What is Gain Sharing?

Guiding Principle #1 for developing the Activity Informed Budgeting (AIB) model was to "ensure adequate funds centrally to meet institutional strategic opportunities." Gain Sharing is one method within AIB whereby we seek to reasonably balance any single unit's need for resiliency with the needs of the University as a whole to be agile and adaptive – ensuring the long-term financial health of both. It is a middle-ground approach between two other common resource allocation methods whose extremes have both been shown to result in resources being misaligned with institutional priorities (discussed below). The high-level objective of gain-sharing is to permit allocation of resources to support institution-wide strategic goals and collective success.

What Are the Options?

1) Some institutions institute a **"use-it-or-lose-it"** budget allocation method, whereby any budget that is unspent at the end of a fiscal year is returned for reallocation. This method creates an unintended consequence of incentivizing units to attempt to spend their entire budget within each financial year for fear of losing the funding it has been allocated. This can result in a less-than-strategic use of resources and lowered return-on-investment (ROI).

2) Some institutions (including UArizona under RCM) have a **"100% carry-forward"** budget allocation method that allows all unspent budget to "carryforward" or "rollover" into the next fiscal year, for use by the unit. This approach may also create an unintended consequence, namely of allowing units to accumulate sizeable reserves that are in excess of the needs to support their strategic priorities, even while other units may have excellent investment opportunities (i.e., high ROI opportunities) that cannot be funded. That is, the institution may have sizeable reserves which are held as year-over-year carry-forward balances within units that do not have high-value investment opportunities.

3) The **Gain Sharing** budget method is a middle ground approach, which encourages units to create and sustain reasonable operating reserves (also known as "contingency funds," or "rainy-day funds,") while also allowing some carryforward funds to be deployed nimbly to meet the strategic needs for the institution as a whole.

As noted above, the University of Arizona has operated as a "100% carry-forward" institution. Today, we find that balances have accumulated in some units to unprecedented levels, sometimes on the order of 150%+ of annual operating costs and, in some cases, more than a hundred million dollars.

AIB Gain Sharing Methodology

In developing the Gain Sharing Method that will be utilized within AIB, we have sought a balance between the very real need for some units to plan for multi-year expenses and the very real need of the institution to be able to fund new and emerging opportunities that have high expected ROI. Accordingly, unrestricted fund balance carryforward amounts above 25% of forecasted annual operating expenditures are subject to 15% gain sharing. From an industry perspective, we note that protecting 25% of operating expenditures is generous, and a gain share of 15% is conservative. NB: these calculations exclude Auxiliary funds, Service Center funds, "Dean's Tax" funds, Fixed-Price Complete awards, and Patents/Royalties revenues.

How Will Gain Sharing Help Units?

Gain Sharing provides all units with access, through the Strategic Budget Allocation (SBA) portion of AIB, to the resources necessary to capitalize on strategic opportunities – while ensuring that other units can still remain fiscally resilient.