypes in higher education, each with benefits and challenges

Incremental Budgeting

The **most traditional and still common** approach to budgeting, but can be limiting in moving the institution forward

- Centrally driven, with prior year as "base" and adjustments for known costs
- Common modifications:
  - Block-grant versions bucket line items together to promote local control
  - Revenue incentives may be incorporated for the allocation of resources above-and-beyond the base

Zero-Based Budgeting

Requires justification for expense and resource allocations; emphasizes **alignment to strategic initiatives** to justify budget needs, rather than history

- **Build each budget year from zero**, with a clear rationale for each expenditure and revenue source, including detailed assumptions
- Includes both functional and unit owners who each have incentives to manage cost and deliver outcomes

Incentive-based

Substantial share of revenue diverted to revenue-generating units, but with **pools created to cover central services, strategic initiatives, and other discretionary uses** such as incentives for performance on strategic goals

- Common modifications:
  - Revenue allocation rules
  - Number of cost pools
  - Central strategic pool funding mechanism

Responsibility center management (RCM)

Emphasis is placed on budget owners to **generate and manage** their own **revenue and expenses**; administrators are responsible for **developing incremental revenue streams** while identifying and **executing cost reductions**

- Large share of revenue allocated to RC units
- Can involve some cross-unit subsidization
- Central services funded through tax

Every tub on its own bottom (ETOB)

Revenue is 100% distributed to schools, with no cross-school subsidization; central services are funded through taxes calculated based on drivers (e.g., FTE, square feet) and school and unit leaders are given autonomy in how to earn revenue and spend

Goals: What do we hope a new budget model will achieve?

- Predictability for unit leaders
- Transparency of allocation methodology
- Accountability within units
- Incentives to drive select goals and avoiding problematic incentives
- Responsiveness to changing conditions
- Consistency across units
- Sufficient capacity and support for undergraduate offerings
- Strengthened financial decision-making, using data-driven insights
- Balance between financial stewardship and decision making guided by values and mission
- Continued funding for our research mission
- Support to grow net revenue generating graduate offerings where applicable

Guiding principles: How will we execute the new budget model?

One MSU

Scaffolded transition to the new model

Campus-wide involvement and communication

Responsive to university-wide and unit-specific strategies

Collaboration and partnership

Monitoring, evaluation, and iteration

Governance structure

Details to follow

Stakeholder	Roles & responsibilities
Executive Sponsors	Use all information and recommendations provided to make final decisions; establish foundational parameters and lead Steering Committee **Lisa Frace, CFO and Laura Lee McIntyre, Provost**
Steering Committee	Reviews and discusses Core Team and Working Group recommendations, ensures alignment with MSU's strategic priorities, and delivers final recommendations to the Executive Sponsors *Deans and other senior leaders*
Core Team	Provides recommendations to Steering Committee on budget model-specific design elements; brings in Working Group(s) as needed **Bethan Cantwell**, Assistant Provost, Institutional Research **David Maddox,** Director of Business Plan Development, Office of the SVP, CFO & Treasurer
Working Group	Provides input into specific questions (e.g., methodology for counting UG majors, auxiliary administrative fee); may spin-off subgroups as needed *College & unit fiscal officers and other subject matter experts*

Governance structure: Steering Committee

Overview

Who: MSU Deans and Senior leaders

Time commitment: Two 60-90 min meetings per month, through January

Responsibilities

- Reviews and discusses Core Team recommendations
- Ensures alignment with MSU's strategic priorities
- Delivers final recommendations to the Executive Sponsors

Members (16 total)

Brent Donnellan, Dean, College of Social Science

David Souder, Dean, Broad College of Business

Eric Hegg, Dean, College of Natural Science

Erin Carter, Chief of Staff, Residential and Hospitality Services

Heather Swain, Vice President and Chief Marketing Officer

Heidi Hennink-Kaminski, Dean, College of Communication Arts & Sciences

James Hintz, Vice President for Student Affairs

John Papapolymerou, Dean, College of Engineering

Joyce deJong, Dean, College of Osteopathic Medicine

Kendra Cheruvelil, Dean, Lyman Briggs

Marcio Oliveira, Vice Provost for Teaching and Learning Innovation

Matt Daum, Dean, College of Agriculture and Natural Resources

Mike Zeig, Chief of Staff to the President

Pero Dagbovie, Vice Provost for Graduate & Postdoctoral Studies; Dean, Graduate School

Rich Czarnecki, Chief Information Office

Kay Connelly, Associate Vice President for Operations and Strategy, VPRI Representative

Governance structure: Working Group

Overview

Who: College and unit Fiscal Officers and other subject matter experts

Cadence: Meet bi-weekly starting in September

Time commitment: 3 hours per month (two 90-min meetings, 2x per month)

Responsibilities

- Provide input into specific questions (e.g., methodology for counting undergraduate majors, auxiliary administrative fees)
- May spin off subgroups as needed

Members (14 total)

Ann Annis, Assistant Professor, College of Nursing; UCFA Budget Subcommittee

Audree Baxter, Director of Budget and Finance, College of Agriculture & Natural Resources

Bethan Cantwell, Assistant Provost, Institutional Research

Ken Desloover, Chief of Staff, College of Arts and Letters

Donna Donovan, Associate Vice President for Human Resources

Scott Gascon, Budget Director, College of Communication Arts and Sciences

Keith Hayes, Chief Financial Officer, College of Veterinary Medicine

Bree Holtz, Professor, Communication Arts and Sciences; UCFA Budget Subcommittee

Brad Kline, Chief Financial Officer, College of Human Medicine

Lynn Lee, Budget and HR Officer, University Finance

David Maddox, Director of Business Plan Development, Office of the SVP, CFO and Treasurer

Kelly Pung, Chief Fiscal & Budget Officer, EVPA

Michael Stokes, Assistant Vice President, Financial Planning and Budget, MSU Finance Office

Ryan Thelen, Budget and Human Resources Officer, Provost’s Office

Budget model redesign timeline

Where we are today: Model design

Spring 2025	Fall 2025	Winter-Spring 2026	Fall 2026	Winter 2026/2027
Preparation and analysis	**Model design**	**Parallel year**	**Preparation for full implementation**	**Implementation**
Work with small group of finance leaders to explore data needs for a new budget model	Align on goals and guiding principles Explore and make decisions on budget model design options Determine implications of budget model decisions on unit funding Iterate on design choices based on potential future funding scenarios	Run traditional budget process for FY27 budget Show colleges and units what the new model would produce in funding for visibility and preparation for full implementation	Code the new model in the Spartan Financial Navigator Prepare for FY28 budgeting cycle	Run FY28 budgeting cycle in the new budget model Monitor for issues and concerns

Communications & Campus Engagement

Engagement

Provide opportunities for **public comment** and input at the start and end of the effort

Partnership

Engage **unit business officers**, where the "rubber meets the road"

Collaboration

Involve **faculty governance** to bring trust and credibility to the process

Messengers

Executive Sponsors and Deans will be important messengers

Communications & Campus Engagement: Potential timeline

Late Sept.

Onboarding and kick-off

Begin meeting Steering Committee & Working Group cadence

Early Oct.

Announce effort university-wide

Launch MSU website about effort to provide periodic updates

Oct-Jan

Introduce effort and get stakeholder input

- Hold virtual town hall to introduce the Budget model process
- Conduct workshop with fiscal officers and other stakeholders to provide campus input
- Meet with select existing governance groups (e.g., Faculty Senate, fiscal officers' groups)
- Provide Deans and relevant unit leaders with talking points to share with faculty and staff

Jan.

Finalize initial design & plan to implement

Feb.

Share model design (high-level) and path forward:

- Deans and relevant unit leaders lead sessions with faculty and staff (supported by CFO/Provost as needed)
- Hold two open town halls
- Meet with select existing governance groups (e.g., Faculty Senate, fiscal officers' groups)